# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

# FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JULY 27, 2013

OR

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

FOR THE TRANSITION PERIOD FROM ________ TO ________

Commission File Number: 000-24385

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

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

W6316 Design Drive
Greenville, Wisconsin 54942
(Address of Principal Executive Offices)
(Zip Code)

(920) 734-5712
(Registrant's Telephone Number, including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ (Do not check if a smaller reporting company) | Smaller reporting company | ☒ |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☒ No ☐

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

| Class | Outstanding at September 7, 2013 |
|---|---|
| Common Stock, $0.001 par value | 1,000,004 |

# SCHOOL SPECIALTY, INC.

## INDEX TO FORM 10-Q

## FOR THE QUARTERLY PERIOD ENDED JULY 27, 2013


PART I - FINANCIAL INFORMATION

| | | Page Number |
|---|---|---|
| ITEM 1. | CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS | |
| | Condensed Consolidated Balance Sheets at July 27, 2013(Successor Company, April 27, 2013 and July 28, 2012 (Predecessor Company) | 2 |
| | Condensed Consolidated Statements of Operations for the Seven Weeks Ended July 27, 2013 (Successor Company), Six Weeks Ended June 11, 2013 and Three Months Ended July 28, 2012 (Predecessor Company) | 3 |
| | Condensed Consolidated Statements of Comprehensive Income for the Seven Weeks Ended July 27, 2013 (Successor Company), Six Weeks Ended June 11, 2013 and Three Months Ended July 28, 2012 (Predecessor Company) | 4 |
| | Condensed Consolidated Statements of Cash Flows for the Seven Weeks Ended July 27, 2013 (Successor Company), Six Weeks Ended June 11, 2013 and Three Months Ended July 28, 2012 (Predecessor Company) | 5 |
| | Notes to Condensed Consolidated Financial Statements | 6 |
| ITEM 2. | MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION | 33 |
| ITEM 3. | QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK | 42 |
| ITEM 4. | CONTROLS AND PROCEDURES | 42 |

PART II - OTHER INFORMATION

| | | |
|---|---|---|
| ITEM 6. | EXHIBITS | 43 |

Table of Contents

## PART I – FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Unaudited Financial Statements

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

| | Successor Company | Predecessor Company | |
|---|---|---|---|
| | July 27, 2013 | April 27, 2013 | July 28, 2012 |
| **ASSETS** | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ 9,787 | $ 20,769 | $ 5,542 |
| Restricted cash | 25,820 | 26,302 | 2,708 |
| Accounts receivable, less allowance for doubtful accounts of $2,176, $926 and $2,597, respectively | 138,879 | 58,942 | 178,293 |
| Inventories | 104,868 | 92,582 | 112,467 |
| Deferred catalog costs | 5,793 | 8,924 | 7,773 |
| Prepaid expenses and other current assets | 26,667 | 29,901 | 11,050 |
| Refundable income taxes | 5,334 | 9,793 | 3,580 |
| Deferred taxes | — | — | 4,797 |
| Total current assets | 317,148 | 247,213 | 326,210 |
| Property, plant and equipment, net | 46,309 | 39,209 | 54,238 |
| Goodwill | 23,661 | — | 41,010 |
| Intangible assets, net | 47,427 | 110,306 | 121,627 |
| Development costs and other | 38,042 | 30,079 | 40,274 |
| Deferred taxes long-term | 51 | 51 | 390 |
| Investment in unconsolidated affiliate | 715 | 715 | 10,019 |
| Total assets | $ 473,353 | $ 427,573 | $ 593,768 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)** | | | |
| Current liabilities: | | | |
| Current maturities - long-term debt | $ 62,229 | $ 198,302 | $ 79,444 |
| Accounts payable | 49,124 | 22,897 | 103,099 |
| Accrued compensation | 7,597 | 7,197 | 10,723 |
| Deferred revenue | 2,605 | 2,237 | 3,354 |
| Accrued fee for early termination of long-term debt | 25,582 | 25,000 | — |
| Other accrued liabilities | 34,467 | 21,905 | 26,027 |
| Total current liabilities | 181,604 | 277,538 | 222,647 |
| Long-term debt - less current maturities | 152,932 | — | 285,508 |
| Other liabilities | 925 | 925 | 587 |
| Liabilities subject to compromise | — | 228,302 | — |
| Total liabilities | 335,461 | 506,765 | 508,742 |
| Commitments and contingencies | | | |
| Stockholders' equity (deficit): | | | |
| Predecessor preferred stock, $0.001 par value per share, 1,000,000 shares authorized; none outstanding | — | — | — |
| Predecessor common stock, $0.001 par value per share, 150,000,000 shares authorized; 24,599,159 and 24,597,856 shares issued, respectively | — | 24 | 24 |
| Predecessor capital in excess of par value | | 446,232 | 444,456 |
| Predecessor treasury stock, at cost, 5,420,210 and 5,420,210 shares, respectively | — | (186,637) | (186,637) |
| Successor preferred stock, $0.001 par value per share, 500,000 shares authorized; none outstanding | — | — | — |
| Successor common stock, $0.001 par value per share, 2,000,000 shares authorized; 1,000,004 shares outstanding | 1 | — | — |
| Successor capital in excess of par value | 120,955 | — | — |
| Accumulated other comprehensive income (loss) | (7) | 22,381 | 22,308 |
| Retained earnings (accumulated deficit) | 16,943 | (361,192) | (195,125) |
| Total stockholders' equity (deficit) | 137,892 | (79,192) | 85,026 |
| Total liabilities and stockholders' equity (deficit) | $ 473,353 | $ 427,573 | $ 593,768 |

See accompanying notes to condensed consolidated financial statements.

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

| | Successor Company | Predecessor Company | |
|---|---|---|---|
| | Seven Weeks Ended July 27, 2013 | Six Weeks Ended June 11, 2013 | Three Months Ended July 28, 2012 |
| Revenues | $ 143,499 | $ 58,697 | $ 252,139 |
| Cost of revenues | 83,741 | 35,079 | 148,542 |
| Gross profit | 59,758 | 23,618 | 103,597 |
| Selling, general and administrative expenses | 35,867 | 27,473 | 75,116 |
| Bankruptcy related restructuring charges | 2,595 | — | — |
| Operating income (loss) | 21,296 | (3,855) | 28,481 |
| Other expense: | | | |
| Interest expense | 2,821 | 3,235 | 9,966 |
| Reorganization items, net | 1,280 | (106,174) | — |
| Income before provision for income taxes | 17,195 | 99,084 | 18,515 |
| Provision for income taxes | 252 | 1,641 | 259 |
| Income before income of unconsolidated affiliate | 16,943 | 97,443 | 18,256 |
| Income of unconsolidated affiliate | — | — | 119 |
| Net income | $ 16,943 | $ 97,443 | $ 18,375 |
| Weighted average shares outstanding: | | | |
| Basic | 1,000 | 18,922 | 18,899 |
| Diluted | 1,000 | 18,922 | 18,906 |
| Net Income per Share: | | | |
| Basic | $ 16.94 | $ 5.15 | $ 0.97 |
| Diluted | $ 16.94 | $ 5.15 | $ 0.97 |

See accompanying notes to condensed consolidated financial statements.

# SCHOOL SPECIALTY, INC.
## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands)

| | Successor Company | Predecessor Company | |
|---|---|---|---|
| | Seven Weeks Ended July 27, 2013 | Six Weeks Ended June 11, 2013 | Three Months Ended July 28, 2012 |
| Net income | $ 16,943 | $ 97,443 | $ 18,375 |
| Other comprehensive loss, net of tax: | | | |
| Foreign currency translation adjustments | (7) | (101) | (1,323) |
| Total comprehensive income | $ 16,936 | $ 97,342 | $ 17,052 |

See accompanying notes to condensed consolidated financial statements.

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

| | Successor Company | Predecessor Company | |
|---|---|---|---|
| | Seven Weeks Ended July 27, 2013 | Six Weeks Ended June 11, 2013 | Three Months Ended July 28, 2012 |
| Cash flows from operating activities: | | | |
| Net income | $ 16,943 | $ 97,443 | $ 18,375 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and intangible asset amortization expense | 2,866 | 2,983 | 7,016 |
| Amortization of development costs | 1,478 | 918 | 2,068 |
| Non-cash reorganization items | — | (121,043) | — |
| Amortization of debt fees and other | 392 | 9 | 3,053 |
| (Income) loss of unconsolidated affiliate | — | — | (119) |
| Share-based compensation expense | — | — | 119 |
| Non-cash convertible debt interest expense | — | — | 2,222 |
| Changes in current assets and liabilities: | | | |
| Accounts receivable | (72,188) | (8,011) | (115,498) |
| Inventories | (2,182) | (18,255) | (11,966) |
| Deferred catalog costs | 1,377 | 1,754 | 3,964 |
| Prepaid expenses and other current assets | 5,010 | 722 | 49 |
| Accounts payable | 10,879 | 11,012 | 28,324 |
| Accrued liabilities | (6,067) | 12,488 | 9,492 |
| Net cash used in operating activities | (41,492) | (19,980) | (52,901) |
| Cash flows from investing activities: | | | |
| Additions to property, plant and equipment | (514) | (243) | (1,185) |
| Change in restricted cash | 482 | — | (2,708) |
| Investment in product development costs | (880) | (463) | (1,718) |
| Net cash used in investing activities | (912) | (706) | (5,611) |
| Cash flows from financing activities: | | | |
| Proceeds from bank borrowings, net | 37,042 | 7,561 | 478,668 |
| Repayment of debt and capital leases | — | (148,619) | (406,623) |
| Issuance of debt | — | 165,924 | — |
| Payment of debt fees and other | (385) | (9,415) | (8,475) |
| Net cash provided by financing activities | 36,657 | 15,451 | 63,570 |
| Net increase/(decrease) in cash and cash equivalents | (5,747) | (5,235) | 5,058 |
| Cash and cash equivalents, beginning of period | 15,534 | 20,769 | 484 |
| Cash and cash equivalents, end of period | $ 9,787 | $ 15,534 | $ 5,542 |
| Supplemental disclosures of cash flow information: | | | |
| Interest paid | $ 2,152 | $ 601 | $ 4,504 |
| Income taxes paid | $ — | $ — | $ 371 |

See accompanying notes to condensed consolidated financial statements.

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

## NOTE 1 – BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (which are normal and recurring in nature unless otherwise noted) considered necessary for a fair presentation have been included. The balance sheet at April 27, 2013 has been derived from School Specialty, Inc.'s ("School Specialty" or the "Company") audited financial statements for the fiscal year ended April 27, 2013. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended April 27, 2013.

During the period January 28, 2013 through June 11, 2013, School Specialty, Inc. and certain of its subsidiaries operated as debtors-in-possession under bankruptcy court jurisdiction (see Note 2). In accordance with Financial Accounting Standards Board Accounting Standards Codification ("ASC") 852, Reorganizations, for periods including and subsequent to the filing of the Chapter 11 petition through the bankruptcy emergence date of June 11, 2013, all expenses, gains and losses that resulted from the reorganization were reported separately as reorganization items in Consolidated Statements of Operations. Net cash used for reorganization items was disclosed separately in the Consolidated Statements of Cash Flows, and liabilities subject to compromise were reported separately in the Consolidated Balance Sheets.

As discussed in Note 3 – Fresh Start Accounting, as of June 11, 2013, the Company adopted fresh-start accounting in accordance with ASC 852. The adoption of fresh-start accounting resulted in the Company becoming a new entity for financial reporting purposes. Accordingly, the financial statements on or prior to June 11, 2013 are not comparable with the financial statements for periods after June 11, 2013. The consolidated financial statements as of July 27, 2013 and for the seven weeks then ended and any references to "Successor" or "Successor Company" relate to the financial position and results of operations of the reorganized Company subsequent to bankruptcy emergence on June 11, 2013. References to "Predecessor" or "Predecessor Company" refer to the financial position and results of operations of the Company prior to the bankruptcy emergence.

## NOTE 2 – BANKRUPTCY PROCEEDINGS

On January 28, 2013 (the "Petition Date"), School Specialty, Inc. and certain of its subsidiaries (collectively, the "Debtors") filed voluntary petitions for relief under Chapter 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"). The cases (the "Chapter 11 Cases") were jointly administered as Case No. 13-10125 (KJC) under the caption "In re School Specialty, Inc., et al." The Debtors continued to operate their business as "debtors-in-possession" ("DIP") under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of Chapter 11 and orders of the Bankruptcy Court. The Company's foreign subsidiaries (collectively, the "Non-Filing Entities") were not part of the Chapter 11 Cases.

The Chapter 11 Cases were filed in response to an environment of ongoing declines in school spending and a lack of sufficient liquidity, including trade credit provided by the Debtors' vendors, to permit the Debtors to pursue their business strategy to position the School Specialty brands successfully for the long term. As a result of the Chapter 11 filing, the Company's common stock was delisted from the NASDAQ Stock Market, effective March 1, 2013.

On May 23, 2013, the Bankruptcy Court entered an order confirming the Debtors' Second Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code (the "Reorganization Plan"), and a corrected copy of such order was entered by the Bankruptcy Court on June 3, 2013. The Reorganization Plan, which is described in additional detail below, became effective on June 11, 2013 (the "Effective Date"). Pursuant to the Reorganization Plan, on the Effective Date, the Company's existing credit agreements, outstanding convertible subordinated debentures, equity plans and certain other agreements were cancelled. In addition, all outstanding equity interests of the Company that were issued and outstanding prior to the Effective Date were cancelled on the Effective Date.

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

Also on the Effective Date, in accordance with and as authorized by the Reorganization Plan, the Company reincorporated in Delaware and issued a total of 1,000,004 shares of Common Stock of the reorganized Company to holders of certain allowed claims against the Debtors in exchange for such claims. As of June 12, 2013, there were 60 record holders of the new common stock of the reorganized Company issued pursuant to the Reorganization Plan.

***Operation and Implication of the Bankruptcy Filing***

Under Section 362 of the Bankruptcy Code, the filing of voluntary bankruptcy petitions by the Debtors automatically stayed most actions against the Debtors, including most actions to collect indebtedness incurred prior to the Petition Date or to exercise control over the Company's property. Accordingly, although the Company defaulted on certain of the Debtors' debt obligations, creditors were stayed from taking any actions as a result of such defaults. Absent an order of the Bankruptcy Court, substantially all of the Company's pre-petition liabilities were subject to settlement under a reorganization plan or in connection with a Section 363 sale.

Subsequent to the Petition Date, the Company received approval from the Bankruptcy Court to pay or otherwise honor certain pre-petition obligations generally designed to stabilize the Company's operations. These obligations related to certain employee wages, salaries and benefits, and the payment of vendors and other providers in the ordinary course for goods and services received after the Petition Date. The Company retained, pursuant to Bankruptcy Court approval, legal and financial professionals to advise the Company in connection with the bankruptcy filing and certain other professionals to provide services and advice in the ordinary course of business.

***Reorganization Plan***

In order for the Company to emerge successfully from Chapter 11, the Company determined that it was in the best interests of the Debtors' estates to seek Bankruptcy Court confirmation of a reorganization plan. A reorganization plan determines the rights and satisfaction of claims of various creditors and security holders, subject to the ultimate outcome of negotiations and Bankruptcy Court decisions ongoing through the date on which the reorganization plan is confirmed.

On May 23, 2013, the Bankruptcy Court entered an order confirming the Debtors' Second Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code (the "Reorganization Plan"), and a corrected copy of such order was entered by the Bankruptcy Court on June 3, 2013. The Reorganization Plan became effective on June 11, 2013 (the "Effective Date").

*General*

The Reorganization Plan generally provided for the payment in full in cash on or as soon as practicable after the Effective Date of specified claims, including:

- All claims (the "DIP Financing Claims") under the Debtor-in-Possession Credit Agreement (the "ABL DIP Agreement") by and among Wells Fargo Capital Finance, LLC (as Administrative Agent, Co-Collateral Agent, Co-Lead Arranger and Joint Book Runner) and GE Capital Markets, Inc. (as Co-Collateral Agent, Co-Lead Arranger and Joint Book Runner and Syndication Agent), General Electric Capital Corporation (as syndication agent), the lenders party to the ABL DIP Facility (as defined below), and the Company and certain of its subsidiaries;
- Certain pre-petition secured claims;
- All claims relating to the costs and expenses of administering the Chapter 11 Cases; and
- All priority claims.

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

In addition, the Reorganization Plan generally provides for the treatment of allowed claims against, and equity interests in, the Debtors as follows:

- The lenders under the Senior Secured Super Priority Debtor-in-Possession Credit Agreement (the "Ad Hoc DIP Agreement") by and among the Company, certain of its subsidiaries, U.S. Bank National Association, as Administrative Agent and Collateral Agent and the lenders party thereto were entitled to receive (i) cash in an approximate amount of $98,300, and (ii) 65% of the common stock of the reorganized Company;
- Each holder of an allowed general unsecured claim is entitled to receive a deferred cash payment equal to 20% of such allowed claim, plus interest, on the terms described in the Reorganization Plan;
- Each holder of an unsecured claim arising from the provision of goods and/or services to the Debtors in the ordinary course of its pre-petition trade relationship with the Debtors, with whom the reorganized Debtors continue to do business after the Effective Date, is entitled to receive a deferred cash payment equal to 20% of such claim, plus interest, on the terms described in the Reorganization Plan. Such holders may increase their percentage recoveries to 45%, plus interest, by electing to provide the reorganized Debtors with customary trade terms for a specified period, as described in the Reorganization Plan;
- Each holder of the Company's 3.75% Convertible Subordinated Debentures due 2026, as further described elsewhere in this report, received its pro rata share of 35% of the common stock of the reorganized Company;
- Each holder of an allowed general unsecured claim or allowed trade unsecured claim of $3 or less, or any holder of a general unsecured claim or trade unsecured claim in excess of $3 that agreed to voluntarily reduce the amount of its claim to $3 under the terms described in the Reorganization Plan, was entitled to receive a cash payment equal to 20% of such allowed claim on or as soon as practicable after the Effective Date; and
- Holders of equity interests in the Company prior to the Effective Date, including claims arising out of or with respect to such equity interests, were not entitled to receive any distribution under the Reorganization Plan.

*Exit Facilities*

As of the Effective Date, the Debtors closed on the exit credit facilities, the proceeds of which were or will be, among other things, used to (i) pay in cash the DIP Financing Claims, to the extent provided for in the Reorganization Plan, (ii) make required distributions under the Reorganization Plan, (iii) satisfy certain Reorganization Plan-related expenses, and (iv) fund the reorganized Company's working capital needs. The terms of the exit credit facilities are described under Note 12 of the Notes to Condensed Consolidated Financial Statements - Debt.

*Equity Interests*

As mentioned above, all shares of the Company's common stock outstanding prior to the Effective Date were cancelled and extinguished as of the Effective Date. In accordance with the Reorganization Plan, on the Effective Date, the reorganized Company issued the new common stock, subject to dilution pursuant to the Management Incentive Plan (as defined and described below). The Company issued 1,000,004 shares of new common stock on the Effective Date pursuant to the Reorganization Plan, which constitutes the total number of shares of new common stock outstanding immediately following the Effective Date, subject to dilution pursuant to the Management Incentive Plan.

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

On the Effective Date, equity interests in the Company's U.S. subsidiaries were deemed cancelled and extinguished and of no further force and effect, and each reorganized subsidiary was deemed to issue and distribute the new subsidiary equity interests. The ownership and terms of such new subsidiary equity interests in the reorganized subsidiaries are the same as the ownership and terms of the equity interests in these subsidiaries immediately prior to the Effective Date, except as otherwise provided in the Reorganization Plan.

*Reincorporation in Delaware; Amendments to Articles of Incorporation*

On the Effective Date, the Company was reincorporated as a Delaware corporation. Prior to the Effective Date, the Company caused a new wholly owned subsidiary to be formed in Delaware. On the Effective Date, the Company entered into a plan of merger with the Delaware subsidiary, providing for the Company to merge with and into the Delaware subsidiary, so that the Company's separate corporate existence as a Wisconsin corporation ceased and the Delaware subsidiary was the surviving corporation. The certificates of incorporation of the reorganized Company and its reorganized subsidiaries were amended to be consistent with the provisions of the Reorganization Plan and the Bankruptcy Code, including the prohibition of issuance of nonvoting equity securities only for so long as, and to the extent that, the issuance of nonvoting equity securities is prohibited by the Bankruptcy Code. The reorganized Company was authorized to issue the new common stock for distribution in accordance with the terms of this Reorganization Plan and the amended certificate of incorporation without the need for any further corporate or stockholder action.

***Financial Statement Presentation and Going Concern***

We have prepared the accompanying consolidated financial statements in accordance with FASB ASC Topic 852 "*Reorganizations*" ("FASB ASC 852") and on a going concern basis, which assumes continuity of operations, realization of assets and satisfaction of liabilities in the ordinary course of business. FASB ASC 852 requires that the financial statements distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Accordingly, certain expenses including professional fees, realized gains and losses and provisions for losses that are realized from the reorganization and restructuring process are classified as reorganization items on the condensed consolidated statement of operations. Additionally, on the condensed consolidated balance sheet at April 27, 2013, liabilities subject to compromise are segregated. Liabilities subject to compromise are reported at their pre-petition amounts or current unimpaired values, even if they may be settled for lesser amounts.

During the Chapter 11 Cases, the Company's ability to continue as a going concern was contingent upon its ability to comply with the financial and other covenants contained in its ABL DIP Agreement and Ad Hoc DIP Agreement (see Note 12), the Bankruptcy Court's approval of the Company's Reorganization Plan and the Company's ability to successfully implement the Company's plan and obtain exit financing, among other factors. As a result of the Chapter 11 Cases, the realization of assets and satisfaction of liabilities were subject to uncertainty. The Company emerged from Chapter 11 in June, 2013. As a result of emergence from bankruptcy, as well as projected compliance with applicable financial, affirmative, and negative covenants, management believes that the Company has resolved the previous substantial doubt relative to the Company's ability to continue as a going concern described above.

In connection with the Company's emergence from Chapter 11, the Company was required to adopt fresh start accounting as of June 11, 2013 in accordance with ASC 852 "*Reorganizations*". The Company elected to use June 8, 2013 (the "Convenience Date"), which was the week ended date nearest to the Effective Date, to avoid disruption to the Company's weekly accounting processes. The Company performed a qualitative and quantitative assessment in order to determine the appropriateness of using the Convenience Date for fresh start accounting instead of the Effective Date. The Company's assessment determined that the use of the Convenience Date did not have a material impact on either the predecessor or successor periods in the current fiscal year and there were no qualitative factors that would preclude the use of the Convenience Date for accounting and reporting purposes. The adoption of fresh-start accounting resulted in the Company becoming a new entity for financial reporting purposes. Accordingly, the financial statements on or prior to June 11, 2013 are not comparable with the financial statements for periods after

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

June 11, 2013. The consolidated financial statements as of July 27, 2013 and for the seven weeks then ended and any references to "Successor" or "Successor Company" show the financial position and results of operations of the reorganized Company subsequent to bankruptcy emergence on June 11, 2013. References to "Predecessor" or "Predecessor Company" refer to the financial position and results of operations of the Company prior to the bankruptcy emergence.

Prior to the Effective Date, the Predecessor Company's financial statements included in this Quarterly Report on Form 10-Q do not purport to reflect or provide for the consequences of the Chapter 11 bankruptcy proceeding. In particular, the financial statements do not purport to show (i) as to assets, their realizable value on a liquidation basis or their availability to satisfy liabilities; (ii) as to pre-petition liabilities, the amounts that may be allowed for claims or contingencies, or the status and priority thereof; (iii) as to stockholders' deficit accounts, the effects of any changes that may be made in the Predecessor Company's capitalization; or (iv) as to operations, the effects of any changes that may be made to the Predecessor Company's business.

## NOTE 3 – FRESH START ACCOUNTING

On the Effective Date, the Company adopted fresh start accounting and reporting in accordance with FASB ASC 852. The Company was required to apply the provisions of fresh start reporting to its financial statements, as the holders of existing voting shares of the Predecessor Company received less than 50% of the voting shares of the emerging entity and the reorganization value of the Predecessor Company's assets immediately before the date of confirmation was less than the post-petition liabilities and allowed claims.

Fresh start reporting generally requires resetting the historical net book value of assets and liabilities to fair value by allocating the entity's enterprise value as set forth in the Reorganization Plan to its assets and liabilities pursuant to accounting guidance related to business combinations as of the Effective Date. The financial statements as of the Effective Date report the results of the Successor Company with no beginning retained earnings or accumulated deficit. Any presentation of the Successor Company represents the financial position and results of operations of a new reporting entity and is not comparable to prior periods. The consolidated financial statements for periods ended prior to the Effective Date do not include the effect of any changes in capital structure or changes in the fair value of assets and liabilities as a result of fresh start accounting.

In accordance with FASB ASC 852, the Predecessor Company's results of operations prior to the Effective Date include (i) a pre-emergence gain of $161,943 resulting from the discharge of liabilities under the Reorganization Plan, partially offset by the issuance of new School Specialty, Inc. common stock and additional capital; (ii) pre-emergence charges to earnings of $25,503 recorded as reorganization items resulting from certain costs and expenses relating to the Reorganization Plan becoming effective, including the cancellation of equity-based awards of the Predecessor; and (iii) a pre-emergence decrease in earnings of $30,266 resulting from the aggregate changes to the net carrying value of our pre-emergence assets and liabilities to reflect their fair values under fresh start accounting, as well as the recognition of goodwill. See Note 4, "Reorganization Items, Net" for additional information.

### *Enterprise Value / Reorganization Value Determination*

Enterprise value represents the fair value of an entity's interest-bearing debt and stockholders' equity. In the disclosure statement associated with the Reorganization Plan, which was confirmed by the Bankruptcy Court, we estimated a range of enterprise values between $275,000 and $325,000, with a midpoint of $300,000. Based on current and anticipated economic conditions and the direct impact these conditions have on our business, we deemed it appropriate to use the midpoint between the low end and high end of the range to determine the final enterprise value of $300,000, comprised of debt valued at approximately $179,000 and equity valued at approximately $121,000.

FASB ASC 852 provides for, among other things, a determination of the value to be assigned to the assets of the reorganized Company as of a date selected for financial reporting purposes. The Company adjusted its enterprise

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

value of $300,000 for certain items such as post-petition liabilities to determine a reorganization value attributable to assets of $414,485. Under fresh start accounting, the reorganization value was allocated to the Company's assets based on their respective fair values in conformity with the purchase method of accounting for business combinations included in FASB ASC 805, *Business Combinations*. The excess reorganization value over the fair value of identified tangible and intangible assets of $23,661 was recorded as goodwill.

The reorganization value represents the amount of resources available, or that become available, for the satisfaction of post-petition liabilities and allowed claims, as negotiated between the Company and its creditors (the "Interested Parties"). This value, along with other terms of the Reorganization Plan, was determined only after extensive arms-length negotiations between the Interested Parties. Each Interested Party developed its view of what the value should be based upon expected future cash flows of the business after emergence from Chapter 11, discounted at rates reflecting perceived business and financial risks. This value is viewed as the fair value of the entity before considering liabilities and is intended to approximate the amount a willing buyer would pay for the assets of the Successor Company immediately after restructuring. The reorganization value was determined using numerous projections and assumptions that are inherently subject to significant uncertainties and the resolution of contingencies beyond the control of the Company. Accordingly, there can be no assurance that the estimates, assumptions and amounts reflected in the valuation will be realized.

***Methodology, Analysis and Assumptions***

The Company's valuation was based upon a discounted cash flow methodology, which included a calculation of the present value of expected un-levered after-tax free cash flows reflected in our long-term financial projections, including the calculation of the present value of the terminal value of cash flows, and supporting analysis that included a comparison of selected financial data of the Company with similar data of other publicly held companies comparable to ours in terms of end markets, operational characteristics, growth prospects and geographical footprint. The Company also considered precedent transaction analysis but ultimately determined there was insufficient data for a meaningful analysis. A detailed discussion of this methodology and supporting analysis is presented below.

The Company's multi-year business plan was the foundation for developing long-term financial projections used in the valuation of our business. The business planning and forecasting process included a review of Company, industry and macroeconomic factors including, but not limited to, achievement of future financial results, projected changes associated with our reorganization initiatives, anticipated changes in general market conditions including variations in market regions, and known new business initiatives and challenges.

The following represents a detailed discussion of the methodology and supporting analysis used to value our business using the business plan and long-term financial projections developed by the Company:

*Discounted Cash Flow Methodology*

The Discounted Cash Flow ("DCF") analysis is a forward-looking enterprise valuation methodology that relates the value of an asset or business to the present value of expected future cash flows to be generated by that asset or business. Under this methodology, projected future cash flows are discounted by the business' weighted average cost of capital ("WACC"). The WACC reflects the estimated blended rate of return that debt and equity investors would require to invest in the business based on its capital structure. Our DCF analysis has two components: (1) the present value of the expected un-levered after-tax free cash flows for a determined period, and (2) the present value of the terminal value of cash flows, which represents a firm value beyond the time horizon of the long-term financial projections.

The DCF calculation was based on management's financial projections of un-levered after-tax free cash flows for the period 2014 to 2017. The Company used a WACC to discount future cash flows and terminal values of 13.3%. This WACC was determined based upon an estimated cost of debt for similar sized companies, rather than the anticipated cost of debt of the reorganized Company upon emergence from bankruptcy, and a market cost of equity using a capital asset pricing model. Assumptions used in the DCF analysis, including the appropriate components of the WACC, were deemed to be those of "market participants" upon analysis of peer groups' capital structures.

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

In conjunction with our analysis of publicly traded companies described below, the Company used a range of exit multiples of 2013 earnings before interest, taxes, depreciation and amortization ("EBITDA") between 4.4 and 8.1, with a lower than midpoint exit multiple of 5.5 selected, to determine the present value of the terminal value of cash flows. The selected exit multiple is weighted towards those comparable companies which are more similar to the Company's Educational Resources segment which represents a higher percentage of consolidated revenues as compared to the Accelerated Learning segment.

The sum of the present value of the projected un-levered after-tax free cash flows was added to the present value of the terminal value of cash flows to determine the Company's enterprise value.

*Publicly Traded Company Analysis*

As part of our valuation analysis, the Company identified publicly traded companies whose businesses are relatively similar to each of our reporting segments and have comparable operational characteristics to derive comparable revenue and EBITDA multiples for our DCF analysis. Criteria for selecting comparable companies for the analysis included, among other relevant characteristics, similar lines of businesses, business risks, growth prospects, maturity of businesses, market presence, size, and scale of operations. The analysis included a detailed multi-year financial comparison of each company's income statement, balance sheet and statement of cash flows. In addition, each company's performance, profitability, margins, leverage and business trends were also examined. Based on these analyses, a number of financial multiples and ratios were calculated to gauge each company's relative performance and valuation. The ranges of ratios derived were then applied to the Company's projected financial results to develop a range of implied values

***Enterprise Value, Accounting Policies and Reorganized Consolidated Balance Sheet***

In determining the final enterprise value attributed to the Company of $300,000, the Company blended its DCF methodology and publicly traded company analysis, with more emphasis on the DCF methodology.

Fresh start accounting and reporting permits the selection of appropriate accounting policies for Successor Company. The Predecessor Company's significant accounting policies that were disclosed in our Annual Report on Form 10-K for the year ended April 27, 2013 were adopted by the Successor Company as of the Effective Date, though many of the account balances were affected by the reorganization and fresh start adjustments presented below.

The adjustments presented below were made to the June 11, 2013 condensed consolidated balance sheet and contain estimates of fair value. Estimates of fair value represent the Company's best estimates, which are based on industry and data trends, and by reference to relevant market rates and discounted cash flow valuation methods, among other factors. The determination of the fair value of assets and liabilities is subject to significant estimation and assumptions. In accordance with ASC No. 805, the allocation of the reorganization value is subject to additional adjustment until the Company has completed its analysis, but not to exceed one year after emergence from bankruptcy, to provide the Company with the time to complete the valuation of its assets and liabilities. The final determination of the fair value of individual assets and liabilities and the final allocation of the reorganization value may differ from the amount included in the condensed consolidated financial statements and there is no assurance that such adjustments will not be material.

The estimates of value presented herein are preliminary and will be finalized during fiscal 2014. The condensed consolidated balance sheet, reorganization adjustments and fresh start adjustments presented below summarize the impact of the Reorganization Plan and the adoption of fresh start accounting as of the Effective Date.

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

**REORGANIZED CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)**
**AS OF JUNE 11, 2013**

| | June 11, 2013 | | | |
|---|---|---|---|---|
| | Predecessor Company | Reorganization Adjustments | Fresh Start Adjustments | Successor Company |
| **ASSETS** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ 11,052 | $ 4,363 (1) | $ — | $ 15,415 |
| Restricted cash | 26,421 | — | — | 26,421 |
| Accounts receivable | 66,894 | — | (250) (8) | 66,644 |
| Inventories | 110,830 | — | (8,147) (8) | 102,683 |
| Other current assets | 45,819 | 321 (2) | (2,162) (8) | 43,978 |
| Total current assets | 261,016 | 4,684 | (10,559) | 255,141 |
| Property, plant and equipment, net | 37,604 | (6,202) (2) | 16,895 (8) | 48,297 |
| Goodwill | — | — | 23,661 (8)(9) | 23,661 |
| Intangible assets, net | 109,155 | — | (61,166) (8) | 47,989 |
| Development costs and other | 31,142 | 8,255 (3) | — | 39,397 |
| Total assets | $ 438,917 | $ 6,737 | $ (31,169) | $ 414,485 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | |
| Current liabilities: | | | | |
| Accounts payable | $ 38,226 | $ — | $ — | $ 38,226 |
| Accrued compensation | 7,229 | (315) (2) | — | 6,914 |
| Other accrued liabilities | 60,301 | 9,947 (2)(4)(6) | (903) (8) | 69,345 |
| Total current liabilities | 105,756 | 9,632 | (903) | 114,485 |
| Long-term debt | 205,863 | (39,939) (5) | — | 165,924 |
| Other liabilities | 925 | 12,195 (2)(6) | — | 13,120 |
| Liabilities subject to compromise | 223,988 | (223,988) (6) | — | — |
| Total liabilities | $ 536,532 | $ (242,100) | $ (903) | $293,529 |
| Commitments and contingencies | | | | |
| Stockholders' equity: | | | | |
| Common stock - Predecessor | $ 24 | $ (24) (7) | $ — | $ — |
| Capital in excess of par value - Predecessor | 446,232 | (446,232) (7) | — | — |
| Treasury Stock - Predecessor | (186,637) | 186,637 (7) | — | — |
| Accumulated (deficit) and other comprehensive income - Predecessor | (357,234) | 387,500 (7) | (30,266) (7)(8) | — |
| Common stock - Successor | — | 1 (7) | — | 1 |
| Capital paid-in excess of par value - Successor | — | 120,955 (7) | — | 120,955 |
| Total stockholders' equity | (97,615) | 248,837 | (30,266) | 120,956 |
| Total liabilities and stockholders' equity | $ 438,917 | $ 6,737 | $ (31,169) | $ 414,485 |

(1) The Company deposited $7,647 of proceeds from its exit financing into a segregated cash account which is used to pay administrative claims and certain advisors in the bankruptcy proceedings. The Company utilized $3,284 of its cash balance immediately prior to emergence to fund a portion of the cash requirements from exit financing.

(2) The Company recorded adjustments related to various contract rejections or amendments completed as part of the Reorganization Plan. This included a $6,202 write down of property, plant and equipment related to the amendment of capital lease obligations for the Mansfield, OH distribution center and the rejection of capital lease obligations for the Company's Agawam, MA property. In addition, the Company recorded $920 related to various contract damages relating to lease rejections and severance obligations, classified between long-term and short-term liabilities.

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

(3) In connection with entering into the exit financing facilities, the Company capitalized $8,255 of deferred financing costs.

(4) Pursuant to bankruptcy proceedings, additional professional fees of $2,057 were recorded. In addition, certain administrative and convenience claims of $8,435 were recorded as current liabilities, offset by accrued interest expense converted to new Successor Company equity.

(5) The table below presents refinancing of the Predecessor long-term debt. The Company issued $57,245 of new Successor Company equity, partially offset by $17,306 of debt discount and other financing costs. The current portion of the reorganized debt was $25,251, which includes of $23,823 of new Successor Company ABL loan.

| | June 11, 2013 |
|---|---|
| Predecessor Company long-term debt | $ 205,863 |
| Reorganization adjustments: | |
| Issuance of capital in excess of par value | (57,245) |
| Financing costs and professional fees paid with exit financing | 17,306 |
| Reorganized Successor Company long-term debt | $ 165,924 |

(6) Liabilities subject to compromise generally refer to pre-petition obligations, secured or unsecured, that may be impaired by a plan of reorganization. FASB ASC 852 requires such liabilities, including those that became known after filing the Chapter 11 petitions, be reported at the amounts expected to be allowed, even if they may be settled for lesser amounts. These liabilities represented the estimated amount expected to be resolved on known or potential claims through the Chapter 11 process. Liabilities subject to compromise also includes items that may be assumed under the Reorganization Plan, and may be subsequently reclassified to liabilities not subject to compromise. Liabilities subject to compromise also include certain pre-petition liabilities including accrued interest and accounts payable. At April 27, 2013, liabilities subject to compromise were $228,302, of which administrative claim payments of $4,314 were made in the Predecessor period of the current year. The table below identifies the principal categories of liabilities subject to compromise at June 11, 2013:

| | June 11, 2013 |
|---|---|
| Accounts payable | $ 47,683 |
| 2011 Debentures | 163,688 |
| Pre-petition accrued interest on 2011 Debentures | 979 |
| Sale-leaseback obligations | 11,638 |
| Liabilities subject to compromise | $ 223,988 |

(7) The Company recorded elimination of (1) Predecessor Company's common stock, (2) Predecessor Company's capital in excess of par value, (3) Predecessor Company's treasury stock, and (4) Predecessor Company's accumulated deficit and accumulated other comprehensive loss. The following table represents reorganization value to be allocated to assets reconciled to the Successor Company Equity. The Company recorded Successor Company common stock of $1 and capital in excess of par value of $120,955.

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

| | June 11, 2013 |
|---|---|
| Total reorganization value to be allocated to assets | $ 414,485 |
| Less: Debt | (179,044) |
| Less: Other liabilities | 114,485 |
| Successor Company Equity | $ 120,956 |

(8) The following table represents the adjustments for fresh start accounting primarily related to recording goodwill, recording our intangible assets, fixed assets, and other assets and liabilities at fair value and related deferred income taxes in accordance with ASC 805. Additionally, such fresh start accounting adjustments reflect the increase in inventory reserve of $6,600, and elimination of certain capitalized costs of $1,426. The Company also recorded other fresh start accounting adjustments relating to (1) deferred rent included in current liabilities, (2) vendor rebates receivables in current assets, and (3) other current assets and liabilities as a result of fresh start accounting. In addition, the impact of fresh start accounting adjustments on the accumulated retained earnings was eliminated.

| | June 11, 2013 |
|---|---|
| Fresh start accounting adjustments: | |
| Goodwill | $ 23,661 |
| Fair value adjustment to intangible assets | (61,166) |
| Fair value adjustment to fixed assets | 16,895 |
| Fresh start accounting adjustments relating to inventory | (8,147) |
| Other fresh start accounting adjustments | (1,509) |
| Total fresh start accounting adjustments | $ (30,266) |

(9) The following table represents a reconciliation of the enterprise value attributed to assets, determination of the total reorganization value to be allocated to these assets and the determination of goodwill:

| | June 11, 2013 |
|---|---|
| Enterprise value attributed to School Speciality | $ 300,000 |
| Plus: other liabilities (excluding debt) | 114,485 |
| Total reorganization value to be allocated to assets | 414,398 |
| Less: fair value assigned to tangible and intangible assets | (390,824) |
| Value of School Specialty assets in excess of fair value (Goodwill) | $ 23,661 |

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

### NOTE 4 – REORGANIZATION ITEMS, NET

Reorganization items directly associated with the process of reorganizing the business under Chapter 11 of the Bankruptcy Code have been recorded on a separate line item on the condensed consolidated statement of operations. The following table displays the details of reorganization items for the seven weeks ended July 27, 2013 and the six weeks ended June 11, 2013:

| | Successor Company Seven Weeks Ended July 27, 2013 | Predecessor Company Six Weeks Ended June 11, 2013 |
|---|---|---|
| Liabilities subject to compromise | $ — | $ 223,988 |
| Issuance of capital in excess of par value | — | (42,335) |
| Reclassified into other balance sheet liability accounts | — | (19,710) |
| Settlement of liabilities subject to compromise | $ — | $ 161,943 |
| Fresh start accounting adjustments: | | |
| Goodwill | $ — | $ 23,661 |
| Fair value adjustment to intangible assets | — | (61,166) |
| Fair value adjustment to fixed assets | — | 16,895 |
| Fresh start accounting adjustments relating to inventory | — | (8,147) |
| Other fresh start accounting adjustments | — | (1,509) |
| Total fresh start accounting adjustments | $ — | $ (30,266) |
| Other reorganization adjustments: | | |
| Asset write-downs due to contract rejections | $ — | $ (7,011) |
| Professional fees | (1,280) | (10,512) |
| Cancellation of equity based awards | — | $ (3,624) |
| Financing fees | — | (2,853) |
| Other | — | (1,503) |
| Total other reorganization adjustments | $ (1,280) | $ (25,503) |
| Total Reorganization items, net | $ (1,280) | $ 106,174 |

The 2011 Debentures and related accrued interest within the liabilities subject to compromise at June 11, 2013 were settled by the issuance of new common stock representing 35% ownership in the Successor Company, with an estimated fair value of $42,335. The portion of accounts payable within the liabilities subject to compromise that will be paid in accordance with the Reorganization Plan were classified between long-term and short-term liabilities. Administrative claims totaling $8,335 were classified as short-term with any remaining recoveries under the Reorganization Plan classified as Deferred Cash Payments in long-term debt (see Footnote 12 – Debt). Since the value of Common Stock issued and the amounts to be paid in cash at a later date were less than the liabilities subject to compromise, the Predecessor Company recorded a gain on reorganization of $161,943 for the six weeks ended June 11, 2013.

Fresh start accounting adjustments resulted in a net asset write down of $30,266 which has partially offset the gain related to the settlement of liabilities subject to compromise. The fresh start accounting adjustments are related to the preliminary valuation done in accordance with the adoption of the fresh start accounting. See Note 3 – Fresh Start Accounting for information on these fresh start valuation adjustments.

Further offsetting a portion of the gain related to the settlement of liabilities subject to compromise is $25,503 of other reorganizational adjustments. Professional fees and financing fees associated with the Predecessor Company's debtor-in possession financings were $13,365. The cancellation of equity awards outstanding as of the Effective Date triggered $3,624 of unrecognized stock-based compensation expense. In addition, the rejection of certain leases pursuant to the Reorganization Plan resulted in an additional $7,011 of expense.

### NOTE 5 – INCOME TAXES

The Company files income tax returns with the U.S., various U.S. states, and foreign jurisdictions. The most significant tax return the Company files is with the U.S. The Company's tax returns are no longer subject to examination by the U.S. for fiscal years before 2011. The Company has various state tax audits and appeals in process at any given time. It is not anticipated that any adjustments resulting from tax examinations or appeals would result in a material change to the Company's financial position or results of operations.

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that either all, or some portion, of the deferred tax assets will not be realized. The realization is dependent upon the future generation of taxable income, reversal of deferred tax liabilities, tax planning strategies, and expiration of tax attribute carryovers. In fiscal 2012, the Company concluded that the realization of a majority of the deferred tax assets did not meet the more likely than not threshold, and recorded a tax valuation allowance of $32,638. In fiscal 2013, the Company increased its tax valuation allowance to $71,272. As of June 11, 2013 and July 27, 2013, valuation allowances were recorded to offset substantially all deferred tax assets. The Company is

continuing to evaluate the impact of fresh-start accounting and cancellation of indebtedness income on its deferred tax assets and related valuation allowances. As of July 27, 2013, the Company had an immaterial amount of unremitted earnings from foreign investments.

The balance of the Company's liability for unrecognized income tax benefits, net of federal tax benefits, at July 27, 2013, April 27, 2013 and July 28, 2012, was $925, $925 and $587, respectively, all of which would have an impact on the effective tax rate if recognized. The Company does not expect any material changes in the amount of unrecognized tax benefits within the next twelve months. The Company classifies accrued interest and penalties related to unrecognized tax benefits as income tax expense in its consolidated statements of operations. The amounts of accrued interest and penalties included in the liability for uncertain tax positions are not material.

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

**NOTE 6 – STOCKHOLDERS' EQUITY**

Changes in condensed consolidated stockholders' equity (deficit) during the six weeks ended June 11, 2013 (Predecessor Company) and the seven weeks ended July 27, 2013 (Successor Company) were as follows:

| *(in thousands)* | Common Stock | Additional Paid-in Capital | Retained Earnings (Accumulated Deficit) | Treasury Stock | Accumulated Other Comprehensive Income (Loss) | Total Stockholders' Equity (Deficit) |
|---|---|---|---|---|---|---|
| **Balance, April 27, 2013 (Predecessor Company)** | $ 24 | $ 446,232 | $ (361,192) | $ (186,637) | $ 22,381 | $ (79,192) |
| Net income | — | — | 97,443 | — | — | 97,443 |
| Foreign currency translation adjustment | | | | | (101) | (101) |
| Cancellation of Predecessor Company common stock | (24) | — | — | — | — | (24) |
| Elimination of Predecessor Company capital in excess of par | — | (446,232) | — | — | — | (446,232) |
| Elimination of Predecessor Company accumulated deficit | — | — | 263,749 | — | — | 263,749 |
| Elimination of Predecessor Company treasury stock | — | — | — | 186,637 | — | 186,637 |
| Elimination of Predecessor Company accumulated other comprehensive loss | — | | | | (22,280) | (22,280) |
| **Balance, June 11, 2013 (Predecessor Company)** | $ — | $ — | $ — | $ — | $ — | $ — |
| Issuance of Successor Company Common Stock | $ 1 | $ — | $ — | $ — | $ — | $ 1 |
| Establishment of Successor Company capital in excess of par | — | 120,955 | — | — | — | 120,955 |
| **Balance, June 12, 2013 (Successor Company)** | 1 | 120,955 | — | — | — | 120,956 |
| Net income | | | 16,943 | | | 16,943 |
| Foreign currency translation adjustment | | | | | (7) | (7) |
| **Balance, July 27, 2013 (Successor Company)** | $ 1 | $ 120,955 | $ 16,943 | $ — | $ (7) | $ 137,892 |

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

## NOTE 7 - EARNINGS PER SHARE

### Earnings Per Share

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

| | Income (Numerator) | Shares (Denominator) | Per Share Amount |
|---|---|---|---|
| *Seven weeks ended July 27, 2013:* | | | |
| Basic and diluted EPS | $ 16,943 | 1,000 | $ 16.94 |
| *Six weeks ended June 11, 2013:* | | | |
| Basic EPS | $ 97,443 | 18,922 | $ 5.15 |
| Effect of dilutive stock options | | — | |
| Effect of dilutive non-vested stock and restricted shares | | — | |
| Diluted EPS | $ 97,443 | 18,922 | $ 5.15 |
| *Three months ended July 28, 2012:* | | | |
| Basic EPS | $ 18,375 | 18,899 | $ 0.97 |
| Effect of dilutive stock options | | — | |
| Effect of dilutive non-vested stock and restricted shares | | 7 | |
| Diluted EPS | $ 18,375 | $ 18,906 | $ 0.97 |

All outstanding stock options and restricted shares of the Predecessor Company were cancelled as of the Effective Date.

The Predecessor Company had additional stock options outstanding of 2,180 during the three months ended July 28, 2012 that were not included in the computation of diluted EPS because they were anti-dilutive.

The $157,500, 3.75% convertible subordinated debentures had no impact on the Predecessor Company's denominator for computing diluted EPS because conditions under which the debentures could have been converted were not satisfied.

## NOTE 8 - SHARE-BASED COMPENSATION EXPENSE

### Employee Stock Plans

Prior to the Effective Date, the Company had three share-based employee compensation plans under which awards were outstanding as of April 27, 2013: the School Specialty, Inc. 1998 Stock Incentive Plan (the "1998 Plan"), the School Specialty, Inc. 2002 Stock Incentive Plan (the "2002 Plan"), and the School Specialty, Inc. 2008 Equity Incentive Plan (the "2008 Plan"). All plans were approved by the Company's stockholders. The Successor Company does not currently have a share-based compensation plan.

In conjunction with the Reorganization Plan which became effective on June 11, 2013 (see Note 2 – Bankruptcy Proceedings), all shares, options, NSUs and restricted shares that were outstanding on the Effective Date were canceled. As a result, the Predecessor Company recognized a $3,624 reorganization item related to the unrecognized share-based compensation expense as of April 27, 2013 which was triggered upon the cancellation of the awards.

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

A summary of option activity during the six weeks ended June 11, 2013 follows:

| | Options Outstanding | | Options Exercisable | |
|---|---|---|---|---|
| | Options | Weighted-Average Exercise Price | Options | Weighted-Average Exercise Price |
| Balance at April 27, 2013 | 2,550 | $ 15.27 | 1,207 | $ 24.76 |
| Granted | — | — | | |
| Exercised | — | — | | |
| Canceled | (2,550) | 15.27 | | |
| Balance at June 11, 2013 | — | $ — | — | $ — |

The Predecessor Company had used a combination of Non-Vested Stock Units (NSUs) and restricted shares. There were no time-based NSU awards granted nor restricted stock awarded in the six weeks ended June 11, 2013. The following table presents the amounts granted in the first quarter of fiscal 2013 for these types of awards:

| | For the Three Months Ended July 28, 2012 | |
|---|---|---|
| | # of shares awarded | Approximate fair value |
| Director NSUs | 46 | $ 131 |
| Performance-based NSUs | — | $ — |
| Restricted shares | 15 | $ 43 |

Director NSU awards vested one year from the date of grant and the Company recognized share-based compensation expense related to these time-based NSU awards on a straight-line basis over the vesting period. The restricted shares in the above table were granted to Company employees and would have vested over a three year period. The Predecessor Company recognized share-based compensation expense for performance-based NSUs on a straight line basis over the vesting period adjusted for changes in the expected level of performance.

The following table presents the share-based compensation expense recognized during the three months ended July 28, 2012:

| | For the Three Months Ended July 28, 2012 | |
|---|---|---|
| | Gross | Net of Tax |
| Stock Options | $ 105 | 64 |
| Director NSUs | 44 | 27 |
| Performance-based NSUs | — | — |
| Management Restricted shares | (30) | (18) |
| Total stock-based compensation epense | $ 119 | |

The stock-based compensation expense is reflected in selling, general and administrative ("SG&A") expenses in the accompanying condensed consolidated statements of operations relating to the Predecessor Company. The income tax benefit related to share-based compensation expense was $46 for the three months ended July 28, 2012. The Predecessor Company recognized share-based compensation expense ratably over the vesting period of each award along with cumulative adjustments for changes in the expected level of attainment for performance-based awards.

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

The total unrecognized share-based compensation expense as of July 27, 2013, April 27, 2013 and July 28, 2012 were as follows:

| | July 27, 2013 | April 27, 2013 | July 28, 2012 |
|---|---|---|---|
| Stock Options, net of estimated forfeitures | $ — | $ 2,328 | $3,488 |
| NSUs | — | 225 | 115 |
| RSUs | — | 1,071 | 1,447 |

The weighted average fair value of options granted during the three months ended July 28, 2012 was $1.27 per share. The fair value of options was estimated on the date of grant using the Black-Scholes single option pricing model with the following weighted average assumptions:

| | For the Three Months Ended July 28, 2012 |
|---|---|
| Average-risk free interest rate | 0.95% |
| Expected volatility | 48.15% |
| Expected term | 5.5 years |

| | For the Three Months Ended July 28, 2012 |
|---|---|
| Total intrinsic value of stock options exercised | $ — |
| Cash received from stock option exercises | $ — |
| Income tax deficiency from stock options | $ (91) |

## NOTE 9 – GOODWILL AND OTHER INTANGIBLE ASSETS

The following table presents details of the Successor Company's intangible assets, excluding goodwill (preliminary values):

| July 27, 2013 | Gross Value | Accumulated Amortization | Net Book Value |
|---|---|---|---|
| Amortizable intangible assets: | | | |
| Customer relationships (13 years) | $ 9,400 | $ (96) | $ 9,304 |
| Publishing rights (20 years) | 2,500 | (17) | 2,483 |
| Trademarks (20 years) | 22,100 | (147) | 21,953 |
| Developed technology (7 years) | 6,600 | (126) | 6,474 |
| Content (5 years) | 4,400 | (117) | 4,283 |
| Perpetual license agreements (5 years) | 1,500 | (40) | 1,460 |
| Favorable leasehold interests (10 years) | 1,490 | (20) | 1,470 |
| Total intangible assets | $ 47,990 | $ (563) | $ 47,427 |

The gross values were determined by the valuation which was completed as part of the fresh-start accounting. In addition to the intangible assets above, the Successor Company recorded $23,661 of estimated goodwill.

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

The following tables present details of the Predecessor Company's intangible assets, excluding goodwill:

| April 27, 2013 | Gross Value | Accumulated Amortization | Net Book Value |
|---|---|---|---|
| Amortizable intangible assets: | | | |
| Customer relationships (10 to 17 years) | $ 36,760 | $ (25,248) | $ 11,512 |
| Publishing rights (15 to 25 years) | 113,260 | (40,018) | 73,242 |
| Non-compete agreements (3.5 to 10 years) | 150 | (127) | 23 |
| Tradenames and trademarks (10 to 30 years) | 4,354 | (1,424) | 2,930 |
| Order backlog and other (less than 1 to 13 years) | 1,766 | (1,238) | 528 |
| Perpetual license agreements (10 years) | 14,506 | (6,845) | 7,661 |
| Total amortizable intangible assets | 170,796 | (74,900) | 95,896 |
| Non-amortizable intangible assets: | | | |
| Tradenames and trademarks | 14,410 | — | 14,410 |
| Total non-amortizable intangible assets | 14,410 | — | 14,410 |
| Total intangible assets | $185,206 | $ (74,900) | $ 110,306 |

| July 28, 2012 | Gross Value | Accumulated Amortization | Net Book Value |
|---|---|---|---|
| Amortizable intangible assets: | | | |
| Customer relationships (10 to 17 years) | $ 36,844 | $ (23,542) | $ 13,302 |
| Publishing rights (15 to 25 years) | 113,260 | (35,810) | 77,450 |
| Non-compete agreements (3.5 to 10 years) | 5,480 | (5,414) | 66 |
| Tradenames and trademarks (10 to 30 years) | 3,504 | (1,280) | 2,224 |
| Order backlog and other (less than 1 to 13 years) | 1,766 | (1,160) | 606 |
| Perpetual license agreements (10 years) | 14,506 | (5,637) | 8,869 |
| Total amortizable intangible assets | 175,360 | (72,843) | 102,517 |
| Non-amortizable intangible assets: | | | |
| Tradenames and trademarks | 19,110 | — | 19,110 |
| Total non-amortizable intangible assets | 19,110 | — | 19,110 |
| Total intangible assets | $ 194,470 | $ (72,843) | $121,627 |

Intangible asset amortization expense included in selling, general and administrative expense for the seven weeks ended July 27, 2013, six weeks ended June 11, 2013 and three months ended July 28, 2012 was $563, $1,138 and $2,589, respectively.

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

Intangible asset amortization expense for each of the five succeeding fiscal years and the remainder of fiscal 2014 is estimated to be:

| | |
|---|---|
| Fiscal 2014 (nine months remaining) | $3,169 |
| Fiscal 2015 | 4,225 |
| Fiscal 2016 | 4,225 |
| Fiscal 2017 | 4,225 |
| Fiscal 2018 | 4,225 |
| Fiscal 2019 | 3,182 |

The following information presents changes to the Predecessor Company's goodwill during the period beginning July 28, 2012 through April 27, 2013. There were no changes during the six week period ending June 11, 2013.

| | Reporting Units | | | Reporting Units | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Education Resources | Califone | Educational Resources Segment | Science | Planning and Student Development | Reading | Health | Accelerated Learning Segment | Total |
| **Balance at July 28, 2012** | | | | | | | | | |
| Goodwill | $ 249,695 | $ 14,852 | $ 264,547 | $ 75,652 | $ 181,018 | $ 17,474 | $ — | $ 274,144 | $ 538,691 |
| Accumulated impairment losses | (249,695) | (10,959) | (260,654) | (75,652) | (153,603) | (7,772) | — | (237,027) | (497,681) |
| | $ — | $ 3,893 | $ 3,893 | $ — | $ 27,415 | $ 9,702 | $ — | $ 37,117 | $ 41,010 |
| Fiscal 2013 Activity: | | | | | | | | | |
| Impairment losses | — | (3,893) | (3,893) | — | (27,494) | (9,702) | — | (37,196) | (41,089) |
| Currency translation adjustment | — | — | — | — | 79 | — | — | 79 | 79 |
| **Balance at April 27, 2013** | | | | | | | | | |
| Goodwill | $ 249,695 | $ 14,852 | $ 264,547 | $ 75,652 | $ 181,097 | $ 17,474 | $ — | $ 274,223 | $ 538,770 |
| Accumulated impairment losses | (249,695) | (14,852) | (264,547) | (75,652) | (181,097) | (17,474) | — | (274,223) | (538,770) |
| | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |

In the third quarter of fiscal 2013, the Company recorded a goodwill impairment charge of $41,089 and an indefinite-lived asset impairment charge of $4,700 as the Predecessor Company concluded that a triggering event occurred in the quarter. Refer to Footnote 8, Goodwill and Other Intangible Assets in the Company's Form 10-K for the year ended April 27, 2013 for details regarding the fiscal 2013 impairment.

On a preliminary basis, the Successor Company has recorded $23,661 of goodwill. As discussed in Note 3 – Fresh Start Accounting, this goodwill amount may change as the Company finalizes its valuation of assets and liabilities in fiscal 2014.

## NOTE 10 – INVESTMENT IN UNCONSOLIDATED AFFILIATE

Investment in unconsolidated affiliate was accounted for under the equity method through the end of the third quarter in fiscal 2013. Effective with the commencement of the Company's Chapter 11 Cases, the Company no longer maintained a seat on the unconsolidated affiliate's board of directors as a result of the Company's Chapter 11 Cases. As a result, the Company no longer had significant influence over the unconsolidated affiliate and began to account for the investment in unconsolidated affiliate under the cost method effective at the beginning of the fourth quarter of fiscal 2013.

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

The investment in unconsolidated affiliate consisted of the following:

| | Percent Owned | Successor July 27, 2013 | Predecessor April 27, 2013 | Predecessor July 28, 2012 |
|---|---|---|---|---|
| Carson- Dellosa Publishing, LLC | 35% | $ 715 | $ 715 | $ 10,019 |

The Company holds a 35% interest, accounted for under the cost method, in Carson-Dellosa Publishing.

The investment amount represents the Company's maximum exposure to loss as a result of the Company's ownership interest. Income and (losses) are reflected in "Equity in income/ (losses) of investment in unconsolidated affiliate" on the condensed consolidated statement of operations.

## NOTE 11 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

| | Successor | Predecessor | |
|---|---|---|---|
| | July 27, 2013 | April 27, 2013 | July 28, 2012 |
| Land | $ 210 | $ 158 | $ 158 |
| Projects in progress | 2,927 | 2,953 | 9,831 |
| Buildings and leasehold improvements | 7,288 | 29,804 | 29,897 |
| Furniture, fixtures and other | 29,277 | 108,877 | 101,765 |
| Machinery and warehouse equipment | 8,910 | 40,117 | 39,438 |
| Total property, plant and equipment | 48,612 | 181,909 | 181,089 |
| Less: Accumulated depreciation | (2,303) | (142,700) | (126,851) |
| Net property, plant and equipment | $ 46,309 | $ 39,209 | $ 54,238 |

Depreciation expense for the seven weeks ended July 27, 2013, six weeks ended June 11, 2013 and three months ended July 28, 2012 was $2,303, $1,845 and $4,427, respectively.

## NOTE 12 – DEBT

Long-term debt consisted of the following:

| | Successor | Predecessor | |
|---|---|---|---|
| | July 27, 2013 | April 27, 2013 | July 28, 2012 |
| New ABL Facility, maturing in 2018 | $ 60,801 | $ — | $ — |
| New Term Loan, maturing in 2019 | 145,000 | — | — |
| New Term Loan Original Issue Discount | (2,835) | — | — |
| Deferred Cash Payment Obligations, maturing in 2019 | 12,195 | — | — |
| ABL DIP Agreement | — | 43,302 | — |
| Ad Hoc DIP Agreement | — | 155,000 | — |
| Asset-Based Credit Agreement, maturing in 2014 | — | — | 123,426 |
| Term Loan Credit Agreement, maturing in 2014 | — | — | 70,000 |
| 3.75% Convertible Subordinated Notes due 2026, issued 2006, net of unamortized discount | — | 163,688 | — |
| Sale-leaseback obligations, effective rate of 8.97%, expiring in 2020 | — | 11,684 | 12,444 |
| Total debt | 215,161 | 373,674 | 364,952 |
| Less: Current maturities | (62,229) | (198,302) | (79,444) |
| Less: Debt classified as liabilities subject to compromise (Note 3) | — | (175,372) | — |
| Total long-term debt | $ 152,932 | $ — | $ 285,508 |

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

***Successor Company Debt***

*Credit Agreement*

On June 11, 2013, the Company entered into a Loan Agreement (the "Asset-Based Credit Agreement") by and among the Company, Bank of America, N.A, as Agent, SunTrust Bank, as Syndication Agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated and SunTrust Robinson Humphrey, Inc., as Joint Lead Arrangers and Bookrunners, and the Lenders that are party to the Asset-Based Credit Agreement (the "Asset-Based Lenders").

Under the Asset-Based Credit Agreement, the Asset-Based Lenders agreed to provide a revolving senior secured asset-based credit facility (the "New ABL Facility") in an aggregate principal amount of $175,000. Outstanding amounts under the New ABL Facility will bear interest at a rate per annum equal to, at the Company's election: (1) a base rate (equal to the greatest of (*a*) the prime lending rate, (*b*) the federal funds rate plus 0.50%, and (*c*) the 30-day LIBOR rate plus 1.00% per annum) (the "Base Rate") plus an applicable margin (equal to a specified margin based on the interest rate elected by the Company, the fixed charge coverage ratio under the New ABL Facility and the applicable point in the life of the New ABL Facility) (the "Applicable Margin"), or (2) a LIBOR rate plus the Applicable Margin (the "LIBOR Rate"). Interest on loans under the New ABL Facility bearing interest based upon the Base Rate will be due monthly in arrears, and interest on loans bearing interest based upon the LIBOR Rate will be due on the last day of each relevant interest period or, if sooner, on the respective dates that fall every three months after the beginning of such interest period.

The effective interest rate under the New ABL Facility for the seven weeks ended July 27, 2013 was 6.48%, which includes amortization of loan origination fees of $137 and commitment fees on unborrowed funds of $80. As of July 27, 2013, the outstanding balance on the New ABL Facility of $60,801, which was reflected as currently maturing, long-term debt in the accompanying condensed consolidated balance sheets.

The New ABL Facility will mature on June 11, 2018. The Company may prepay advances under the New ABL Facility in whole or in part at any time without penalty or premium. The Company will be required to make specified prepayments upon the occurrence of certain events, including: (1) the amount outstanding on the New ABL Facility exceeding the Borrowing Base (as determined in accordance with the terms of the New ABL Facility), and (2) the Company's receipt of net cash proceeds of any sale or disposition of assets that are first priority collateral for the New ABL Facility.

Pursuant to a Guaranty and Collateral Agreement dated as of June 11, 2013 (the "New ABL Security Agreement"), the New ABL Facility is secured by a first priority security interest in substantially all assets of the Company and the guarantor subsidiaries. Under an intercreditor agreement between the Asset-Based Lenders and the Term Loan Lenders, as defined and described below, the Asset-Based Lenders have a first priority security interest in substantially all working capital assets of the Company and the guarantor subsidiaries, and a second priority security interest in all other assets, subordinate only to the first priority security interest of the New Term Loan Lenders in such other assets.

The Asset-Based Credit Agreement contains customary events of default and financial, affirmative and negative covenants, including but not limited to a springing financial covenant relating to the Company's fixed charge coverage ratio and restrictions on indebtedness, liens, investments, asset dispositions and dividends and other restricted payments.

*Term Loan*

Also on June 11, 2013, the Company entered into a Credit Agreement (the "New Term Loan Credit Agreement") among the Company, Credit Suisse AG, as Administrative Agent and Collateral Agent, and the Lenders defined in the New Term Loan Credit Agreement (the "Term Loan Lenders").

Under the New Term Loan Credit Agreement, the Term Loan Lenders agreed to make a term loan (the "New Term Loan") to the Company in aggregate principal amount of $145 million including an original issue discount of $2,900. The outstanding principal amount of the New Term Loan will bear interest at a rate per annum equal to the applicable LIBOR rate (with a 1% floor) plus 8.50%, or the base rate plus a margin of 7.50%. Interest on loans under the New Term Loan Credit Agreement bearing interest based upon the base rate will be due quarterly in arrears, and interest on loans bearing interest based upon the LIBOR Rate will be due on the last day of each relevant interest period or, if sooner, on the respective dates that fall every three months after the beginning of such interest period.

The effective interest rate under the term loan credit facility for the first quarter of fiscal 2013 was 9.5%, which includes amortization of loan origination fees of $135 and original issue discount amortization of $65. As of July 27, 2013, the outstanding balance on the New Term Loan Credit Agreement was $142,165, net of the unamortized original issue discount. Of this amount, $1,428 was reflected as currently maturing, long-term debt in the accompanying condensed consolidated balance sheets. The original issue discount is being amortized as additional interest expense on a straight-line basis over the life of the New Term Loan.

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

The New Term Loan matures on June 11, 2019. The New Term Loan Credit Agreement requires prepayments at specified levels upon the Company's receipt of net proceeds from certain events, including: (1) certain dispositions of property, divisions, business units or business lines; and (2) other issuances of debt other than Permitted Debt (as defined in the New Term Loan Credit Agreement). The New Term Loan Credit Agreement also requires prepayments at specified levels from the Company's excess cash flow. The Company is also permitted to voluntarily prepay the New Term Loan in whole or in part. Any prepayments are to be made at par, plus an early payment fee calculated in accordance with the terms of the New Term Loan Credit Agreement if prepaid prior to the second anniversary of the Term Loan Credit Agreement.

Pursuant to a Guarantee and Collateral Agreement dated as of June 11, 2013 (the "New Term Loan Security Agreement"), the Term Loan is secured by a first priority security interest in substantially all assets of the Company and the guarantor subsidiaries. Under an intercreditor agreement between the Asset-Based Lenders and the Term Loan Lenders, the Term Loan Lenders have a second priority security interest in substantially all working capital assets of the Company and the subsidiary guarantors, subordinate only to the first priority security interest of the Asset-Based Lenders in such assets, and a first priority security interest in all other assets.

The New Term Loan Credit Agreement contains customary events of default and financial, affirmative and negative covenants, including but not limited to quarterly financial covenants commencing on the fiscal quarter ending October 26, 2013, relating to the Company's (1) minimum interest coverage ratio and (2) maximum net total leverage ratio and restrictions on indebtedness, liens, investments, asset dispositions and dividends and other restricted payments.

The New Term Loan requires the Company to enter into an interest rate hedge, within 90 day of the Effective Date, in an amount equal to at least 50% of the aggregate principal amount outstanding under the New Term Loan. The purpose of the interest rate hedge is to effectively subject a portion of the New Term Loan to a fixed or maximum interest rate. The Company entered into an interest rate hedge for $72,500 of principal in the second quarter of fiscal 2014.

*Deferred Cash Payment Obligations*

In connection with the Reorganization Plan, general unsecured creditors are entitled to receive a deferred cash payment obligation of 20% of the allowed claim in full settlement of the allowed unsecured claims. Such payment shall accrue quarterly paid-in-kind interest of 5% per annum beginning on the Effective Date. Trade unsecured creditors had the ability to make a trade election to provide agreed upon customary trade terms. If the election was made, those unsecured trade creditors received a deferred cash payment obligation of 45% of the allowed claim in full settlement of those claims. As of the Effective Date, the deferred payment obligations under the trade elections shall accrue quarterly paid-in-kind interest of 10% per annum. All deferred cash payment obligations, along with interest paid-in-kind, are payable in December 2019.

The Company's reconciliation of general unsecured claims is still in process. The Company currently estimates the deferred payment obligations are $12,195 of which $5,731 represents a 20% recovery for the creditor and $6,464 represents a 45% recovery for the creditor. The Company expects to complete the reconciliation of general unsecured claims in the third quarter of fiscal 2014 and these estimated obligation amounts are subject to change.

***Predecessor Company Debt***

*Bankruptcy-Related Debt*

In connection with the filing the Chapter 11 Cases, on January 31, 2013, the Company entered into a Senior Secured Super Priority Debtor-in-Possession Credit Agreement (the "Bayside DIP Agreement") by and among the Company, certain of its subsidiaries, Bayside Finance, LLC ("Bayside") (as Administrative Agent and Collateral Agent), and the lenders party to the Bayside Credit Agreement and a Debtor-in-Possession Credit Agreement (the "ABL DIP Agreement") by and among Wells Fargo Capital Finance, LLC (as Administrative Agent, Co-Collateral Agent, Co-Lead Arranger and Joint Book Runner) and GE Capital Markets, Inc. (as Co-Collateral Agent, Co-Lead Arranger and Joint Book Runner and Syndication Agent), General Electric Capital Corporation (as Syndication Agent), and the lenders that are party to the Asset-Based Credit Agreement (the "Asset-Based Lenders") and the Company and certain of its subsidiaries.

The Bayside DIP Agreement provided for a senior secured, super-priority revolving credit facility of up to $50,000 (the "Bayside DIP Facility"), with an initial borrowing upon closing of $15,000, and subsequent borrowings of $8,000.

Borrowings by the Company under the Bayside DIP Facility were subject to borrowing limitations based on the exhaustion of availability of credit under the ABL DIP Facility (as defined below) and certain other conditions. The principal amounts outstanding under the Bayside DIP Facility bore interest based on applicable LIBOR or base rates plus margins as set forth in the Bayside DIP Agreement. Upon the occurrence of an event of default in the Bayside DIP Agreement, an additional default interest rate of 3.0% per annum applied. The Bayside DIP Agreement also provided for certain additional fees payable to the agents and lenders.

All borrowings under the Bayside DIP Agreement were required to be repaid on the earliest of (i) June 30, 2013, (ii) the date of termination of the Bayside DIP Agreement, whether pursuant to the consummation of a sale of substantially all of the assets of the Debtors under section 363 of the Bankruptcy Code, or (iii) certain other termination events.

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

Pursuant to a Security and Pledge Agreement, the Bayside DIP Facility was secured by a first priority security interest in substantially all assets of the Company and the guarantor subsidiaries. Under an intercreditor agreement between the Asset-Based Lenders and the Bayside Lenders (the "Intercreditor Agreement"), the Bayside Lenders had a first priority security interest in all interests in real property, all intellectual property, all equipment and fixtures, and certain other assets of the Company and its subsidiaries, and had a second priority security interest in accounts receivable, inventory and certain other assets of the Company and the subsidiary guarantors, subordinate only to the first priority security interest of the Asset-Based Lenders in such assets. The obligations under the Bayside DIP Facility were extinguished with proceeds from the Ad Hoc DIP Agreement discussed below.

The ABL DIP Agreement provided a revolving senior secured asset-based credit facility (the "ABL DIP Facility") in an aggregate principal amount of $175,000. The amount of revolving loans made during any one week was based on certain conditions, including the budget supplied by the Company. Outstanding amounts under the ABL DIP Facility bore interest at a rate per annum equal to either: (1) a base rate (equal to the greatest of (a) the prime lending rate, (b) the federal funds rate plus 0.50%, and (c) the 30-day LIBOR rate plus 1.00% per annum) plus 2.75%, or (2) a LIBOR rate plus 3.75%. The default interest rate was three percentage points above the otherwise applicable rate.

Pursuant to a Security and Pledge Agreement, the ABL Facility was secured by substantially all assets of the Company and the guarantor subsidiaries. Under the Intercreditor Agreement, the Asset-Based Lenders had a first priority security interest in accounts receivable, inventory and certain other assets of the Company and the subsidiary guarantors, and had a second priority security interest in all interests in real property, all intellectual property, all equipment and fixtures, and certain other assets of the Company and its subsidiaries, subordinate only to the first priority security interest of the Bayside Lenders in such assets.

The ABL DIP Agreement contained customary events of default and affirmative and negative covenants, including (but not limited to) affirmative covenants relating to reporting, appointment of a chief restructuring officer, and bankruptcy transaction milestones, and negative covenants related to the financing order of the Bankruptcy Court, additional indebtedness, liens, assets, fundamental changes, and use of proceeds.

On February 27, 2013, the Company entered into a Senior Secured Super Priority Debtor-in-Possession Credit Agreement (the "Ad Hoc DIP Agreement") by and among the Company, certain of its subsidiaries, U.S. Bank National Association, as Administrative Agent and Collateral Agent and the lenders party to the Ad Hoc DIP Agreement, which replaced the Bayside DIP Agreement, the related Bayside Facility and the Term Loan Credit Agreement.

The Ad Hoc DIP Agreement provided for a senior secured, super-priority revolving credit facility of up to $155,000 (the "Ad Hoc DIP Facility"), with an initial borrowing upon closing of $130,000, and subsequent borrowings of $15,000 following the entry of the final order of the Bankruptcy Court and upon the satisfaction of certain conditions.

The principal amounts outstanding under the Ad Hoc DIP Facility bore interest based on applicable LIBOR or base rates plus margins as set forth in the Ad Hoc DIP Agreement. Upon the occurrence of an event of default in the Ad Hoc DIP Agreement, an additional default interest rate of 2.0% per annum applied. The Ad Hoc DIP Agreement also provided for certain additional fees payable to the agents and lenders.

All borrowings under the Ad Hoc DIP Agreement were required to be repaid on the earliest of (i) June 30, 2013, (ii) the date of termination of the Ad Hoc DIP Agreement, whether pursuant to the consummation of a sale of substantially all of the assets of the Debtors under section 363 of the Bankruptcy Code, or (iii) certain other termination events.

Pursuant to a Security and Pledge Agreement, the Ad Hoc DIP Facility was secured by a first priority security interest in substantially all of the assets of the Company and the guarantor subsidiaries.

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

*Pre-Bankruptcy Filing Debt*

On May 22, 2012, the Company entered into an Asset-Based Credit Agreement (the "Asset-Based Credit Agreement"). Under the Asset-Based Credit Agreement, the Asset-Based Lenders agreed to provide a revolving senior secured asset-based credit facility (the "2012 ABL Facility") in an aggregate principal amount of $200,000.

The 2012 ABL Facility was secured by a first priority security interest in substantially all assets of the Company and the guarantor subsidiaries. Under an intercreditor agreement between the lenders under the 2012 ABL Facility and the Term Loan lenders, as described below, the Asset-Based Lenders had a first priority security interest in substantially all working capital assets of the Company and the guarantor subsidiaries, and a second priority security interest in all other assets, subordinate only to the first priority security interest of the Term Loan lenders in such other assets.

The Asset-Based Credit Agreement contained customary events of default and financial, affirmative and negative covenants, including financial covenants relating to the Company's (1) minimum fixed charge coverage ratio, (2) maximum secured leverage ratio, (3) maximum total leverage ratio, (4) maximum term loan ratio and (5) minimum interest coverage ratio. In addition, the Asset-Based Credit Agreement contained a minimum liquidity covenant requiring the Company to maintain minimum liquidity levels at the end of each month during the life of the Term Loan (consisting of Qualified Cash, subject to a $2,000 cap, plus availability under the 2012 ABL Facility). The Company was not in compliance with the minimum liquidity covenant as of the end of December, 2012. As a result, the Company entered into a Forbearance Agreement with its 2012 ABL Facility lenders and Bayside Finance, LLC on January 4, 2013 and subsequently filed for protection under Chapter 11 of the U.S. Bankruptcy Code.

Outstanding amounts under the 2012 ABL Facility bore interest at a rate per annum equal to, at the Company's election: (1) a base rate (equal to the greatest of (*a*) the prime lending rate, (*b*) the federal funds rate plus 0.50%, and (*c*) the 30-day LIBOR rate plus 1.00% per annum) (the "Base Rate") plus an applicable margin (equal to a specified margin based on the interest rate elected by the Company, the excess availability under the 2012 ABL Facility and the applicable point in the life of the 2012 ABL Facility) (the "Applicable Margin"), or (2) a LIBOR rate plus the Applicable Margin (the "LIBOR Rate"). Interest on loans under the 2012 ABL Facility that bore interest based upon the Base Rate were due monthly in arrears, and interest on loans that bore interest based upon the LIBOR Rate were due on the last day of each relevant interest period. The effective interest rate under the 2012 ABL Facility for the first nine months of fiscal 2013 was 5.41%, which included amortization of loan origination fees of $866 and commitment fees on unborrowed funds of $376. As of January 26, 2013, the outstanding balance on the 2012 ABL Facility was $41,589. The balances under this Credit Agreement on the date of the filing of the Chapter 11 Cases were repaid during the fourth quarter of fiscal 2013 using cash collections from accounts receivable securing the obligations under this facility.

*Term Loan*

On May 22, 2012, the Company entered into a term loan credit agreement (the "Term Loan Credit Agreement"). Under the Term Loan Credit Agreement, the Term Loan lender agreed to make a term loan (the "Term Loan") to the Company in aggregate principal amount of $70,000.

The Term Loan was secured by a first priority security interest in substantially all assets of the Company and the guarantor subsidiaries. Under an intercreditor agreement between the lenders under the 2012 ABL Facility and the Term Loan lender, the Term Loan lender had a second priority security interest in substantially all working capital assets of the Company and the subsidiary guarantors, subordinate only to the first priority security interest of the lenders under the 2012 ABL Facility in such assets, and a first priority security interest in all other assets.

The Term Loan Credit Agreement contained customary events of default and financial, affirmative and negative

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

covenants, including quarterly financial covenants relating to the Company's (1) maximum secured leverage ratio, (2) maximum total leverage ratio, (3) maximum term loan ratio, (4) minimum fixed charge coverage ratio and (5) minimum interest coverage ratio. In addition, the Term Loan Credit Agreement contained a minimum liquidity covenant requiring the Company to maintain minimum liquidity levels at the end of each month during the life of the Term Loan (consisting of Unrestricted Cash plus availability under the 2012 ABL Facility). The Company was not in compliance with the minimum liquidity covenant as of the end of December, 2012. As a result, the Company entered into a Forbearance Agreement with its ABL lenders and Bayside Finance, LLC on January 4, 2013 and subsequently filed for protection under Chapter 11 of the U.S. Bankruptcy Code.

The outstanding principal amount of the Term Loan bore interest at a rate per annum equal to the applicable LIBOR rate (calculated as the greater of (1) the current three-month LIBOR rate and (2) 1.5%) plus 11.0%, accruing and paid on a quarterly basis in arrears. The term loan was prepaid by $3,000 in the second quarter of fiscal 2013. In the fourth quarter of fiscal 2013 the remaining term loan of $67,000 was retired using the proceeds from the Ad Hoc DIP Agreement. Interest expense on the Term Loan was not accrued subsequent to the Chapter 11 filing.

The Company recorded a $25,054 charge related to the acceleration of the obligations under the Term Loan Credit Agreement, including the early payment fee. The charge was triggered by the Company's non-compliance with the minimum liquidity covenant. The early payment fee represented the present value of all interest payments due to Bayside during the term of the Term Loan Credit Agreement. The Company has incurred $1,295 of interest expense related to the $25,054 early payment fee. The Ad Hoc DIP Agreement required $25,000 to be placed in an escrow account as a deposit for an early termination fee payable to Bayside that was provided under the Term Loan Credit Agreement. The official Committee of Unsecured Creditors is contesting that Bayside is entitled to receive the funds. The Bankruptcy Court has ruled that Bayside is entitled to the funds, but the Official Committee of Unsecured Creditors is contesting the ruling and has filed an appeal in the Federal District Court of Delaware. Subsequent to the end of the first quarter of fiscal 2014, this escrow amount, including interest, was released to Bayside, and additional interest accruals have ceased as of the release date. The ruling is still being contested and final resolution of the early termination fee is pending.

*Convertible Notes*

FASB ASC TOPIC 470-20, "*Debt with Conversion and Other Options,*" requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the market interest rate at debt issuance without the conversion feature. The Company had two convertible debt instruments outstanding during fiscal 2013. A fair value must be assigned to the equity conversion options of (1) the Company's $100,000 convertible subordinated debentures (the "2011 Debentures"), which were issued on March 1, 2011 of which $0 and $100,000 in aggregate original principal amount was outstanding as of July 27, 2013 and July 28, 2012, respectively; and (2) the additional $57,500 of the 2011 Debentures, which were issued on July 7, 2011, of which $0 and $57,500 in aggregate original principal amount was outstanding as of July 27, 2013 and July 28, 2012, respectively (collectively, the "Convertible Notes"). The value assigned to the equity conversion option results in a corresponding decrease in the value assigned to the carrying value of the debt portion of the instruments.

The values assigned to the debt portions of the Convertible Notes were determined based on market interest rates for similar debt instruments without the conversion feature as of the respective March 1, 2011 and July 7, 2011 issuance dates of the Convertible Notes. The difference in market interest rates versus the coupon rates on the Convertible Notes results in non-cash interest that is amortized into interest expense over the expected terms of the Convertible Notes. For purposes of the valuation, the Company used an expected term of approximately four years for both the Convertible Notes issued March 1, 2011 and July 7, 2011, which corresponds with the first date the holders of the respective Convertible Notes could put their Convertible Notes back to the Company.

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

The 2011 Debentures bore interest semi-annually at a rate of 3.75% per year in respect of each $1 original principal amount of 2011 Debentures (the "Original Principal Amount") on each May 30th and November 30th, and the principal accreted on the principal amount of the 2011 Debentures (including the Original Principal Amount) at a rate of 3.9755% per year, compounding on a semi-annual basis (such principal amount, including any accretions thereon, the "Accreted Principal Amount"). The events of default under the 2012 ABL Facility and Term Loan and the acceleration of the obligations thereunder, which are described above, were events of default under the 2011 Debentures. In conjunction with the filing of the Chapter 11 Cases, the trustee or the holders of at least 25% in aggregate accreted principal amount declared the accreted principal amount of the 2011 Debentures and any accrued and unpaid interest on the 2011 Debentures to be immediately due and payable, subject to the subordination provisions of the 2011 Debentures.

The estimated fair value of the Company's $100,000 and $57,500 convertible subordinated debentures at July 28, 2012 was approximately $73,000 and $41,975, respectively and the carrying value was $100,867 and $58,215, respectively. The estimated fair value was determined using Level 2 inputs as described in FASB ASC Topic 820, *"Fair Value Measurements and Disclosures"*.

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

## NOTE 13 – RESTRUCTURING

In the first three months of fiscal 2013, the Company recorded restructuring costs associated with severance related to headcount reductions, which is recorded in SG&A on the condensed consolidated statements of operations. The following is a reconciliation of accrued restructuring costs for the six weeks ended June 11, 2013, the seven weeks ended July 27, 2013 and the three months ended July 28, 2012:

| | Educational Resources | Accelerated Learning | Corporate | Total |
|---|---|---|---|---|
| **Accrued Restructuring Costs at April 27, 2013 (Predecessor)** | $ (21) | $ 149 | $ 588 | $ 716 |
| Amounts charged to expense | 21 | — | — | 21 |
| Payments | — | (15) | (167) | (182) |
| **Accrued Restructuring Costs at June 11, 2013 (Predecessor)** | $ — | $ 134 | $ 421 | $ 555 |
| Reclassification | 406 | — | (406) | — |
| Amounts charged to expense | — | 31 | — | 31 |
| Payments | (158) | (37) | (3) | (198) |
| **Accrued Restructuring Costs at July 27, 2013 (Successor)** | $ 248 | $ 128 | $ 12 | $ 388 |

| | Educational Resources | Accelerated Learning | Corporate | Total |
|---|---|---|---|---|
| **Accrued Restructuring Costs at April 28, 2012 (Predecessor)** | $ 80 | $ 338 | $ 705 | $ 1,123 |
| Amounts charged to expense | 381 | 400 | 322 | 1,103 |
| Payments | (101) | (276) | (188) | (565) |
| **Accrued Restructuring Costs at July 28, 2012 (Predecessor)** | $ 360 | $ 462 | $ 839 | $1,661 |

## NOTE 14 – SEGMENT INFORMATION

The Company determines its operating segments based on the information utilized by the chief operating decision maker, the Company's Chief Executive Officer, to allocate resources and assess performance. Based on this information, the Company has determined that it operates in two operating segments, Educational Resources and Accelerated Learning, which also constitute its reportable segments. The Company operates principally in the United States, with limited operations in Canada. The Educational Resources segment offers products that include basic classroom supplies and office products, supplemental learning materials, physical education equipment, classroom technology, and furniture. The Accelerated Learning segment is a PreK-12 curriculum-based publisher of proprietary and non-proprietary products in the categories of science, reading and literacy, coordinated school health, and planning and student development. The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies as included in the Company's Form 10-K for the fiscal year ended April 27, 2013. Intercompany eliminations represent intercompany sales primarily from our Accelerated Learning segment to our Educational Resources segment, and the resulting profit recognized on such intercompany sales.

| | Successor | Predecessor | |
|---|---|---|---|
| | Seven Weeks Ended July 27, 2013 | Six Weeks Ended June 11, 2013 | Three Months Ended July 28, 2012 |
| Revenues: | | | |
| Educational Resources | $ 92,183 | $ 42,789 | $ 173,687 |
| Accelerated Learning | 51,321 | 15,832 | 78,285 |
| Corporate and intercompany eliminations | (5) | 76 | 167 |
| Total | $ 143,499 | $ 58,697 | $ 252,139 |

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

| | | | |
|---|---|---|---|
| Operating income (loss) and income (loss) before taxes: | | | |
| Educational Resources | $ 13,522 | $ 2,380 | $ 21,153 |
| Accelerated Learning | 16,746 | (747) | 19,216 |
| Corporate and intercompany eliminations | (8,972) | (9,112) | (11,888) |
| Operating income | 21,296 | (7,479) | 28,481 |
| Interest expense and reorganization items, net | 4,101 | (106,563) | 9,966 |
| Income before provision for income taxes | $ 17,195 | $ 99,084 | $ 18,515 |

| | Successor | Predecessor |
|---|---|---|
| | July 27, 2013 | July 28, 2012 |
| Identifiable assets: | | |
| Educational Resources | $ 198,759 | $ 226,556 |
| Accelerated Learning | 171,634 | 276,183 |
| Corporate assets | 102,960 | 91,029 |
| Total | $ 473,353 | $ 593,768 |

| | Successor | Predecessor | |
|---|---|---|---|
| | Seven Weeks Ended July 27, 2013 | Six Weeks Ended June 11, 2013 | Three Months Ended July 28, 2012 |
| Depreciation and amortization of intangible assets and development costs: | | | |
| Educational Resources | $ 237 | $ 391 | $ 1,506 |
| Accelerated Learning | 2,548 | 2,001 | 4,478 |
| Corporate | 1,559 | 1,509 | 3,100 |
| Total | $ 4,344 | $ 3,901 | $ 9,084 |
| Expenditures for property, plant and equipment, intangible and other assets and development costs: | | | |
| Educational Resources | $ 3 | $ 9 | $ 8 |
| Accelerated Learning | 955 | 400 | 1,777 |
| Corporate | 436 | 297 | 1,118 |
| Total | $ 1,394 | $ 706 | $ 2,903 |

## NOTE 15 – RESTRICTED CASH

During the fourth quarter of fiscal 2013, the Company placed $25,000 of cash into a restricted account. The Ad Hoc DIP Agreement required the funds to be placed in an escrow account as a deposit for an early termination fee payable to Bayside that was provided under the Term Loan Credit Agreement. The Bankruptcy Court has ruled that the funds are owed, but the Official Committee of Unsecured Creditors is contesting the ruling and has filed an appeal in the Federal District Court of Delaware. On the Effective Date, an additional $119, representing interest owed, was transferred into the restricted account. For the first quarter of fiscal 2014, the Company recorded $582 of interest related to the unpaid early termination fees for the pre-bankruptcy term loan with Bayside. Subsequent to the end of the first quarter of fiscal 2014, this escrow amount, including interest, was released to Bayside, and additional interest accruals have ceased as of the release date. The ruling is still being contested and final resolution of the early termination fee is pending.

During the first quarter of fiscal 2013, the Company transferred $2,708 of cash into an additional restricted account. The funds in the restricted account serve as collateral primarily for the Company's workmen's compensation insurance and other lease obligations, secured by letters of credit. During the first quarter of fiscal 2014 and the third and fourth quarters of fiscal 2013, $601, $972 and $434 respectively, was transferred from the restricted cash account as the letters of credit secured by these amounts were canceled. The remaining restricted funds cannot be withdrawn from our account without prior written consent of the secured parties.

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

## NOTE 16 – COMMITMENTS AND CONTINGENCIES

Various claims and proceedings arising in the normal course of business are pending against the Company. The results of these matters are not expected to have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operation

**Quarterly Overview**

School Specialty, Inc. (the "Company"), is an education company that provides innovative and proprietary products, programs, and services to help educators engage and inspire students of all ages and abilities to learn. Through each of our leading brands, we design, develop, and provide preK-12 educators with the latest and very best curriculum, supplemental learning resources and classroom basics. Working in collaboration with educators, we reach beyond the scope of textbooks to help teachers, guidance counselors, and school administrators ensure that every student reaches his or her full potential.

Based on current surveys and recently reported results by education companies in the textbook and curriculum markets, school spending trends in 2013 have continued to be challenging across the industry this school season. While overall state budgets appear to be improving, pressure on educational budgets at the state and municipal level has continued in a significant number of states.

***Bankruptcy Filing***

On January 28, 2013 (the "Petition Date"), School Specialty, Inc. and certain of its subsidiaries (collectively, the "Debtors") filed voluntary petitions for relief under Chapter 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"). The cases (the "Chapter 11 Cases") were jointly administered as Case No. 13-10125 (KJC) under the caption "In re School Specialty, Inc., et al." The Debtors continued to operate their business as "debtors-in-possession" ("DIP") under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of Chapter 11 and orders of the Bankruptcy Court. The Company's foreign subsidiaries (collectively, the "Non-Filing Entities") were not part of the Chapter 11 Cases.

The Chapter 11 Cases were filed in response to an environment of ongoing declines in school spending and a lack of sufficient liquidity, including trade credit provided by the Debtors' vendors, to permit the Debtors to pursue their business strategy to position the School Specialty brands successfully for the long term.

On May 23, 2013, the Bankruptcy Court entered an order confirming the Debtors' Second Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code (the "Reorganization Plan"), and a corrected copy of such order was entered by the Bankruptcy Court on June 3, 2013. The Reorganization Plan, which is described in additional detail below, became effective on June 11, 2013 (the "Effective Date"). Pursuant to the Reorganization Plan, on the Effective Date, the Company's existing credit agreements, outstanding convertible subordinated debentures, equity plans and certain other agreements were cancelled. In addition, all outstanding equity interests of the Company that were issued and outstanding prior to the Effective Date were cancelled on the Effective Date. Also on the Effective Date, in accordance with and as authorized by the Reorganization Plan, the Company reincorporated in Delaware and issued a total of 1,000,004 shares of Common Stock of the reorganized Company to holders of certain allowed claims against the Debtors in exchange for such claims. As of June 12, 2013, there were 60 record holders of the new common stock of the reorganized Company issued pursuant to the Reorganization Plan.

***Operation and Implication of the Bankruptcy Filing***

Under Section 362 of the Bankruptcy Code, the filing of voluntary bankruptcy petitions by the Debtors automatically stayed most actions against the Debtors, including most actions to collect indebtedness incurred prior to the Petition Date or to exercise control over the Company's property. Accordingly, although the Company defaulted on certain of the Debtors' debt obligations, creditors were stayed from taking any actions as a result of such defaults. Absent an order of the Bankruptcy Court, substantially all of the Company's pre-petition liabilities were subject to settlement under a reorganization plan or in connection with a Section 363 sale.

Subsequent to the Petition Date, the Company received approval from the Bankruptcy Court to pay or otherwise honor certain pre-petition obligations generally designed to stabilize the Company's operations. These obligations related to certain employee wages, salaries and benefits, and the payment of vendors and other providers in the

ordinary course for goods and services received after the Petition Date. The Company retained, pursuant to Bankruptcy Court approval, legal and financial professionals to advise the Company in connection with the bankruptcy filing and certain other professionals to provide services and advice in the ordinary course of business.

### *Reorganization Plan*

In order for the Company to emerge successfully from Chapter 11, the Company determined that it was in the best interests of the Debtors' estates to seek Bankruptcy Court confirmation of a reorganization plan. A reorganization plan determines the rights and satisfaction of claims of various creditors and security holders, subject to the ultimate outcome of negotiations and Bankruptcy Court decisions ongoing through the date on which the reorganization plan is confirmed.

On May 23, 2013, the Bankruptcy Court entered an order confirming the Debtors' Reorganization Plan, and a corrected copy of such order was entered by the Bankruptcy Court on June 3, 2013. The Reorganization Plan became effective on the Effective Date.

#### *General*

The Reorganization Plan generally provided for the payment in full in cash on or as soon as practicable after the Effective Date of specified claims, including:

- All claims (the "DIP Financing Claims") under the Debtor-in-Possession Credit Agreement (the "ABL DIP Agreement") by and among Wells Fargo Capital Finance, LLC (as Administrative Agent, Co-Collateral Agent, Co-Lead Arranger and Joint Book Runner) and GE Capital Markets, Inc. (as Co-Collateral Agent, Co-Lead Arranger and Joint Book Runner and Syndication Agent), General Electric Capital Corporation (as syndication agent), the lenders party to the ABL DIP Facility (as defined below), and the Company and certain of its subsidiaries;
- Certain pre-petition secured claims;
- All claims relating to the costs and expenses of administering the Chapter 11 Cases; and
- All priority claims.

In addition, the Reorganization Plan generally provides for the treatment of allowed claims against, and equity interests in, the Debtors as follows:

- The lenders under the Senior Secured Super Priority Debtor-in-Possession Credit Agreement (the "Ad Hoc DIP Agreement") by and among the Company, certain of its subsidiaries, U.S. Bank National Association, as Administrative Agent and Collateral Agent and the lenders party thereto were entitled to receive (i) cash in an approximate amount of $98.3 million, and (ii) 65% of the common stock of the reorganized Company;
- Each holder of an allowed general unsecured claim is entitled to receive a deferred cash payment equal to 20% of such allowed claim, plus interest, on the terms described in the Reorganization Plan;
- Each holder of an unsecured claim arising from the provision of goods and/or services to the Debtors in the ordinary course of its pre-petition trade relationship with the Debtors, with whom the reorganized Debtors continue to do business after the Effective Date, is entitled to receive a deferred cash payment equal to 20% of such claim, plus interest, on the terms described in the Reorganization Plan. Such holders may increase their percentage recoveries to 45%, plus interest, by electing to provide the reorganized Debtors with customary trade terms for a specified period, as described in the Reorganization Plan;
- Each holder of the Company's 3.75% Convertible Subordinated Debentures due 2026, as further described elsewhere in this report, received its pro rata share of 35% of the common stock of the reorganized Company;

- Each holder of an allowed general unsecured claim or allowed trade unsecured claim of $3,000 or less, or any holder of a general unsecured claim or trade unsecured claim in excess of $3,000 that agreed to voluntarily reduce the amount of its claim to $3,000 under the terms described in the Reorganization Plan, was entitled to receive a cash payment equal to 20% of such allowed claim on or as soon as practicable after the Effective Date; and
- Holders of equity interests in the Company prior to the Effective Date, including claims arising out of or with respect to such equity interests, were not entitled to receive any distribution under the Reorganization Plan.

*Exit Facilities*

As of the Effective Date, the Debtors closed on the exit credit facilities, the proceeds of which were or will be, among other things, used to (i) pay in cash the DIP Financing Claims, to the extent provided for in the Reorganization Plan, (ii) make required distributions under the Reorganization Plan, (iii) satisfy certain Reorganization Plan-related expenses, and (iv) fund the reorganized Company's working capital needs. The terms of the exit credit facilities are described under Note 12 of the Notes to Condensed Consolidated Financial Statements – Debt.

*Equity Interests*

As mentioned above, all shares of the Company's common stock outstanding prior to the Effective Date were cancelled and extinguished as of the Effective Date. In accordance with the Reorganization Plan, on the Effective Date, the reorganized Company issued the new common stock, subject to dilution pursuant to the Management Incentive Plan (as defined and described below). The Company issued 1,000,004 shares of new common stock on the Effective Date pursuant to the Reorganization Plan, which constitutes the total number of shares of new common stock outstanding immediately following the Effective Date, subject to dilution pursuant to the Management Incentive Plan.

On the Effective Date, equity interests in the Company's U.S. subsidiaries were deemed cancelled and extinguished and of no further force and effect, and each reorganized subsidiary was deemed to issue and distribute the new subsidiary equity interests. The ownership and terms of such new subsidiary equity interests in the reorganized subsidiaries are the same as the ownership and terms of the equity interests in these subsidiaries immediately prior to the Effective Date, except as otherwise provided in the Reorganization Plan.

**Results of Operations**

**Factors Affecting Comparability**

***Fresh Start Accounting Adjustments***

The Company adopted fresh start accounting and reporting effective June 11, 2013, the Fresh Start Reporting Date. The financial statements as of the Fresh Start Reporting Date will report the results of the Successor Company with no beginning retained earnings or accumulated deficit. Any financial statement presentation of the Successor Company represents the financial position and results of operations of a new reporting entity and is not comparable to prior periods presented by the Predecessor Company. The financial statements for periods ended prior to the Fresh Start Reporting Date do not include the effect of any changes in the Predecessor Company's capital structure or changes in the fair value of assets and liabilities as a result of fresh start accounting.

Accordingly, management has provided a non-GAAP analysis entitled "Non-GAAP Financial Information – Combined Results." Non-GAAP Financial Information – Combined Results combines GAAP results of the Successor Company for the seven weeks ended July 27, 2013 and GAAP results of the Predecessor Company for the six weeks ended June 11, 2013. Management's non-GAAP analysis compares the Non-GAAP Financial Information – Combined Results to the Predecessor Company's GAAP results for the three months ended July 28, 2012 through net income.

Table of Contents

**Non-GAAP Financial Information — Combined Results**

Management believes that the presentation of Non-GAAP Financial Information — Combined Results offers a useful non-GAAP normalized comparison to GAAP results of the Predecessor Company for the three months ended July 27, 2013. The Non-GAAP Financial Information — Combined Results presented below are reconciled to the most comparable GAAP measures. .

| | Successor Company | Predecessor Company | Non-GAAP Combined | Predecessor Company |
|---|---|---|---|---|
| | Seven Weeks Ended July 27, 2013 | Six Weeks Ended June 11, 2013 | Three Months Ended July 27, 2013 | Three Months Ended July 28, 2012 |
| Revenues | $ 143,499 | $ 58,697 | $ 202,196 | $ 252,139 |
| Cost of revenues | 83,741 | 35,079 | 118,820 | 148,542 |
| Gross profit | 59,758 | 23,618 | 83,376 | 103,597 |
| Selling, general and administrative expenses | 35,867 | 27,473 | 63,340 | 75,116 |
| Bankruptcy related restructuring charges | 2,595 | — | 2,595 | — |
| Operating income | 21,296 | (3,855) | 17,441 | 28,481 |
| Other expense: | | | | |
| Interest expense | 2,821 | 3,235 | 6,056 | 9,966 |
| Reorganization items, net | 1,280 | (106,174) | (104,894) | — |
| Income before provision for income taxes | 17,195 | 99,084 | 116,279 | 18,515 |
| Provision for income taxes | 252 | 1,641 | 1,893 | 259 |
| Income before income of unconsolidated affiliate | 16,943 | 97,443 | 114,386 | 18,256 |
| Income of unconsolidated affiliate | — | — | — | 119 |
| Net income | $ 16,943 | $ 97,443 | $ 114,386 | $ 18,375 |

***Non-GAAP Combined Results for the Three Months Ended July 27, 2013 compared to Predecessor Company GAAP Results for the Three Months Ended July 28, 2012***

Revenues

Combined revenues for the three months ended July 27, 2013 decreased 19.8%, or $50.0 million from the Predecessor Company three months ended July 28, 2012.

Educational Resources segment combined revenues decreased 22.2%, or $38.8 million, from the Predecessor Company three months ended July 28, 2012. Approximately $22 million of the decline was related to the supplies product lines, while the furniture product lines declined approximately $17 million. Despite the revenue decline in the first quarter, the Company believes the second quarter segment revenue will be more comparable to the prior year's second quarter. This is due to the fact that revenue in the first quarter was negatively impacted by factors related to the Chapter 11 Cases. These factors included continued customer uncertainty during the Chapter 11 Cases and increased backorders associated with the disruption caused in our procurement processes by the bankruptcy. In addition, the Company's shutdown of the Company's Mt. Joy, Pennsylvania distribution center and the transfer of the order processing volume to remaining distribution centers resulted in some customer order shipments shifting into the Company's second quarter.

Accelerated Learning segment combined revenues decreased 14.1%, or $11.2 million, from the Predecessor Company three months ended July 28, 2012. Approximately $5 million of the decline was related to the large curriculum orders in Florida and Mississippi in the prior year's first quarter which were not expected to recur in the current year. The remaining decline is related primarily to a shifting of orders between the first and second quarters. The Company expects second quarter segment revenues to be comparable to the prior year's second quarter.

Gross Profit

Combined gross margin for the three months ended July 27, 2013 was 41.3% as compared to 41.1% for the Predecessor Company's three months ended July 28, 2012.

Educational Resources segment combined gross margin was 35.0% for the three months ended July 27, 2013 as compared to 34.7% for the Predecessor Company three months ended July 28, 2013. The increase in gross margin is related to mix between the furniture and supplies product lines.

Accelerated Learning segment combined gross margin was 52.6% for the three months ended July 27, 2013 as compared to 54.7% for the Predecessor Company three months ended July 28, 2013. Approximately 100 basis points of the decline is related to an increase of $0.4 million of product development costs spread over the lower revenue in the current year's quarter. The remaining decline is primarily related to product mix as sales of curriculum-related products, particularly non-print reading-based products, declined during the current year first quarter.

Selling, General and Administrative Expenses

SG&A includes selling expenses, the most significant of which are sales wages and commissions; operations expenses, which includes customer service, warehouse and out-bound freight costs; catalog costs; general administrative overhead, which includes information systems, accounting, legal and human resources; and depreciation and intangible asset amortization expense.

Combined SG&A for the three months ended July 27, 2013 decreased $11.8 million from $75.1 million in the first quarter of fiscal 2013 to $63.3 million in the first quarter of fiscal 2013. As a percent of revenue, SG&A increased from 29.8% for the three months ended July 28, 2012 to 31.3% for the three months ended July 27, 2013.

Combined SG&A attributable to the Educational Resources and Accelerated Learning segments decreased $11.7 million and Corporate combined SG&A increased $3.5 million in the first quarter as compared to last year's first quarter.

Educational Resources segment combined SG&A decreased $7.9 million, or 20.1%, from $39.4 million in the first quarter of fiscal 2013 to $31.5 million in the first quarter of fiscal 2014. Approximately $4.9 million of the decrease was due to variable costs such as transportation, warehousing, and selling expenses associated with decreased revenues. In addition, the segment had a decrease of $1.7 million in its marketing costs primarily associated with a decrease in catalog costs. Educational Resources segment combined SG&A increased as a percent of revenues from 22.7% for the three months ended July 28, 2012 to 23.3% for the three months ended July 27, 2013.

Accelerated Learning segment combined SG&A decreased $3.8 million, or 16.0%, from $23.7 million for the three months ended July 28, 2012 to $19.9 million for the three months ended July 27, 2013. Approximately $2.2 million of the decrease was due to variable selling costs associated with decreased revenues. Accelerated Learning segment combined SG&A decreased as a percent of revenues from 30.2% for the three months ended July 28, 2012 to 29.6% for the three months ended July 27, 2013.

Bankruptcy Related Restructuring Charges

In the first quarter of the current year, the Successor Company recorded a $2.6 million of bankruptcy related restructuring charges consisting of costs associated with warehouse closures, transportation costs resulting from bankruptcy related backorders and consulting fees.

Interest Expense

Combined interest expense decreased $3.9 million, from $10.0 million in the first quarter of fiscal 2013 to $6.1 million in the first quarter of fiscal 2014.

The Predecessor Company recorded $3.7 million of interest expense on its convertible debt in the first quarter of fiscal 2013, of which $2.2 million was non-cash interest expense. Interest expense on the convertible debt was not accrued subsequent to the Chapter 11 filing. In the first quarter of fiscal 2014, the Predecessor Company would have recorded $1.6 million of convertible debt interest expense, absent the Chapter 11 Cases for the period up to the Effective Date. However, the convertible debt was canceled in accordance with the Reorganization Plan with those debt holders receiving 35% of the equity of the Successor Company.

First quarter fiscal 2014 interest expense associated with the Successor Company's term loan was approximately $2.2 million greater than the Predecessor Company's term loan interest expense in the first quarter of fiscal 2013 due to an increase in average borrowings in the exit financing term loan as compared to the pre-bankruptcy term loan, partially offset by a decrease in the borrowing rate. Interest expense in the prior's first quarter included $2.5 million of debt issuance costs write-offs, as compared to zero in the current year, associated the debt refinancing completed in May, 2012.

The Company recorded approximately $0.6 million of interest related to the unpaid early termination fees for the pre-bankruptcy term loan with Bayside. The unpaid early termination fees were paid into an escrow account in the fourth quarter of last year. Subsequent to the end of the first quarter of fiscal 2014, this escrow amount, including interest, was released to Bayside, and additional interest accruals have ceased as of the release date.

Reorganization Items, Net

In the first quarter of the current year, the Predecessor Company recorded a $109.8 million net reorganization gain. This consists of $161.9 million of cancellation of indebtedness income, offset by $21.9 million of professional, financing and other fees and $30.2 million of fresh start and other reorganization adjustments.

## Liquidity and Capital Resources

At July 27, 2013, the Company had working capital of $135.5 million. Our capitalization at July 27, 2013 was $353.1 million and consisted of total debt of $215.2 million and stockholders' equity of $137.9 million.

On May 22, 2012, the Company entered into an Asset-Based Credit Agreement (the "2012 ABL Facility") and Term Loan Credit Agreement (the "Term Loan"), which replaced the Company's then-existing credit facility. The lenders under the 2012 ABL Facility agreed to provide a revolving senior secured asset-based credit facility in an aggregate principal amount of $200 million. Under the Term Loan, the lenders agreed to make a term loan to the Company in aggregate principal amount of $70 million. The Company used the proceeds of the 2012 ABL Facility and the Term Loan to repay outstanding indebtedness under the Company's previous credit facility. Both the 2012 ABL Facility and the Term Loan contained customary events of default and certain financial, affirmative and negative covenants. The Company was not in compliance with the minimum liquidity covenant under the term loan as of the end of December, 2012. As a result, the Company entered into a forbearance agreement with the 2012 ABL Facility and Term Loan lenders on January 4, 2013.

On January 28, 2013 the Debtors filed voluntary petitions for relief under Chapter 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"). The cases (the "Chapter 11 Cases") were being jointly administered as Case No. 13-10125 (KJC) under the caption "In re School Specialty, Inc., et al." The Debtors continued to operate their business as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of Chapter 11 and orders of the Bankruptcy Court. The Company's foreign subsidiaries were not part of the Chapter 11 Cases.

The Chapter 11 Cases were filed in response to an environment of ongoing declines in school spending and a lack of sufficient liquidity, including trade credit provided by the Debtors' vendors, to permit the Debtors to pursue their business strategy to position the School Specialty brands successfully for the long term.

Subsequent to filing the Chapter 11 Cases, on January 31, 2013, the Company entered into a Senior Secured Super Priority Debtor-in-Possession Credit Agreement (the "Bayside DIP Agreement") by and among the Company, certain of its subsidiaries, Bayside Finance, LLC ("Bayside") (as Administrative Agent and Collateral Agent), and the lenders party to the Bayside Credit Agreement and a Debtor-in-Possession Credit Agreement (the "ABL DIP Agreement") by and among Wells Fargo Capital Finance, LLC (as Administrative Agent, Co-Collateral Agent, Co-Lead Arranger and Joint Book Runner) and GE Capital Markets, Inc. (as Co-Collateral Agent, Co-Lead Arranger and Joint Book Runner and Syndication Agent), General Electric Capital Corporation (as Syndication Agent), and the lenders that are party to the Asset-Based Credit Agreement (the "Asset-Based Lenders") and the Company and certain of its subsidiaries.

The Bayside DIP Agreement provided for a senior secured, super-priority revolving credit facility of up to $50 million (the "Bayside DIP Facility"), with an initial borrowing upon closing of $15 million, and subsequent borrowings of $8.0 million.

Borrowings by the Company under the Bayside DIP Facility were subject to borrowing limitations based on the exhaustion of availability of credit under the ABL DIP Facility (as defined below) and certain other conditions. The principal amounts outstanding under the Bayside DIP Facility bore interest based on applicable LIBOR or base rates plus margins as set forth in the Bayside DIP Agreement. Upon the occurrence of an event of default in the Bayside DIP Agreement, an additional default interest rate of 3.0% per annum applied. The Bayside DIP Agreement also provided for certain additional fees payable to the agents and lenders.

All borrowings under the Bayside DIP Agreement were required to be repaid on the earliest of (i) June 30, 2013, and (ii) the date of termination of the Bayside DIP Agreement, whether pursuant to the consummation of a sale of substantially all of the assets of the Debtors under section 363 of the Bankruptcy Code, or (iii) certain other termination events.

Pursuant to a Security and Pledge Agreement, the Bayside DIP Facility was secured by a substantially all assets of the Company and the guarantor subsidiaries. Under an intercreditor agreement between the Asset-Based Lenders and the Bayside Lenders (the "Intercreditor Agreement"), the Bayside Lenders had a first priority security interest in all interests in real property, all intellectual property, all equipment and fixtures, and certain other assets of the Company and its subsidiaries, and had a second priority security interest in accounts receivable, inventory and certain other assets of the Company and the subsidiary guarantors, subordinate only to the first priority security interest of the Asset-Based Lenders in such assets. The obligations under the Bayside DIP Facility were extinguished with proceeds from the Ad Hoc DIP Agreement discussed below.

The ABL DIP Agreement provided a revolving senior secured asset-based credit facility (the "ABL DIP Facility") in an aggregate principal amount of $175 million. Outstanding amounts under the ABL DIP Facility bore interest at a rate per annum equal to either: (1) a base rate (equal to the greatest of (a) the prime lending rate, (b) the federal funds rate plus 0.50%, and (c) the 30-day LIBOR rate plus 1.00% per annum) plus 2.75%, or (2) a LIBOR rate plus 3.75%. The default interest rate was three percentage points above the otherwise applicable rate.

Pursuant to a Guaranty and Security Agreement, the ABL DIP Facility was secured by substantially all assets of the Company and the guarantor subsidiaries. Under the Intercreditor Agreement, the Asset-Based Lenders had a first priority security interest in accounts receivable, inventory and certain other assets of the Company and the subsidiary guarantors, and had a second priority security interest in all interests in real property, all intellectual property, all equipment and fixtures, and certain other assets of the Company and its subsidiaries, subordinate only to the first priority security interest of the Bayside Lenders in such assets.

The ABL DIP Agreement contained customary events of default and affirmative and negative covenants, including (but not limited to) affirmative covenants relating to reporting, appointment of a chief restructuring officer, and bankruptcy transaction milestones, and negative covenants related to the financing order of the Bankruptcy Court, additional indebtedness, liens, assets, fundamental changes, and use of proceeds.

On February 27, 2013, the Company entered into a Senior Secured Super Priority Debtor-in-Possession Credit Agreement (the "Ad Hoc DIP Agreement") by and among the Company, certain of its subsidiaries, U.S. Bank National Association, as Administrative Agent and Collateral Agent and the lenders party to the Ad Hoc DIP Agreement, which replaced the Bayside DIP Agreement, the related Bayside DIP Facility and the Term Loan Credit Agreement.

The Ad Hoc DIP Agreement provided for a senior secured, super-priority revolving credit facility of up to $155 million (the "Ad Hoc DIP Facility"), with an initial borrowing upon closing of $130 million, and subsequent borrowings of $15 million following the entry of the final order of the Bankruptcy Court and upon the satisfaction of certain conditions.

The principal amounts outstanding under the Ad Hoc DIP Facility bore interest based on applicable LIBOR or base rates plus margins as set forth in the Ad Hoc DIP Agreement. Upon the occurrence of an event of default in the Ad Hoc DIP Agreement, an additional default interest rate of 2.0% per annum applies. The Ad Hoc DIP Agreement also provides for certain additional fees payable to the agents and lenders.

All borrowings under the Ad Hoc DIP Agreement were required to be repaid on the earliest of (i) June 30, 2013, and (ii) the date of termination of the Ad Hoc DIP Agreement, whether pursuant to the consummation of a sale of substantially all of the assets of the Debtors under section 363 of the Bankruptcy Code, or (iii) certain other termination events.

Pursuant to a Security and Pledge Agreement, the Ad Hoc DIP Facility was secured by a first priority security interest in substantially all of the assets of the Company and the guarantor subsidiaries.

Under Section 362 of the Bankruptcy Code, the filing of voluntary bankruptcy petitions by the Debtors automatically stayed most actions against the Debtors, including most actions to collect indebtedness incurred prior to the Petition Date or to exercise control over the Company's property. Accordingly, although the Company defaulted on certain of the Debtors' debt obligations, creditors were stayed from taking any actions as a result of such defaults.

On May 23, 2013, the Bankruptcy Court approved the Reorganization Plan pursuant to a Confirmation Order dated May 23, 2013, as corrected June 3, 2013 (the "Confirmation Order"). On the Effective Date of the Reorganization Plan, the Ad Hoc DIP Facility and the ABL DIP Facility and the related security agreements were terminated in accordance with the terms of the Reorganization Plan.

On June 11, 2013, in accordance with the Reorganization Plan, the Company entered into a Loan Agreement (the "Asset-Based Credit Agreement") among the Company, Bank of America, N.A, as Agent, SunTrust Bank, as Syndication Agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated and SunTrust Robinson Humphrey, Inc., as Joint Lead Arrangers and Bookrunners, and the Lenders that are party to the Asset-Based Credit Agreement (the "Asset-Based Lenders").

Under the Asset-Based Credit Agreement, the Asset-Based Lenders agreed to provide a revolving senior secured asset-based credit facility (the "New ABL Facility") in an aggregate principal amount of $175 million. Outstanding amounts under the New ABL Facility will bear interest at a rate per annum equal to, at the Company's election: (1) a base rate (equal to the greatest of (a) the prime lending rate, (b) the federal funds rate plus 0.50%, and (c) the 30-day LIBOR rate plus 1.00% per annum) (the "Base Rate") plus an applicable margin (equal to a specified margin based on the interest rate elected by the Company, the fixed charge coverage ratio under the New ABL Facility and the applicable point in the life of the New ABL Facility) (the "Applicable Margin"), or (2) a LIBOR rate plus the Applicable Margin (the "LIBOR Rate"). Interest on loans under the New ABL Facility bearing interest based upon the Base Rate will be due monthly in arrears, and interest on loans bearing interest based upon the LIBOR Rate will be due on the last day of each relevant interest period or, if sooner, on the respective dates that fall every three months after the beginning of such interest period.

The New ABL Facility will mature on June 11, 2018. The Company may prepay advances under the New ABL Facility in whole or in part at any time without penalty or premium. The Company will be required to make specified prepayments upon the occurrence of certain events, including: (1) the amount outstanding on the New ABL Facility exceeding the Borrowing Base, and (2) the Company's receipt of net cash proceeds of any sale or disposition of assets that are first priority collateral for the New ABL Facility.

Pursuant to a Guaranty and Collateral Agreement dated as of June 11, 2013 (the "New ABL Security Agreement"), the New ABL Facility is secured by a first priority security interest in substantially all assets of the Company and the guarantor subsidiaries. Under an intercreditor agreement between the Asset-Based Lenders and the Term Loan Lenders, as defined and described below, the Asset-Based Lenders have a first priority security interest in substantially all working capital assets of the Company and the guarantor subsidiaries, and a second priority security interest in all other assets, subordinate only to the first priority security interest of the Term Loan Lenders in such other assets.

The Asset-Based Credit Agreement contains customary events of default and financial, affirmative and negative covenants, including but not limited to a springing financial covenant relating to the Company's fixed charge coverage ratio and restrictions on indebtedness, liens, investments, asset dispositions and dividends and other restricted payments.

Also on June 11, 2013, the Company entered into a Credit Agreement (the "New Term Loan Credit Agreement") among the Company, Credit Suisse AG, as Administrative Agent and Collateral Agent, and the lenders party to the New Term Loan Credit Agreement (the "Term Loan Lenders").

Under the New Term Loan Credit Agreement, the Term Loan Lenders agreed to make a term loan (the "New Term Loan") to the Company in aggregate principal amount of $145 million. The outstanding principal amount of the New Term Loan will bear interest at a rate per annum equal to the applicable LIBOR rate (with a 1% floor) plus 8.50%, or the base rate plus a margin of 7.50%. Interest on loans under the New Term Loan Credit Agreement bearing interest based upon the base rate will be due quarterly in arrears, and interest on loans bearing interest based upon the LIBOR rate will be due on the last day of each relevant interest period or, if sooner, on the respective dates that fall every three months after the beginning of such interest period.

The New Term Loan matures on June 11, 2019. The New Term Loan Credit Agreement requires prepayments at specified levels upon the Company's receipt of net proceeds from certain events, including: (1) certain dispositions of property, divisions, business units or business lines; and (2) other issuances of debt other than Permitted Debt, as defined in the New Term Loan Credit Agreement. The Post-Emergence Term Loan Credit Agreement also requires prepayments at specified levels from the Company's excess cash flow. The Company is also permitted to voluntarily prepay the New Term Loan in whole or in part. Any prepayments are to be made at par, plus an early payment fee calculated in accordance with the terms of the New Term Loan Credit Agreement if prepaid prior to the second anniversary of the New Term Loan Credit Agreement.

Pursuant to a Guarantee and Collateral Agreement dated as of June 11, 2013 (the "New Term Loan Security Agreement"), the New Term Loan is secured by a first priority security interest in substantially all assets of the Company and the guarantor subsidiaries. Under an intercreditor agreement between the Asset-Based Lenders and the Term Loan Lenders, the Term Loan Lenders have a second priority security interest in substantially all working capital assets of the Company and the subsidiary guarantors, subordinate only to the first priority security interest of the Asset-Based Lenders in such assets, and a first priority security interest in all other assets.

The New Term Loan Credit Agreement contains customary events of default and financial, affirmative and negative covenants, including but not limited to quarterly financial covenants commencing on the fiscal quarter ending October 26, 2013, relating to the Company's (1) minimum interest coverage ratio and (2) maximum net total leverage ratio and restrictions on indebtedness, liens, investments, asset dispositions and dividends and other restricted payments.

Net cash used in operating activities for the Successor Company and the Predecessor Company was $41.4 million and $20.0 million, respectively, for the current year's first quarter. This compares with cash used in operations of $52.9 million in the prior year's first quarter. The increase in cash used in operations in the first quarter of fiscal 2014 is related to decreased income partially offset by working capital.

Net cash used in investing activities was $0.9 million for the Successor Company and $0.7 million for the Predecessor Company, which on a combined basis was down $4.0 million from last year's first quarter. Approximately $3 million of the decline was related to changes in restricted cash accounts which were funded in last year's first quarter. The remaining decline is timing related as the Company expects its to spend approximately $15 million to $16 million on investing activities for the full year of fiscal 2014.

Cash flow from financing activities for the Predecessor Company reflects cash payments of $148.6 million to retire debtor-in-possession financing. The proceeds of the exit financing were $165.9 million for the Predecessor Company. The Predecessor Company incurred $9.4 million of debt issuance costs. Net borrowings on the debtor-in-possession ABL were $7.6 million for the period ended June 11, 2013. Net borrowings on the New ABL Facility were $37.0 million for the period ended July 27, 2013.

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 for the foreseeable future.

### 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 variations in our costs for the products sold, the mix of products sold and general economic conditions. Therefore, results for any fiscal quarter are not indicative of the results that we may achieve for any subsequent fiscal quarter or for a full fiscal year.

### Inflation

Inflation, particularly in energy costs, has had and is expected to have an effect on our results of operations and our internal and external sources of liquidity.

### Forward-Looking Statements

Statements in this Quarterly 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 2, Management's Discussion and Analysis of Financial Condition and Results of Operation, including, without limitation, statements with respect to internal growth plans, projected revenues, margin improvement, capital expenditures, adequacy of capital resources and ability to comply with financial covenants; and (2)

statements included or incorporated by reference in our future filings with the Securities and Exchange Commission. 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," "should," "believes," "expects," "anticipates," "estimates," "continues" or similar expressions.

All forward-looking statements included in this Quarterly 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 us or on our behalf, in this Quarterly 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 risk factors set forth in Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended April 27, 2013.

## ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in qualitative and quantitative disclosures about market risk from what was reported in our Annual Report on Form 10-K for the fiscal year ended April 27, 2013.

## ITEM 4. Controls and Procedures

### Evaluation of Disclosure Controls and Procedures

Based on an evaluation as of the end of the period covered by this quarterly 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 Control

No change in our internal control over financial reporting occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

ITEM 6. Exhibits

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

Table of Contents

## SIGNATURES

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

**SCHOOL SPECIALTY, INC.**
(Registrant)

| | |
|---|---|
| September 16, 2013<br>Date | /s/ James R. Henderson<br>James R. Henderson<br>Chief Executive Officer<br>(Principal Executive Officer) |
| September 16, 2013<br>Date | /s/ David N. Vander Ploeg<br>David N. Vander Ploeg<br>Executive Vice President and Chief Financial Officer<br>(Principal Financial and Accounting Officer) |

## EXHIBIT INDEX

| Exhibit No. | Description |
|---|---|
| 10.1 | Amendment No. 2 to Senior Secured Super Priority Debtor-In-Possession Credit Agreement, dated as of May 3, 2013 by and among School Specialty, Inc., certain of its subsidiaries, U.S. Bank National Association, as Administrative Agent and Collateral Agent, and the lenders party thereto (incorporated by reference to Exhibit 10.37 of School Specialty, Inc.'s Annual Report on Form 10-K for the fiscal year ended April 27, 2013). |
| 10.2 | Amendment No. 3 to Senior Secured Super Priority Debtor-In-Possession Credit Agreement, dated as of May 21, 2013 by and among School Specialty, Inc., certain of its subsidiaries, U.S. Bank National Association, as Administrative Agent and Collateral Agent, and the lenders party thereto (incorporated by reference to Exhibit 10.38 of School Specialty, Inc.'s Annual Report on Form 10-K for the fiscal year ended April 27, 2013). |
| 10.3 | Loan Agreement, dated June 11, 2013, by and among School Specialty, Inc. and certain of its subsidiaries, as borrowers, certain lenders party thereto, and Bank of America, N.A. as agent (incorporated by reference to Exhibit 10.39 of School Specialty, Inc.'s Annual Report on Form 10-K for the fiscal year ended April 27, 2013). |
| 10.4 | Credit Agreement, dated June 11, 2013, by and among School Specialty, Inc. and certain of its subsidiaries, as borrowers, certain lenders party thereto, and Credit Suisse AG, as Administrative Agent and Collateral Agent (incorporated by reference to Exhibit 10.40 of School Specialty, Inc.'s Annual Report on Form 10-K for the fiscal year ended April 27, 2013). |
| 10.5 | Guarantee and Collateral Agreement, dated as of June 11, 2013, among School Specialty, Inc., the guarantors party thereto, and Bank of America, N.A. (incorporated by reference to Exhibit 10.41 of School Specialty, Inc.'s Annual Report on Form 10-K for the fiscal year ended April 27, 2013). |
| 10.6 | Guarantee and Collateral Agreement, dated as of June 11, 2013, among School Specialty, Inc., the guarantors party thereto, and Credit Suisse AG, as Collateral Agent (incorporated by reference to Exhibit 10.42 of School Specialty, Inc.'s Annual Report on Form 10-K for the fiscal year ended April 27, 2013). |
| 10.7 | Retention Agreement, dated August 19, 2013, by and between David N. Vander Ploeg and School Specialty, Inc. |
| 10.8 | Transition and Separation Agreement and Mutual General Release, dated July 22, 2013, by and between Michael P. Lavelle and School Specialty, Inc. |
| 10.9 | Letter Agreement dated July 22, 2013, by and between James R. Henderson and School Specialty, Inc. |
| 31.1 | Certification pursuant to Section 302 of the Sarbanes Oxley Act of 2002, by Chief Executive Officer. |
| 31.2 | Certification pursuant to Section 302 of the Sarbanes Oxley Act of 2002, by Chief Financial Officer. |
| 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. |
| 101 | The following materials from School Specialty, Inc.'s. Quarterly Report on Form 10-Q for the quarter ended July 27, 2013 are furnished herewith, formatted in XBRL (Extensive Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statement of Operations, (iii) the Condensed Consolidated Statement of Comprehensive Income, (iv) the Condensed Consolidated Statement of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements. |

**Exhibit 10.7**

# RETENTION AGREEMENT

This Retention Agreement (the "Agreement") is entered into as of the 19th day of August, 2013, by and between David N. Vander Ploeg ("Executive") and School Specialty, Inc. (the "Company") (Executive and the Company sometimes referred to herein, collectively, as the "Parties").

WHEREAS, Executive has been employed by the Company pursuant to the terms of the Employment Agreement between the Company and Executive, dated April 21, 2008 (the "Employment Agreement"). (Capitalized terms used, but not defined herein, shall have the meaning assigned to them in the Employment Agreement);

WHEREAS, Executive has notified the Company of his intention to retire and the Parties desire to effect an orderly transition of Executive's duties and responsibilities;

WHEREAS, the Company desires to enter into this Agreement with Executive to encourage Executive to remain employed with the Company through December 31, 2013;

WHEREAS, as a condition of the Company making certain payments and providing certain benefits, the Parties have agreed to execute and comply fully with the terms of this Agreement.

NOW THEREFORE, in consideration of the foregoing, the payments to be made and benefits provided and other good and valuable consideration, the Parties agree as follows:

1. Retention and Separation.

a. The Parties agree that Executive's last day of employment shall be December 31, 2013 (the date of this Agreement through Executive's date of separation of employment, the "Retention Period"); provided, however, the Company may, at its sole discretion, upon written notice to Executive accept Executive's resignation so that it is effective at any time during the Retention Period. The date that Executive's employment actually ends will be his separation date (the "Separation Date").

b. During the Retention Period, Executive will continue (i) to report to the Board and the Interim Chief Executive Officer (or any successor) and (ii) to perform his current duties and responsibilities, including but not limited to, cooperating with respect to any regulatory or similar filings of the Company, and such other duties and responsibilities commensurate with his position as may be reasonably assigned to him and otherwise assist the Company in the transition of his duties and responsibilities.

c. Effective as of the Separation Date, Executive hereby resigns from each and every office, directorship and any other position that Executive held with the Company and the Related Companies, including, but not limited to, Executive's position as Chief Financial Officer of the Company. Also effective as of the Separation Date, Executive further renounces all signatory authority he possesses on behalf of the Company and any Related Companies. Although the foregoing is effective without any further action on the part of Executive, Executive agrees to execute any documents requested by the Company as necessary or appropriate to effectuate such actions.

2. Compensation and Benefits.

a. All of the compensation and benefits that Executive receives as part of his employment will cease as of the Separation Date, except as otherwise set forth in this Agreement, or as otherwise required by law. Thereafter, Executive and/or Executive's dependents may continue Executive's group benefits at his and/or their expense, subject to Paragraph 3.a. (ii) below, as provided by the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"). Under separate cover, Executive will receive a personalized COBRA packet and other benefit continuation information.

b. Executive shall be paid any unpaid base salary through the Separation Date, payment of any accrued paid time off under the Company's paid time off policy that is unused through the Separation Date and reimbursement of business expenses to which Executive may be entitled (the "Accrued Benefits").

3. Retention Benefits.

a. If Executive remains employed through December 31, 2013 and remains in continued compliance with the terms of this Agreement, the Company shall, subject to Paragraph 3.d below, pay to Executive a retention bonus equal $200,000 (less applicable withholdings and deductions), payable in a lump sum as provided in Paragraph 3.d. below (the "Retention Bonus"). Notwithstanding the foregoing, in the event the Company has, in accordance with Paragraph 1.a, provided for an earlier Separation Date (and Executive has not committed an act constituting Cause prior to such date), the Company shall, subject to Paragraph 3.d below, pay Executive the Retention Bonus, payable in a lump sum as provided in Paragraph 3.d below.

b. In addition, if the Company has, in accordance with Paragraph 1.a, provided for an earlier Separation Date (and Executive has not committed an act constituting Cause prior to such date), Executive shall, subject to Paragraph 3.d. below, be entitled to an amount equal to the amount of Base Salary that would have been paid to him by the Company from the Separation Date through December 31, 2013 if Executive had remained employed by the Company, less applicable withholdings and deductions, (the "Severance Payment") payable as provided in Paragraph 3.d. below. The Retention Bonus and Severance Payment described in Paragraph 3.a and 3.b respectively, shall collectively be referred to herein as the "Retention Benefits." If the Company elects to provide for an earlier Separation Date (and Executive has not committed an act constituting Cause prior to such date), the Company will either continue Executive on the payroll for purposes of continuing his group benefits, or, pay the cost of his COBRA coverage for such benefits through December 31, 2013.

c. The Retention Benefits do not constitute earnings or wages for purposes of any Company benefit plan. Executive will receive an IRS Form W-2 with respect to the Retention Benefits. Executive acknowledges that he would not have received the Retention Benefits, payments and benefits to which the Executive is not otherwise entitled, if he did not enter into this Agreement and the Executive General Release.

d. Payment of the Retention Benefits shall be made on January 10, 2014, provided that prior to such date Executive delivers to the Company an executed General Release in the form attached as Exhibit A (the "Executive General Release") and this Agreement and the Executive General Release have become effective and irrevocable in accordance with their respective terms.

4. Survival of Articles IV, V, VI, VII, VIII, IX, and X. The Parties acknowledge and agree that their respective rights and/or obligations under Article IV, Confidentiality, Article V, Non-Competition, Article VI, Business Idea Rights, Article VII, Non-Solicitation of Employees, Article VIII, Executive Disclosures and Acknowledgements, Article IX, Return of Records, Article X, and Article X, Miscellaneous, of the Employment Agreement survive the execution of this Agreement, the Executive General Release, the termination of the Employment Agreement and the termination of Executive's employment with the Company. The Parties further acknowledge and agree that all such terms remain in full force and effect and are not modified, amended or released in any way. The Parties hereby amend Section 10.1, Notice, of the Employment Agreement, as follows:

To the Company:
School Specialty, Inc.
W6316 Design Drive
P.O. Box 1579
Appleton, WI 54912-1579
Attention: Board of Directors of the Company
Fax: 920.882.5863
Email: jimhenderson@schoolspecialty.com

With a copy to:
Brett Lawrence
Stroock & Stroock & Lavan LLP
180 Maiden Lane
New York, NY 10038-4982
Fax: 1-212-806-1222
E-mail: blawrence@stroock.com

To Executive:
David N. Vander Ploeg
2936 Foxford Drive
Green Bay, WI 54313
Email: vanderploeg.dave@gmail.com

With a copy to:
Katherine L. Charlton
Hawks Quindel, S.C.
P.O. Box 442
Milwaukee, WI 53201-0442
kcharlton@hq-law.com

5. Assistance. Executive agrees that after the Separation Date, upon reasonable notice and provided the requests for services are reasonable, Executive will provide transition services to the Company and assist the Company's Interim Chief Executive Officer (or any successor). For

avoidance of doubt, Executive shall not perform any such services unless requested by the Board or the Company's Interim Chief Executive Officer (or any successor). In addition, Executive agrees that, upon the request by the Company, Executive will assist the Company and its affiliates in the defense of any claims, or potential claims that may be made or threatened to be made against them in any action, suit or proceeding, whether civil, criminal, administrative, investigative or otherwise (a "Proceeding"), and will assist the Company and its affiliates in the prosecution of any claims that may be made by the Company in any Proceeding, to the extent that such claims may relate to Executive's employment or to events or acts occurring during the period of Executive's employment by the Company. Executive agrees, unless precluded by law, to promptly inform the Company if the Executive is asked to participate (or otherwise become involved) in any Proceeding involving such claims or potential claims. Executive also agrees, unless precluded by law, to promptly inform the Company if the Executive is asked to assist in any investigation (whether governmental or otherwise) of the Company or any of its affiliates (or their actions), regardless of whether a lawsuit has then been filed against the Company or its affiliates with respect to such investigation. The Company agrees to reimburse Executive for all of Executive's pre-approved reasonable, documented and out-of-pocket expenses associated with such assistance. Any services or assistance contemplated in this Paragraph 5 shall be at mutually agreed upon and convenient times. Executive shall be an independent contractor with respect to such services and the Company shall issue an IRS Form 1099 to Executive for any fees paid pursuant to this Paragraph 5. The Executive and the Company may elect to engage in an ongoing consulting arrangement. If they do so, they will then negotiate the specific terms.

6. Miscellaneous.

a. Entire Agreement; Amendment. Executive acknowledges that in executing this Agreement he has not relied on any statements, promises or representations made by the Company and/or Company Released Parties (as that term is defined in the Executive General Release) except as specifically memorialized in this Agreement. This Agreement contains the complete agreement of the Parties in any way related to Executive's employment and separation from employment and the subject matter addressed in it, and it supersedes and cancels all other, previous agreements or understandings between the Parties, including the Employment Agreement (except as provided in Paragraph 4 above). This Agreement cannot be modified or rescinded except upon the written consent signed by both Executive and an officer of the Company.

b. Severability. If any provision of this Agreement is held by a court of competent jurisdiction to be unenforceable, such provision shall be considered to be distinct and severable from the other provisions of this Agreement, and such unenforceability shall not affect the validity and enforceability of the remaining provisions. If any provision of this Agreement is so held to be unenforceable as written but may be made enforceable by limitation, then such provision shall be enforceable to the maximum extent permitted by applicable law. The language of all parts of this Agreement shall in all cases be construed as a whole, according to its fair meaning, and not strictly for or against any of the Parties.

c. No Admission of Liability. Neither this Agreement, the Executive General Release, nor the furnishing of the Retention Benefits shall be deemed or construed at any time for any purpose as an admission by Executive, the Company or any Company Released Party of any liability or unlawful or wrongful conduct of any kind.

d. Binding Effect; Assignment. This Agreement shall be binding on the Company and Executive and their legal representatives, successors and assigns, agents, administrators, executives and heirs. It shall inure to the benefit of the Company and Executive, to the Company's successors and assigns, its Affiliates, its third party beneficiaries, and to Executive's heirs. This Agreement shall not be assignable by Executive and Executive may not assign, transfer or subcontract his responsibilities hereunder; provided, however, Executive may assign his right to receive any payments hereunder.

e. Governing Law; Jurisdiction; Waiver of Jury Trial. This Agreement shall be governed by the laws of the State of Wisconsin without reference to its conflicts of laws provisions. Each Party agrees that the appropriate state and federal courts in Wisconsin shall have exclusive jurisdiction of any disputes arising out of, concerning or relating, directly or indirectly, to this Agreement, or any other dispute between the Parties and each hereby consents to and waives any objection to, the venue and jurisdiction of such courts. EACH PARTY HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY ON ANY CLAIM, COUNTERCLAIM, SETOFF, DEMAND ACTION OR CAUSE OF ACTION WHATSOEVER BETWEEN THEM, INCLUDING, WITHOUT LIMITATION, THOSE ARISING OUT OF, CONCERNING OR RELATING, DIRECTLY OR INDIRECTLY, TO THIS TRANSITION AGREEMENT OR ANY OTHER DISPUTE BETWEEN THE PARTIES.

Section 409A. This Agreement, and the payments and benefits hereunder, are intended to be exempt from taxation under Section 409A of the Internal Revenue Code of 1986, as amended, and the regulations and guidance promulgated thereunder ("Section 409A"). Each amount or benefit payable pursuant to this Agreement shall be deemed a separate payment for purposes of Section 409A. Any and all payments under this Agreement shall be paid or provided no later than March 15, 2014. Any ambiguity in this Agreement shall be interpreted to comply with the foregoing. Notwithstanding the foregoing, the Company makes no representations regarding the treatment of any payments or benefits hereunder and the Company shall not be liable to, and Executive shall be solely liable and responsible for, any taxes or penalties that may be imposed on Executive under Section 409A with respect to Executive's receipt of payments or benefits hereunder.

7. Waiver. A failure by any party to enforce at any time or over a period of time, any provision of this Agreement shall not be construed to be a waiver of such provision or of any other provision of this Agreement.

8. Facsimile and Electronic Signatures, Execution in Parts & Headings. Signatures transmitted by facsimile or electronically in the form of a PDF file are deemed to be originals and this Agreement may be executed in counterparts, each of which together shall constitute one and the same instrument. The headings used in this Agreement are intended only for the convenience of the parties and shall not in any way add to, limit or otherwise be used in the interpretation of this Agreement.

[Remainder of Page Blank]

9. No Future Compensation. By entering into this Agreement, Executive acknowledges that (i) he waives any claim to reinstatement and/or future employment with the Company, (ii) to the extent he may seek or apply for future employment with the Company, any failure by the Company to hire or rehire Executive shall not constitute retaliation, and (iii) Executive is not and shall not be entitled to any payments, compensation, benefits, or other obligations from the Company and/or Company Released Parties of any nature whatsoever (except as expressly set forth herein).

SCHOOL SPECIALTY, INC.

By: /s/ James Henderson
Name: James Henderson
Title: Interim CEO 8/19/2013
Date:

/s/ David N. Vander Ploeg
David N. Vander Ploeg
Date: 8/19/13

EXHIBIT A

**EXECUTIVE GENERAL RELEASE**

WHEREAS, I, David N. Vander Ploeg, on the one hand, and School Specialty, Inc. (the "Company") on the other hand, entered into a Retention and Separation Agreement, dated August __, 2013 (the "Agreement") (Capitalized terms used, but not defined herein, shall have the meanings assigned to them in the Employment Agreement or the Agreement);

WHEREAS, as a condition of the Company performing its obligations as provided in the Agreement, I, David N. Vander Ploeg, have agreed to execute and comply fully with the terms and provisions of the Agreement; and

WHEREAS, the Agreement provides that I, David N. Vander Ploeg, will execute and comply fully with the terms and conditions of the Executive General Release herein;

NOW, THEREFORE, in consideration of the foregoing, and the Retention Benefits and other good and valuable consideration to which I am not otherwise entitled, I, David N. Vander Ploeg, hereby agree as follows:

I, David N. Vander Ploeg, for myself and my heirs and assigns, hereby voluntarily, knowingly and irrevocably release and forever discharge the Company and its Affiliates and their respective predecessors, successors and assigns, and their respective present, former, and future officers, directors, shareholders, partners, principals, participants, investors (including, without limitation, all funds and/or accounts that are owned, controlled, or affiliated with the following entities: Zazove Associates, LLC, Angelo, Gordon & Co., L.P. Davis Selected Advisers, L.P., Steel Excel Inc., Wolverine Asset Management, J. Goldman & Co., L.P., L.P., Scoggin LLC and, BulwarkBay Investment Group LLC), trustees, employees, agents, administrators, representatives, attorneys, members, insurers or fiduciaries, in both their individual and representative capacities, (collectively, the "Company Released Parties"), from all actions, claims, demands, causes of action, obligations, damages, liabilities, expenses and controversies of any nature and description whatsoever, including attorneys' fees and costs (collectively, "Claims"), whether or not now known, suspected or claimed, which I, David N. Vander Ploeg, had, have, or may have, against any of the Company Released Parties from the beginning of time up to and including the date I, David N. Vander Ploeg, sign this Executive General Release, including but not limited to, any Claims that arise out of, relate to or are based on (i) my employment by the Company and/or separation therefrom, including, without limitation, under any federal, state or local law, regulation or ordinance including, without limitation, any having any bearing whatsoever on the terms and conditions of my employment and/or the termination thereof, (ii) statements, acts or omissions by the Company and/or other Company Released Parties, (iii) express or implied agreements, whether oral or written, between me, David N. Vander Ploeg, and the Company and/or other Company Released Parties, including, but not limited to, the Employment Agreement and any offers or term sheets; (iv) any federal, state or local fair employment practices or civil rights laws including, but not limited to, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Older Workers Benefit Protection Act, the Family and Medical Leave Act, the Worker Adjustment Retraining and Notification Act, the Americans with Disabilities Act, the Sarbanes-Oxley Act, the

Employee Retirement Income Security Act of 1974, the Wisconsin Fair Employment Law, each as may be amended, which, among other things, prohibit discrimination on such bases as race, color, religion, creed, national origin, ancestry, family and/or medical leave, sex/gender, sexual harassment, sexual orientation, genetic information or testing, uniformed or military service, retaliation, whistleblowing, protected activity, mental or physical disability, age, or marital status, (v) common law, public policy, breach of contract or tort, including, without limitation, Claims for emotional distress, libel, slander or wrongful discharge, or (vi) wages, commissions, bonuses, notice, notice pay, accrued vacation, paid time off or holiday pay, employee benefits, expenses, equity awards, allowances and any other payments or compensation of any kind whatsoever; provided, however, the foregoing will not (A) prevent me from bringing any claim seeking enforcement of the Agreement or the Company General Release, (B) release any Claims that may not be waived pursuant to applicable law, (C) prevent me from bringing any future claims, if any, (D) release any rights that I, David N. Vander Ploeg, may have to indemnification under the Company's organizational documents or under any insurance policy, subject to the respective terms and limitations, providing directors' and officers' coverage applicable to me, then existing, for any lawsuit or claim relating to the period when I, David N. Vander Ploeg, was an employee of the Company or (E) release the Parties' respective continuing rights and/or obligations pursuant to Articles IV, Confidentiality; V, Non-Competition; VI, Business Idea Rights; VII, Non-Solicitation of Employees; VIII, Employee Disclosures and Acknowledgements; IX, Return of Records; X, and X, Miscellaneous of the Employment Agreement.

I, David N. Vander Ploeg, represent that I have fully complied with my obligation set forth in Article IX, Return of Records, of the Employment Agreement.

I, David N . Vander Ploeg, represent that no charges, complaints or actions of any kind have been filed by me or on my behalf against the Company or any Company Released Party with any court, agency or other tribunal.

I, David N. Vander Ploeg, expressly consent that each and all of the provisions of this Executive General Release shall be given full force and effect with respect to unknown or unsuspected claims, demands and causes of action, if any.

I, David N. Vander Ploeg, further affirm that no statements, representations or promises have been made to me to influence me to sign this Executive General Release, except as stated in the Agreement and in this Executive General Release, and that I have signed this Executive General Release of my own free will, relying entirely upon my own judgment, on behalf of myself and each and every one of my dependents, heirs, executors, administrators, personal and/or legal representatives and assigns.

I, David N. Vander Ploeg, acknowledge that I may not sign this Agreement until on or after the Separation Date.

I, David N. Vander Ploeg, further affirm that I have read this Executive General Release and have had up to twenty-one (21) days to consider its terms and effects and to ask any questions that I may have of anyone (including legal counsel of my own choosing), that I have consulted with my own counsel, and that I have signed this Executive General Release knowingly, voluntarily and with full understanding of its terms and effects.

I, David N. Vander Ploeg further acknowledge that I have been advised that I may revoke this Executive General Release within seven (7) days of execution (the "Revocation Period"). I also understand that this Executive General Release will not become effective if I exercise my right to revoke my signature within the Revocation Period by hand delivering or sending via overnight mail a written notice of revocation to the Company as set forth in Section 10.1 of Employment Agreement, as amended by the Agreement. I also understand that if I do not revoke this Executive General Release within the Revocation Period, this Executive General Release shall become final and binding and I shall have no further right of revocation.

I, David N. Vander Ploeg, further affirm that no fact, evidence, event or transaction currently unknown to me but which hereafter may become known to me shall affect in any way or manner the final and unconditional nature of this Executive General Release.

[Remainder of Page Blank]

This Executive General Release will be governed by and construed in accordance with the laws of the State of Wisconsin. If any provision in this Executive General Release is held invalid or unenforceable for any reason, the remaining provisions shall be construed as if the invalid or unenforceable provision had not been included. A signature transmitted by facsimile or electronically in the form of a PDF file is deemed to be an original.

Acknowledged and Agreed:

David N. Vander Ploeg

STATE OF______)
):ss.:
COUNTY OF ______)

On the __ day of ____________, 2013, before me personally appeared David N. Vander Ploeg, to me known and known to me to be the individual described in, and who duly acknowledged to me that he executed the foregoing Executive General Release.

Notary Public

**Exhibit 10.8**

TRANSITION AND SEPARATION AGREEMENT AND MUTUAL GENERAL RELEASE

This Transition and Separation Agreement and Mutual General Release (the "Transition Agreement") is entered into as of the 22 day of July, 2013, by and between Michael P. Lavelle ("Executive") and School Specialty, Inc. (the "Company") (Executive and the Company sometimes referred to herein, collectively, as the "Parties").

WHEREAS, Executive has been employed by the Company pursuant to the terms of the Employment Agreement between the Company and Executive, dated January 12, 2012 (the "Employment Agreement"). (Capitalized terms used, but not defined herein, shall have the meaning assigned to them in the Employment Agreement);

WHEREAS, Executive has tendered his resignation from the Company and the Parties desire to effect an orderly transition of Executive's duties and responsibilities to a successor;

WHEREAS, as a condition of the Company making certain payments and providing certain benefits, the Parties have agreed to execute and comply fully with the terms of this Transition Agreement.

NOW THEREFORE, in consideration of the foregoing, the payments to be made and benefits provided and other good and valuable consideration, the Parties agree as follows:

1. Transition and Separation.

a. Executive has tendered his resignation from the Company effective August 2, 2013 (the date of this Agreement through Executive's date of separation of employment, the "Transition Period") and the Parties anticipate that Executive's last day of employment will be August 2, 2013; provided, however, the Company may, at its sole discretion, upon written notice to Executive accept Executive's resignation so that it is effective at any time during the Transition Period or extend the Transition Period beyond August 2, 2013, but not later than September 1, 2013. The date that Executive's employment actually ends will be his separation date (the "Separation Date").

b. During the Transition Period, Executive will continue (i) to report to the Board and (ii) to perform his current duties and responsibilities, including but not limited to, cooperating with respect to any regulatory or similar filings of the Company, and such other duties and responsibilities commensurate with his position as may be reasonably assigned to him, as well as fully cooperate and work with James R. Henderson, who will become the Interim Chief Executive Officer immediately upon Executive's Separation Date and otherwise assist the Company in the transition of his duties and responsibilities.

c. Effective as of the Separation Date, Executive hereby resigns from each and every office, directorship and any other position that Executive held with the Company and the Related Companies, including, but not limited to, Executive's positions as President and Chief Executive Officer of the Company and as a member of the Board. Also effective as of the Separation Date, Executive further renounces all signatory authority he possesses on behalf of the Company and any Related Companies. Although the foregoing is effective without any further action on the part of Executive, Executive agrees to execute any documents requested by the Company as necessary or appropriate to effectuate such actions.

2. Compensation and Benefits.

a. All of the compensation and benefits that Executive receives as part of his employment will cease as of the Separation Date, except as otherwise set forth in this Transition Agreement, or as otherwise required by law. Thereafter, Executive and/or Executive's dependents may continue Executive's group benefits at his and/or their expense, subject to Paragraph 3.a.(ii) below, as provided by the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"). Under separate cover, Executive will receive a personalized COBRA packet and other benefit continuation information.

b. Executive will receive the Accrued Obligations subject to the terms of the Employment Agreement.

c. The Company shall reimburse Executive's reasonable legal fees, up to $15,000, incurred by Executive in connection with the preparation, negotiation and execution of this Transition Agreement.

3. Discretionary Severance Benefits.

a. Executive agrees to execute and deliver to the Company, the General Release in the form attached as Exhibit A (the "Executive General Release"). Provided that Executive delivers to the Company an executed Executive General Release within the time period provided in Paragraph 3.c. below, which he may not sign until on or after the Separation Date, the Executive General Release becomes effective in accordance with its terms, and subject to Executive's continued compliance with the terms of this Transition Agreement, the Company will, as discretionary severance: (i) pay to Executive an amount equal to six (6) months of his base salary as of the Separation Date (less applicable withholdings and deductions), payable as provided in Paragraph 3.c. below in installments corresponding to the Company's payroll dates (the "Severance Payments"), (ii) reimburse Executive for that portion of the premiums paid by Executive to obtain COBRA continuation health coverage that equals the Company's subsidy for health coverage for active employees with family coverage ("COBRA Continuation Payments") for six ( 6) months following the Separation Date (provided that Executive makes a timely COBRA election), but in each case, only for so long as Executive complies with the requirements of Articles IV, Confidentiality; V, Non-Competition; VI, Business Idea Rights; VII, Non-Solicitation of Employees; VIII, Employee Disclosures and Acknowledgements; IX, Return of Records; X, Non-Disparagement and XI, Miscellaneous of the Employment Agreement; (the Severance Payments and COBRA Continuation Payments described in clauses (i) and (ii), respectively, are referred to hereinafter, collectively, as the "Discretionary Severance Benefits"), and (iii) execute and deliver to Executive, through his attorney, the Company General Release in favor of Executive, in the form annexed hereto as Exhibit B (the "Company General Release").

b. The Discretionary Severance Benefits do not constitute earnings or wages for purposes of any Company benefit plan. Executive will receive an IRS Form W-2 with respect to the Discretionary Severance Benefits. Executive acknowledges that he would not have received the Discretionary Severance Benefits, payments and benefits to which the Executive is not otherwise entitled, if he did not enter into this Transition Agreement and the Executive General Release.

c. Payment of the Discretionary Severance Benefits shall commence on the pay date which is on or immediately after the forty-fifth (45th) day following the Separation Date, provided that prior to such date this Transition Agreement and the Executive General Release have become effective and irrevocable in accordance with their respective terms and (i) the first such payment shall include an amount that is retroactive to the day immediately after the Separation Date, and (ii) subsequent payments shall correspond to the Company's customary payroll dates, as may be changed from time-to-time.

4. Mutual General Release.

a. Executive Release. Executive, in consideration of and as a condition to the agreement of the Company to enter into this Transition Agreement, reimbursement of his legal fees in connection with this Transition Agreement and in exchange for the Company Release as set forth in Paragraph 4.b. below, Executive for himself and his heirs and assigns, hereby voluntarily, knowingly and irrevocably releases and forever discharges the Company and its Affiliates and their respective predecessors, successors and assigns, and their respective present, former, and future officers, directors, shareholders, partners, principals, participants, investors (including, without limitation, all funds and/or accounts that are owned, controlled, or affiliated with the following entities: Zazove Associates, LLC, Angelo, Gordon & Co., L.P. Davis Selected Advisers, L.P., Steel Excel Inc., Wolverine Asset Management, J. Goldman & Co., L.P ., Scoggin LLC and, BulwarkBay Investment Group LLC), trustees, employees, agents, administrators, representatives, attorneys, members, insurers or fiduciaries, in both their individual and representative capacities, (collectively, the "Company Released Parties"), from all actions, claims, demands, causes of action, obligations, damages, liabilities, expenses and controversies of any nature and description whatsoever, including attorneys' fees and costs (collectively, "Claims"), whether or not now known, suspected or claimed, which Executive had, has, or may have, against any of the Company Released Parties from the beginning of time up to and including the date Executive signs this Transition Agreement, including but not limited to, any Claims that arise out of, relate to or are based on (i) Executive's employment by the Company and/or separation therefrom, including, without limitation, under any federal, state or local law, regulation or ordinance including, without limitation, any having any bearing whatsoever on the terms and conditions of Executive's employment and/or the termination thereof, (ii) statements, acts or omissions by the Company and/or other Company Released Parties, (iii) express or implied agreements, whether oral or written, between Executive and the Company and/or other Company Released Parties, including, but not limited to, the Employment Agreement and any offers or term sheets; (iv) any federal, state or local fair employment practices or civil rights laws including, but not limited to, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Older Workers Benefit Protection Act, the Family and Medical Leave Act, the Worker Adjustment Retraining and Notification Act, the Americans with Disabilities Act, the Sarbanes-Oxley Act, the Employee Retirement Income Security Act of 1974, the Wisconsin Fair Employment Law, each as may be amended, which, among other things, prohibit discrimination on such bases as race, color, religion, creed, national origin, ancestry, family and/or medical leave, sex/gender, sexual harassment, sexual orientation,

genetic information or testing, uniformed or military service, retaliation, whistleblowing, protected activity, mental or physical disability, age, or marital status, (v) common law, public policy, breach of contract or tort, including, without limitation, Claims for emotional distress, libel, slander or wrongful discharge, or (vi) wages, commissions, bonuses, notice, notice pay, accrued vacation, paid time off or holiday pay, employee benefits, expenses, equity awards, allowances and any other payments or compensation of any kind whatsoever; provided, however, the foregoing will not (A) prevent Executive from bringing any claim seeking enforcement of this Transition Agreement, (B) release any Claims that may not be waived pursuant to applicable law, (C) prevent Executive from bringing any future claims, if any, (D) release any rights that Executive may have to indemnification under the Company's organizational documents or under any insurance policy, subject to the respective terms and limitations, providing directors' and officers' coverage applicable to Executive, then existing, for any lawsuit or claim relating to the period when Executive was an employee of the Company or (E) release the Parties' respective continuing rights and/or obligations pursuant to Articles IV, Confidentiality; V, Non-Competition; VI, Business Idea Rights; VII, Non-Solicitation of Employees; VIII, Employee Disclosures and Acknowledgements; IX, Return of Records; X, Non-Disparagement and XI, Miscellaneous of the Employment Agreement.

Executive represents that no charges, complaints or actions of any kind have been filed by him or on his behalf against the Company or any Company Released Party with any court, agency or other tribunal.

b. Company Release. Subject to this Transition Agreement becoming effective in accordance with its terms and Executive's compliance with this Transition Agreement, the Company hereby voluntarily, knowingly, irrevocably and unconditionally releases and forever discharges Executive, his heirs, executors, trustees, legal representatives, agents, administrators and assigns ("Executive Released Parties"), from any and all Claims, whether or not now known, suspected or claimed, which the Company had, has, or may have, against any of the Executive Released Parties from the beginning of time up to and including the date Executive signs this Transition Agreement which arise out of, relate to or are based on (i) Executive's employment by the Company and/or separation therefrom; (ii) statements, acts or omissions by Executive and/or other Executive Released Parties; (iii) express or implied agreements, whether oral or written, between Executive and the Company and/or other Executive Released Parties, including, but not limited to, the Employment Agreement and any offers or term sheets; or (iv) common law, public policy, breach of contract or tort, including, without limitation, Claims for emotional distress, libel, slander or wrongful discharge; provided, however, the foregoing will not (A) prevent the Company from bringing any claim seeking enforcement of this Transition Agreement, (B) release any Claims that may not be waived pursuant to applicable law, (C) prevent the Company from bringing any future claims, if any, (D) release the Parties' respective continuing rights and/or obligations pursuant to Articles IV, Confidentiality; V, Non-Competition; VI, Business Idea Rights; VII, Non-Solicitation of Employees; VIII, Employee Disclosures and Acknowledgements; IX, Return of Records; X, Non-Disparagement and XI, Miscellaneous of the Employment Agreement or (E) release Claims against Executive arising out of acts of illegal conduct or fraud committed by Executive in relation to the Company or any of its Affiliates or any Company Released Party.

The Company represents that no charges, complaints or actions of any kind have been filed by the Company or on its behalf against Executive or any Executive Released Party with any court, agency or other tribunal.

5. Survival of Articles IV, V, VI, VII, VIII, IX, X and XI. The Parties acknowledge and agree that their respective rights and/or obligations under Article IV, Confidentiality, Article V, Non-Competition, Article VI, Business Idea Rights, Article VII, Non-Solicitation of Employees, Article VIII, Executive Disclosures and Acknowledgements, Article IX, Return of Records, Article X, Non-Disparagement, and Article XI, Miscellaneous, of the Employment Agreement survive the execution of this Transition Agreement, the Executive General Release, the Company General Release, the termination of the Employment Agreement and the termination of Executive's employment with the Company. The Parties further acknowledge and agree that all such terms remain in full force and effect and are not modified, amended or released in any way. The Parties hereby amend Section 11.1, Notice, of the Employment Agreement, as follows:

To the Company:

School Specialty, Inc.
W 6316 Design Drive
P.O. Box 1579
Appleton, WI 54912-1579
Attention: Board of Directors of the Company
Fax: 920.882.5863
Email: jimhenderson@schoolspecialty.com

With a copy to:

Brett Lawrence
Stroock & Stroock & Lavan LLP
180 Maiden Lane
New York, NY 10038-4982
Fax: 1-212-806-1222
E-mail: blawrence@stroock.com

To Executive:

Michael P. Lavelle
2080 West Muirwood Drive
Green Bay, WI 54313
Email: mikelavelle@hotmail.com

With a copy to:

Joyce Ackerbaum Cox
Baker Hostetler
200 S. Orange A venue, Ste 2300
Orlando, FL 32801
Fax: 1-407-841-0168
E-mail: jacox@bakerlaw.com

6. Consequence of Breach. The Parties understand that if either party should breach any provision of this Transition Agreement or the General Release, the other party shall be entitled to pursue any and all available legal and/or equitable remedies for such breach, including but not limited to , contractual damages, equitable relief, attorneys' fees and costs incurred in connection with such breach. The Parties expressly acknowledge that their respective rights, duties and obligations under this Transition Agreement are cumulative and that either party taking any of the actions set forth in this paragraph shall not abrogate, diminish or otherwise impact the validity or enforceability of the releases set forth in Paragraph 4 of this Transition Agreement or in the General Releases.

7. Assistance. Executive agrees that after the Separation Date, upon reasonable notice and provided the requests for services are reasonable, Executive will provide transition services to the Company and assist the Interim or Acting Chief Executive Officer of the Company. During the 90-day period following Executive's Separation Date, (i) Executive agrees to provide up to ten (10) hours per calendar month of such services without any additional remuneration and (ii) for any additional services, the Company agrees to pay Executive an hourly rate based upon Executive's base salary as of the Separation Date. Such services shall be performed by phone or e-mail or by such other method or place as may be mutually agreed by the Company and Executive. For avoidance of doubt, Executive shall not perform any such services unless requested by the Board or the Interim or Acting Chief Executive Officer of the Company. In addition, if Executive has prior approval from the Board or the Interim or Acting Chief Executive Officer of the Company, the Company shall reimburse Executive for his reasonable out-of-pocket expenses associated with such assistance. Executive shall be an independent contractor with respect to such services and the Company shall issue an IRS Form 1099 to Executive for any fees paid pursuant to this Paragraph 7.

8. Miscellaneous.

a. Entire Agreement; Amendment. Executive acknowledges that in executing this Transition Agreement he has not relied on any statements, promises or representations made by the Company and/or Company Released Parties except as specifically memorialized in this Transition Agreement. This Transition Agreement contains the complete agreement of the Parties in any way related to Executive's separation from employment and the subject matter addressed in it, and it supersedes and cancels all other, previous agreements or understandings between the Parties. This Transition Agreement cannot be modified or rescinded except upon the written consent signed by both Executive and an officer of the Company.

b. Severability. If any provision of this Transition Agreement is held by a court of competent jurisdiction to be unenforceable, such provision shall be considered to be distinct and severable from the other provisions of this Transition Agreement, and such unenforceability shall not affect the validity and enforceability of the remaining provisions. If any provision of this Transition Agreement is so held to be unenforceable as written but may be made enforceable by limitation, then such provision shall be enforceable to the maximum extent permitted by applicable law. The language of all parts of this Transition Agreement shall in all cases be construed as a whole, according to its fair meaning, and not strictly for or against any of the Parties.

c. No Admission of Liability. Neither this Transition Agreement, the Executive General Release or the Company General Release, nor the furnishing of the Discretionary Severance Benefits shall be deemed or construed at any time for any purpose as an admission by Executive, the Company or any Company Released Party or Executive Released Party of any liability or unlawful or wrongful conduct of any kind.

d. Binding Effect; Assignment. This Transition Agreement shall be binding on the Company and Executive and their legal representatives, successors and assigns, agents, administrators, executives and heirs. It shall inure to the benefit of the Company and Executive, to the Company's successors and assigns, its Affiliates, its third party beneficiaries, and to Executive's heirs. This Transition Agreement shall not be assignable by Executive and Executive may not assign, transfer or subcontract his responsibilities hereunder; provided, however, Executive may assign his right to receive any payments hereunder.

e. Governing Law; Jurisdiction; Waiver of Jury Trial. This Transition Agreement shall be governed by the laws of the State of Wisconsin without reference to its conflicts of laws provisions. Each Party agrees that the appropriate state and federal courts in Wisconsin shall have exclusive jurisdiction of any disputes arising out of, concerning or relating, directly or indirectly, to this Transition Agreement, or any other dispute between the Parties and each hereby consents to and waives any objection to, the venue and jurisdiction of such courts. EACH PARTY HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY ON ANY CLAIM, COUNTERCLAIM, SETOFF, DEMAND ACTION OR CAUSE OF ACTION WHATSOEVER BETWEEN THEM, INCLUDING, WITHOUT LIMITATION, THOSE ARISING OUT OF, CONCERNING OR RELATING, DIRECTLY OR INDIRECTLY, TO THIS TRANSITION AGREEMENT OR ANY OTHER DISPUTE BETWEEN THE PARTIES.

f. Section 409A. This Transition Agreement, and the payments and benefits hereunder, are intended to be exempt from taxation under Section 409A of the Internal Revenue Code of 1986, as amended, and the regulations and guidance promulgated thereunder ("Section 409A"). Any ambiguity in this Transition Agreement shall be interpreted to comply with the foregoing. Notwithstanding the foregoing, the Company makes no representations regarding the treatment of any payments or benefits hereunder and the Company shall not be liable to, and Executive shall be solely liable and responsible for, any taxes or penalties that may be imposed on Executive under Section 409A with respect to Executive's receipt of payments or benefits hereunder.

9. Waiver. A failure by any party to enforce at any time or over a period of time, any provision of this Transition Agreement shall not be construed to be a waiver of such provision or of any other provision of this Transition Agreement.

10. Facsimile and Electronic Signatures, Execution in Parts & Headings. Signatures transmitted by facsimile or electronically in the form of a PDF file are deemed to be originals and this Transition Agreement may be executed in counterparts, each of which together shall constitute one and the same instrument. The headings used in this Transition Agreement are intended only for the convenience of the parties and shall not in any way add to, limit or otherwise be used in the interpretation of this Transition Agreement.

11. No Future Compensation. By entering into this Transition Agreement, Executive acknowledges that (i) he waives any claim to reinstatement and/or future employment with the Company, (ii) to the extent he may seek or apply for future employment with the Company, any failure by the Company to hire or rehire Executive shall not constitute retaliation, and (iii) Executive is not and shall not be entitled to any payments, compensation, benefits, or other obligations from the Company and/or Company Released Parties of any nature whatsoever (except as expressly set forth herein).

12. Acknowledgment. Executive acknowledges that:

- he has read this Transition Agreement in its entirety and understands all of its terms, including that it constitutes a complete general release of all Claims against the Company and Company Released Parties;
- he has been advised, in writing, to review this Transition Agreement with an attorney before signing it;
- he has had a sufficient period of time within which to review this Transition Agreement, including, without limitation, with his attorney, and that he has in fact done so with his attorney, Joyce Ackerbaum Cox, of the firm of Baker Hostetler; and
- he knowingly and voluntarily agrees to all the terms and conditions contained in this Transition Agreement.

SCHOOL SPECIALTY, INC.

By: /s/ James R. Henderson
Name: James R. Henderson
Title: Chairman
Date: 8/22/13

/s/ Michael P. Lavelle
Name: Michael P. Lavelle
Date 8/22/13

STATE OF____________ )

):ss.:

COUNTY OF __________ )

On the 22 day of July, 2013, before me personally appeared Michael P. Lavelle, to me known and known to me to be the individual described in, and who duly acknowledged to me that he executed the foregoing Transition and Separation Agreement and Mutual General Release.

______________________________

Notary Public

STATE OF___________ )

):ss.:

COUNTY OF _________ )

On the 22 day of July , 2013, before me personally came James Henderson to me known, who, being by me duly sworn, did acknowledge that he is the Chairman of SCHOOL SPECIALTY, INC., the organization described in the Transition and Separation Agreement and Mutual General Release, and that he signed the foregoing Transition and Separation Agreement and Mutual General Release on its behalf; and that he was duly authorized by that organization to sign the foregoing Transition and Separation Agreement and Mutual General Release on its behalf.

______________________________

Notary Public

EXHIBIT A

EXECUTIVE GENERAL RELEASE

WHEREAS, I, Michael P. Lavelle, on the one hand, and School Specialty, Inc. (the "Company") on the other hand, entered into a Transition and Separation Agreement and Mutual General Release, dated July 22, 2013 (the "Transition Agreement") (Capitalized terms used, but not defined herein, shall have the meanings assigned to them in the Employment Agreement or the Transition Agreement);

WHEREAS, as a condition of the Company performing its obligations as provided in the Transition Agreement, I, Michael P. Lavelle, have agreed to execute and comply fully with the terms and provisions of the Transition Agreement; and

WHEREAS, the Transition Agreement provides that I, Michael P. Lavelle, will execute and comply fully with the terms and conditions of the Executive General Release herein;

NOW, THEREFORE, in consideration of the foregoing, the Discretionary Severance Benefits and the Company General Release to be provided to me by the Company and other good and valuable consideration to which I am not otherwise entitled, I, Michael P. Lavelle, hereby agree as follows:

I, Michael P. Lavelle, for myself and my heirs and assigns, hereby voluntarily, knowingly and irrevocably release and forever discharge the Company and its Affiliates and their respective predecessors, successors and assigns, and their respective present, former, and future officers, directors, shareholders, partners, principals, participants, investors (including, without limitation, all funds and/or accounts that are owned, controlled, or affiliated with the following entities: Zazove Associates, LLC, Angelo, Gordon & Co., L.P. Davis Selected Advisers, L.P., Steel Excel Inc., Wolverine Asset Management, J. Goldman & Co., L.P., L.P., Scoggin LLC and, BulwarkBay Investment Group LLC), trustees, employees, agents, administrators, representatives, attorneys, members, insurers or fiduciaries, in both their individual and representative capacities, (collectively, the "Company Released Parties"), from all actions, claims, demands, causes of action, obligations, damages, liabilities, expenses and controversies of any nature and description whatsoever, including attorneys' fees and costs (collectively, "Claims''), whether or not now known, suspected or claimed, which I, Michael P. Lavelle, had, have, or may have, against any of the Company Released Parties from the beginning of time up to and including the date I, Michael P. Lavelle, sign this Executive General Release, including but not limited to, any Claims that arise out of, relate to or are based on (i) my employment by the Company and/or separation therefrom, including, without limitation, under any federal, state or local law, regulation or ordinance including, without limitation, any having any bearing whatsoever on the terms and conditions of my employment and/or the termination thereof, (ii) statements, acts or omissions by the Company and/or other Company Released Parties, (iii) express or implied agreements, whether oral or written, between me, Michael P. Lavelle, and the Company and/or other Company Released Parties, including, but not limited to, the Employment Agreement and any offers or term sheets; (iv) any federal, state or local fair employment practices or civil rights laws including, but not limited to, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Older Workers Benefit

Protection Act, the Family and Medical Leave Act, the Worker Adjustment Retraining and Notification Act, the Americans with Disabilities Act, the Sarbanes-Oxley Act, the Employee Retirement Income Security Act of 1974, the Wisconsin Fair Employment Law, each as may be amended, which, among other things, prohibit discrimination on such bases as race, color, religion, creed, national origin, ancestry, family and/or medical leave, sex/gender, sexual harassment, sexual orientation, genetic information or testing, uniformed or military service, retaliation, whistleblowing, protected activity, mental or physical disability, age, or marital status, (v) common law, public policy, breach of contract or tort, including, without limitation, Claims for emotional distress, libel, slander or wrongful discharge, or (vi) wages, commissions, bonuses, notice, notice pay, accrued vacation, paid time off or holiday pay, employee benefits, expenses, equity awards, allowances and any other payments or compensation of any kind whatsoever; provided, however, the foregoing will not (A) prevent me from bringing any claim seeking enforcement of the Transition Agreement or the Company General Release, (B) release any Claims that may not be waived pursuant to applicable law, (C) prevent me from bringing any future claims, if any, (D) release any rights that I, Michael P. Lavelle, may have to indemnification under the Company's organizational documents or under any insurance policy, subject to the respective terms and limitations, providing directors' and officers' coverage applicable to me, then existing, for any lawsuit or claim relating to the period when I, Michael P. Lavelle, was an employee of the Company or (E) release the Parties' respective continuing rights and/or obligations pursuant to Articles IV, Confidentiality; V, Non-Competition; VI, Business Idea Rights; VII, Non-Solicitation of Employees; VIII, Employee Disclosures and Acknowledgements; IX, Return of Records; X, Non-Disparagement and XI, Miscellaneous of the Employment Agreement.

I, Michael P. Lavelle, represent that I have fully complied with my obligation set forth in Article IX, Return of Records, of the Employment Agreement.

I, Michael P. Lavelle, represent that no charges, complaints or actions of any kind have been filed by me or on my behalf against the Company or any Company Released Party with any court, agency or other tribunal.

I, Michael P. Lavelle, expressly consent that each and all of the provisions of this Executive General Release shall be given full force and effect with respect to unknown or unsuspected claims, demands and causes of action, if any.

I, Michael P. Lavelle, further affirm that no statements, representations or promises have been made to me to influence me to sign this Executive General Release, except as stated in the Transition Agreement and in this Executive General Release, and that I have signed this Executive General Release of my own free will, relying entirely upon my own judgment, on behalf of myself and each and every one of my dependents, heirs, executors, administrators, personal and/or legal representatives and assigns.

I, Michael P. Lavelle, acknowledge that I may not sign this Agreement until on or after the Separation Date.

I, Michael P. Lavelle, further affirm that I have read this Executive General Release and have had up to twenty-one (21) days to consider its terms and effects and to ask any questions that I may have of anyone (including legal counsel of my own choosing), that I have consulted with my own counsel, Joyce Ackerbaum Cox, of the firm of Baker Hostetler, and that I have signed this Executive General Release knowingly, voluntarily and with full understanding of its terms and effects.

I, Michael P. Lavelle further acknowledge that I have been advised that I may revoke this Executive General Release within seven (7) days of execution (the "Revocation Period"). I also understand that this Executive General Release will not become effective if I exercise my right to revoke my signature within the Revocation Period by hand delivering or sending via overnight mail a written notice of revocation to the Company as set forth in Section 11.1 of Employment Agreement, as amended by the Transition Agreement. I also understand that if I do not revoke this Executive General Release within the Revocation Period, this Executive General Release shall become final and binding and I shall have no further right of revocation.

I, Michael P. Lavelle, further affirm that no fact, evidence, event or transaction currently unknown to me but which hereafter may become known to me shall affect in any way or manner the final and unconditional nature of this Executive General Release.

[Remainder of Page Blank]

This Executive General Release will be governed by and construed in accordance with the laws of the State of Wisconsin. If any provision in this Executive General Release is held invalid or unenforceable for any reason, the remaining provisions shall be construed as if the invalid or unenforceable provision had not been included. A signature transmitted by facsimile or electronically in the form of a PDF file is deemed to be an original.

Acknowledged and Agreed:

______________________________

Michael P. Lavelle

STATE OF____________ )

):ss.:

COUNTY OF __________ )

On the __ day of____________, 2013, before me personally appeared Michael P. Lavelle, to me known and known to me to be the individual described in, and who duly acknowledged to me that he executed the foregoing Executive General Release.

___________________________________

Notary Public

EXHIBIT B

COMPANY RELEASE

WHEREAS, Michael P. Lavelle ("Executive"), on the one hand, and School Specialty, Inc. (the "Company"), on the other hand, entered into a Transition and Separation Agreement and Mutual General Release, dated July 22, 2013 (the "Transition Agreement") in connection with Executive's separation from employment with the Company;

WHEREAS, as consideration for Executive performing certain of the obligations as provided in the Transition Agreement and executing the Executive General Release (capitalized words used, but not defined herein shall have the meanings assigned to them in the Employment Agreement or Transition Agreement), the Company has agreed to execute and comply fully with the terms and provisions of the Transition Agreement; and

WHEREAS, the Transition Agreement provides that, upon Executive General Release executed and delivered to the Company becoming effective and irrevocable, the Company will execute and comply fully with the terms and conditions of the Company General Release herein;

NOW, THEREFORE, in consideration of the Executive General Release executed by Executive, upon the Executive General Release becoming effective when Executive signs it and does not revoke it as provided in the Executive General Release, the Company, agrees as follows:

The Company hereby voluntarily, knowingly, irrevocably and unconditionally releases and forever discharges Executive, his heirs, executors, trustees, legal representatives, agents, administrators and assigns ("Executive Released Parties"), from any and all Claims, whether or not now known, suspected or claimed, which the Company had, has, or may have, against any of the Executive Released Parties from the beginning of time up to and including the date Executive signs the Executive General Release which arise out of, relate to or are based on (i) Executive's employment by the Company and/or separation therefrom; (ii) statements, acts or omissions by Executive and/or other Executive Released Parties; (iii) express or implied agreements, whether oral or written, between Executive and the Company and/or other Executive Released Parties, including, but not limited to, the Employment Agreement and any offers or term sheets; or (iv) common law, public policy, breach of contract or tort, including, without limitation, Claims for emotional distress, libel, slander or wrongful discharge; provided, however, the foregoing will not (A) prevent the Company from bringing any claim seeking enforcement of the Transition Agreement or the Executive General Release, (B) release any Claims that may not be waived pursuant to applicable law, (C) prevent the Company from bringing any future claims, if any, (D) release the Parties' respective continuing rights and/or obligations pursuant to Articles IV, Confidentiality; V, Non-Competition; VI, Business Idea Rights; VII, Non-Solicitation of Employees; VIII, Employee Disclosures and Acknowledgements; IX, Return of Records; X, Non-Disparagement and XI, Miscellaneous of the Employment Agreement or (E) release Claims against Executive arising out of acts of illegal conduct or fraud committed by Executive in relation to the Company or any of its Affiliates or any Company Released Party.

The Company represents that no charges, complaints or actions of any kind have been filed by it or on its behalf against Executive or any Executive Released Party with any court, agency or other tribunal.

The Company expressly consents that each and all of the provisions of this Company General Release shall be given full force and effect with respect to unknown or unsuspected claims, demands and causes of action, if any.

The Company further affirms that no statements, representations or promises have been made to influence it to sign this Company General Release, except as stated in the Transition Agreement and in this Company General Release, and that the Company has signed this Company General Release of its own free will, relying entirely upon its own judgment.

The Company further affirms that no fact, evidence, event or transaction currently unknown to it but which hereafter may become known to it shall affect in any way or manner the final and unconditional nature of this Company General Release.

This Company General Release will be governed by and construed in accordance with the laws of the State of Wisconsin. If any provision in this Company General Release is held invalid or unenforceable for any reason, the remaining provisions shall be construed as if the invalid or unenforceable provision had not been included. A signature transmitted by facsimile or electronically in the form of a PDF file is deemed to be an original.

SCHOOL SPECIALTY, INC.

By: ______________________________________________

Name/Title
Date: ________________

STATE OF ____________ )

):ss.:

COUNTY OF __________ )

On the __ day of ____________, 2013, before me personally came ____________ to me known, who, being by me duly sworn, did acknowledge that he is the ____________ of SCHOOL SPECIALTY, INC., the organization described in the Company General Release, and that he signed the foregoing Company General Release on its behalf; and that he was duly authorized by that organization to sign the foregoing Company General Release on its behalf.

____________________________________

Notary Public

**Exhibit 10.9**

**SCHOOL SPECIALTY, INC.**

July 20, 2013

James R. Henderson
School Specialty, Inc.
P.O. Box 1579
Appleton, WI 54912-1579

Dear Jim:

This letter sets forth the agreement ("Agreement") between School Specialty, Inc. (the "Company") and James R. Henderson ("Consultant") regarding certain consulting services.

1. **Engagement.** Effective July 22, 2013 (the "Effective Date"), Mr. Henderson, the Chairman of the Company's Board of Directors (the "Board"), will also be engaged by the Company as a consultant pursuant to the terms of this Agreement; provided, however, during the Consulting Period (as defined below), Consultant will not receive any cash compensation or other Board fees, but will receive equity, if any, granted to Board members, subject to the terms and limitations of any such equity grant or arrangement. Subject to their respective terms and limitations, Consultant will be indemnified under the Company's organizational documents or under any insurance policy providing directors' and officers' coverage applicable to Consultant, then existing, for any lawsuit or claim relating to the Consulting Period. In the event that Consultant is not covered by the Company's directors' and officers' insurance, Company shall use its reasonable best efforts to effectuate such coverage.

2. **Consulting Period.** Consultant's engagement shall commence on the Effective Date and shall continue until the Company hires a new Chief Executive Officer (the "Consulting Period") at which time this Agreement shall automatically terminate, unless terminated sooner as provided herein.

3. **Consulting Services.** During the Consulting Period, Consultant initially will work with Michael P. Lavelle ("Mr. Lavelle"), the Company's President and Chief Executive Officer, who has tendered his resignation from the Company effective August 2, 2013, to effect an orderly transition of Mr. Lavelle's duties and responsibilities. Immediately upon Mr. Lavelle's resignation becoming effective, Consultant will serve as Executive Chairman and full-time Interim Chief Executive Officer of the Company. In such capacity, Consultant shall report to the Board,

4. exercise all of the duties and responsibilities customarily performed by a chief executive officer and such other duties and responsibilities as may be assigned to Consultant from time to time by the Board. In addition, Consultant shall, as requested, advise and assist the Company's Search Committee in its efforts to identify and select a new full-time Chief Executive Officer (the "Consulting Services").

5. **Consulting Fee**. As full and complete compensation for the Consulting Services, the Consultant will be paid a fee in the amount of $60,000 for each 30-day period (or part thereof) that he provides services hereunder (the "Services Fee"). This means that if Consultant provides services hereunder for a portion of any 30-day period, then Consultant will receive the Services Fee for such entire 30-day period. Consultant will bill the Company for the Services Fee by invoice on the first day of each month and the Company will pay each invoice in full by the 15th day of each month. The Company will issue an Internal Revenue Service Form 1099 with respect to the Services Fees, as may be appropriate.

6. **Taxes; Related Matters**. Consultant shall be solely responsible for the payment of any federal, state and local taxes, including without limitation, income tax withholding and social security taxes, in any way related to the Services Fee, as well as for obtaining unemployment insurance, workers' compensation coverage, liability insurance, health and/or disability insurance, retirement benefits or other welfare or pension benefits.

7. **Expenses**. The Company will reimburse Consultant for any reasonable out-of-pocket expenses actually incurred in connection with the Consulting Services. Consultant shall provide to the Company reasonable documentation and such other information as the Company deems appropriate evidencing the nature of each such expense.

8. **Independent Contractor**. Consultant and the Company intend and agree that Consultant shall be an independent contractor and that nothing in this Agreement or otherwise will be interpreted or construed as creating or establishing the relationship of employer and employee, partnership, or joint venture between Consultant and the Company. This means, among other things, that Consultant is not eligible to receive salary and benefits that the Company provides to its employees. Consultant will not be engaged by the Company on an exclusive basis; however, during the Consulting Period, Consultant will devote sufficient time, including at the Company's offices, to perform the Consulting Services. To that end, Consultant has disclosed his existing commitments and clients to the Board and will not provide services for new clients during the Consulting Period, without the prior approval of the Board. The Company will not control and will have no right to control the exact manner, precise means or exact method by which Consultant performs the Consulting Services. However, consistent with Consultant's status as an independent contractor, the Company has the right to exercise broad general supervision over the results to be derived from the Consulting Services, including, without limitation, the right to (i) make suggestions or recommendations about the performance of the Consulting Services, (ii) limit or modify the nature and scope of the Consulting Services and (iii) determine the date by which aspects of the Consulting Services will be completed.

9. **Confidential Information**. During the Consulting Period, Consultant will have access to or become familiar with confidential, proprietary and/or non-public information related to the Company and/or its activities ("Confidential Information"). Consultant agrees not to use or disclose any Confidential Information, directly or indirectly, either during the Consulting Period or any time thereafter, except as required (i) in the performance of the Consulting Services or Mr. Henderson's services as a Director, or (ii) by law or by a court or governmental agency, in which case Consultant will give the Company prompt and timely written notice to permit the Company to exercise whatever rights it may have, and will cooperate with the Company and its attorneys if it elects to contest such legal process. Furthermore, Consultant agrees that upon ceasing to perform the Consulting Services (or Mr. Henderson's services as a Director), Consultant (and Mr. Henderson) will return any documents, materials or data (and all copies of such documents, materials or data) containing Confidential Information to the Company. Consultant also agrees to enter into a stand-alone Confidentiality Agreement, as may be directed by the Company.

10. **Work Product.** Consultant agrees that all copyrights, patents, trade secrets or other intellectual property rights associated with any ideas, concepts, techniques, inventions, processes or works of authorship developed or created by Consultant in the performance of the Consulting Services ("Work Product") will belong exclusively to the Company and will, to the extent possible, be considered a "work made for hire." However, if the Work Product is not deemed a "work made for hire," Consultant hereby automatically assigns to the Company throughout the universe in perpetuity, without any requirement of further remuneration, any right, title or interest Consultant may have in the Work Product, including all intellectual property rights pertaining thereto. Upon the request of the Company, Consultant will take such further actions as may be appropriate to give full and proper effect to any such assignment. In addition, Consultant acknowledges that Company may use, exploit, distribute, reproduce, advertise, promote, publicize, modify or edit the Work Product or combine the Work Product with other works, in the Company's sole discretion, in any format or medium hereafter devised.

11. **Non-Solicitation.** Consultant agrees that beginning on the date that he executes this Agreement and continuing through 12 months after the last date of Consultant's engagement hereunder (regardless of the reason why he ceases to perform services for the Company), Consultant will not: (i) solicit for employment, engage and/or hire, whether directly or indirectly, any individual who is then, or has been in the preceding 12-month period, employed or engaged as an independent contractor or a consultant by the Company; or (ii) solicit for business, contract with or do business with any individual or entity, whether directly or indirectly, who is then, or has been in the preceding 12-month period, either (A) a customer of the Company or (B) solicited for business by the Company; provided, however, the non-solicitation restriction set forth in subsection (i) hereof shall not apply to any independent contractor or consultant with whom Consultant had a relationship prior to the Consulting Period and who was introduced to the Company by Consultant.

12. **Early Termination.** The Company or Consultant may terminate this Agreement for any reason at any time upon 15 days' prior written notice to the other (or in the case of the Company, continue to pay the Services Fee in lieu of such notice). Thereafter, Consultant shall not be entitled to receive any additional payments from the Company pursuant to this Agreement.

13. **Miscellaneous.** This Agreement is the entire agreement between Consultant and the Company regarding its subject matter and supersedes any prior agreements or understandings. Consultant will not assign, transfer, or subcontract this Agreement or any of his obligations hereunder without the prior written consent of the Company. The parties' rights and obligations under this Agreement, including, without limitation, those rights and obligations contained in Section 8, 9 and 10, shall survive any termination of this Agreement and/or Consultant ceasing to perform services for Company (regardless of the reason why he ceases to perform services for the Company). In the event of a breach or threatened breach by Consultant, of this Agreement, including, without limitation, Section 8, 9 or 10, then the Company shall have no adequate remedy at law and may seek an injunction, without posting a bond and without proof of actual damages, and such other relief as may be deemed just and proper. The headings used in this Agreement are intended only for convenience of reference and shall not be used to amplify, limit, modify (or otherwise be used in the interpretation of) the terms of this Agreement. This Agreement may be amended or modified only by a document signed by the parties and referring explicitly hereto. This Agreement may be executed in one or more counterparts, including by portable document format (pdf), each of which shall be deemed an original and all of which together shall be considered one and the same instrument. The validity, interpretation, and performance of this Agreement shall be governed by the laws of the State of New York without giving effect to the principles of comity or conflicts of laws. Each party hereto agrees to submit to the exclusive personal jurisdiction and venue of the state and federal courts in New York, New York, for resolution of all disputes and causes of action arising out of this Agreement. The parties intend that any compensation, benefits and other amounts payable or provided to Consultant under this Agreement be paid or provided in a manner that is either exempt from, or in compliance with, Section 409A of the of the Internal Revenue Code of 1986, as amended from time to time and related rules, regulations and Treasury pronouncements (together, "Section 409A"). Any ambiguity in this Agreement shall be interpreted with the foregoing. Consultant acknowledges that the Company has made no representations as to the treatment of the compensation provided hereunder and Consultant has been advised to obtain his own tax advice. To the extent that the reimbursement of any expenses or the provision of any in-kind benefits pursuant to this Agreement is subject to Section 409A, (i) the amount of such expenses eligible for reimbursement, or in-kind benefits to be provided hereunder during any one calendar year shall not affect the amount of such expenses eligible for reimbursement or in-kind benefits to be provided hereunder in any other calendar year; (ii) all such expenses eligible for reimbursement hereunder shall be paid to Consultant as soon as administratively

practicable after any documentation required for reimbursement for such expenses has been submitted, but in any event by no later than December 31 of the calendar year following the calendar year in which such expenses were incurred; and (iii) Consultant's right to receive any such reimbursements or in-kind benefits shall not be subject to liquidation or exchange for any other benefit.

If the foregoing accurately sets forth our understanding, please arrange for the appropriate signature in the space indicated below.

Sincerely,

**School Specialty, Inc.**

By: /s/ Michael P. Lavelle
Name: Michael P. Lavelle
Title: President & CEO

ACCEPTED AND AGREED
this 22 day of July 2013

/s/ James R. Henderson
James R. Henderson

**EXHIBIT 31.1**

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

I, James R. Henderson, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d -15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) 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

   d) Disclosed in this report any change 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: September 16, 2013

/s/ James R. Henderson
James R. Henderson
Chief Executive Officer

**EXHIBIT 31.2**

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

I, David N. Vander Ploeg, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d -15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) 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
    d) Disclosed in this report any change 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: September 16, 2013

/s/ David N. Vander Ploeg
David N. Vander Ploeg
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, James R. Henderson, 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 Quarterly Report on Form 10-Q for the three months ended July 27, 2013 (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 on School Specialty, Inc.

Date: September 16, 2013

/s/ James R. Henderson
James R. Henderson
Chief Executive Officer

This certification accompanies this Quarterly Report on Form 10-Q 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, David N. Vander Ploeg, 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 Quarterly Report on Form 10-Q for the three months ended July 27, 2013 (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 on School Specialty, Inc.

Date: September 16, 2013

/s/ David N. Vander Ploeg
David N. Vander Ploeg
Executive Vice President and Chief Financial Officer

This certification accompanies this Quarterly Report on Form 10-Q 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.