

HALPERIN BATTAGLIA BENZIJA, LLP

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November 27, 2019

Re: **Reorganized School Specialty, Inc. – Important Update**

To: **Holders of Allowed Claims in Class 5 (General Unsecured Claims) and Class 6 (Trade Unsecured Claims)**

As you know from my prior communications, I am the “Ombudsman” appointed pursuant to the plan of reorganization (the “Plan”) that was approved in the bankruptcy cases of School Specialty, Inc. and its affiliates (the “Company”) on May 23, 2013. The Plan became effective on June 11, 2013.

Per the Plan, the anticipated date for Plan distributions to holders of Allowed Class 5 and Class 6 Claims is December 12, 2019.¹ However, the Company’s recent filings with the SEC disclose that its performance in the second and third quarters of fiscal year 2019 was weaker than anticipated, and the Company has engaged an investment banker to help it address its cash needs, including its obligation to make distributions under the Plan.

The Company’s public filings state that it is in discussions with multiple parties about a range of alternatives, and that the alternatives being explored include sale transactions and junior financing. The Company has also reached an agreement in principle with its senior secured lenders, under which the lenders will “stand down” for a period of time, while the Company seeks to pursue a sale of the entire business. The Company believes it will be able to pay all creditors, including you, the full amount of their Plan distributions (including interest) if the Company has sufficient time to properly market itself.

I have reached out to the Company and its counsel to get more information about these developments and what this means for holders of Allowed Class 5 and Class 6 Claims. I am advised that you will be getting (or perhaps have already gotten) a written proposal – a letter and a form of agreement -- from the Company about the best way it can address the issue of the upcoming distribution in light of its current situation.

In general terms, I understand the proposal to be as follows:

- a. If you sign the agreement and the Company receives a satisfactory letter of intent from a reputable third party with respect to either a sale or financing transaction by December 15, 2019, then each accepting holder of an Allowed Class 5 or an Allowed


¹ Capitalized terms that are used but not defined in this letter have the meanings given to those terms in the Plan.

Class 6 Claim will promptly receive a distribution in the amount of 10% of the amount of that Allowed Claim. (An Allowed Claim in this context is the distribution – principal and interest – that would have been paid to you on December 12, 2019 absent the recent developments at the Company.)

- b. The due date for the balance of the distribution will be extended for one year, from December 12, 2019 to December 12, 2020.
- c. Interest will continue to accrue on the unpaid amount of the distribution, and interest for the period from December 12, 2019 through December 11, 2020 will be increased by 200 basis points (i.e., if you are currently entitled to interest of 5%, that will increase to 7%, and if you are currently entitled to interest of 10%, it will increase to 12%).²
- d. If at least 65% of you in dollar amount accept the Company's proposal, then the accepting parties will be granted a lien on certain of the Company's assets (junior to the liens of the existing 1st and 2nd lien lenders), to secure payment of the balance that will be due on December 12, 2020.
- e. The unpaid balance of your distribution, plus interest, will be due and payable on December 12, 2020. (There are circumstances under which there may be a partial payment between the initial payment of 10% and the December 2020 payment, and those are explained in the documents that the Company is sending out.)

Whether or not you decide to accept the Company's proposal is of course your decision, and you should read the documents you receive from the Company carefully. I know that this is not welcome news, but the Company is being proactive about its situation and does seem to be trying to honor its obligations.

The School Specialty situation presents a lot to process, and as Ombudsman I am happy to speak about it with any and all Class 5 and 6 creditors. **Please feel free to contact me or my colleagues Donna Lieberman by email (ahalperin@halperinlaw.net or dlieberman@halperinlaw.net) or telephone (212-765-9100).** As soon as I receive copies of those documents from the Company, I will post them on my website, which is at www.kccllc.net/SSIombudsman. (I have also asked the Company for current financial statements and will post those as well.)

Sincerely,

as Ombudsman
Alan D. Halperin, Ombudsman

² As you may recall, the Plan provides that all holders of Allowed Class 5 Claims, as well as holders of Allowed Class 6 Claims that did not successfully make the "trade election," are entitled to a distribution equal to 20% of the Allowed Claim plus 5% interest from the effective date of the Plan. Holders of Allowed Class 6 Claims that did successfully make the trade election (reached agreement with the Company about continuing trade terms and continued to do business with the Company for the requisite period of time) are entitled to a distribution of 45% of the Allowed Claim plus 10% interest from the effective date of the Plan.