UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	Chapter 11
SCHOOL SPECIALTY, INC. *et al.*,[1]	Case No. 13-10125 (___)
Debtors.	Joint Administration Requested

DECLARATION OF GERALD T. HUGHES IN SUPPORT OF CHAPTER 11 PETITIONS AND FIRST DAY MOTIONS

I, GERALD T. HUGHES, do hereby declare, under penalty of perjury, that:

1. I serve as the Chief Administrative Officer and Executive Vice President of School Specialty, Inc. ("School Specialty"), a corporation duly organized under the laws of the State of Wisconsin, that is the primary operating company of the above-captioned debtors and debtors-in-possession (collectively, with School Specialty, the "Debtors"). I have served in this capacity since April 2012. Prior to joining School Specialty, I served as the President of Staff Development for Educators, a privately-held professional development company. I also served as the President and Chief Operating Officer of Houghton Mifflin Harcourt from 2007 through 2009, and at Houghton Mifflin Corp. in various senior executive positions, including Senior Vice President and Chief Operating Officer, from 2002 through 2007. Prior to that, I spent 14 years at Harcourt General, Inc. in various capacities, including as Vice President, Human Resources, and Associate General Counsel.

[1] The Debtors in these cases, along with the last four digits of each Debtor's federal tax identification number and state of incorporation, are: School Specialty, Inc. (Wisc.; 1239), Bird-In-Hand Woodworks, Inc. (N.J.; 8811), Califone International, Inc. (Del.; 3578), Childcraft Education Corp. (N.Y.; 9818), ClassroomDirect.com, LLC (Del.; 2425), Delta Education, LLC (Del.; 8764), Frey Scientific, Inc. (Del.; 3771), Premier Agendas, Inc. (Wash.; 1380), Sax Arts & Crafts, Inc. (Del.; 6436), and Sportime, LLC (Del.; 6939). The address of the Debtors' corporate headquarters is W6316 Design Drive, Greenville, Wisconsin 54942.

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2. In my capacity as School Specialty's Chief Administrative Officer, I am responsible for, among other things, overseeing the company's legal affairs and human resources department. In this capacity, I have been extensively involved in the Debtors' chapter 11 preparations and the events leading up to the instant filings. I also have detailed knowledge of, and experience with, the business and financial affairs of School Specialty and its subsidiaries, including each of the Debtors in these cases, and the industry in which the company operates.

3. Today (the "Petition Date"), the Debtors filed voluntary petitions (the "Petitions") for relief under chapter 11 of title 11 of the United States Code, 11 U.S.C. §§ 101 et seq. (the "Bankruptcy Code"), to preserve and maximize the value of their chapter 11 estates. I submit this declaration in support of the Petitions and the relief requested by the Debtors in the various motions and applications (collectively, the "First Day Motions") filed contemporaneously herewith, and to provide an overview of the company and its current circumstances. I have reviewed the Petitions and the First Day Motions, or have otherwise had their contents explained to me, and it is my belief that the relief sought therein is essential to ensure the uninterrupted operation of the Debtors' business and the success of these chapter 11 cases.

4. Except as otherwise indicated, the facts set forth in this declaration are based upon my personal knowledge, my review of relevant documents, information provided to me by employees with responsibility for the relevant business and corporate matters addressed in the First Day Motions, or my opinion based upon experience, knowledge, and information concerning the Debtors and the industry in which they operate. I am authorized to submit this declaration on behalf of each Debtor, and if called upon to testify, I would testify competently to the facts set forth herein.

A. Overview of the Debtors' Business.

5. School Specialty is one of the largest suppliers of supplemental educational products, equipment, and standards-based curriculums to the pre-kindergarten through twelfth grade ("preK-12") market in the United States. School Specialty offers more than 75,000 different items for sale to public school districts, individual private and parochial schools, educators and individual consumers. These products range from basic school supplies, such as markers and erasers, to furniture, to proprietary branded products such as agendas and curriculum programs (which represent approximately 40% of total revenues). By virtue of its breadth of offerings, the company is able to provide substantially all of the supplies and products that a school district or educator may need. The company estimates that, in fiscal year 2012, it supplied approximately 70% of the estimated 130,000 schools in the United States, and thereby reached a majority of the 3.8 million teachers at those schools.

6. School Specialty historically has operated through two reportable segments: Educational Resources and Accelerated Learning.

a. The Educational Resources Segment

7. Educational Resources – or "ER" – is the company's primary segment, and accounted for approximately 72% of the company's revenues in fiscal year 2012. It is through this segment that School Specialty offers educators, schools, and public school districts its range of school supplies, comprised of the most popular national brands available in the marketplace, basic commodity products, and the company's own portfolio of proprietary and branded products. In sum, the company believes that it offers one of the broadest and deepest assortments of school supplies available from any single supplier in the United States.

8. The company tracks Educational Resources's product offerings in three categories: administrator, educator, and furniture. Each is described briefly below.

- Administrator. This category covers traditional, commodity-based school supplies. To keep this segment competitive, the company relies heavily on the efficiency of its sophisticated supply chain and distribution network. These offerings generally represent a stable and recurring revenue base for the company, since they are largely consumable products that must be replaced each year.

- Educator. This category covers supplemental learning materials in particular subject areas, audio-visual equipment and other classroom technology, and certain other specialized products. These products are generally sold under the company's proprietary brand names, which typically generate higher margins.

- Furniture. This category covers the company's furniture business lines. School Specialty is one of the largest sources for school furniture in the United States, as it offers everything from desks and chairs, to bleachers and lockers, to cafeteria and library furnishings. Revenue in this category is generated both through loose furniture sales (individual orders) and through the company's involvement in long-term school construction or renovation projects.

b. The Accelerated Learning Group

9. The Accelerated Learning Group – known as "ALG" – is a leading developer and publisher of curriculum-based products and resources designed to help educators deepen students' understanding of particular subject matter and accelerate the speed of learning. ALG offers both print-based and digital products and resources, as well as manipulatives that are designed to aid in coordination and learning in non-traditional, hands-on formats (one example is science kits used for dissection, which are sold complete with living matter). Tailored to specified subjects, such as math, reading, and science, these products are generally sold directly to teachers, curriculum specialists and other educators who have primary responsibility for advancing student outcomes. With the input of outside authors, educational consultants and

developers, School Specialty's product development specialists develop proprietary products for this segment that meet state and local curriculum standards. In fiscal year 2012, ALG accounted for approximately 28% of the company's overall revenues.

10. ALG focuses on the following business lines:

- Premier Agendas. School Specialty is one of the largest providers of school planning content in the United States and Canada. Through this business line, it manufactures and sells agendas and planners under the Premier™ brand name, and a variety of other paper-form or digital materials, such as grade books, under the Hammond & Stephens™ brand name. This business line is run primarily through subsidiary Debtor, Premier Agendas, Inc.; the company's two non-debtor Canadian subsidiaries, Premier School Agendas Ltd. and Select Agendas, Corp., are distributors of these and other materials in Canada.

- Reading. This division within School Specialty develops and sells workbooks that are designed to improve students' reading and math abilities. This division includes Education Publishing Service ("EPS"), which provides reading and language instruction materials for students with special needs. A substantial portion of revenue in this division is generated through book sales.

- Science. This business line provides a wide range of proprietary science educational offerings, including laboratory kits and other science equipment necessary to a hands-on, experiential learning curriculum.

- Health. This division offers curriculum materials for physical education and health classes, including through its Abilitations program, which addresses the needs of handicapped children, or through the company's SPARK™ brand name.

* * *

11. To market these varied products to customers, the company maintains a sales organization of approximately 530 sales professionals and administrative support staff that targets consumers both at the district and school levels, as well as at the individual teacher and classroom level. On an annual basis, the company mails more than 12 million product offering catalogs to potential consumers; in addition, the company maintains numerous internet sales websites and has partnered with third-party sales websites. Finally, the company has established

relationships with large national purchasing cooperatives which facilitate the company's ability to obtain large-scale purchase orders from school districts. Specifically, many school districts are required by state or local law to utilize a competitive bid process when purchasing frequently-used products, including supplies and furniture. Cooperatives administer this process, working with suppliers to create "baskets" of the most commonly-used products at set prices; a school typically can satisfy its state or local bid process requirements by accepting a bid and purchasing supplies and furniture through a pre-arranged basket.[2]

12. The breadth of School Specialty's product offerings and the expertise of its sales force is matched by the sophistication and size of its distribution network: the company has six automated, integrated distribution centers in the United States that provide approximately 1.5 million square feet of operating space in the aggregate. The company also engages third-party logistics providers where appropriate to streamline and consolidate shipments. This distribution model generally enables the company to move product in a timely and efficient manner. As such, the company enjoys significant competitive advantages in its market space by virtue of being a single supplier who can aggregate its products and satisfy the full panoply of its customers' needs in a timely and cost-effective manner.

13. In the first half of fiscal year 2013, the company generated revenues of $489 million, and anticipates that its fiscal 2013 financial results generally will be similar to the prior fiscal year in terms of EBIDTA. The company's annual revenues are typically highly diverse: in fiscal year 2012, the company's top 10 school district customers collectively generated less than 10% of revenue, and no single state had customers who collectively generated more than

[2] Similar bid processes may be required for longer-term school construction or renovation projects with which the company may be involved through its furniture and equipment divisions.

10% of revenues.[3] Similarly, in fiscal year 2012, the company's top 100 products account for approximately 11% of revenues, and the company's top 10 suppliers generated approximately 24% of revenues. This diversification has historically allowed the company to withstand some of the localized funding cycles that characterize the industry in which it operates.

14. The company is headquartered in Greenville, Wisconsin. The majority of its corporate departments, including marketing, accounting, human resources, IT, customer service, and treasury, conduct business from this central location. These departments generally perform their corporate functions for the company as a whole: except for the Califone subsidiary and the Reading division (which each operate on their own system), all other corporate aspects of the company are run through a central office on an integrated basis and utilize a single enterprise resource platform.

15. The company operates three manufacturing facilities, at which it produces certain of its proprietary products, including wood furniture, agendas and other printed products. Including these facilities and its corporate headquarters, the company leases or owns a total of 15 facilities throughout the country, which house distribution centers and warehouse space (as described above), sales offices and other facilities.

16. As of the Petition Date, the Debtors employed approximately 2,000 employees, including approximately 300 seasonal employees.[4]

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[3] Exceptions to this may arise in years in which large states adopt new curriculums and therefore would have atypical supply and resource needs.

[4] The company's non-Debtor Canadian subsidiaries employ approximately 100 additional employees.

B. Overview of the Debtors' History, Corporate Structure and Prepetition Debt.

17. School Specialty was founded in 1959. It was acquired by U.S. Office Products in May 1996, and thereafter was spun-off as a public company in June 1998. Between 1998 and 2005, School Specialty grew substantially, acquiring a number of companies and divisions, including Premier Agendas, Inc. in 2001 and Delta Education, LLC in 2005. Today, School Specialty's common stock is listed on NASDAQ under the symbol "SCHS". As of the Petition Date, the company had approximately 19.2 million shares of common stock outstanding, which were held by more than 1,700 holders of record.

18. School Specialty, Inc. is the primary operating entity within the corporate group. It is the direct or indirect parent of all the other Debtors in these cases, which are incorporated in a variety of jurisdictions, including Delaware, New York and Washington. School Specialty is also the direct parent of the two Canadian subsidiaries, Select Agendas, Corp. and Premier School Agendas, Ltd., which are not Debtors in these Chapter 11 Cases.[5] Finally, School Specialty holds a direct 35% minority interest in a joint venture, Carson-Dellosa Publishing, LLC, which it formed in 2010 with a competitor to combine the companies' two publishing divisions. A chart showing the corporate organization of the company is annexed hereto as Exhibit A.

a. Secured Debt

19. As of the Petition Date, School Specialty had approximately $139.6 million in outstanding principal amount of secured indebtedness, consisting of a revolving credit facility

[5] The Debtors' two Canadian subsidiaries are primarily distributors in Canada of curriculum products and other supplies. In fiscal year 2012, these subsidiaries accounted for approximately $31 million in revenues, the majority of which is reflected in the Accelerated Learning segment.

and a term loan which the company entered into on May 22, 2012 to repay existing secured indebtedness. These loans are described immediately below.

20. School Specialty's revolving senior secured asset-based credit facility (the "ABL") is provided under that certain Credit Agreement (as amended, modified, and/or restated from time to time, the "ABL Agreement") between School Specialty and certain of its domestic subsidiaries, as borrowers, the lenders thereto (collectively, the "ABL Lenders") and Wells Fargo Capital Finance, LLC, as administrative agent ("Wells Fargo" or the "ABL Agent"). The ABL Agreement provides up to $200 million in revolving credit and matures on September 30, 2014, which maturity date may be extended if the company has refinanced its Convertible Notes (described and defined below) by such date. As of the Petition Date, the aggregate amount outstanding under the ABL Agreement was approximately $47.62 million, inclusive of related letters of credit.

21. Each of School Specialty's domestic operating subsidiaries, Bird-in-Hand Woodworks, Inc., Califone International, Inc., Childcraft Education Corp., ClassroomDirect.com, LLC, Delta Education, LLC, Premier Agendas, Inc., and Sportime, LLC, is a borrower under the ABL along with School Specialty; the remaining Debtor subsidiaries are guarantors of the borrowers' obligations under the ABL Agreement.[6] Obligations under the ABL Agreement are secured by a first-priority security interest in substantially all of the assets of School Specialty and its subsidiary borrowers and guarantors. Pursuant to an intercreditor agreement between the ABL Agent and the Term Loan Agent (as defined below) dated as of May 22, 2012 (as amended, modified, and/or restated from time to time, the "Intercreditor

[6] Select Agendas, Inc., a Nova Scotia unlimited liability company, is also a guarantor of School Specialty's obligations under the ABL Agreement; it is not, however, a debtor in these Chapter 11 Cases.

Agreement"), the ABL Lenders have (i) a first-priority security interest in substantially all of the working capital assets of School Specialty and its subsidiary borrowers and guarantors and (ii) a second-priority security interest in all other assets, subordinate only to the first-priority security interest of the Term Loan Lender (as described below). At the company's election, interest on the ABL accrues at a rate of either (i) LIBOR plus an applicable margin of 2.25% - 2.75% that is based on excess availability levels and certain other factors, or (ii) a base rate (equal to the greatest of LIBOR plus 1%, the prime rate, or the Federal Funds Rate plus ½%) plus an applicable margin of 1.25% - 1.75% that is also based on excess availability levels and certain other factors.

22. School Specialty's term loan (the "Term Loan") is provided under that certain Credit Agreement (as amended, modified, and/or restated from time to time, the "Term Loan Agreement" and, together with the ABL Agreement, the "Prepetition Loan Agreements") among School Specialty and certain of its domestic subsidiaries, as borrowers, and Bayside Finance, LLC, as administrative agent, collateral agent and lender ("Bayside" or the "Term Loan Agent" or "Term Loan Lender" and, together with the ABL Lenders, the "Prepetition Secured Lenders"). Bayside is the sole Term Loan Lender. The Term Loan Agreement provides up to $70 million in term loan credit and matures on October 31, 2014, which maturity date also may be extended if the company has refinanced its Convertible Notes by such date. As of the Petition Date, the aggregate principal amount outstanding under the Term Loan Agreement was approximately $92.0 million, inclusive of the Make-Whole described below.

23. Each of School Specialty's domestic operating subsidiaries, Bird-in-Hand Woodworks, Inc., Califone International, Inc., Childcraft Education Corp., ClassroomDirect.com, LLC, Delta Education, LLC, Premier Agendas, Inc., and Sportime, LLC,

is a borrower under the Term Loan along with School Specialty; the remaining Debtor subsidiaries are guarantors of these borrowers' obligations under the Term Loan Agreement.[7] Obligations under the Term Loan Agreement are secured by a first priority security interest in substantially all of the assets of School Specialty and the subsidiary borrowers and guarantors. Pursuant to the Intercreditor Agreement, Bayside has (i) a second-priority security interest in substantially all of working capital assets of School Specialty and the subsidiary borrowers and guarantors, subordinate only to the first-priority security interest of the ABL Lenders, and (ii) a first-priority security interest in all other assets. Non-default rate interest on the Term Loan accrues at a rate of LIBOR plus 11% (with a LIBOR floor of 1.5%).

24. The Prepetition Loan Agreements both impose a variety of financial ratio covenants and other standard terms, including a $20.0 million minimum liquidity covenant that is tested on a monthly basis (the "Minimum Liquidity Covenant"). In addition, the Term Loan Agreement includes a make-whole payment in the approximate amount of $25 million due in the event of a prepayment of the debt during certain periods or upon acceleration of the debt due to an event of default (the "Make-Whole").

b. Convertible Notes and Other Unsecured Debt

25. As of the Petition Date, School Specialty had approximately $157.5 million in face amount of outstanding convertible subordinated debentures due 2026 (the "Convertible Notes"). School Specialty issued the Convertible Notes in 2011 in two separate, privately negotiated exchange offerings through which it retired existing convertible subordinated debentures that had been issued in 2006: $100 million of the Convertible Notes was issued on

[7] Select Agendas, Inc., a Nova Scotia unlimited liability company, is also a guarantor of the borrowers' obligations under the Term Loan Agreement; it is not, however, a debtor in these Chapter 11 Cases.

March 1, 2011, and an additional $57.5 million of the Convertible Notes was issued on July 7, 2011.[8] The Bank of New York Mellon Trust Company, N.A. serves as the trustee for the Convertible Notes.

26. The Convertible Notes accrue cash interest at a rate of 3.75% per annum; in addition, the principal amount accretes interest at a rate of 3.9755% per annum, resulting in approximately $12.7 million of accreted unpaid interest as of the Petition Date. The Convertible Notes are convertible to common equity under certain circumstances. Additionally, holders of the Convertible Notes have the right to require the company to repurchase some or all of the Convertible Notes on certain dates – the first of which is November 30, 2014 – and upon the occurrence of certain specified events. The Convertible Notes are redeemable at the company's option on or after May 30, 2014.

27. In addition to the foregoing, the Debtors have approximately $60.0 million in ordinary course trade debt that was unpaid as of the Petition Date.

C. Industry Overview and Events Leading to the Chapter 11 Cases.

28. The domestic preK-12 school supply market in which the Debtors operate is a $6-7 billion industry, but one that is highly fragmented. The company estimates that more than 3,000 retail and wholesale companies participate in this market, many of which are small regional companies with annual revenues under $10 million. Accordingly, School Specialty believes that it is one of the single largest providers of such supplies in the country. Its greater scale and scope of operations relative to its competitors provides the company with significant

[8] At the conclusion of these exchange offerings, $42.5 million of the 2006 convertible notes remained outstanding. On November 30, 2011, $42.4 million of those 2006 notes were redeemed by the company for cash; the remaining $100,000 in notes was subsequently called by the company in the third quarter of fiscal 2012.

competitive advantages, particularly through its ability to operate as a single source supplier and meet consumer needs through a sophisticated and national distribution network.

29. As a supply provider to the preK-12 market, however, School Specialty's operations and financial performance remain subject to the unique challenges of this market. For example, the company must contend with a highly cyclical business cycle occasioned by the school year calendar. Historically, the company's revenues and profitability are dramatically higher in the first two quarters of its fiscal year (specifically, May through October), as orders are placed and delivered in anticipation of the start of a new school year in the fall. During this busy season, the company will typically earn all of its annual profits; during the remaining months of the year, the company will typically report a loss. This seasonality places unusual demands on the company's yearly cash flow, budgeting and financial needs.

30. The company must also contend with schools' dependence on local and state-level funding. The global financial crisis that began in 2008 has had an extremely negative impact on the funding that is available for schools at all levels of the government – federal, state and local. In particular, drops in property values during this period have led to materially lower tax revenues at the state and local levels, causing overall budget shortfalls which have severely impacted school budgets. Shortfalls in anticipated federal stimulus support have contributed to this contraction. As a result, school districts have been forced to take dramatic steps to reduce spending in recent years.

31. In particular, since 2008, schools have deferred planned purchases, particularly with respect to content-based or discretionary products. By way of example, state budget cuts have caused many state school boards to delay or suspend the adoption of new curriculum guidelines, which they would otherwise revise every few years. Thus, school districts have

refrained from investing in new instructional materials that would be specifically tailored to the revised guidelines. This has greatly diminished demand for this type of content-based product. Budget cuts also have had a severe impact on school construction and renovation. This, in turn, has resulted in diminished demand for the company's furniture and equipment lines.

32. The company's existing leverage ratios have exacerbated the impact of these macroeconomic changes by hampering its ability to withstand and respond to these changing conditions. Historically, the company has been highly levered relative to its EBIDTA levels. Though the company and its management have taken various steps over the last several years to rationalize its capital structure and improve its leverage ratios, the dramatic and continued downturn in the preK-12 market has made this process difficult, thereby putting significant pressures on the company's ability to maintain adequate liquidity levels.

33. The net result of this economic downturn, coupled with the company's leverage and liquidity positions, has been a material decrease in the Debtors' financial performance in recent years. Their discretionary and supplemental business lines in particular, which historically have enjoyed some of the highest profit margins at the company, have experienced extensive downturns. In fiscal year 2012, the company reported total revenues of $731.9 million and gross profits of $283.0 million, compared to revenues of $1.087 billion and gross profits of $461.2 million in fiscal year 2008.

a. Efforts to Combat Liquidity and Other Financial Pressures

34. To combat this downturn in revenues, the company has implemented various measures since 2008 to reduce overall costs and improve business efficiencies. In addition to taking steps to right-size its capital structure, the company has worked diligently to improve its product management and marketing capabilities, including by, among other things, consolidating

its call centers and centralizing its management and other corporate systems. It has also sought to identify and divest secondary or less productive business lines.

35. Additionally, during this time, the company has taken steps to improve its existing financial arrangements. In particular, the company has negotiated a number of different amendments to its secured financings, replaced its existing secured debt in April 2010, and then refinanced that debt in May 2012, which refinancing resulted in the ABL and Term Loan Agreements described above. Moreover, as noted above, in 2011, the company conducted two privately negotiated exchange offerings, pursuant to which it issued the Convertible Notes. Along with these refinancings and exchange offerings, the company has carefully managed its supply chain, extending payment cycles and taking all possible actions to achieve cost savings and maintain earnings and liquidity.

36. Finally, during this period, the company also has worked to achieve cost savings among its employee base. Since 2009, the company has reduced its overall headcount by more than 30%, to its present size of approximately 2,000 employees. It has largely frozen salaries, mandated annual multiple-week furloughs affecting all employees, and suspended its 401(k) matching program.

b. Retention of Professionals; Due Diligence Efforts

37. Despite these efforts, however, maintaining acceptable levels of liquidity has continued to prove difficult. Accordingly, the Debtors' management team has worked diligently in recent months to address the risks presented by a continued deterioration of the company's liquidity position, including, among other things, the possibility that a liquidity shortfall might cause the company to breach the Minimum Liquidity Covenant in the Prepetition Loan Agreements at the end of calendar year 2012. These efforts have included a continuation of the

strategies outlined immediately above, as well as the pursuit of additional short term and more comprehensive strategic and financial solutions to the company's liquidity situation.

38. To aid the Debtors' management and board of directors in these endeavors, the Debtors engaged Perella Weinberg Partners ("Perella Weinberg"), as financial advisors, in late October 2012, and Paul, Weiss, Rifkind, Wharton & Garrison LLP ("Paul Weiss"), as legal advisors, in November 2012. With the assistance of these professionals, the Debtors have explored multiple strategic and financial alternatives, including the sale of all or specific portions of the Debtors' operations, a new debt or equity infusion, and a comprehensive restructuring of the Debtors' balance sheet.

39. A primary component of these efforts has been discussions with the company's key stakeholders, including the Prepetition Secured Lenders, an *ad hoc* group of Convertible Noteholders (the "Convertible Noteholder Group"), and certain large equity holders. In recent months, these parties have, along with their respective legal and financial advisors, engaged in extensive negotiations. In certain instances, these discussions have included management presentations and other meetings where members of the Debtors' senior management team met in-person with, in particular, the ABL Lenders, Bayside, and members of the Convertible Noteholder Group. To facilitate these discussions, the ABL Lenders, Bayside, the Convertible Noteholder Group,[9] and certain key equity holders all have conducted due diligence about the company and its business operations on a confidential basis.

40. Notably, during this period, the Debtors also engaged in discussions with a number of other third parties regarding potential new money investments, financing alternatives

[9] To assist them in this process, in December 2012, the Convertible Noteholder Group retained both legal and financial advisors with the company's consent.

and/or sale transactions. In certain instances, these efforts also involved in-person management meetings with business people at various institutions, and many of these parties conducted similar due diligence about the company on a confidential basis.

c. Entry into the Forbearance Agreements; Selection of a Chief Restructuring Officer

41. In December 2012, the Debtors successfully negotiated one-month forbearance agreements with their Prepetition Secured Lenders with respect to the company's month-end breach of the $20.0 million Minimum Liquidity Covenant under the Prepetition Loan Agreements. Specifically, on January 4, 2013, the Debtors reported that they were not in compliance with the Minimum Liquidity Covenant, thus triggering events of default under the Prepetition Loan Agreements. As a result, pursuant to the terms of those agreements, the ABL Agent and Bayside each were entitled to accelerate the debt and declare the amounts outstanding under the Prepetition Loan Agreements immediately due and payable. On January 4, 2013, Bayside exercised this right, provided the company with a notice of acceleration of the Term Loan. However, pursuant to negotiated forbearance agreements also dated as of January 4, 2013 (the "Forbearance Agreements"), the Prepetition Secured Lenders agreed to forebear with respect to these events of default until the earlier of February 1, 2013 and certain specified events.

42. To provide the Debtors with sufficient liquidity during the forbearance period to continue to pursue a comprehensive solution to their financial difficulties, the Forbearance Agreements reduced the Minimum Liquidity Covenant in the Prepetition Loan Agreements from $20.0 million to $3.0 million. In exchange, the Debtors were required to, among other things, engage and appoint a Chief Restructuring Officer ("CRO").

43. In accordance with this requirement, the Debtors' management, with the assistance of Paul Weiss and Perella Weinberg, interviewed a number of different advisory firms in late December 2012 and early January 2013 by phone and in person. As a result of these interviews and meetings, the Debtors selected Thomas E. Hill from Alvarez & Marsal North America, LLC ("A&M") to serve as the Debtors' CRO.[10] Since this appointment, Mr. Hill and certain other individuals from A&M have assisted the Debtors in, among other things, continued negotiations with key stakeholders regarding the terms of a comprehensive solution of the Debtors' financial difficulties, preparing for a possible chapter 11 filing, and evaluating restructuring or other strategic alternatives to maximize value for the Debtors, their creditors and all parties in interest.

D. Chapter 11 Negotiations; DIP Financing and the Asset Purchase Agreement

44. Throughout December 2012 and January 2013, the Debtors and their advisors continued to engage in extensive negotiations with key constituencies regarding a consensual path forward for the Debtors premised upon a long-term solution to the Debtors' capital structure and liquidity challenges. As it became clear during this period that any viable long-term solution likely would be implemented through a chapter 11 filing, the Debtors and their advisors actively pursued postpetition financing proposals. While the Debtors determined that their Prepetition Secured Lenders – as the parties with existing liens on substantially all of the Debtors' assets and existing familiarity with the Debtors' business and financial situation – would be the most likely sources of postpetition financing that could be executed in the timeframe required by the terms of the Forbearance Agreement and the Debtors' liquidity position, they nevertheless sought proposals from a variety of institutions. As a result, the Debtors obtained postpetition financing

[10] In addition, two other individuals from A&M were named as assistant CROs.

proposals from the Prepetition Secured Lenders, the Convertible Noteholder Group and a third party bank.

45. After reviewing the various postpetition financing proposals received, the Debtors' management determined, in consultation with their advisors, that the postpetition financing proposals made by the Prepetition Secured Lenders – including the requirement in Bayside's proposal that the Debtors conduct a 363 sale of substantially all their assets – were the best and only viable options available under the circumstances. Specifically, the Debtors determined that the other proposals received were inferior in comparison to the postpetition financing proposals from the Prepetition Secured Lenders because, among other things, they did not provide the Debtors with sufficient liquidity to fund the Chapter 11 Cases and therefore were not viable options. Moreover, the Debtors believed that the proposals received from the Prepetition Secured Lenders had the highest likelihood of execution, given the timeframe within which the Debtors were operating as a result of their present liquidity position, among other factors.

46. Accordingly, the Debtors negotiated with the Prepetition Secured Lenders to obtain postpetition financing (the "DIP Financing") to fund the Debtors' operations during these Chapter 11 Cases. Specifically, the Debtors have negotiated a postpetition financing facility in the aggregate principal amount of up to approximately $144.67 million to be provided by Bayside (the "Bayside DIP Facility") consisting of a credit facility in the amount of $50,000,000 in respect of new money funding and, as a condition thereof, upon entry of a final order, a repayment by way of a "roll up" of approximately $94.67 million in respect of the Term Loan. In addition, the Debtors have negotiated a super-priority revolving credit facility in an aggregate principal amount of up to $175.0 million to be provided by the ABL Lenders (the "ABL DIP

Facility") and, as a condition thereof, upon entry of an interim order, repayment of the full amounts outstanding as of the Petition Date in respect of the ABL Agreement.

47. At the same time, the Debtors negotiated an asset purchase agreement (the "Purchase Agreement") with Bayside for the sale of substantially all of the Debtors' assets, subject to a section 363 bidding and auction process. The Purchase Agreement provides, among other things, that Bayside will credit bid a portion of its Prepetition Term Loan debt. Each of these agreements, including the DIP Facilities, the Purchase Agreement, and various related documents, are the result of extensive negotiations with the Prepetition Secured Lenders, conducted in good faith and at arm's length.

48. The DIP Financing is essential to preserving and maximizing the value of the Debtors' estates. The Debtors' management has determined that, absent the funding provided by the DIP Financing, the Debtors would not have sufficient funds to continue to operate their businesses. In particular, as noted herein, adequate access to capital is particularly important for the Debtors given the cyclical nature of their business and the current time of year: the Debtors must now build inventory for their high selling season. They cannot do so without sufficient capital. Thus, by providing the Debtors with immediate access to the capital that they need to, among other things, build their inventory and pay employees and vendors during the Chapter 11 Cases, the DIP Financing will enable the Debtors to continue to operate as a going concern while they conduct an orderly sale for the benefit of all parties in interest.

49. The Debtors' management has further determined that an orderly sale of the Debtors' assets pursuant to section 363 of the Bankruptcy Code is the most effective and efficient means to maximize the value of the Debtors' estates. In particular, an orderly section 363 sale process will enable the Debtors to operate, and be sold, as a going concern, which will

protect their business, employees, and creditors. Such a sale will also offer the Debtors a fresh start in the shortest possible timeframe – a factor that is particularly important given the cyclical nature of the Debtors' business. Finally, by conducting a sale pursuant to section 363 of the Bankruptcy Code, the Debtors will be able to utilize a competitive and fair bidding process to perform a true market test of their assets to ensure that value is maximized.

50. For these reasons, the Debtors' management believes that the DIP Financing offered by the Prepetition Secured Lenders, and the section 363 sale process that the Debtors intend to conduct during these Chapter 11 Cases, represents the best available option for the Debtors and will benefit all parties in interest.

E. First Day Motions.

51. As a result of my first-hand experience, and through my review of various materials and information, discussions with members of the Debtors' management, and discussions with the Debtors' outside advisors, I have formed opinions as to (a) the necessity of obtaining the relief sought by the Debtors in the First Day Motions described below, and (b) the immediate and irreparable harm to which the Debtors and their businesses will be exposed unless the relief requested in the First Day Motions is granted without delay. A list of the First Day Motions is annexed hereto as Exhibit B.

52. I submit this Declaration in support of the Petitions and the First Day Motions filed with the Court in connection with these cases and as described below.

53. I participated in preparing and have reviewed each of the First Day Motions (including the exhibits and schedules attached thereto) and, to the best of my knowledge, believe the facts set forth therein are true and correct. Such representation is based upon information and belief and through my review of various materials and information, as well as my experience and

knowledge of the Debtors' operations and financial condition. If I were called upon to testify, I could and would, based on the foregoing, testify competently to the facts set forth in each of the First Day Motions.

54. The relief sought in the First Day Motions will facilitate a smooth transition into chapter 11 and thereby minimize the adverse effects of the Chapter 11 Cases on the Debtors' business and on their employees and creditors. As described more fully below, the Debtors, in consultation with their professionals, have carefully tailored the relief requested in the First Day Motions to ensure the Debtors' immediate operational needs are met, and that the Debtors suffer no immediate and irreparable harm. I was involved in the analysis that led to the creation of each of the First Day Motions and the scope and nature of the relief requested therein.

a. Motion for Joint Administration (the "Joint Administration Motion")

55. Many of the motions, applications, hearings and orders that will arise in these Chapter 11 Cases will jointly affect each and every Debtor. Thus, the Debtors believe the interests of the various Debtors, their estates, their creditors and other parties in interest would be best served by the joint administration of these Chapter 11 Cases for procedural purposes. In particular, joint administration will ease the administrative burdens of these Chapter 11 Cases on the Debtors, the Court and all parties in interest. For these reasons, I believe that it is in the best interests of the estates and all parties in interest for the Court to approve the joint administration of the Chapter 11 Cases for procedural purposes only.

b. Application to Appoint Kurtzman Carson Consultants LLC as Claims and Noticing Agent (the "KCC Application")

56. By this application, the Debtors seek entry of an order authorizing the appointment of Kurtzman Carson Consultants LLC ("KCC") as the claims and noticing agent in

these Chapter 11 Cases (the "Claims Agent"). Upon information and belief, KCC is an experienced Claims Agent and is frequently used by debtors in large chapter 11 cases, and I believe KCC is well qualified to serve as the Claims Agent in these Chapter 11 Cases. The employment of KCC will provide the Clerk of the Court and the Debtors with efficient management of the claims and noticing processes in these Chapter 11 Cases, which will allow the Debtors' management and professionals to focus their attention more closely on the Debtors' overall chapter 11 efforts.

c. Motion to Approve Continued Use of Cash Management System (the "Cash Management Motion")

57. By the Cash Management Motion, the Debtors seek entry of an order: (i) authorizing and approving the Debtors to continue using their existing cash management system; (ii) authorizing the Debtors to continue using prepetition bank accounts and existing checks; (iii) waiving the requirements of section 345(b) of the Bankruptcy Code on an interim basis with respect to the Debtors' deposit and investment practices; and (iv) granting administrative expense priority to the Debtors' intercompany transactions. In connection with this relief, the Debtors respectfully request a waiver of certain of the operating guidelines established by the Office of the United States Trustee for the District of Delaware that require the Debtors to close all prepetition bank accounts, open new accounts designated as debtor-in-possession accounts, and obtain new checks bearing a "debtor-in-possession" legend.

58. As described in detail in the Cash Management Motion, the Debtors maintain a centralized cash management and disbursement system in the ordinary course of their operations (the "Cash Management System"). Through this system, the Debtors can coordinate the transfers of funds efficiently and effectively and maintain current and accurate accounting

records of daily cash transactions – which are essential to the proper functioning of the Debtors' large and complex business operations.

59. To lessen the impact of the chapter 11 filings on the Debtors' business and thereby maximize the value of the Debtors' estates, it is vital that the Debtors keep this Cash Management System in place and be authorized to pay outstanding fees owed in relation to the Debtors' bank accounts, such as payments to third party vendors whose services are critical for the uninterrupted operation of the Cash Management System. I believe that any disruption to the Debtors' current cash management procedures would impair their operations and ability to optimize their business performance to the detriment of all parties in interest. Accordingly, the Debtors request approval of the relief requested in the Cash Management Motion.

d. Motion for Authority to Pay Employee Wages and Related Items (the "Employee Wages and Benefits Motion")

60. In the Employee Wages and Benefits Motion, the Debtors seek entry of an order: (i) authorizing, but not directing, the Debtors, in accordance with their stated policies and in the ordinary course of business, to: (a) pay all prepetition employee wages, salaries, and certain other payments owed to employees, including vacation, holiday pay and other paid time off, (b) honor workers' compensation obligations, (c) make all contributions to prepetition benefit programs and continue such programs, (d) make all payments for which prepetition payroll withholding deductions (including, but not limited to, payroll taxes) were made, and (e) reimburse all prepetition employee business expenses; (ii) authorizing, but not directing, the Debtors to continue payment of wages, compensation, and employee benefit programs in the ordinary course of business and to pay other costs and expenses relating to the foregoing as described more fully below; and (iii) authorizing and directing applicable banks and other

financial institutions to honor and pay all checks and transfers drawn on the Debtors' bank accounts to make the foregoing payments.

61. The Debtors have a current workforce of approximately 2,000 employees, including approximately 300 seasonal employees. The vast majority of the Debtors' employees rely exclusively on their full compensation, benefits and reimbursement of their expenses to continue to pay their daily living expenses, and will be exposed to significant financial difficulties if the Debtors are not permitted to pay the unpaid employee obligations. The Debtors believe that if they are unable to honor all such obligations immediately, employee morale and loyalty will be jeopardized at a time when their support is critical. In addition, the Debtors have approximately 400 independent contractors who provide essential services to the company. The Debtors similarly believe that if they are unable to honor obligations owing to these parties, these parties will be exposed to significant financial difficulties, to the detriment of the Debtors' business operations.

62. A stable work force will play a critical role in the uninterrupted continuation of the Debtors' business and the preservation and maximization of the value of the Debtors' estates during these Chapter 11 Cases. Any significant number of departures or deterioration in morale among the Debtors' employees or independent contractors at this time will immediately and substantially adversely impact the Debtors' efforts in chapter 11 and result in immediate and irreparable harm to the Debtors' estates and creditors. There is a real, immediate risk that if the Debtors are not authorized to continue to honor their prepetition obligations to these parties in the ordinary course, the employees and contractors would no longer support and maintain the operations of the Debtors, thereby crippling the Debtors' business operations. Consequently, the Debtors strongly believe it is critical that they be permitted to pay their employees their

prepetition wages and continue with their ordinary course personnel policies, programs and procedures, including, but not limited to maintenance of workers' compensation programs and health care programs, that were in effect prior to the Petition Date.

e. Motion for Interim and Final Orders Deeming Utilities Adequately Assured (the "Utilities Motion")

63. Uninterrupted utility services are crucial for a smooth transition into chapter 11 and the continued operation of the Debtors' businesses during these Chapter 11 Cases, and any disruption of such utility services would cause irreparable harm to the Debtors' business operations, revenues, customers and employees. Accordingly, by this motion, the Debtors seek entry of an order: (i) prohibiting the Debtors' utility service providers (the "Utility Companies") from altering, refusing, or discontinuing service to the Debtors on account of unpaid prepetition invoices; (ii) deeming the Utility Companies adequately assured of future performance by the provision of a deposit; and (iii) establishing procedures through which the Debtors can respond to any request by the Utility Companies for additional adequate assurance.

64. The Debtors have established a strong payment history with all of the Utility Companies; they have consistently made payments on a regular and timely basis. To the best of the Debtors' knowledge, there are no material defaults or arrearages with respect to the Debtors' undisputed Utility Services invoices, other than the payment interruptions that may be caused by the commencement of these Chapter 11 Cases. As such, the Debtors submit that the Utility Companies will be adequately assured of the Debtors' future performance in respect of their utility services by the Debtors depositing an amount equal to approximately 50% of the Debtors' estimated monthly costs for their utilities (which amount may be adjusted as necessary and appropriate) into a segregated account. I believe that the relief requested in the Utilities Motion

is in the best interest of the Debtors, their estates and their creditors, and that the proposed adequate assurance deposits are more than appropriate under the circumstances.

f. Motion Authorizing Payment of Certain Prepetition Taxes and Fees (the "Tax Motion")

65. This motion is designed to prevent adverse consequences for the Debtors and their estates that may result from the failure to pay prepetition taxes and fees to appropriate governmental authorities. Accordingly, by this motion, the Debtors seek entry of an order: (i) authorizing, but not requiring, the Debtors to remit and pay sales and use taxes, franchise taxes, annual fees and other similar taxes, charges, fees and assessments, including business licensing fees and permits (collectively, the "Taxes and Fees") in their discretion to various federal, state, and local governmental authorities (the "Authorities"); and (ii) authorizing the Debtors' banks and financial institutions to receive, process and honor all checks and electronic payment requests relating to the foregoing. The Debtors seek authority to pay prepetition Taxes and Fees that may be outstanding, inclusive both of Taxes and Fees that accrued prepetition but were not, in fact, paid or processed prepetition, as well as Taxes and Fees that were paid prepetition in an amount less than is actually owed, or to the extent that such prepetition payments were rejected, lost or otherwise not received in full by any Authority. Further, to the extent any checks, drafts, deposits or transfers issued or initiated by the Debtors on account of prepetition Taxes and Fees did not clear as of the Petition Date, the Debtors also seek an order directing banks and other financial institutions to honor and process such payments.

66. Should the Debtors fail to pay any outstanding prepetition Taxes and Fees, the applicable Authorities could pursue a number of remedies, including attempting to file liens or lift the automatic stay, which would materially and immediately harm the Debtors' estates.

Authorities could also attempt to collect certain outstanding Taxes and Fees from the Debtors' officers and directors, which would divert the attention of those individuals during this critical time. Furthermore, certain of the outstanding tax liabilities are for trust fund taxes that the Debtors hold in trust for the benefit of the Authorities; allowing payment of these Taxes and Fees is appropriate as these funds do not constitute property of the estates and could not otherwise be used by the Debtors' estates. For these reasons, I believe it is appropriate for the Debtors to have the authority to pay, in their sole discretion, any outstanding prepetition Taxes and Fees, including any penalties and interest thereon, if any, to the relevant Authorities.

g. Motion Authorizing Continuation of Existing Insurance Policies, Surety Bonds and Related Agreements (the "Insurance Motion")

67. By this motion, the Debtors seek the authority to continue, and, to the extent necessary, revise, renew or extend, their customary insurance policies and surety bonds (the "Insurance Coverage") and to pay all policy premiums and other amounts arising thereunder or in connection therewith, including all such prepetition obligations arising in the ordinary course of business (collectively, the "Insurance Obligations"). The Debtors also seek an order directing their banks to honor, process, and pay, to the extent funds are available in their accounts, any checks or wire transfer requests issued by the Debtors with respect to their Insurance Obligations.

68. The Insurance Coverage described in the motion is important to the preservation of the Debtors' businesses, properties and assets, and is, in many cases, required by various regulations, laws and contracts that govern the Debtors' business operations. If the Debtors are unable to make payments that may be required under or in connection with their Insurance Coverage, the Insurance Coverage may be terminated. The Debtors would then be required to

obtain replacement Insurance Coverage on an expedited basis and at significant cost to the estates. Moreover, even if the Insurance Coverage was not ultimately terminated, any disruption in the Insurance Coverage, including disruption of the Debtors' ability to obtain surety bid and performance bonds where necessary, would prevent the Debtors from being able to operate in the ordinary course of their business and would adversely affect the Debtors' ability to enter into future policies or bonds. Given the importance of maintaining the Insurance Coverage with respect to their business activities, the Debtors believe it is in the best interests of the estates for the Court to authorize the Debtors to honor their Insurance Obligations.

h. Motion to Honor Prepetition Customer Programs (the "Customer Programs Motion")

69. By this motion, the Debtors seek authority to continue their ordinary course prepetition customer programs (the "Customer Programs") and to honor or pay prepetition obligations to their customers in connection therewith. Although the Debtors have concluded, after consultation with their professionals, that most, if not all, of their Customer Programs constitute "ordinary course of business" practices which do not require court approval, out of an abundance of caution, the Debtors seek authority from the Court to honor their prepetition obligations arising from Customer Programs and continue the Customer Programs during the course of these Chapter 11 Cases.

70. The Debtors believe that immediate entry of an order authorizing the Debtors to continue to honor their Customer Programs is necessary to avoid immediate and irreparable harm to the Debtors and their estates. Failure to honor the Customer Programs may cause immediate and irreparable harm to the Debtors' business, impair their reputation, and harm their operations and going-concern value. The success and viability of the Debtors' businesses are dependent

upon the loyalty and confidence of their customers. The continued support of this constituency is absolutely essential to preserving and maximizing the going-concern value of the Debtors' businesses. Any delay in honoring the Customer Programs or discontinuation of the Customer Programs as a result of the commencement of these Chapter 11 Cases likely will severely and irreparably impair the Debtors' customer relations at a time when the loyalty and support of those customers are extremely critical.

71. By contrast, honoring these prepetition obligations will require minimal cash expenditures of estate funds and will assist the Debtors in preserving customer relationships, and thus the value of the Debtors' businesses, for the benefit of all stakeholders. Accordingly, the Debtors must be permitted, in the Debtors' sole discretion, to honor the Customer Programs without interruption or modification in the ordinary course of the Debtors' businesses.

i. Motion for Interim and Final Orders Authorizing the Debtors to Pay Critical Vendors, Foreign Vendors, Freight Carriers and Section 503(b)(9) Claimants (the "Critical Vendor Motion")

72. The Debtors have identified certain suppliers and shipping vendors as essential to the continued operation of the Debtors' business during the Chapter 11 Cases. Any disruption by these critical suppliers and vendors would have immediate and materially adverse consequences on the Debtors' business and, in turn, on the Debtors' estates and all parties in interest. Accordingly, to avoid disruption and delay in the Debtors' business operations and preserve the value of the Debtors' assets as a going concern, the Debtors seek entry of interim and final orders authorizing the Debtors to pay the prepetition claims of: (i) sole source suppliers, manufacturers and other vendors who supply goods that are critical to the continued operation of the Debtors' business; (ii) certain suppliers who are located outside of the United States; (iii) freight carriers who ship goods to the Debtors' customers and whose claims may be secured by statutory and/or

possessory liens; and (iv) suppliers whose prepetition claims may be entitled to administrative priority treatment under section 503(b)(9) of the Bankruptcy Code (collectively, as described in the motion, the "Critical Vendors") in an aggregate amount not to exceed $8.0 million on an interim basis, and $14.5 million on a final basis.

73. In preparation for these Chapter 11 Cases, the Debtors and their advisors carefully examined the Debtors' existing vendor base to determine which vendors were "critical" to their operations. In doing so, the Debtors considered whether the vendor in question was a "sole-source" or "limited source" provider, the overall impact on the Debtors' operations if the particular vendor ceased or delayed providing goods or services, and whether payment would ameliorate immediate and irreparable harm to the Debtors' business operations, particularly with respect to certain long term strategic partnerships or other key relationships.

74. Based on these considerations, the Debtors have identified certain parties who supply essential goods or who are essential to the continuation of the Debtors' complex supply chain and distribution system. These include, among others, certain vendors who manufacture the Debtors' own brand name products and ship those products directly to the Debtors' customers, and vendors located outside of the United States with respect to which the Debtors may not have adequate recourse if they cease shipping products. These also include freight vendors who ship products to the Debtors' customers and may have liens on those goods. Any refusal by one of these parties to provide goods and services to the Debtors could result in substantial disruption to the Debtors' business operations. In many cases, replacement providers simply do not exist; thus, the Debtors would be unable to fulfill customer orders. And, even if replacement providers did exist, the Debtors would, at a minimum, incur delays in locating those replacements and installing those vendors into the Debtors' existing logistics chain – particularly

with respect to the Debtors' foreign suppliers. These delays and disruptions would have a substantial, negative impact on the ability of the Debtors to preserve their customer relationships, the goodwill of the Debtors' businesses, and ultimately, the value of the Debtors' estates.

75. The Debtors believe that, without the relief requested in the Critical Vendor Motion, many of the Critical Vendors may cease delivering goods to them or otherwise refuse to provide essential services to the Debtors, which would result in devastating consequences for the Debtors and their business. In addition, by reserving the right to require, as a condition to any payment to a Critical Vendor, that such Critical Vendor enter into a trade agreement by which it must agree to deal with the Debtors on customary trade terms, the Debtors anticipate they will be able to enhance their liquidity during these Chapter 11 Cases to the benefit of their estates and creditors.

76. For the foregoing reasons, the Debtors submit, and I believe, the relief requested in the Critical Vendor Motion is in the best interest of the Debtors, their estates and their creditors, and therefore should be approved.

j. Motion For Interim and Final Orders Authorizing the Debtors to Obtain Senior Secured Super-Priority Postpetition Financing and Utilize Cash Collateral (the "DIP Motion")

77. By this motion, the Debtors seek entry of interim and final orders: (i) authorizing the Debtors to obtain senior secured super-priority postpetition financing; (ii) authorizing use of cash collateral ("Cash Collateral"); (iii) granting priming liens, priority liens, and superpriority claims to the DIP Lenders (as defined in the motion); (iv) granting adequate protection; and (v) granting related relief.

78. The Debtors have negotiated with their Prepetition Secured Lenders to obtain postpetition financing (the "DIP Financing") to fund the Debtors' operations during these

Chapter 11 Cases. Specifically, the Debtors have negotiated (i) the Bayside DIP Facility in the aggregate principal amount of up to approximately $144.67 million, consisting of a credit facility in the amount of $50,000,000 in respect of new money funding and, upon entry of a final order, a repayment by way of a "roll up" of approximately $94.67 million in respect of the Term Loan; and (ii) the ABL DIP Facility in an aggregate principal amount of up to $175.0 million and, upon entry of an interim order, repayment of the full amounts outstanding as of the Petition Date in respect of the ABL Agreement.

79. The DIP Financing, the two credit facilities, and the other related agreements regarding the use of Cash Collateral and adequate protection (collectively, the "DIP Documents") are the result of extensive negotiations with the Prepetition Secured Lenders, conducted in good faith and at arm's length. The Debtors and their advisors believe that the proposed DIP Financing is the only viable option available to the Debtors, and the Debtors have therefore negotiated to obtain the DIP Financing on the best and most realistic terms available. The circumstances of these Chapter 11 Cases necessitate postpetition financing under section 364(c) and (d) of the Bankruptcy Code, and the DIP Financing offered by the Prepetition Secured Lenders reflects the sound exercise of the Debtors' business judgment.

80. The Debtors have been and are unable to obtain sufficient and otherwise viable financing without granting priming liens pursuant to section 364(d) of the Bankruptcy Code. Specifically, none of the alternative proposals they received that contemplated postpetition financing on an unsecured or non-consensual priming basis or on a priority junior to that of the Prepetition Secured Parties would have provided the Debtors with sufficient liquidity to fund these Chapter 11 Cases. Accordingly, the Debtors propose to obtain the DIP Financing by

providing, among other things, superpriority claims, security interests, and liens pursuant to sections 364(c)(1), (2), (3), and (d) of the Bankruptcy Code.

81. The Debtors also require the use of Cash Collateral to ensure that they have the liquidity necessary to fund their ordinary course business operations and the administration of these Chapter 11 Cases while effectuating the sale of substantially all of their assets. Without the ability to use Cash Collateral, the Debtors' liquidity needs would not be satisfied, jeopardizing the Debtors' ability to conduct an efficient and effective sale process in accordance with the timeline set forth in the DIP Documents and the Purchase Agreement. Thus, the use of Cash Collateral is imperative to the success of these Chapter 11 Cases.

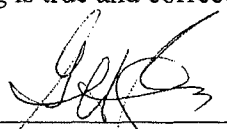
82. Approval of the DIP Financing and the use of Cash Collateral will provide immediate access to capital that is needed to, among other things, pay employees and vendors while minimizing disruptions to day-to-day businesses, thereby preserving and maximizing the value of the Debtors' estates. Absent the DIP Financing, the Debtors' operations would come to a halt, resulting in irreparable harm to their businesses and their going-concern value.

83. Accordingly, for these reasons, I believe that the relief requested in the DIP Motion is in the best interest of the Debtors, their estates and creditors, and all parties in interest.

F. Conclusion.

84. In conclusion, for the reasons stated herein and in each of the First Day Motions filed concurrently or in connection with the commencement of these cases, I respectfully request that each of the First Day Motions be granted in its entirety, together with such other and further relief as this Court deems just and proper.

I certify under penalty of perjury that, based upon my knowledge, information and belief as set forth in this Declaration, the foregoing is true and correct.

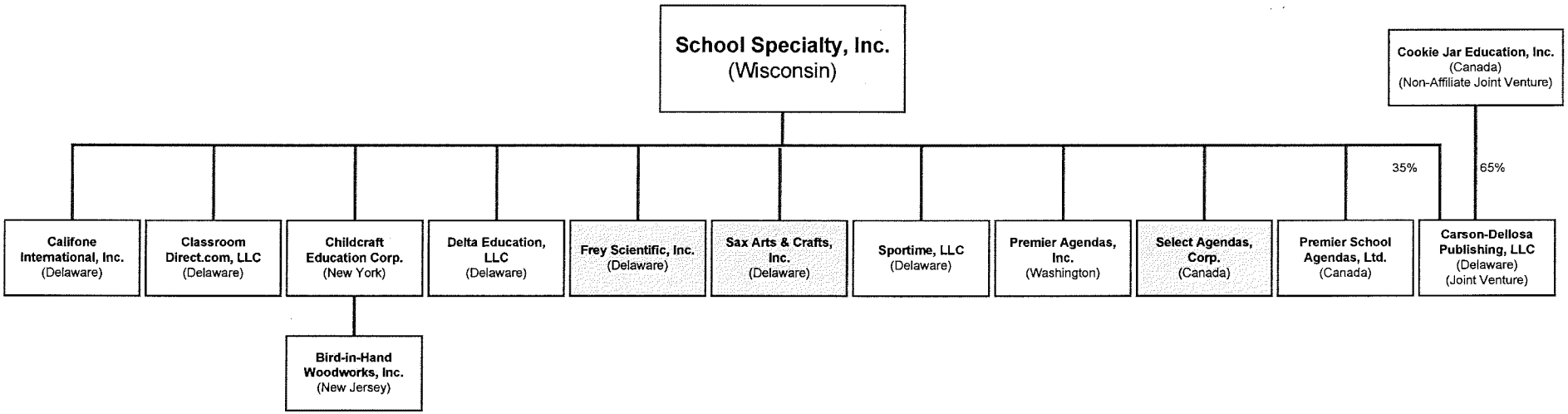


Gerald T. Hughes
Executive Vice President, Chief Administrative Officer, School Specialty, Inc.

EXHIBIT A

Corporate Organization Chart

School Specialty, Inc. Organization Chart



Legend

Borrowers under the ABL and TL Credit Agreements

Non-Borrower Guarantors under the ABL and TL Credit Agreements

EXHIBIT B

List of First Day Motions

	List of First Day Motions
1.	Motion for Order Authorizing Joint Administration Pursuant to Bankruptcy Rule 1015 and Local Rule 1015-1
2.	Application for an Order Authorizing and Approving the Appointment of Kurtzman Carson Consultants LLC as Claims and Noticing Agent for the Debtors Pursuant to 28 U.S.C. § 156(c), Section 105(a) of The Bankruptcy Code, Bankruptcy Rule 2002(f) and Local Rule 2002-1(f)
3.	Motion for an Order Pursuant to Section 366 of the Bankruptcy Code (I) Prohibiting Utility Companies from Altering, Refusing, or Discontinuing Utility Services, (II) Deeming Utility Companies Adequately Assured of Future Performance, (III) Establishing Procedures for Determining Adequate Assurance of Payment; and (IV) Setting a Final Hearing Related Thereto
4.	Motion for Order Pursuant to Sections 105(a), 363(b), 541, and 507(a)(8) of the Bankruptcy Code Authorizing (I) Payment of Certain Prepetition Taxes and Fees, and (II) Financial Institutions to Process and Cash Related Checks and Transfers
5.	Motion for an Order (I) Approving Continued Use of the Debtors' Existing Cash Management System, (II) Authorizing Use of Existing Bank Accounts and Checks, (III) Waiving the Requirements of 11 U.S.C. § 345(b) on an Interim Basis, and (IV) Authorizing Continuance of Postpetition Intercompany Transactions
6.	Motion for an Order (A) Authorizing, But Not Directing, The Debtors to Pay Certain Prepetition Wages, Compensation, and Employee Benefits and Continue Payment of Wages, Compensation, and Employee Benefits in the Ordinary Course of Business; and (B) Authorizing and Directing Applicable Banks and Other Financial Institutions to Process and Pay All Checks Presented for Payment and to Honor All Funds Transfer Requests Made by the Debtors Relating to the Foregoing
7.	Motion for Order (I) Authorizing the Debtors (A) to Continue Existing Insurance Policies, Bonds and Related Agreements and (B) to Honor Certain Prepetition Obligations in Respect Thereof and (II) Granting Related Relief
8.	Motion for an Order Authorizing the Debtors to Honor Certain Prepetition Customer Obligations and to Continue Prepetition Customer Programs and Practices in the Ordinary Course of Business
9.	Motion for Entry of Interim and Final Orders Authorizing the Debtors to Pay Prepetition Claims of Certain Critical Vendors, Foreign Suppliers, and Freight Carriers
10.	Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors (A) To Obtain Postpetition Financing, (B) To Utilize Cash Collateral, (C) To Grant Adequate Protection to Prepetition Secured Parties, and (D) To Repay in Full Amounts Owed In Connection with the Prepetition Secured Loans, and (II) Scheduling A Final Hearing