Docket #0930 Date Filed: 4/24/2013

UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re: SCHOOL SPECIALTY, INC., *et al*.,[1] Debtors.	Chapter 11 Case No. 13-10125 (KJC) Jointly Administered **Re: Docket Nos. 599, 600, 862, 864 & 902**

CERTIFICATION OF COUNSEL

The undersigned hereby certifies as follows:

1. On March 19, 2013, the above-captioned debtors and debtors-in-possession (collectively, the "Debtors") filed the *Debtors' Joint Plan Under Chapter 11 of the Bankruptcy Code* [Docket No. 599] and the *Disclosure Statement for the Debtors' Joint Plan Under Chapter 11 of the Bankruptcy Code* [Docket No. 600].

2. Subsequent thereto, on April 23, 2013, the Debtors filed the *Debtors' Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code* [Docket No. 862] (the "Plan") and the *Disclosure Statement for the Debtors' Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code* [Docket No. 864] (the "Disclosure Statement").

3. On April 24, 2013, the Court concluded a hearing (the "Hearing") to consider the *Motion of the Debtors for Order: (A) Approving Disclosure Statement; (B) Fixing Voting Record Date; (C) Approving Solicitation Materials and Procedures for Distribution Thereof; (D) Approving Forms of Ballots and Establishing Procedures for Voting on Plan and*

[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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Tabulating Votes; (E) Scheduling Hearing and Approving Notice and Procedures for Filing Objections to (I) Confirmation of the Plan, and (II) Proposed Cure Amounts Related to Contracts and Leases Assumed Under the Plan; and (F) Granting Related Relief [Docket No. 601] (the "Disclosure Statement Motion") and the adequacy of the Disclosure Statement in connection therewith.

4. At the Hearing, Tannor Partners Credit Fund LP ("TPCF," and together with the Debtors, the "Parties") objected to entry of an order approving the Disclosure Statement Motion, and in conjunction therewith, the Debtors agreed to revise the Disclosure Statement to include certain language requested by TPCF, as agreed upon by the Parties. The Court subsequently entered an order approving the Disclosure Statement Motion [Docket No. 902], thereby conditionally approving the Disclosure Statement. At the Court's request, the Debtors hereby attach as Exhibit 1 a blackline reflecting the changes to the Disclosure Statement requested by TPCF and agreed upon by the Parties. By separate notice, the Debtors will file a revised Disclosure Statement which incorporates the agreed-upon language.

Dated: April 24, 2013
Wilmington, Delaware

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EXHIBIT 1

Blackline Disclosure Statement

UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	Chapter 11
SCHOOL SPECIALTY, INC., *et al.*,	Case No. 13-10125 (KJC)
Debtors.	Jointly Administered
	Re: Docket No. 902

DISCLOSURE STATEMENT FOR DEBTORS' AMENDED JOINT PLAN OF REORGANIZATION UNDER CHAPTER 11 OF THE BANKRUPTCY CODE

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Dated: April 24, 2013

~~THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED BY THE UNITED STATES BANKRUPTCY COURT FOR THE DISTRICT OF DELAWARE UNDER SECTION 1125(b) OF THE BANKRUPTCY CODE FOR USE IN THE SOLICITATION OF ACCEPTANCES OF THE PLAN DESCRIBED HEREIN. ACCORDINGLY, THE FILING AND DISTRIBUTION OF THIS DISCLOSURE STATEMENT IS NOT INTENDED, AND SHOULD NOT BE CONSTRUED, AS A SOLICITATION OF ACCEPTANCES OF SUCH PLAN. THE INFORMATION CONTAINED HEREIN SHOULD NOT BE RELIED UPON FOR ANY PURPOSE BEFORE A DETERMINATION BY THE BANKRUPTCY COURT THAT THIS DISCLOSURE STATEMENT CONTAINS "ADEQUATE INFORMATION" WITHIN THE MEANING OF SECTION 1125(a) OF THE BANKRUPTCY CODE.~~

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EXHIBITS

Exhibit A The Debtors' Amended Joint Plan of Reorganization

Exhibit B Financial Projections

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IMPORTANT INFORMATION ABOUT THIS DISCLOSURE STATEMENT

This Disclosure Statement provides information regarding the Debtors' Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code, dated April 23, 2013 (as may be amended and supplemented from time to time according to its terms, the "Plan"). A copy of the Plan is attached as Exhibit A.

References to the "Plan" are to the Plan attached as Exhibit A hereto. All capitalized terms used but not otherwise defined herein, including in any exhibits attached hereto, shall have the meaning ascribed to them in the Plan.

Unless the context requires otherwise, reference to the "Company", "we", "our", and "us" are to School Specialty, Inc. and its Debtor and non-debtor subsidiaries.

The statements contained in this Disclosure Statement are made as of the date hereof unless another time is specified herein, and the delivery of this Disclosure Statement shall not create an implication that there has been no change in information stated since the date hereof.

The Debtors believe that the Plan will enable them to successfully reorganize and accomplish the objectives of Chapter 11. The Debtors believe that acceptance of the Plan is in the best interests of the Debtors, their Chapter 11 Estates, and their creditors.

THE DEBTORS URGE CREDITORS TO VOTE TO ACCEPT THE PLAN.

ALL CREDITORS AND SHAREHOLDERS ARE ADVISED AND ENCOURAGED TO READ THIS DISCLOSURE STATEMENT AND THE PLAN IN THEIR ENTIRETY. PLAN SUMMARIES AND STATEMENTS MADE IN THIS DISCLOSURE STATEMENT, INCLUDING THE FOLLOWING SUMMARY, ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE PLAN, EXHIBITS ANNEXED TO THE PLAN, THE PLAN SUPPLEMENT DOCUMENTS, THIS DISCLOSURE STATEMENT AND ALL EXHIBITS TO THIS DISCLOSURE STATEMENT. THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE ONLY AS OF THE DATE HEREOF UNLESS OTHERWISE SPECIFIED, AND THERE CAN BE NO ASSURANCE THAT THE STATEMENTS CONTAINED HEREIN WILL BE CORRECT AT ANY TIME AFTER SUCH DATE. **THOSE THAT ARE ENTITLED TO VOTE ON THE PLAN SHOULD READ CAREFULLY THE "RISK FACTORS" SECTION HEREOF BEFORE VOTING TO ACCEPT OR REJECT THE PLAN. *SEE* ARTICLE IX BELOW, "CERTAIN RISK FACTORS TO BE CONSIDERED."**

THIS DISCLOSURE STATEMENT HAS BEEN PREPARED IN ACCORDANCE WITH SECTION 1125 OF THE BANKRUPTCY CODE AND RULE 3016 OF THE FEDERAL RULES OF BANKRUPTCY PROCEDURE AND NOT NECESSARILY IN ACCORDANCE WITH FEDERAL OR STATE SECURITIES LAWS OR OTHER APPLICABLE LAW. THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION (THE "SEC") NOR HAS THE SEC PASSED UPON THE ACCURACY OR ADEQUACY OF THIS DISCLOSURE STATEMENT. PERSONS OR ENTITIES TRADING IN OR OTHERWISE PURCHASING, SELLING, OR

TRANSFERRING CLAIMS OR EQUITY INTERESTS IN THE DEBTORS SHOULD EVALUATE THIS DISCLOSURE STATEMENT AND THE PLAN IN LIGHT OF THE PURPOSES FOR WHICH THEY WERE PREPARED.

THE INFORMATION IN THIS DISCLOSURE STATEMENT IS BEING PROVIDED SOLELY FOR PURPOSES OF VOTING TO ACCEPT OR REJECT THE PLAN. NOTHING IN THIS DISCLOSURE STATEMENT MAY BE USED BY ANY ENTITY FOR ANY OTHER PURPOSE.

IN THE EVENT OF ANY INCONSISTENCY BETWEEN THE PLAN SUMMARY OR ANY OTHER DESCRIPTION OF THE PLAN CONTAINED HEREIN AND THE PLAN, THE TERMS OF THE PLAN SHALL GOVERN. ALL EXHIBITS TO THIS DISCLOSURE STATEMENT ARE INCORPORATED INTO AND ARE A PART OF THIS DISCLOSURE STATEMENT AS IF SET FORTH IN FULL HEREIN.

THIS DISCLOSURE STATEMENT CONTAINS FORWARD-LOOKING STATEMENTS BASED PRIMARILY ON THE CURRENT EXPECTATIONS OF THE DEBTORS AND PROJECTIONS ABOUT FUTURE EVENTS AND FINANCIAL TRENDS AFFECTING THE FINANCIAL CONDITION OF THE DEBTORS' AND REORGANIZED DEBTORS' BUSINESSES. IN PARTICULAR, STATEMENTS USING WORDS SUCH AS "BELIEVE," "MAY," "ESTIMATE," "CONTINUE," "ANTICIPATE," "INTEND," "EXPECT" AND SIMILAR EXPRESSIONS IDENTIFY THESE FORWARD-LOOKING STATEMENTS. THESE FORWARD-LOOKING STATEMENTS ARE SUBJECT TO A NUMBER OF RISKS, UNCERTAINTIES AND ASSUMPTIONS, INCLUDING THOSE DESCRIBED BELOW UNDER ARTICLE IX. IN LIGHT OF THESE RISKS AND UNCERTAINTIES, THE FORWARD-LOOKING EVENTS AND CIRCUMSTANCES DISCUSSED IN THIS DISCLOSURE STATEMENT MAY NOT OCCUR, AND ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THE FORWARD-LOOKING STATEMENTS. CONSEQUENTLY, THE PROJECTED FINANCIAL INFORMATION AND OTHER FORWARD-LOOKING STATEMENTS CONTAINED HEREIN SHOULD NOT BE REGARDED AS REPRESENTATIONS BY ANY OF THE DEBTORS, THE REORGANIZED DEBTORS, THEIR ADVISORS, OR ANY OTHER PERSON THAT THE PROJECTED FINANCIAL CONDITIONS OR RESULTS OF OPERATIONS CAN OR WILL BE ACHIEVED. EXCEPT AS OTHERWISE REQUIRED BY LAW, NEITHER THE DEBTORS NOR REORGANIZED DEBTORS UNDERTAKE ANY OBLIGATION TO UPDATE OR REVISE PUBLICLY ANY FORWARD-LOOKING STATEMENTS, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE FOLLOWING APPROVAL OF THIS DISCLOSURE STATEMENT BY THE BANKRUPTCY COURT.

EXCEPT AS OTHERWISE SPECIFICALLY NOTED, THE FINANCIAL INFORMATION CONTAINED HEREIN HAS NOT BEEN AUDITED BY A CERTIFIED PUBLIC ACCOUNTANT AND HAS NOT NECESSARILY BEEN PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

AS TO CONTESTED MATTERS, EXISTING LITIGATION INVOLVING, OR POSSIBLE ADDITIONAL LITIGATION TO BE BROUGHT BY, OR AGAINST, THE DEBTORS, ADVERSARY PROCEEDINGS, AND OTHER ACTIONS OR THREATENED

ACTIONS, THIS DISCLOSURE STATEMENT SHALL NOT CONSTITUTE OR BE CONSTRUED AS AN ADMISSION OF ANY FACT OR LIABILITY, A STIPULATION, OR A WAIVER, BUT RATHER AS A STATEMENT MADE WITHOUT PREJUDICE SOLELY FOR SETTLEMENT PURPOSES, WITH FULL RESERVATION OF RIGHTS, AND IS NOT TO BE USED FOR ANY LITIGATION PURPOSE WHATSOEVER BY ANY PERSON, PARTY OR ENTITY. AS SUCH, THIS DISCLOSURE STATEMENT SHALL NOT BE ADMISSIBLE IN ANY NONBANKRUPTCY PROCEEDING INVOLVING THE DEBTORS OR ANY OTHER PARTY IN INTEREST, NOR SHALL IT BE CONSTRUED TO BE CONCLUSIVE ADVICE ON THE TAX, SECURITIES, FINANCIAL OR OTHER EFFECTS OF THE PLAN AS TO HOLDERS OF CLAIMS AGAINST OR EQUITY INTERESTS IN THE DEBTORS.

I.

INTRODUCTION

A. The Debtors

On January 28, 2013, School Specialty, Inc. ("SSI" or "School Specialty") and its domestic subsidiaries, Bird-In-Hand Woodworks, Inc., Califone International, Inc., Childcraft Education Corp., ClassroomDirect.com, LLC, Delta Education, LLC, Frey Scientific, Inc., Premier Agendas, Inc., Sax Arts & Crafts, Inc., and Sportime, LLC (collectively, the "Debtors"), filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code with the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court" or "Court"). The Debtors continue to manage their business as debtors-in-possession.

B. The Plan

As described in detail below, the Debtors have proposed a Plan under which the Debtors will reorganize as a going concern.

The Plan contemplates that all ABL DIP Financing Claims, Bayside DIP Financing Claims, Administrative Claims, Priority Tax Claims, Other Priority Claims, Prepetition ABL Facility Claims, Prepetition Term Loan Claims and Other Secured Claims will be paid in full in cash on or as soon as reasonably practicable following the Effective Date. The Plan further contemplates that the Ad Hoc DIP Lenders will receive cash and equity in Reorganized SSI on account of their Claims. Holders of Noteholder Unsecured Claims will also receive equity in Reorganized SSI. Except for those who make a convenience election, holders of General Unsecured Claims and Trade Unsecured Claims will receive a deferred payment in cash on account of their respective Claims as set forth in detail herein and in the Plan. Holders of Convenience Class Claims will receive a one-time payment in cash on account of their claims as soon as practicable following the Effective Date. No distributions will be made on account of Equity Interests in SSI.

The Plan is premised on the deemed substantive consolidation of the assets and liabilities of each Debtor for purposes of voting and distribution, so that creditors in a given class will share in the collective distributions made under the Plan – irrespective of which Debtor they may have a claim against.

The Debtors believe that the Plan is fair and reasonable and will maximize value for all stakeholders.

C. The Disclosure Statement

This Disclosure Statement is submitted pursuant to section 1125 of the Bankruptcy Code to holders of Claims that are entitled to vote on the Plan in connection with (i) the solicitation of votes on the Debtors' Plan and (ii) the hearing to consider confirmation of the Plan (the "Confirmation Hearing"), which is scheduled for May 20, 2013, at 1:30 p.m., prevailing Eastern Time.

The Debtors have filed additional pleadings with the Bankruptcy Court with respect to the Plan, including the materials for soliciting votes to accept or reject the Plan (the "Solicitation Materials"). All Creditors and shareholders are advised and encouraged to read the Solicitation Materials and the Disclosure Statement Approval Order (as defined below) in their entirety.

The Solicitation Materials that holders of Claims entitled to vote on the Plan will receive include, among other things:

- The Plan;
- The Disclosure Statement Approval Order (defined below) approving the Disclosure Statement and establishing certain procedures with respect to the solicitation and tabulation of votes to accept or reject the Plan; and
- One or more Ballots and a postage-paid return envelope, which will be used by holders of Claims who are entitled to vote on the Plan.

On April ~~,~~24, 2013, after notice and a hearing, the Bankruptcy Court approved the Disclosure Statement (the "Disclosure Statement Approval Order"), determining that the Disclosure Statement contains "adequate information" as that term is defined in section 1125 of the Bankruptcy Code. Section 1125(a)(1) of the Bankruptcy Code defines "adequate information" as "information of a kind, and in sufficient detail, as far as is reasonably practicable in light of the nature and the history of the debtor and the condition of the debtor's books and records ... that would enable a hypothetical reasonable investor typical of holders of claims or interests of the relevant class to make an informed judgment about the plan."

NO STATEMENTS OR INFORMATION CONCERNING THE PLAN AND THE TRANSACTIONS CONTEMPLATED THEREBY HAVE BEEN AUTHORIZED OTHER THAN THE STATEMENTS AND INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT AND THE INFORMATION ACCOMPANYING THIS DISCLOSURE STATEMENT. ALL OTHER STATEMENTS REGARDING THE PLAN AND THE TRANSACTIONS CONTEMPLATED THEREBY, WHETHER WRITTEN OR ORAL, ARE UNAUTHORIZED.

THE BANKRUPTCY COURT'S APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE A GUARANTEE OF THE ACCURACY OR COMPLETENESS OF THE INFORMATION IT CONTAINS OR AN ENDORSEMENT OF THE MERITS AND FAIRNESS OF THE PLAN BY THE BANKRUPTCY COURT.

D. Voting and Solicitation Procedures

The Disclosure Statement Approval Order establishes the deadlines, procedures and instructions for voting to accept or reject the Plan, for filing objections to confirmation of the Plan, the record date for voting purposes and the applicable standards for tabulating Ballots. In addition, detailed voting instructions will accompany each Ballot. Each holder of a Claim that is entitled to vote on the Plan should read this Disclosure Statement, the Plan, the Disclosure Statement Approval Order and the instructions accompanying the Ballots in their entirety before voting on the Plan. These documents contain, among other things, important information concerning the classification of Claims and Equity Interests for voting purposes and the

tabulation of votes. No solicitation of votes to accept or reject the Plan may be made except pursuant to section 1125 of the Bankruptcy Code. The voting procedures provide substantially as follows:

1. Voting Generally

If you are entitled to vote to accept or reject the Plan, a Ballot is enclosed for the purpose of voting on the Plan. If you hold a Claim in more than one Class, you will receive separate Ballots that must be used for each separate Class. After carefully reviewing the Plan, this Disclosure Statement, the materials included herein and the instructions accompanying your Ballot, please indicate your acceptance or rejection of the Plan by voting in favor of or against the Plan.

For your vote to be counted, you must complete and sign your Ballot and return it to the Debtors' claims and voting agent, Kurtzman Carson Consultants (the "Claims and Voting Agent") by no later than 4:00 p.m., prevailing Eastern Time, on May 16, 2013.

If you are a holder of a General Unsecured Claim in Class 5, a Trade Unsecured Claim in Class 6 or a Convenience Class Claim in Class 8 you must **either**: (i) send your original, signed Ballot to the Claims and Voting Agent at: **School Specialty Ballot Processing Center, c/o KCC, 2335 Alaska Avenue, El Segundo, CA 90245**, **or** (ii) submit your signed, completed Ballot via electronic mail to the Claims and Voting Agent at **SSIBallots@kccllc.com**. Please note that, as explained below and in the Plan, Ballots for (a) holders of General Unsecured Claims in Class 5 and (b) holders of Trade Unsecured Claims in Class 6 include an option for such holders to be treated as Convenience Class Claims and thereby receive for an alternative recovery under the Plan.

If you are an individual holder of the 3.75% Convertible Subordinated Notes due 2026 (i.e., a holder of a Noteholder Unsecured Claim in Class 7), you must mail your original, signed Ballot to the Nominee that provided the Ballot to you.

More detailed instructions regarding how to vote on the Plan are contained on the Ballots and the other Solicitation Materials.

DO NOT RETURN YOUR DEBT INSTRUMENTS, NOTES, CERTIFICATES OR ANY EQUITY SECURITIES THAT YOU MAY HAVE WITH YOUR BALLOT(S).

TO BE COUNTED OR TO EXERCISE ANY ELECTIONS PROVIDED ON SUCH BALLOT, YOUR BALLOT(S) INDICATING ACCEPTANCE OR REJECTION OF THE PLAN MUST BE ACTUALLY **RECEIVED BY THE CLAIMS AND VOTING AGENT NO LATER THAN 4:00 P.M., PREVAILING EASTERN TIME, ON MAY 16, 2013 (the "Voting Deadline")**.

ANY EXECUTED BALLOT THAT DOES NOT INDICATE EITHER AN ACCEPTANCE OR REJECTION OF THE PLAN OR INDICATES BOTH AN ACCEPTANCE AND REJECTION OF THE PLAN SHALL NOT BE COUNTED FOR VOTING PURPOSES.

Pursuant to the Disclosure Statement Approval Order, the Bankruptcy Court set April 24, 2013 as the record date (the "Voting Record Date") for voting on the Plan. Accordingly, only holders of record as of April 24, 2013 that are otherwise entitled to vote on the Plan will receive a Ballot and may vote on the Plan.

If you are a holder of a Claim entitled to vote on the Plan and did not receive a Ballot(s), received a damaged Ballot(s) or lost your Ballot(s), or if you have any questions concerning the Disclosure Statement, the Plan or the procedures for voting on the Plan, please call the Claims and Voting Agent at (877) 709-4758 for calls originating from the United States or Canada, and at (424) 236-7236 for calls originating from outside of the United States or Canada.

Holders of Claims entitled to vote in Classes 5, 6 or 8 may submit their Ballot by electronic mail, as indicated on their Ballot. Otherwise, votes cannot be transmitted orally, by facsimile or by electronic mail. You are urged to return your signed and completed Ballot promptly.

2. Holders of Claims and Equity Interests Entitled to Vote

Pursuant to the provisions of the Bankruptcy Code, only holders of allowed claims or equity interests in classes of claims or equity interests that are impaired and entitled to receive distributions under the plan are entitled to vote to accept or reject a proposed chapter 11 plan. Classes of claims or equity interests in which the holders of claims or equity interests are unimpaired under a chapter 11 plan are deemed to have accepted the plan and are not entitled to vote to accept or reject the plan. Classes of claims or equity interests in which the holders of claims or equity interests are impaired but are not entitled to receive or retain any property on account of such claims or equity interests are deemed to have rejected the plan and similarly are not entitled to vote to accept or reject the plan.

The following Classes ARE entitled to vote on the Plan:

- Class 5: General Unsecured Claims
- Class 6: Trade Unsecured Claims
- Class 7: Noteholder Unsecured Claims
- Class 8: Convenience Class Claims

The following Classes are NOT entitled to vote on the Plan:

- Class 1: Other Priority Claims
- Class 2: Prepetition ABL Facility Claims
- Class 3: Prepetition Term Loan Claims
- Class 4: Other Secured Claims

- Class 9: Equity Interests in SSI

For a detailed description of the Classes of Claims and Equity Interests and their treatment under the Plan, see Article VII.A below.

The Bankruptcy Code defines "acceptance" of a plan by (i) a class of claims as acceptance by creditors in that class that hold at least two-thirds in dollar amount and represent more than one-half in number of the claims that cast ballots for acceptance or rejection of the plan and (ii) a class of interests as acceptance by holders of such interests in that class that hold at least two-thirds in amount that cast ballots for acceptance or rejection of the plan. For a more detailed description of the requirements for confirmation of the Plan, see Article VIII.B below.

Section 1129(b) permits the Bankruptcy Court to confirm a plan notwithstanding the nonacceptance of a plan by one or more impaired classes of claims or interests. Under that section, a plan may be confirmed if it does not "discriminate unfairly" and is "fair and equitable" with respect to each nonaccepting class. For a more detailed description of the requirements for confirmation of a nonconsensual plan, see Article VIII.B.2 below.

E. Confirmation Hearing

Pursuant to section 1128 of the Bankruptcy Code, the Bankruptcy Court has scheduled a hearing to consider confirmation of the Plan for **May 20, 2013 at 1:30 p.m. prevailing Eastern Time** before the Honorable Kevin J. Carey, United States Bankruptcy Court, 824 North Market Street, 5th Floor, Courtroom #5, Wilmington, Delaware 19801 (the "Confirmation Hearing"). The Bankruptcy Court has directed that objections, if any, to confirmation of the Plan be served and filed so that they are received **on or before May 16, 2013 at 4:00 p.m. prevailing Eastern Time**. The Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court without further notice except for the announcement of adjournment at the Confirmation Hearing, or at any subsequent adjourned Confirmation Hearing. See Article VIII.A below for a complete description of the procedures with respect to confirmation of the Plan and serving and filing objections thereto.

II.

OVERVIEW OF THE PLAN[1]

The Plan contemplates a reorganization of the Debtors, so that they will emerge from chapter 11 as a going concern. The Debtors believe that this will maximize value for all creditors and parties in interest.

The Plan further contemplates that, unless otherwise provided, (i) all ABL DIP Financing Claims, (ii) all prepetition secured claims, (iii) all Administrative Claims, inclusive of Claims against any of the Debtors arising under section 503(b)(9) of the Bankruptcy Code; and (iv) all priority claims will be paid in full in Cash on or as soon as practicable after the Effective Date.

[1] This section provides only a brief overview of the Plan. Reference should be made to the entire Disclosure Statement and the Plan for a complete description of the classification and treatment of Claims and Equity Interests.

In addition, unless otherwise provided, the Plan provides for the treatment of Allowed Claims against, and Equity Interests in, the Debtors as follows:

- The Ad Hoc DIP Lenders will receive (i) Cash in an approximate amount of $88 million, which amount is subject to change based on assumptions and factors identified in the Plan and in this Disclosure Statement, and (ii) eighty-seven and a half percent (87.5%) of the New SSI Common Stock;
- Each holder of an Allowed General Unsecured Claim will receive a deferred Cash payment equal to twenty percent (20%) of such Allowed Claim, plus interest, on the terms described in Article II.A immediately below and in the Plan.
- Each holder of an Allowed Trade Unsecured Claim, that is, the holder of an unsecured claim of any entity arising from such entity's provision of goods and/or services to the Debtors in the ordinary course of its prepetition trade relationship with the Debtors, with whom the Reorganized Debtors continue to do business after the Effective Date, will receive a deferred Cash payment equal to twenty percent (20%) of such Allowed Claim, plus interest, on the terms described in Article II.B immediately below and in the Plan. Such holders may increase their percentage recoveries to forty-five percent (45%), plus interest, pursuant to the Trade Election described in Article II.B below.
- Each holder of an Allowed Noteholder Unsecured Claim, that is, a holder of School Specialty, Inc.'s 3.75% Convertible Subordinated Notes due 2026, will receive its Pro Rata share of twelve and a half percent (12.5%) of the New SSI Common Stock;
- Each holder of a Convenience Class Claim, that is, any Allowed General Unsecured Claim or Allowed Trade Unsecured Claim of three thousand dollars ($3,000) or less, or any holder of a General Unsecured Claim or Trade Unsecured Claim in excess of three thousand dollars ($3,000) that agrees to voluntarily reduce the amount of its Allowed Claim to three thousand dollars ($3,000) pursuant to the Convenience Election described below, will receive a Cash payment equal to twenty percent (20%) of such Allowed Claim on or as soon as practicable after the Effective Date.[2]
- Holders of Equity Interests in SSI, including claims arising out of or with respect to such stock interests, will not receive any distribution under the Plan.

A. Details Regarding the Treatment of General Unsecured Claims in Class 5

Under the Plan, each holder of an Allowed General Unsecured Claim will receive a Cash payment or payments equal to twenty percent (20%) of its Allowed Claim, plus interest that accrues quarterly at a rate of five percent (5%) per annum from the Effective Date through the Payment Date, which is defined in the Plan as the earlier to occur of a date that is six (6) months after the maturity of the Term Loan Exit Facility, a Change of Control, or if the Reorganized

[2] Any Claims in Class 5 or 6 filed in an amount of $3,000 or less will be deemed Allowed in the amount included on the proof of claim, unless subject to a Claims objection.

Debtors determine to make Distributions early,[3] unless that holder makes the Convenience Election.

Convenience Election. Holders of General Unsecured Claims in excess of $3,000 may elect to receive a Cash payment on account of their Allowed Claim on or as soon as practicable after the Effective Date by making the Convenience Election on their Ballots. By making this election, they will receive the treatment specified for holders of Convenience Class Claims under Article IV.H of the Plan and thereby receive a one-time Cash payment equal to twenty percent (20%) of their Allowed Claim on or as soon as practicable after the Effective Date, *provided that* they agree to voluntarily reduce the Allowed amount of their General Unsecured Claim to $3,000. As such, the maximum Cash recovery under the Convenience Election is $600, and that payment shall be in full satisfaction of such holder's Allowed General Unsecured Claim.

For the avoidance of doubt, if the holder of an allowed General Unsecured Claim makes no Convenience Election on the Ballot, the holder will receive the deferred Cash payment described above on account of such Claim.

Distributions to holders of Allowed General Unsecured Claims are subject to the additional terms set forth in Article V.I of the Plan and in the Plan Supplement, including a cap on recoveries if the total amount of Allowed General Unsecured Claims and Allowed Trade Unsecured Claims, collectively, exceeds $60 million.

Illustrative Treatment of Allowed General Unsecured Claims

To illustrate the treatment of Allowed General Unsecured Claims in Class 5 of the Plan, a hypothetical creditor who holds an Allowed General Unsecured Claim of $10,000 will have the following options – and would receive the following illustrative distributions:

No Election: if no election is made on the Ballot, the holder will receive a Cash payment of $2,000, plus 5% interest that accrues quarterly from the Effective Date through payment, approximately six and a half (6 ½) years after the Effective Date of the Plan. This payment or a portion thereof may be made sooner if, among other things, a Change of Control occurs or if the Reorganized Debtors pay a dividend to their shareholders.

Convenience Election: if the holder does not wish to wait for this deferred Cash payment, the holder has the option to elect to have its Allowed Claim treated as a Convenience Class Claim. *In making this Convenience Election, however, the holder must agree to voluntarily reduce the amount of its Allowed Claim to $3,000.* Accordingly, if the holder makes the Convenience

[3] The Debtors anticipate that the Term Loan Exit Facility will mature six (6) years after the Effective Date. Accordingly, this payment is expected to be made in approximately six and a half (6 ½) years after the Effective Date, unless certain events such as a Change of Control or a dividend occur which would trigger an earlier payment, or the Reorganized Debtors determine to make the Distributions early. See Article V.I of the Plan for a description of these events. The Debtors are in the process of negotiating the terms of their Exit Facilities and binding commitments regarding the Exit Facilities will be included as Plan Supplement Documents, which must be provided by May 9, 2013. Copies of the Plan Supplement Documents may be obtained as set forth below in Article VII.T.12 of this Disclosure Statement.

Election on its Ballot, the holder will receive $600 in Cash on the Effective Date or as soon thereafter as possible in full satisfaction of its Allowed Claim.

B. Details Regarding the Treatment of Trade Unsecured Claims in Class 6

Under the Plan, an Allowed Trade Unsecured Claim is defined as an unsecured Claim of any entity arising from such entity's provision of goods and/or services to the Debtors in the ordinary course of its prepetition trade relationship with the Debtors, which Claim is held by an entity with whom the Reorganized Debtors continue to do business after the Effective Date. Under the Plan, each holder of an Allowed Trade Unsecured Claim will receive a Cash payment or payments equal to twenty percent (20%) of its Allowed Claim, plus interest that accrues quarterly at a rate of five percent (5%) per annum from the Effective Date through payment, to be paid six (6) months after the maturity of the Term Loan Exit Facility,[4] unless that holder participates in one of the following two election options:

Convenience Election. Holders of Trade Unsecured Claims in excess of $3,000 may elect to receive a Cash payment on account of their Allowed Claim on or as soon as practicable after the Effective Date by making the Convenience Election on their Ballots. By making this election, they will receive the treatment specified for holders of Convenience Class Claims under Article IV.H of the Plan and thereby receive a one-time Cash payment equal to twenty percent (20%) of their Allowed Claim on or as soon as practicable after the Effective Date, *provided that* they agree to voluntarily reduce the Allowed amount of their General Unsecured Claim to $3,000. As such, the maximum Cash recovery under the Convenience Election is $600, and that payment shall be in full satisfaction of such holder's Allowed Trade Unsecured Claim.

For the avoidance of doubt, if the holder of a Trade Unsecured Claim makes the Convenience Election on its Ballot, that holder will **not** be eligible to obtain the increased recovery under the Trade Election (described in the following paragraph).

Trade Election. On or before the date of the Confirmation Hearing, the Debtors will provide each holder of a Trade Unsecured Claim with information concerning the Customary Trade Terms, that is, the historic trade terms that were in effect between the Debtors and each such holder in calendar year 2012, in respect of, among other things, pricing, rebates and credit (including seasonal and normal payment terms and variable discount programs), which terms, including pricing, are subject to adjustments for market conditions to be agreed upon by the Reorganized Debtors and each such holder. For the avoidance of doubt, Customary Trade Terms related to pricing shall be based on historical trade terms for calendar year 2012, subject to market adjustments (which shall not include arbitrary discounts or unsubstantiated pricing decreases) to be agreed upon by the Reorganized Debtors and each such holder. To make the Trade Election, the holder must agree to provide the Reorganized Debtors with agreed-upon Customary Trade Terms from the date of the Trade Election until September 30, 2014 (which period may be shortened in certain circumstances). If a holder makes the Trade Election and

[4] As noted above, the anticipated maturity date of the Term Loan Exit Facility is six (6) years after the Effective Date, which means that this Cash payment is expected to be made approximately six and a half (6 ½) years after the Effective Date, unless certain events occur such as a Change of Control or dividend by the Reorganized Debtors which would trigger an earlier payment, or the Reorganized Debtors determine to make the Distributions early.

provides Customary Trade Terms to the Reorganized Debtors for the required period of time, the holder will receive a Trade Payment equal to forty-five percent (45%) of its Allowed Claim, plus interest that accrues quarterly at a rate of ten percent (10%) per annum from the Effective Date through payment, on a date that is six (6) months after the maturity of the Term Loan Exit Facility. This payment or a portion thereof may be made sooner if, among other things, a Change of Control occurs or if the Reorganized Debtors make a dividend to their shareholders. A holder of an Allowed Trade Unsecured Claim who makes the Trade Election constitutes a "Trade Claimant" as defined in the Plan.

Please note that it is a condition to the Trade Election that the Reorganized Debtors and each electing Trade Claimant agree to do business with one another after the Effective Date and agree on the Customary Trade Terms pursuant to which such business will be conducted. If the parties are unable to reach agreement on these points, the holder in question will not receive the Trade Payment.

If the holder makes the Trade Election on or before the Effective Date, its right to this increased recovery will vest immediately; if the holder does not make the Trade Election until after the Effective Date, its right to this increased recovery will vest in its entirety one year from the date of the election. For the avoidance of doubt, only the election regarding the Trade Election must be made by the Effective Date for an electing Trade Claimant to obtain the benefits described herein. Negotiations between the Debtors or Reorganized Debtors, as applicable, and each electing Trade Claimants regarding Customary Trade Terms will be conducted on an individualized, rolling basis beginning as promptly as possible after the date hereof, and do not need to be completed by the Effective Date.

The Trade Claimant's obligation under the Trade Election to provide the Reorganized Debtors with Customary Trade Terms until September 30, 2014 in order to receive this increased recovery is subject to certain conditions: if the Reorganized Debtors are in payment or financial covenant default under their Exit Facilities, or if the Reorganized Debtors fail to pay, the Trade Claimant's obligation shall cease. An Ombudsman (a Person designated by the Creditors Committee) will be appointed to, among other things, act as an advocate for all holders of unsecured claims in Classes 5 and 6 in any disputes that may arise between the Reorganized Debtors and such holders, including Trade Claimants, regarding Customary Trade Terms. See Article V.I of the Plan.

Illustrative Treatment of Allowed Trade Unsecured Claims

To illustrate the treatment of Allowed Trade Unsecured Claims in Class 6 of the Plan, a hypothetical creditor who holds an unsecured Claim arising from such creditor's provision of goods and/or services to the Debtors in the ordinary course of its prepetition business relationship with the Debtors in the Allowed amount of $10,000 and with whom the Reorganized Debtors continue to do business (and who therefore qualifies as a holder of a "Trade Unsecured Claim" under the Plan) will have the following options – and would receive the following illustrative distributions:

No Election: if no election is made, the holder will receive a Cash payment of $2,000, plus 5% interest that accrues quarterly from the Effective Date through payment, approximately six and a half (6 ½) years after the Effective Date of the Plan. This payment or a portion thereof may be made sooner if, among other things, a Change of Control occurs or if the Reorganized Debtors make a dividend to their shareholders.

Convenience Election: if the holder does not wish to wait for this deferred Cash payment, the holder has the option to elect to have its Allowed Claim treated as a Convenience Class Claim. *In making this Convenience Election, however, the holder must agree to voluntarily reduce the amount of its Allowed Claim to $3,000.* Accordingly, if the holder makes the Convenience Election on its Ballot, the holder will receive $600 in Cash on the Effective Date or as soon thereafter as possible in full satisfaction of its Allowed Claim. By making the Convenience Election, the holder loses its right to make the Trade Election.

Trade Election: if the holder makes the Trade Election and agrees to provide the Reorganized Debtors with Customary Trade Terms from the date of that election until September 30, 2014, the holder will receive $4,500 in Cash, plus 10% interest that accrues quarterly from the Effective Date through payment, approximately six and a half (6 ½) years after the Effective Date of the Plan. This payment may be made sooner if, among other things, a Change of Control occurs or if the Reorganized Debtors make a dividend to their shareholders.

C. Summary of Classification and Treatment of Claims and Equity Interests Under the Plan

The following chart summarizes the classification and treatment of Claims and Equity Interests under the Plan and the estimated distributions to be received by the holders of Allowed Claims and Equity Interests thereunder.

SUMMARY OF CLASSIFICATION AND TREATMENT OF CLAIMS AND EQUITY INTERESTS UNDER THE PLAN.[5]

Class	Description	Estimated Allowed Claims as of the Effective Date[6]	Impairment	Entitled to Vote	Treatment of Allowed Claims	Approximate Recovery
Unclassified	Administrative Claims	$10,015,000	Unimpaired	No	Except as set forth in Article III.A of the Plan, each holder of an Allowed Administrative Claim shall receive from the Debtors (a) Cash in an amount equal to the amount of such Allowed Administrative Claim on the later of the Effective Date and the date such Administrative Claim becomes an Allowed Administrative Claim, or as soon thereafter as is practicable, or (b) such other treatment as the Debtors (with the consent of the Required Ad Hoc DIP Lenders) and such holder shall have agreed upon in writing; provided, however, that Allowed Ordinary Course Administrative Claims shall be paid in full by the Reorganized Debtors in accordance with the terms and subject to the conditions of any agreements governing, instruments evidencing, or other documents relating to, such transactions.	100%
Unclassified	Fee Claims	$12,000,000	Unimpaired	No	All requests for compensation or reimbursement of Fee Claims pursuant to sections 327, 328, 330, 331, 503 or 1103 of the Bankruptcy Code (other than Fee Claims of the DIP Agents, the Bayside DIP Agent and DIP Lenders, all of which shall be paid without the need for filing any motions, fee applications or other request for payment as provided in the Final Orders approving the DIP Facilities) for services rendered prior to the Effective Date shall be filed and served on the Reorganized Debtors, counsel to the Reorganized Debtors, the United States Trustee, counsel to the DIP Agents and counsel to the Creditors Committee and such other entities who are designated by the Bankruptcy Rules, the Confirmation Order or other order of the	100%

[5] This table is only a summary of the classification and treatment of Claims and Equity Interests under the Plan. Reference should be made to the entire Disclosure Statement and the Plan for a complete description of the classification and treatment of Claims and Equity Interests.

[6] Figures in this column are rounded to the nearest thousand.

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Class	Description	Estimated Allowed Claims as of the Effective Date[6]	Impairment	Entitled to Vote	Treatment of Allowed Claims	Approximate Recovery
					Court, no later than thirty (30) days after the Effective Date, unless the Reorganized Debtors agree otherwise. Holders of Fee Claims that are required to file and serve applications for final allowance of their Fee Claims and that do not file and serve such applications by the required deadline shall be forever barred, stopped and estopped from asserting such Claims against the Debtors, the Reorganized Debtors or their respective properties and Estates, and such Fee Claims (other than the Fee Claims of the DIP Agents and DIP Lenders) shall be deemed discharged as of the Effective Date. Objections to any Fee Claims must be filed and served on the Reorganized Debtors, counsel for the Reorganized Debtors, counsel to the Creditors Committee and the requesting party no later than fifty-one (51) days after the Effective Date. Except as otherwise set forth in the ABL DIP Payoff Letter, the Professionals, counsel to the DIP Agents and counsel to the DIP Lenders shall estimate their Fee Claims incurred but unpaid through the Effective Date and shall deliver such estimate to the Debtors, counsel to the Ad Hoc DIP Lenders and counsel to the Creditors Committee no later than five (5) days prior to the anticipated Confirmation Date. If a Professional or counsel to the DIP Agents does not provide an estimate, the Debtors may estimate the unbilled fees and expenses of such Professional or counsel. Except as otherwise set forth in the ABL DIP Payoff Letter, the total amount of Fee Claims of Professionals so estimated as of the Confirmation Date and the estimated Fee Claims of the DIP Agents and the DIP Lenders incurred but unpaid through the Effective Date shall comprise the Fee Claim Reserve Amount. On the Effective Date, the Debtors shall establish and fund the Fee Claims Account with Cash equal to the aggregate Fee Claim Reserve Amount. The amount of Fee Claims (i) owing to the Professionals shall be paid in Cash to such Professionals from the funds held in the Fee Claims Account when such Claims are	

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Class	Description	Estimated Allowed Claims as of the Effective Date[6]	Impairment	Entitled to Vote	Treatment of Allowed Claims	Approximate Recovery
					Allowed by a Final Order and (ii) owing to the DIP Agents and the DIP Lenders shall be paid in Cash from the funds held in the Fee Claims Account or otherwise as provided in the Final Orders approving the DIP Facilities or the ABL DIP Payoff Letter.	
Unclassified	Priority Tax Claims	$8,954,000	Unimpaired	No	Except to the extent that a holder of an Allowed Priority Tax Claim agrees to a different treatment, each holder of an Allowed Priority Tax Claim shall receive, at the sole option of the Debtors or the Reorganized Debtors, (a) Cash in an amount equal to such Allowed Priority Tax Claim on the later of the Effective Date and the date such Priority Tax Claim becomes an Allowed Priority Tax Claim, or as soon thereafter as is practicable, but no later than thirty (30) days after the Effective Date, or (b) through equal annual installment payments in cash (i) of a total value, as of the Effective Date of the Plan, equal to the allowed amount of such Claim; (ii) over a period ending not later than 5 years after the Petition Date; and (iii) in a manner not less favorable than the most favored nonpriority unsecured claim provided for by the Plan.	100%
Unclassified	ABL DIP Financing Claims	$72,300,000	Unimpaired	No	All ABL DIP Financing Claims are and shall be deemed Allowed Claims and, on the Effective Date, holders of the Allowed ABL DIP Financing Claims shall receive Payment in Full in Cash on account of such ABL DIP Financing Claims, or as otherwise provided in the ABL DIP Facility and order of the Court.	100%

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Class	Description	Estimated Allowed Claims as of the Effective Date[6]	Impairment	Entitled to Vote	Treatment of Allowed Claims	Approximate Recovery
Unclassified	Bayside DIP Financing Claims	$0	Unimpaired	No	The Debtors believe that Allowed Bayside DIP Financing Claims have been fully satisfied, however, to the extent any Allowed Bayside DIP Financing Claims remain outstanding on the Effective Date, holders of the Allowed Bayside DIP Financing Claims shall receive Payment in Full in Cash on account of such Bayside DIP Financing Claims and such Claims otherwise shall be treated in accordance with the terms of the Bayside DIP Facility and orders of the Court. For the avoidance of doubt, the foregoing shall not include any Claim in respect of the Prepetition Escrowed Amounts.	100%
Unclassified	Ad Hoc DIP Financing Claims	$155,000,000	Unimpaired	No	Except to the extent that a holder of an Allowed Ad Hoc DIP Financing Claim shall have agreed in writing to a different treatment, each holder of an Allowed Ad Hoc DIP Financing Claim, on the Effective Date or as soon thereafter as is practicable, shall receive, in full and final satisfaction of all outstanding obligations under the Ad Hoc DIP Facility, its Pro Rata share of (a) approximately $88 million in Cash, which amount may change depending on, among other things, the terms of the Exit Facilities, the outcome of any appeal in connection with the Court's April 22, 2013 order in respect of the Prepetition Escrowed Amounts, the Reorganized Debtors' Cash needs based on any required minimum liquidity covenants under the Exit Facilities, and Allowed Claim amounts, and (b) eighty-seven and a half percent (87.5%) of the New SSI Common Stock. For the avoidance of doubt, in no event shall the Cash and the value of the New SSI Common Stock exceed the aggregate amount of the Allowed Ad Hoc DIP Financing Claims.	100%

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Class	Description	Estimated Allowed Claims as of the Effective Date[6]	Impairment	Entitled to Vote	Treatment of Allowed Claims	Approximate Recovery
Class 1	Other Priority Claims	$44,000	Unimpaired	No (deemed to accept)	Except to the extent that a holder of an Allowed Other Priority Claim and the Debtors (with the consent of the Required Ad Hoc DIP Lenders) shall have agreed in writing to a different treatment, in full and final satisfaction of such Claim, each holder of an Allowed Other Priority Claim in Class 1 shall receive payment in full in Cash in an amount equal to such Allowed Other Priority Claim as soon as practicable after the later of (a) the Effective Date and (b) the date when such Other Priority Claim becomes an Allowed Other Priority Claim.	100%
Class 2	Prepetition ABL Facility Claims	$0	Unimpaired	No (deemed to accept)	All Prepetition ABL Facility Claims have been Allowed by prior order of the Court and shall be deemed to have been satisfied with proceeds of or other assumption under the ABL DIP Facility.	100%
Class 3	Prepetition Term Loan Claims	$0	Unimpaired	No (deemed to accept)	Except with respect to certain amounts that were placed in escrow pending resolution of the make-whole litigation (described below), the Debtors believe that the Prepetition Term Loan Claims were previously paid in full in connection with the refinancing of the Bayside DIP Facility. However, to the extent any Allowed Prepetition Term Loan Claims remain outstanding and except to the extent that a holder of an Allowed Prepetition Term Loan Claim and the Debtors (with the consent of the Required Ad Hoc DIP Lenders) shall have agreed in writing to a less favorable treatment, each holder of an Allowed Prepetition Term Loan Claim in Class 3 shall receive Cash in an amount equal to the Allowed Prepetition Term Loan Claim (which, for the avoidance of doubt, may include all or a portion of the Prepetition Escrowed Amounts), in full satisfaction of such Claim, on or as soon as practicable after the Effective Date, or, in the case of the Prepetition Escrowed Amounts, when due in accordance with entry of a final, non-appealable order disposing of such Amounts.	100%

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Class	Description	Estimated Allowed Claims as of the Effective Date[6]	Impairment	Entitled to Vote	Treatment of Allowed Claims	Approximate Recovery
Class 4	Other Secured Claims	$3,147,000	Unimpaired	No (deemed to accept)	Except to the extent that a holder of an Allowed Other Secured Claim and the Debtors (with the consent of the Required Ad Hoc DIP Lenders) shall have agreed in writing to a less favorable treatment, in full and final satisfaction of such Claim, (i) each Allowed Other Secured Claim shall be reinstated and rendered Unimpaired in accordance with section 1124(2) of the Bankruptcy Code, notwithstanding any contractual provision or applicable nonbankruptcy law that entitles the holder of an Allowed Other Secured Claim to demand or receive payment of such Allowed Other Secured Claim prior to the stated maturity of such Allowed Other Secured Claim from and after the occurrence of a default, (ii) each holder of an Allowed Other Secured Claim shall receive Cash in an amount equal to such Allowed Other Secured Claim, including any interest on such Allowed Other Secured Claim required to be paid pursuant to section 506(b) of the Bankruptcy Code, on the later of (a) thirty (30) days after the Effective Date, and (b) the date such Other Secured Claim becomes an Allowed Other Secured Claim, or as soon thereafter as is practicable (but no later than thirty (30) days after the date such Other Secured Claim becomes an Allowed Other Secured Claim) or (iii) each holder of an Allowed Other Secured Claim shall receive the Collateral securing its Allowed Other Secured Claim and any interest on such Allowed Other Secured Claim required to be paid pursuant to section 506(b) of the Bankruptcy Code, in full and complete satisfaction of such Allowed Other Secured Claim as soon as is practicable, on the later of (x) thirty (30) days after the Effective Date and (y) the date such Other Secured Claim becomes an Allowed Other Secured Claim.[7]	100%
Class 5	General	$20,943,000	Impaired	Yes	Each holder of an Allowed General Unsecured Claim, other	20.0%, plus

[7] Notwithstanding the foregoing, to the extent an Allowed Other Secured Claim arises on account of property taxes, such Allowed Other Secured Claim shall be treated as a Priority Tax Claim, and any applicable liens shall remain Unimpaired until such Allowed Other Secured Claim is paid in full. Any applicable interest shall be calculated in a manner consistent with section 511 of the Bankruptcy Code.

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Class	Description	Estimated Allowed Claims as of the Effective Date[6]	Impairment	Entitled to Vote	Treatment of Allowed Claims	Approximate Recovery
	Unsecured Claims				than a holder of such a Claim who participates in the Convenience Election below, shall receive, in full and final satisfaction of such Allowed General Unsecured Claim, a payment in Cash equal to twenty percent (20%) of the Allowed amount of such Claim, to be paid on the Payment Date, which is expected to be in approximately six and one half (6 ½) years. Such payment shall accrue quarterly paid-in-kind interest of five percent (5%) per annum beginning on the Effective Date, and shall be subject to the additional terms set forth in Article V.I of the Plan, including a cap on distributions in certain circumstances. *Convenience Election.* Each holder of a General Unsecured Claim shall have the option on its Ballot to voluntarily reduce the Allowed amount of such Claim to three thousand dollars ($3,000) and receive the treatment specified for holders of Convenience Class Claims under Article IV.H of the Plan with respect to such reduced Allowed Claim. For the avoidance of doubt, any such holder who makes the Convenience Election shall not be entitled to receive any other recovery or distribution on account of such Claim.	interest
Class 6	Trade Unsecured Claims	$35,556,000	Impaired	Yes	Each holder of an Allowed Trade Unsecured Claim, other than a holder of such Claim who participates in the Convenience Election or the Trade Election, shall receive, in full and final satisfaction of such Allowed Trade Unsecured Claim, a payment in Cash equal to twenty percent (20%) of the Allowed amount of such Claim, to be paid on the Payment Date, which is expected to be in approximately six and one half (6 ½) years. Such payment shall accrue quarterly paid-in-kind interest of five percent (5%) per annum beginning on the Effective Date, and shall be subject to the additional terms set forth in Article V.I of the Plan, including a cap on distributions in certain circumstances. *Convenience Election.* Each holder of a Trade Unsecured	20.0 or 45.0%, depending on Trade Election, plus interest

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Class	Description	Estimated Allowed Claims as of the Effective Date[6]	Impairment	Entitled to Vote	Treatment of Allowed Claims	Approximate Recovery
					Claim shall have the option on its Ballot to voluntarily reduce the Allowed amount of such Claim to three thousand dollars ($3,000) and receive the treatment specified for holders of Convenience Class Claims under Article IV.H of the Plan with respect to such reduced Allowed Claim. For the avoidance of doubt, any such holder who makes the Convenience Election shall not be entitled to receive any other recovery or distribution on account of such Claim, and shall not be eligible to participate in the Trade Election. *Trade Election.* On or before the date of the Confirmation Hearing, the Debtors shall notify the holders of Trade Unsecured Claims of their option to, and procedures governing their right to, participate in the Trade Election. Such holders who make the Trade Election and provide the agreed-upon Customary Trade Terms from the date of the election until September 30, 2014 (unless certain events set forth in Article V.I of the Plan such as a Change of Control or a dividend occur which would trigger an earlier payment) shall receive the Trade Payment equal to forty-five percent (45%) of their Allowed Claim, plus paid-in-kind interest that accrues quarterly at a rate of ten percent (10%) per annum from the Effective Date through payment. Such payment will be made on the Payment Date, which is expected to be in approximately six and one half (6 ½) years (unless certain events set forth in Article V.I of the Plan such as a Change of Control or a dividend occur which would trigger an earlier payment, or the Reorganized Debtors determine to make Distributions early), in full and final satisfaction of such Allowed Trade Unsecured Claim and in lieu of any other recovery on account of such Claim. The Trade Payment shall be subject to the additional terms set forth in Article V.I of the Plan, including a cap on distributions in certain circumstances.	

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Class	Description	Estimated Allowed Claims as of the Effective Date[6]	Impairment	Entitled to Vote	Treatment of Allowed Claims	Approximate Recovery
Class 7	Noteholder Unsecured Claims	$170,754,000	Impaired	Yes	The holders of Allowed Noteholder Unsecured Claims shall receive their Pro Rata share of twelve and a half percent (12.5%) of New SSI Common Stock on account of such Noteholder Unsecured Claims.	6.0%
Class 8	Convenience Class	$1,546,000	Impaired	Yes	Each holder of a Convenience Class Claim shall receive, in full and final satisfaction of such Claim, a one-time payment in Cash equal to twenty percent (20%) of the Allowed amount of such Claim, on or as soon as practicable after the Effective Date or, in the event that such Claim is disputed pursuant to a Claims objection filed prior to the Effective Date, when such Claim is Allowed.	20.0%
Class 9	Equity Interests in School Specialty, Inc.	$0	Impaired	No (presumed to reject)	The holders of Equity Interests in SSI shall neither receive distributions nor retain any property under the Plan on account of such Equity Interests. On the Effective Date, Equity Interests in SSI shall be canceled and extinguished and shall be of no further force and effect, whether surrendered for cancelation or otherwise.	0.0%

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III.

OVERVIEW OF CHAPTER 11 PROCEEDINGS

Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code. Under chapter 11, a debtor is authorized to reorganize or sell its business for the benefit of itself, its creditors and equity holders. In addition to permitting rehabilitation of a debtor, another goal of chapter 11 is to promote equality of treatment for similarly situated creditors and equity interest holders with respect to the distribution of a debtor's assets.

The commencement of a chapter 11 case creates an estate that comprises all of the legal and equitable interests of the debtor as of the filing date. The Bankruptcy Code provides that the debtor may continue to operate its business and remain in possession of its property as a "debtor in possession."

The consummation of a plan is the principal objective of a chapter 11 case. A plan sets forth, among other things, the treatment of, and means for satisfying, claims against and equity interests in the debtor. Confirmation of a plan by the bankruptcy court makes the plan binding upon a debtor, any issuer of securities under the plan, any person acquiring property under the plan and any creditor or equity interest holder of a debtor. Subject to certain limited exceptions, the confirmation order discharges a debtor from any debt that arose prior to the date of confirmation of the plan and substitutes therefor the obligations specified under the confirmed plan.

After a plan has been filed, the holders of claims against or equity interests in a debtor that are impaired and entitled to receive distributions under the plan are permitted to vote to accept or reject the plan. Before soliciting acceptances of the proposed plan, however, section 1125 of the Bankruptcy Code requires a debtor to prepare a disclosure statement containing adequate information of a kind, and in sufficient detail, to enable a hypothetical reasonable investor to make an informed judgment about the plan. The Debtors are submitting this Disclosure Statement to satisfy the requirements of section 1125 of the Bankruptcy Code.

IV.

COMPANY BACKGROUND

A. Overview

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.

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

a. The Educational Resources Segment

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.

The Company tracks 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

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.

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.

* * *

To market these varied products to customers, as of the Petition Date, the Company maintained 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 historically mails more than 12 million product offering catalogs to potential consumers; in addition, the Company maintained 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.

As of the Petition Date, the Company had six automated, integrated distribution centers in the United States that provided 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.

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 the EBITDA. 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 10% of revenues. Similarly, in fiscal year 2012, the Company's top 100 products accounted for approximately 11% of revenues, and products from 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.

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.

As of the Petition Date, the Company operated three manufacturing facilities, at which it produced certain of its proprietary products, including wood furniture, agendas and other printed products. Including these facilities and its corporate headquarters, the Company leased or owned a total of 15 facilities throughout the country, which house distribution centers and warehouse space, sales offices and other facilities.

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

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

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.

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.[8]

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.

[8] 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.

A chart showing the corporate organization of the Company, as of the Petition Date, is annexed hereto as Exhibit D.

C. The Debtors' Prepetition Capital Structure

1. Secured Indebtedness

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 and a term loan which the Company entered into on May 22, 2012 to repay existing secured indebtedness.

(a) Prepetition ABL Facility

On May 22, 2012, School Specialty and certain of its domestic subsidiaries entered into a revolving senior secured asset-based credit agreement (the "Prepetition ABL Facility") with Wells Fargo Capital Finance, LLC, as administrative agent (the "Prepetition ABL Agent" and, together with Wells Fargo Capital Finance, LLC and General Electric Capital Corporation in their capacities as Co-Collateral Agents under the Prepetition ABL Facility, the "Prepetition ABL Agents"). The Prepetition ABL Facility provided up to $200 million in revolving credit and had a maturity date of September 30, 2014. As of the Petition Date, the aggregate amount outstanding under the Prepetition ABL Facility was approximately $43,724,237.87 plus accrued interest, fees, costs and other charges. Obligations under the Prepetition ABL Facility were secured by a first-priority security interest in the Prepetition ABL Priority Collateral (as defined below) and a second-priority security interest in the Prepetition Term Loan Priority Collateral (as defined below).

The Debtors do not believe that any amounts remain outstanding under the Prepetition ABL Facility because they were rolled up or otherwise satisfied by the ABL DIP Facility (described below).

(b) Prepetition Term Loan Facility

On May 22, 2012, School Specialty and certain of its domestic subsidiaries entered into a term loan agreement (the "Prepetition Term Loan Agreement") with Bayside Finance, LLC, as administrative agent, collateral agent and lenders ("Bayside" or the "Prepetition Term Loan Agent" and, together with the Prepetition ABL Agents, the "Prepetition Agents"). The Prepetition Term Loan Agreement provided up to $70 million in term loan credit and had a maturity date of October 31, 2014. As of the Petition Date, the aggregate principal amount outstanding under the Prepetition Term Loan Agreement was approximately $92.0 million, inclusive of the Make-Whole (described below). Obligations under the Prepetition Term Loan Agreement were secured by a first-priority security interest in the Prepetition Term Loan Priority Collateral (as defined below) and a second-priority interest in the Prepetition ABL Priority Collateral (as defined below).

The Prepetition Term Loan Agreement included 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"). On

January 4, 2013, the Prepetition Term Loan Agent accelerated the Prepetition Term Loan Agreement and declared all amounts owing thereunder, including the Make-Whole, due and payable.

The Debtors do not believe that any amounts remain outstanding under the Prepetition Term Loan Agreement because they were paid or otherwise satisfied (including that $25 million that was placed into escrow in respect of the Make-Whole) in connection with the refinancing of the Bayside DIP Facility (described below).

(c) **Intercreditor Agreement**

Pursuant to an intercreditor agreement between the Prepetition ABL Agents and the Prepetition Term Loan Agent dated as of May 22, 2012 (the "Intercreditor Agreement"), the lenders under the Prepetition ABL Facility had (i) a first-priority security interest in substantially all of the working capital assets of School Specialty and its subsidiary borrowers and guarantors (the "Prepetition ABL Priority Collateral") and (ii) a second-priority security interest in all other assets, subordinate only to Bayside's first-priority security interest. Pursuant to the Intercreditor Agreement, Bayside had (i) a second-priority security interest in substantially all of the working capital assets of School Specialty and the subsidiary borrowers and guarantors, subordinate only to the first-priority security interest of the lenders under the Prepetition ABL Facility, and (ii) a first-priority security interest in all other assets (the "Prepetition Term Loan Priority Collateral").

2. Unsecured Debt

As of the Petition Date, School Specialty had approximately $157.5 million in original principal amount of outstanding convertible subordinated debentures due 2026 (the "Notes"). School Specialty issued the 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 Notes was issued on March 1, 2011, and an additional $57.5 million of the Notes was issued on July 7, 2011. The Bank of New York Mellon Trust Company, N.A. serves as the trustee for the Notes. As of the date hereof, the total outstanding amount of the Notes, including interest and fees, was approximately $170.75 million.

In addition to the foregoing, the Debtors had approximately $60.0 million in ordinary course unsecured trade debt that was unpaid as of the Petition Date. Certain of these claims have been paid during the Chapter 11 Cases pursuant to various "first day" motions as described below.

D. Equity Interests in SSI

As of the Petition Date, School Specialty had approximately 19.2 million shares of common stock outstanding, which were held by more than 1,700 holders of record. Prior to these Chapter 11 Cases, School Specialty's common stock was listed on NASDAQ under the symbol "SCHS".

V.

EVENTS LEADING TO THE COMMENCEMENT OF THE CHAPTER 11 CASES

The commencement of the Debtors' Chapter 11 Cases were the result of ongoing pressures on the industry in which they operate. The global financial crisis that began in 2008 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 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 contributed to this contraction. As a result, school districts have been forced to take dramatic steps to reduce spending in recent years.

In particular, since 2008, schools have deferred planned purchases, particularly with respect to content-based or discretionary products. 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 School Specialty's furniture and equipment lines.

School Specialty'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, School Specialty has been highly levered relative to its EBITDA levels. Though School Specialty 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 School Specialty's ability to maintain adequate liquidity levels.

To combat this downturn, School Specialty implemented various measures since 2008 to reduce overall costs and improve business efficiencies. In addition to taking steps to right-size its capital structure, School Specialty 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 and improve its existing financial arrangements, while taking all possible actions to achieve cost savings and maintain earnings and liquidity. Since 2009, School Specialty also reduced its overall headcount by more than 30%.

Despite these efforts, maintaining acceptable levels of liquidity continued to prove difficult. Accordingly, the Debtors had no other option but to seek protection under the Bankruptcy Code.

VI.

THE CHAPTER 11 CASES

A. Significant "First Day" Motions

On the Petition Date, the Debtors filed various "first day" motions seeking authority to, among other things: (i) pay prepetition compensation, benefits and reimbursable employee expenses; (ii) continue certain insurance policies and programs; (iii) continue certain customer practices and programs; (iv) substantially maintain their existing bank accounts and continue the Company's integrated cash management system; (v) pay prepetition claims of certain critical vendors; (vii) prohibit utility companies from discontinuing, altering or refusing service; (viii) retain KCC to serve as the Debtors' Claims and Noticing Agent; and (ix) enter into the DIP Facilities (as described below) and provide adequate protection to the Debtors' Prepetition Lenders. All of the Debtors' first day motions and retention applications were approved by the Bankruptcy Court in substantially the manner requested by the Debtors.

B. Debtors' Retention Applications

The Debtors have retained various professionals in connection with the prosecution and administration of their Chapter 11 Cases, and the operation of their day-to-day business. The Bankruptcy Court has approved the Debtors' retention and/or employment of (i) Paul, Weiss, Rifkind, Wharton & Garrison LLP and Young Conaway Stargatt & Taylor, LLP, as bankruptcy co-counsel, (ii) Perella Weinberg Partners LP ("Perella"), as financial advisor, (iii) Alvarez & Marsal North America, LLC, as crisis management advisors, (iv) Thomas E. Hill, as Chief Restructuring Officer, (v) Deloitte & Touche LLP, as independent auditors, (vi) Godfrey & Kahn, S.C., as special corporate and transactions counsel, and (vii) certain ordinary course professionals.

C. Debtor-in-Possession Credit Facilities

1. DIP Facilities

To provide the Debtors with the cash and liquidity necessary to continue their operations and to maintain normal postpetition vendor and customer relations, on the Petition Date, the Debtors entered into a $175 million secured super-priority revolving credit agreement (as amended, the "ABL DIP Facility") with Wells Fargo Capital Finance, LLC, as Administrative Agent, and Wells Fargo Capital Finance, LLC and GE Capital Markets, Inc., as Co-Collateral Agents. The Debtors were authorized to use proceeds of the ABL DIP Facility and proceeds of the Bayside DIP Facility (as defined below) to finance (a) postpetition operating expenses and other working capital and financing requirements of certain Debtors, as borrowers, subject to an approved budget, (b) certain transaction and chapter 11-related fees, costs and expenses, (c) the approved carve-out for professional fees, (d) "adequate protection" (as set forth in section 361 of the Bankruptcy Code), and (e) the prepetition debt on account of the Prepetition Facilities. On February 26, 2013, the Bankruptcy Court entered an order approving the ABL DIP Facility on a final basis and permitting the payment or other satisfaction of the obligations under the Prepetition ABL Facility. Upon entry of the Final Order, the Debtors were authorized to use the

proceeds of the ABL DIP Facility to fully repay or deem issued or incurred under the ABL DIP Facility the full amounts outstanding as of the Petition Date in respect of the Prepetition ABL Facility and other prepetition debt owed thereunder.

On the Petition Date, the Debtors also entered into a secured new money term loan with Bayside Finance LLC, as administrative and collateral agent (the "Bayside DIP Facility"). However, on February 26, 2013, the Debtors refinanced the Bayside DIP Facility with a new term loan facility. Specifically, on February 26, 2013, the Debtors obtained Court authority to enter into a replacement credit facility for the Bayside DIP Facility, for a $155 million Secured Super-Priority Debtor-in-Possession Credit Agreement (the "Ad Hoc DIP Facility") with certain Noteholders, as lenders, and U.S. Bank National Association, as Administrative and Collateral Agent. Upon approval of this new facility, on February 27, 2013 the Debtors repaid in full and terminated the Bayside DIP Facility, except for certain amounts held in escrow, including an approximate amount of $25 million which may be used for potential payment to Bayside of the Make-Whole and interest calculated at the Default Rate (as defined in the Prepetition Term Loan Agreement). Other than those amounts that are being held in escrow pending resolution of the Make-Whole litigation (described below) and certain professionals' fees that have been incurred since February 27, 3013, all amounts owing under the Bayside DIP Facility have been repaid in full.

On March 14, 2013, the Bankruptcy Court entered an order approving the Ad Hoc DIP Facility on a final basis. The DIP Facilities have subsequently been amended to modify certain milestones and other provisions.

2. DIP Requirements, Milestones and Exit Process

The DIP Facilities that the Debtors entered into on the Petition Date both required that the Debtors consummate a Sale Process pursuant to section 363 of the Bankruptcy Code, under which the Debtors would sell all or substantially all of their assets to Bayside or another purchaser on or before April 11, 2013. However, certain of the Debtors' stakeholders and the Creditors Committee objected to this sale requirement.

These objections led to the negotiation of the Ad Hoc DIP Facility. Specifically, through negotiations, certain Noteholders agreed to provide the Debtors with the Ad Hoc DIP Facility that replaced the Bayside DIP Facility and, in so doing, removed the requirement that the Debtors consummate a sale transaction by April 11, 2013. Instead, the Ad Hoc DIP Facility permitted the Debtors to pursue a dual path process by which the Debtors would continue to market their assets while simultaneously working towards a stand-alone reorganization plan. Upon entry into the Ad Hoc DIP Facility, the Debtors also were able to obtain an amendment to the ABL DIP Facility with parallel modifications concerning the Debtors' path forward during chapter 11.

As detailed below, the Debtors actively pursued this dual path strategy through the middle of April 2013. At that point, the Debtors, in consultation with the DIP Lenders and the Creditors Committee, determined that a reorganization in chapter 11 was the preferred approach and that the sale process would be terminated. Accordingly, the Plan contemplates a reorganization of the Debtors.

D. Appointment of the Official Committee of Unsecured Creditors

On February 5, 2013, pursuant to section 1102 of the Bankruptcy Code, the United States Trustee for the District of Delaware appointed an official committee of unsecured creditors in these Chapter 11 Cases (the "Creditors Committee"). As of the date hereof, the Creditors Committee is comprised of Intragrated Resources Holdings Inc. d/b/a A.T. Clayton & Co., Inc., S.P. Richards Company, Quad/Graphics, Inc., and The Bank of New York Mellon Trust Company NA, as Indenture Trustee.

The Bankruptcy Court has approved the Creditors Committee's retention of: (i) Brown Rudnick LLP and Venable LLP as co-counsel, (ii) Blackstone Advisory Partners L.P., as financial advisors, and (iii) GCG, Inc., as information agent.

E. Proofs of Claim

On February 25, 2013, the Bankruptcy Court entered an order (the "Bar Date Order") requiring any person or entity holding or asserting a Claim (with certain exceptions, as more fully set forth in the Bar Date Order) against the Debtors to file a written proof of claim with the Claims and Voting Agent on or before April 1, 2013 (the "Bar Date"). The Bar Date Order further provided that, pursuant to Bankruptcy Rule 3003(c)(2), any entity that is required to file a proof of claim in these Chapter 11 Cases pursuant to the Bankruptcy Code, the Bankruptcy Rules or the Bar Date Order with respect to a particular claim against the Debtors, but that fails to do so, shall not be treated as a creditor with respect to such Claim for the purposes of voting upon, or receiving distributions under, any plan or plans filed in these Chapter 11 Cases unless otherwise permitted by the Bankruptcy Court or agreed by the Debtors.

As of the date hereof, there have been approximately 1,599 Claims filed against the Debtors that total, together with the Debtors' scheduled liabilities, approximately $890,961,057. However, the Debtors believe that many of the Claims that have been filed in the Chapter 11 Cases are invalid, untimely, duplicative or overstated.

Since the Bar Date, the Debtors have engaged in an ongoing process of assessing the Claims filed against them and, where appropriate, will object to Claims that the Debtors believe should not be Allowed at all or, at most, not in the amount(s) or classification as filed.

F. Schedules and Statements of Financial Affairs

On February 26, 2013, each of the Debtors filed their respective Schedules of Assets and Liabilities and Statements of Financial Affairs (as amended on April 4, 2013, the "Schedules and Statements") with the Bankruptcy Court. Among other things, the Schedules and Statements set forth the Claims of known creditors against the Debtors as of the Petition Date based upon the Debtors' books and records. A copy of the Schedules and Statements can be obtained at no cost from the Claims and Voting Agent's website at http://www.kccllc.net/schoolspecialty or for a fee from the Bankruptcy Court's website at http://ecf.deb.uscourts.gov.

G. Exclusivity

The Debtors continue to enjoy the exclusive right to file plans and solicit votes from creditors and equity holders pursuant to section 1121 of the Bankruptcy Code. However, on February 15, 2013, the Creditors Committee filed a motion to terminate the Debtors' exclusivity period relating to the sale requirements embedded in the ABL DIP Facility (as originally drafted) and the Bayside DIP Facility. Because the Debtors were able to successfully replace the Bayside DIP Facility, as noted in above, and, therefore remove the sale milestones contained in that agreement, the Creditors Committee agreed to adjourn its motion to terminate exclusivity. This motion is presently scheduled to be heard on April 30, 2013.

H. Assumption and Rejection of Executory Contracts and Unexpired Leases of Nonresidential Real Property

The Debtors have approximately 16,000 contracts and unexpired leases, including more than 11,500 purchase orders. As part of the chapter 11 process, the Debtors have engaged in an extensive process to evaluate each of these contracts and leases to determine (i) whether the contract or lease is executory and, if it is executory, (ii) whether to "assume" (i.e., keep or affirm) or "reject" (i.e., terminate or disavow) it.

To evaluate their executory contracts, the Debtors have grouped the contracts based on their subject matter and designated teams to focus on each group. The teams evaluated each contract within the group in accordance with guidelines and criteria established by the Debtors, to determine whether assuming, rejecting or attempting to renegotiate a contract would be most beneficial to the Debtors and the Debtors' stakeholders. The Debtors also engaged in a similar process with respect to their unexpired leases.

In connection with solicitation of votes on the Plan, the Debtors will send a notice of assumption and cure to counterparties to those contracts and leases that the Debtors have determined to assume. Details regarding this process are set forth in the Disclosure Statement Approval Order and the exhibits thereto.

I. Bayside Litigation

As noted above, the Prepetition Term Loan Agreement included a $25 million Make-Whole, payable in the event of a prepayment of the debt during certain periods or upon acceleration due to an event of default. On February 25, 2013 and March 6, 2013, the Creditors Committee filed a motion and an amended motion, respectively, requesting that the Bankruptcy Court disallow the Make-Whole on the basis that, among other things, the Make-Whole constitutes an unenforceable penalty under state law and is prohibited by the Bankruptcy Code. In light of this dispute, in connection with the refinancing of the Bayside DIP Facility, the parties agreed to place approximately $25 million into escrow pending resolution of this matter. After extensive briefing and numerous depositions, the Court held a hearing on this matter on April 5, 2013. On April 22, 2013, the Court held that the Make-Whole was an enforceable obligation and entered an order denying the Creditors Committee's motion to disallow it. *See* Dkt. No. 856. As of the date of this Disclosure Statement, the appeals period has not yet run.

On April 3, 2013, the Creditors Committee filed a complaint against Bayside seeking to avoid as a constructive fraudulent conveyance a separate $1,193,717 prepetition make-whole payment that the Debtors made to Bayside on October 25, 2012. The complaint alleges that because the October 25, 2012 make-whole payment was made pursuant to an unenforceable make-whole provision in Prepetition Term Loan Agreement, such make-whole payment was not a payment on account of a valid and enforceable antecedent debt. Accordingly, the complaint asserts, among other things, that the Debtors did not receive reasonably equivalent value in exchange for the October 25, 2012 make-whole payment and that such payment should therefore be avoided pursuant to sections 544(b) and 548 of the Bankruptcy Code.

J. Sale Process and Sale Transaction

As noted above, from the outset of the Chapter 11 Cases, the Debtors and their professionals have engaged in a marketing process that was designed to test the market for the possible sale of all or a part of the Debtors' assets (including certain divisions). The Debtors conducted this process pursuant to the bidding procedures approved by the Bankruptcy Court on March 18, 2013 (the "Bidding Procedures").[9] As contemplated in the Bidding Procedures, the Debtors, through their investment bankers, contacted approximately 140 parties and entered into non-disclosure agreements with 45 of those potentially interested parties. The Debtors provided the parties that executed non-disclosure agreements with certain confidential information to allow those potentially interested parties to properly evaluate the assets and submit an initial indication of interest in the assets.

The Debtors established March 28, 2013 as the deadline for submissions of initial indications of interest. On that date, the Debtors received indications of interest from twelve (12) parties for the purchase of all or a part of the Debtors' assets (including certain divisions). After analyzing these indications of interest, the Debtors invited certain parties to participate in further due diligence. Several of those parties provided the Debtors with detailed, non-binding letters of intent that remain subject, among other things, to the completion of due diligence. As of the date hereof, 5 parties continue to engage in due diligence efforts regarding the potential purchase of all or a part of the Debtors' assets (including certain divisions).

Importantly, while these diligence efforts continue, the Debtors have concluded that they will not consummate any sale pursuant to the Plan resulting from these continuing due diligence efforts during the Chapter 11 Cases. Instead, any such sale transactions involving the sale of one or more businesses would occur after the Debtors emerge from chapter 11, and the Debtors may continue to explore a sale of all or a part of the Debtors' assets (including certain divisions). Regarding the sale process conducted pursuant to section 363 of the Bankruptcy Code, on April 19, 2013, the Debtors formally terminated the sale process for purposes of the Chapter 11 Cases; pursuant to that notice, the Bidding Procedures previously approved by the Court are no longer effective. *See* Dkt. No. 840.

[9] The final Bidding Procedures approved by the Court on March 18, 2013 are a revised version of the procedures that the Court preliminarily approved on February 15, 2013. These changes were made in connection with the refinancing of the Bayside DIP Facility, during which Bayside also ceased to serve as a stalking horse bidder in this process.

K. Plan Negotiations; Trade Election

A key term of the Plan is the Trade Election available to any holder of an Allowed Trade Unsecured Claim.[10] As described herein, under this option, Trade Claimants (i.e., holders of Allowed Trade Unsecured Claims who make the Trade Election) will be able to obtain a significantly higher recovery on account of their Allowed Trade Unsecured Claims in exchange for providing the Reorganized Debtors with Customary Trade Terms.

The Debtors believe that a return to normalized business operations, including historical trade terms with their vendor and supplier base, is crucial to the success of the Reorganized Debtors after the Effective Date. The Trade Election was designed to incentivize the Debtors' vendor base to return to such normalized terms and thereby assist the Reorganized Debtors with their return to normal business operations as promptly as possible following the Effective Date. The terms of the Trade Election were the subject of extensive negotiation between and among the Debtors, the Ad Hoc DIP Lenders and the Creditors Committee, and the Debtors believe that the proposed terms are fair and reasonable, and appropriately compensate Trade Claimants for the value provided to the Reorganized Debtors by the return of Customary Trade Terms.

Cash to be paid to Trade Claimants pursuant to the Trade Payment will be funded out of the Reorganized Debtors' business operations.

VII.

SUMMARY OF THE PLAN

THE FOLLOWING SUMMARIZES THE SIGNIFICANT ELEMENTS OF THE PLAN. THIS DISCLOSURE STATEMENT IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE MORE DETAILED INFORMATION SET FORTH IN THE PLAN.

A. Classification and Treatment of Administrative Claims, Claims and Equity Interests Under the Plan

1. General

Only administrative expenses, claims and equity interests that are "allowed" may receive distributions under a chapter 11 plan. An "allowed" administrative expense, claim or equity interest simply means that the Debtors agree, or in the event of a dispute, that the Bankruptcy Court determines, that the administrative expense, claim or equity interest, including the amount thereof, is in fact a valid obligation of, or equity interest in, the Debtors. Section 502(a) of the Bankruptcy Code provides that a timely filed administrative expense, claim or equity interest is automatically "allowed" unless the debtor or another party in interest objects. However, section 502(b) of the Bankruptcy Code specifies certain claims that may not be "allowed" in a bankruptcy case even if a proof of claim is filed. These include, without limitation, claims that

[10] The Plan defines a "Trade Unsecured Claim" as a Claim of any entity arising from such entity's provision of goods and/or services to the Debtors in the ordinary course of its prepetition trade relationship with the Debtors, which Claim is held by an entity with whom the Reorganized Debtors continue to do business after the Effective Date.

are unenforceable under the governing agreement or applicable non-bankruptcy law, claims for unmatured interest on unsecured and/or undersecured obligations, property tax claims in excess of the debtor's equity in the property, claims for certain services that exceed their reasonable value, nonresidential real property lease and employment contract rejection damage claims in excess of specified amounts, and late-filed claims. In addition, Bankruptcy Rule 3003(c)(2) prohibits the allowance of any claim or equity interest that either is not listed on the debtor's schedules or is listed as disputed, contingent, or unliquidated if the holder has not filed a proof of claim or equity interest before the deadline to file proofs of claim and equity interests.

The Bankruptcy Code also requires that, for purposes of treatment and voting, a chapter 11 plan divide the different claims against, and equity interests in, the Debtors into separate classes based upon their legal nature. Claims of a substantially similar legal nature are usually classified together, as are equity interests of a substantially similar legal nature. Because an entity may hold multiple claims and/or equity interests which give rise to different legal rights, the holders of such claims and/or equity interests may find themselves as members of multiple classes of claims and/or equity interests.

Under a chapter 11 plan, the separate classes of claims and equity interests must be designated either as "impaired" (altered by the plan in any way) or "unimpaired" (unaltered by the plan). If a class of claims or equity interests is "impaired," the Bankruptcy Code affords certain rights to the holders of such claims or interests, such as the right to vote on the plan (unless the plan provides for no distribution to the holder, in which case, the holder is deemed to reject the plan), and the right to receive an amount under the chapter 11 plan that is not less than the value that the holder would receive if the debtor were liquidated under chapter 7. Under section 1124 of the Bankruptcy Code, a class of claims or equity interests is "impaired" unless, with respect to each claim or interest of such class, the plan (i) does not alter the legal, equitable or contractual rights of the holders of such claims or interests or (ii) irrespective of the holders' right to receive accelerated payment of such claims or interests after the occurrence of a default, cures all defaults (other than those arising from, among other things, the debtor's insolvency or the commencement of a bankruptcy case), reinstates the maturity of the claims or interests in the class, compensates the holders of such claims or interests for any damages incurred as a result of their reasonable reliance upon any acceleration rights and does not otherwise alter their legal, equitable or contractual rights. Typically, this means that the holder of an unimpaired claim will receive on the later of the effective date of the plan or the date on which amounts owing are due and payable, payment in full, in cash, with post-petition interest to the extent permitted and provided under the governing agreement between the parties (or, if there is no agreement, under applicable non-bankruptcy law), and the remainder of the debtor's obligations, if any, will be performed as they come due in accordance with their terms. Thus, other than its right to accelerate the debtor's obligations, the holder of an unimpaired claim will be placed in the same position it would have been in had the debtor's case not been commenced.

Consistent with these requirements, the Plan divides the Claims against, and Equity Interests in, the Debtors into the following Classes and affords the treatments outlined herein:

Class	Designation	Impairment
Unclassified	Administrative Claims	Unimpaired

Unclassified	Fee Claims	Unimpaired
Unclassified	Priority Tax Claims	Unimpaired
Unclassified	ABL DIP Financing Claims	Unimpaired
Unclassified	Ad Hoc DIP Financing Claims	Unimpaired
Unclassified	Bayside DIP Financing Claims	Unimpaired
Class 1	Other Priority Claims	Unimpaired
Class 2	Prepetition ABL Facility Claims	Unimpaired
Class 3	Prepetition Term Loan Claims	Unimpaired
Class 4	Other Secured Claims	Unimpaired
Class 5	General Unsecured Claims	Impaired
Class 6	Trade Unsecured Claims	Impaired
Class 7	Noteholder Unsecured Claims	Impaired
Class 8	Convenience Class Claims	Impaired
Class 9	Equity Interests in School Specialty, Inc.	Impaired

2. Unclassified Claims

In accordance with section 1123(a)(1) of the Bankruptcy Code, the Plan does not classify certain priority Claims. These unclassified Claims will be treated as follows:

(a) Unclassified — Administrative Claims

Administrative Claims include any right to payment constituting a cost or expense of administration of the Chapter 11 Cases of a kind specified under section 503(b) of the Bankruptcy Code and entitled to priority under section 507(a)(2), 507(b) or 1114(e)(2) of the Bankruptcy Code, including, without limitation, any actual and necessary costs and expenses of preserving the Debtors' Estates, any actual and necessary costs and expenses of operating the Debtors' business, any indebtedness or obligations incurred or assumed by the Debtors in Possession in connection with the conduct of their business, including, without limitation, for the acquisition or lease of property or an interest in property or the rendition of services, all compensation and reimbursement of expenses to the extent awarded by the Court under sections 330, 331 or 503 of the Bankruptcy Code, any fees or charges assessed against the Debtors' Estates under section 1930 of chapter 123 of title 28 of the United States Code, any Claim for goods delivered to the Debtors within twenty (20) days of the Petition Date and entitled to administrative priority pursuant to section 503(b)(9) of the Bankruptcy Code, the DIP Financing Claims, and the Fee Claims of the Prepetition Agents.

Article III.A of the Plan provides that, except as set forth therein, each holder of an Allowed Administrative Claim shall receive from the Debtors (a) Cash in an amount equal to the amount of such Allowed Administrative Claim on the later of the Effective Date and the date such Administrative Claim becomes an Allowed Administrative Claim, or as soon thereafter as is

practicable, or (b) such other treatment as the Debtors (with the consent of the Required Ad Hoc DIP Lenders) and such holder shall have agreed upon in writing; provided, however, that Allowed Ordinary Course Administrative Claims shall be paid in full by the Reorganized Debtors in accordance with the terms and subject to the conditions of any agreements governing, instruments evidencing, or other documents relating to, such transactions.

Unless a prior date has been established pursuant to the Bankruptcy Code, the Bankruptcy Rules or a prior order of the Court, the Confirmation Order will establish a bar date for filing applications for allowance of Administrative Claims (except for those categories of Administrative Claims listed immediately below), which date will be the first Business Day that is thirty (30) days after service of notice of the Effective Date. Holders of Administrative Claims, not paid prior to the Confirmation Date shall submit requests for payment on or before the applicable Administrative Claims Bar Date or forever be barred, stopped and estopped from doing so and such Administrative Claim shall be deemed discharged as of the Effective Date. The notice of confirmation to be delivered pursuant to Bankruptcy Rules 3020(c) and 2002(f) will set forth the Administrative Claims Bar Date and constitute good and sufficient notice of the Administrative Claims Bar Date. The Disbursing Agent and/or the Reorganized Debtors shall have 120 days (or such longer period as may be allowed by order of the Court, which may be entered without notice or a hearing) following the Administrative Claims Bar Date to review and object to all Administrative Claims. In the event that the Reorganized Debtors object to an Administrative Claim, the Court shall determine the Allowed amount of such Administrative Claim.

The foregoing bar date and procedures shall not apply to the following categories of Administrative Claims: (i) Fee Claims, (ii) Ordinary Course Administrative Claims, (iii) the fees and expenses of the professionals of the Prepetition Agents under the Prepetition Facilities and the DIP Agents, the Bayside DIP Agent and DIP Lenders under the DIP Facilities, and (iv) DIP Financing Claims.

(b) Unclassified — Fee Claims

Fee Claims are (a) Allowed Administrative Claims of Professionals and (b) all accrued, contingent and/or unpaid fees and expenses of professionals for the DIP Agents and the DIP Lenders as provided in the Final Orders approving the DIP Facilities (except to the extent otherwise provided under the ABL DIP Payoff Letter).

Article III.B(a) of the Plan provides that all requests for compensation or reimbursement of Fee Claims pursuant to sections 327, 328, 330, 331, 503 or 1103 of the Bankruptcy Code (other than Fee Claims of the DIP Agents, the Bayside DIP Agent and DIP Lenders, all of which shall be paid without the need for filing any motions, fee applications or other request for payment as provided in the Final Orders approving the DIP Facilities or as otherwise set forth in the ABL DIP Payoff Letter) for services rendered prior to the Effective Date shall be filed and served on the Reorganized Debtors, counsel to the Reorganized Debtors, the United States Trustee, counsel to the DIP Agents and counsel to the Creditors Committee and such other entities who are designated by the Bankruptcy Rules, the Confirmation Order or other order of the Court, no later than thirty (30) days after the Effective Date, unless the Reorganized Debtors agree otherwise. Holders of Fee Claims that are required to file and serve applications for final

allowance of their Fee Claims and that do not file and serve such applications by the required deadline shall be forever barred, stopped and estopped from asserting such Claims against the Debtors, the Reorganized Debtors or their respective properties and Estates, and such Fee Claims (other than the Fee Claims of the DIP Agents and DIP Lenders) shall be deemed discharged as of the Effective Date. Objections to any Fee Claims must be filed and served on the Reorganized Debtors, counsel for the Reorganized Debtors, counsel to the Creditors Committee and the requesting party no later than fifty-one (51) days after the Effective Date, unless the Reorganized Debtors agree otherwise.

Article III.B(b) of the Plan provides that except as otherwise set forth in the ABL DIP Payoff Letter, the Professionals, counsel to the DIP Agents and counsel to the DIP Lenders shall estimate their Fee Claims incurred but unpaid through the Effective Date and shall deliver such estimate to the Debtors, counsel to the Ad Hoc DIP Lenders and counsel to the Creditors Committee no later than five (5) days prior to the anticipated Confirmation Date. If a Professional or counsel to the DIP Agents does not provide an estimate, the Debtors may estimate the unbilled fees and expenses of such Professional or counsel. Except as otherwise set forth in the ABL DIP Payoff Letter, the total amount of Fee Claims of Professionals so estimated as of the Confirmation Date and the estimated Fee Claims of the DIP Agents and the DIP Lenders incurred but unpaid through the Effective Date shall comprise the Fee Claim Reserve Amount. On the Effective Date, the Debtors shall establish and fund the Fee Claims Account with Cash equal to the aggregate Fee Claim Reserve Amount. The amount of Fee Claims (i) owing to the Professionals shall be paid in Cash to such Professionals from the funds held in the Fee Claims Account when such Claims are Allowed by a Final Order and (ii) owing to the DIP Agents and the DIP Lenders shall be paid in Cash from the funds held in the Fee Claims Account or otherwise as provided in the Final Orders approving the DIP Facilities or the ABL DIP Payoff Letter.

(c) Unclassified — Priority Tax Claims

Priority Tax Claims include any unsecured Claim that is entitled to a priority in right of payment under section 507(a)(8) of the Bankruptcy Code.

Article III.C of the Plan provides that except to the extent that a holder of an Allowed Priority Tax Claim agrees to a different treatment, each holder of an Allowed Priority Tax Claim shall receive, at the sole option of the Debtors or the Reorganized Debtors (with the consent of the Required Ad Hoc DIP Lenders), (a) Cash in an amount equal to such Allowed Priority Tax Claim on the later of the Effective Date and the date such Priority Tax Claim becomes an Allowed Priority Tax Claim, or as soon thereafter as is practicable, but no later than thirty (30) days after the Effective Date, or (b) through equal annual installment payments in cash (i) of a total value, as of the Effective Date of the Plan, equal to the allowed amount of such Claim; (ii) over a period ending not later than 5 years after the Petition Date; and (iii) in a manner not less favorable than the most favored nonpriority unsecured claim provided for by the Plan.

(d) Unclassified — DIP Financing Claims

DIP Financing Claims include, as the context may require, Ad Hoc DIP Financing Claims, ABL DIP Financing Claims, and, to the extent not already paid, Bayside DIP Financing Claims.

(i) ABL DIP Financing Claims

ABL DIP Financing Claims are claims arising under the ABL DIP Facility.

Article III.D.1 of the Plan provides that all ABL DIP Financing Claims are and shall be deemed Allowed Claims and, on the Effective Date, holders of the Allowed ABL DIP Financing Claims shall receive Payment in Full in Cash on account of such ABL DIP Financing Claims, or as otherwise provided in the ABL DIP Facility and order of the Court.

Upon Payment in Full of the ABL DIP Financing Claims on the Effective Date and full execution and delivery by the Reorganized Debtors and the lender(s) under the Exit Facilities to the ABL DIP Agent of the ABL DIP Payoff Letter, the liens and security interests securing such ABL DIP Financing Claims shall be released and forever discharged. Any cash collateral provided pursuant to Section 1.4 of the ABL DIP Facility and the Split Lien Intercreditor Agreement (as defined in the ABL DIP Facility) shall not be required to be invested and shall not accrue interest and shall be returned to the Reorganized Debtors, net of fees, costs and expenses accrued or incurred after the Effective Date, at such time that the contingent obligations under the letters of credit issued under the ABL DIP Facility and Bank Product Obligations (as defined in the ABL DIP Facility) are no longer required to be cash collateralized pursuant to the terms of the ABL DIP Facility.

(ii) Bayside DIP Financing Claims

Bayside DIP Financing Claims are claims arising under the Bayside DIP Facility, to the extent not already paid. For the avoidance of doubt, the foregoing shall not include any claim asserted by the Creditors Committee against Bayside or any claim in respect of the Prepetition Escrowed Amounts.

Article III.D.2 of the Plan provides that on the Effective Date, holders of the Allowed Bayside DIP Financing Claims shall receive Payment in Full in Cash on account of such Bayside DIP Financing Claims and such Claims otherwise shall be treated in accordance with the terms of the Bayside DIP Facility and orders of the Bankruptcy Court.

Upon Payment in Full of the Bayside DIP Financing Claims on the Effective Date, any liens and security interests securing such Bayside DIP Financing Claims shall be released and forever discharged.

(iii) Ad Hoc DIP Financing Claims

Ad Hoc DIP Financing Claims are claims arising under the Ad Hoc DIP Facility.

Pursuant to Article III.D.3 of the Plan, except to the extent that a holder of an Allowed Ad Hoc DIP Financing Claim shall have agreed in writing to a different treatment, each holder of an Allowed Ad Hoc DIP Financing Claim, on the Effective Date or as soon thereafter as is practicable, shall receive, in full and final satisfaction of all outstanding obligations under the Ad Hoc DIP Facility, its Pro Rata share of (a) approximately $88 million in Cash, which amount may change depending on, among other things, the terms of the Exit Facilities, the outcome of any appeal in connection with the Court's April 22, 2013 order in respect of the Prepetition Escrowed Amounts, the Reorganized Debtors' Cash needs based on any required minimum liquidity covenants under the Exit Facilities, and Allowed Claim amounts, and (b) eighty-seven and a half percent (87.5%) of the New SSI Common Stock. For the avoidance of doubt, in no event shall the Cash and the value of the New SSI Common Stock exceed the aggregate amount of the Allowed Ad Hoc DIP Financing Claims.

Upon the payment of Cash and distribution of New SSI Common Stock as set forth above, any and all liens, encumbrances and security interests securing such Ad Hoc DIP Financing Claims shall be released and forever discharged, without limitation, and without any further action by any party.

3. Classified Claims and Equity Interests

(a) Class 1 — Other Priority Claims

Other Priority Claims include any Claim entitled to priority pursuant to section 507(a) of the Bankruptcy Code (other than Administrative Claims and Priority Tax Claims), including, without limitation, certain allowed employee compensation and benefit claims of the Debtors' employees incurred within one hundred eighty (180) days prior to the Petition Date.

Article IV.A of the Plan provides that except to the extent that a holder of an Allowed Other Priority Claim and the Debtors (with the consent of the Required Ad Hoc DIP Lenders) shall have agreed in writing to a different treatment, in full and final satisfaction of such Claim, each holder of an Allowed Other Priority Claim in Class 1 shall receive Payment in Full in Cash in an amount equal to such Allowed Other Priority Claim as soon as practicable after the later of (a) the Effective Date and (b) the date when such Other Priority Claim becomes an Allowed Other Priority Claim.

Class 1 is Unimpaired under the Plan. Holders of Allowed Other Priority Claims in Class 1 are presumed to accept the Plan pursuant to section 1126(f) of the Bankruptcy Code and are not entitled to vote to accept or reject the Plan.

(b) Class 2 — Prepetition ABL Facility Claims

Class 2 Claims are all Claims, to the extent not already paid, for amounts due and owing under the Prepetition ABL Facility.

Pursuant to Article IV.B of the Plan, all Prepetition ABL Facility Claims have been Allowed by prior order of the Court and shall be deemed to have been satisfied with proceeds of or other assumption under the ABL DIP Facility.

Class 2 is Unimpaired under the Plan. Holders of Allowed Prepetition ABL Facility Claims in Class 2 are presumed to accept the Plan pursuant to section 1126(f) of the Bankruptcy Code and are not entitled to vote to accept or reject the Plan.

(c) Class 3 — Prepetition Term Loan Claims.

Class 3 claims are all Claims, to the extent not already paid, for amounts due and owing under the Prepetition Term Loan Agreement, including the Prepetition Escrowed Amounts.

Article IV.C of the Plan provides that except to the extent that a holder of an Allowed Prepetition Term Loan Claim and the Debtors (with the consent of the Required Ad Hoc DIP Lenders) shall have agreed in writing to a less favorable treatment, each holder of an Allowed Prepetition Term Loan Claim in Class 3 shall receive Cash in an amount equal to the Allowed Prepetition Term Loan Claim (which, for the avoidance of doubt, may include all or a portion of the Prepetition Escrowed Amounts), in full satisfaction of such Claim, on or as soon as practicable after the Effective Date, or, in the case of the Prepetition Escrowed Amounts, when due in accordance with entry of a final, non-appealable order disposing of such Amounts.

Class 3 is Unimpaired under the Plan. Holders of Allowed Prepetition Term Loan Claims in Class 3 are presumed to accept the Plan pursuant to section 1126(f) of the Bankruptcy Code and are not entitled to vote to accept or reject the Plan.

(d) Class 4 — Other Secured Claims

Other Secured Claims include any Claim (other than the DIP Financing Claims and the Prepetition Loan Claims) to the extent reflected in the Schedules or a proof of claim filed as a Secured Claim.

Article IV.D of the Plan provides that except to the extent that a holder of an Allowed Other Secured Claim and the Debtors (with the consent of the Required Ad Hoc DIP Lenders) shall have agreed in writing to a less favorable treatment, in full and final satisfaction of such Claim, (i) each Allowed Other Secured Claim shall be reinstated and rendered Unimpaired in accordance with section 1124(2) of the Bankruptcy Code, notwithstanding any contractual provision or applicable nonbankruptcy law that entitles the holder of an Allowed Other Secured Claim to demand or receive payment of such Allowed Other Secured Claim prior to the stated maturity of such Allowed Other Secured Claim from and after the occurrence of a default, (ii) each holder of an Allowed Other Secured Claim shall receive Cash in an amount equal to such Allowed Other Secured Claim, including any interest on such Allowed Other Secured Claim required to be paid pursuant to section 506(b) of the Bankruptcy Code, on the later of (a) thirty (30) days after the Effective Date, and (b) the date such Other Secured Claim becomes an Allowed Other Secured Claim, or as soon thereafter as is practicable (but no later than thirty (30) days after the date such Other Secured Claim becomes an Allowed Other Secured Claim) or (iii) each holder of an Allowed Other Secured Claim shall receive the Collateral securing its Allowed Other Secured Claim and any interest on such Allowed Other Secured Claim required to be paid pursuant to section 506(b) of the Bankruptcy Code, in full and complete satisfaction of such Allowed Other Secured Claim as soon as is practicable, on the later of (x) thirty (30) days after

Effective Date and (y) the date such Other Secured Claim becomes an Allowed Other Secured Claim.

Notwithstanding the foregoing, to the extent an Allowed Other Secured Claim arises on account of property taxes, such Allowed Other Secured Claim shall be treated as a Priority Tax Claim, and any applicable liens shall remain Unimpaired until such Allowed Other Secured Claim is paid in full. Any applicable interest shall be calculated in a manner consistent with section 511 of the Bankruptcy Code.

Although all Other Secured Claims have been placed in one Class for purposes of nomenclature, each Other Secured Claim, to the extent secured by a Lien on Collateral different than that securing any Other Secured Claims, shall be treated as being in a separate sub-Class for the purpose of receiving Distributions under the Plan.

Class 4 is Unimpaired under the Plan. Holders of Allowed Other Secured Claims in Class 4 are presumed to accept the Plan pursuant to section 1126(f) of the Bankruptcy Code and are not entitled to vote to accept or reject the Plan.

(e) Class 5 — General Unsecured Claims

A General Unsecured Claim is a Claim against any of the Debtors that is not an Administrative Claim, Priority Tax Claim, Other Priority Claim, Fee Claim, Ad Hoc DIP Financing Claim, ABL DIP Financing Claim, Bayside DIP Financing Claim, Prepetition ABL Facility Claim, Prepetition Term Loan Claim, Other Secured Claim, Trade Unsecured Claim, Noteholder Unsecured Claim or Convenience Class Claim.

Article IV.E(a) of the Plan provides that each holder of an Allowed General Unsecured Claim, other than holders of such Claims who participate in the Convenience Election, shall receive, in full and final satisfaction of such Allowed General Unsecured Claim, a payment in Cash equal to twenty percent (20%) of the Allowed amount of such Claim, to be paid on the Payment Date, which is six (6) months after the maturity date of the Term Loan Exit Facility (unless certain events set forth in Article V.I of the Plan such as a Change of Control or a dividend occur which would trigger an earlier payment, or the Reorganized Debtors determine to make Distributions early).[11] Such payment shall accrue quarterly paid-in-kind interest of five percent (5%) per annum beginning on the Effective Date, and shall be subject to the additional terms set forth in Article V.I of the Plan. Distributions to holders of Allowed General Unsecured Claims and Allowed Trade Unsecured Claims in Class 5 and Class 6 shall be reduced Pro Rata in the event that the Distribution Cap is exceeded. The Distribution Cap is the total amount of Allowed General Unsecured Claims, Allowed Trade Unsecured Claims and Allowed Convenience Class Claims (but excluding all Claims on account of which no Distributions shall be made in accordance with Article VI.3.C.1.e of the Plan), which shall not exceed $60 million.

[11] The Debtors anticipate that the Term Loan Exit Facility will mature six (6) years after the Effective Date. Accordingly, this payment is expected to be made in approximately six and a half (6 ½) years after the Effective Date, unless an earlier payment is triggered. See Article V.I of the Plan for a description of these events.

Article IV.E(b) of the Plan describes the Convenience Election available to holders of General Unsecured Claims. Pursuant to the Convenience Election, each holder of a General Unsecured Claim shall have the option on its Ballot to voluntarily reduce the Allowed amount of such Claim to three thousand dollars ($3,000) and receive a one-time payment of twenty percent (20%) on account of such reduced Allowed Claim on or as soon as practicable after the Effective Date. For the avoidance of doubt, any such holder who makes the Convenience Election shall not be entitled to receive any other recovery or distribution on account of such Claim.

Class 5 is Impaired under the Plan. Holders of Allowed General Unsecured Claims in Class 5 are entitled to vote to accept or reject the Plan.

(f) Class 6 — Trade Unsecured Claims

A Trade Unsecured Claim is a Claim of any entity arising from such entity's provision of goods and/or services to the Debtors in the ordinary course of its prepetition trade relationship with the Debtors that is not an Other Priority Claim, Administrative Claim, Other Secured Claim, General Unsecured Claim or Convenience Class Claim, which Claim is held by an entity with whom the Reorganized Debtors continue to do business after the Effective Date.

Article IV.F(a) of the Plan provides that each holder of an Allowed Trade Unsecured Claim, other than a holder of such Claim who participates in the Convenience Election or the Trade Election, shall receive, in full and final satisfaction of such Allowed Trade Unsecured Claim, a payment in Cash equal to twenty percent (20%) of the Allowed amount of such Claim, to be paid on the Payment Date, which is six (6) months after the maturity date of the Term Loan Exit Facility (unless certain events set forth in Article V.I of the Plan such as a Change of Control or a dividend occur which would trigger an earlier payment, or the Reorganized Debtors determine to make Distributions early).[12] Such payment shall accrue quarterly paid-in-kind interest of five percent (5%) per annum beginning on the Effective Date, and shall be subject to the additional terms set forth in Article V.I of the Plan. Distributions to holders of Allowed General Unsecured Claims and Allowed Trade Unsecured Claims in Class 5 and Class 6 shall be reduced Pro Rata in the event that the Distribution Cap is exceeded. The Distribution Cap is the total amount of Allowed General Unsecured Claims, Allowed Trade Unsecured Claims and Allowed Convenience Claims, which shall not exceed $60 million.

Article IV.F(b) of the Plan describes the Convenience Election available to holders of Allowed Trade Unsecured Claims. Pursuant to the Convenience Election, each holder of an Allowed Trade Unsecured Claim shall have the option on their Ballot to voluntarily reduce the Allowed amount of such Claim to three thousand dollars ($3,000) and receive a one-time payment of twenty percent (20%) on account of such reduced Allowed Claim on or as soon as practicable after the Effective Date. For the avoidance of doubt, any such holder who makes the Convenience Election shall not be entitled to receive any other recovery or distribution on account of such Claim, and shall not be entitled to participate in the Trade Election in respect of such Claim.

[12] The Debtors anticipate that the Term Loan Exit Facility will mature six (6) years after the Effective Date. Accordingly, this payment is expected to be made in approximately six and a half (6 ½) years after the Effective Date, unless an earlier payment is triggered. See Article V.I of the Plan for a description of these events.

Article IV.F(c) of the Plan describes the Trade Election and provides that on or before the Confirmation Hearing, the Debtors shall notify the holders of Trade Unsecured Claims of their option to, and procedures governing their right to, participate in the Trade Election. Such holders who make the Trade Election and provide the agreed-upon Customary Trade Terms for the duration of the Trade Payment Period[13] shall receive forty-five percent (45%) on the Payment Date (described above), plus paid-in-kind interest of ten percent (10%) per annum, in full and final satisfaction of such Allowed Trade Unsecured Claim and in lieu of any other recovery on account of such Claim. The Debtors or Reorganized Debtors, Creditors Committee and Required Ad Hoc Lenders shall designate a third party entity to monitor the Trade Election, mediate and resolve any disputes arising therefrom concerning the provision of the Customary Trade Terms and any breach thereof, and resolve any disputes concerning the Distributions of the Trade Payment, on the terms set forth in the Plan Supplement. The Trade Payment is also subject to the Distribution Cap set forth above. The Trade Election and Trade Payment shall be subject to the additional terms set forth in Article V.I of the Plan, including provisions that describe (i) when the Trade Claimant's right to such Trade Payment will vest and (ii) how a right to a Trade Payment may be transferred, and in the Plan Supplement. See Article VII.J.6-8 of this Disclosure Statement.

Please note that it is a condition to the Trade Election that the Reorganized Debtors and each electing Trade Claimant agree to do business with one another after the Effective Date and agree on the Customary Trade Terms pursuant to which such business will be conducted. If the parties are unable to reach agreement on these points, the holder in question will not receive the Trade Payment.

As described herein, the Plan does not provide that parties who purchase Trade Unsecured Claims from the Debtors' vendors or suppliers prior to the date such vendors or suppliers make the Trade Election are eligible to participate in the Trade Election. Such parties will instead receive Class 5 ballots. Tannor Partners Credit Fund, L.P. asserts that precluding purchasers of claims from participating in the Trade Election treats identically situated creditors differently, violates the absolute priority rule, and makes the Plan unconfirmable, and intends to pursue its objections at the Confirmation Hearing. As set forth herein, the Debtors are offering the Trade Payment under the Trade Election to those vendors and suppliers who offer historical trade terms to the Reorganized Debtors because they believe that a return to historical trade terms is crucial to the success of the Reorganized Debtors after the Effective Date. As such, we believe that consideration is being given by Trade Claimants in exchange for the higher recovery and that separate treatment is appropriate.

Class 6 is Impaired under the Plan. Holders of Allowed Trade Unsecured Claims in Class 6 are entitled to vote to accept or reject the Plan.

[13] The Plan defines the Trade Payment Period as the period which begins on the date that the Trade Claimant and Reorganized Debtors agree to reinstate Customary Trade Terms and ends on September 30, 2014, subject to a Change in Control as provided in Article V.I.2 of the Plan, a default of the kind provided in Article V.I.5 of the Plan, or a breach of the Customary Trade Terms by the Reorganized Debtors, and as may be further set forth in the Plan Supplement.

(g) Class 7 — Noteholder Unsecured Claims

Noteholder Unsecured Claims are all Claims, to the extent not already paid, for amounts due and owing under the Notes Indenture.

Article IV.G of the Plan provides that the holders of Allowed Noteholder Unsecured Claims shall receive their Pro Rata share of twelve and a half percent (12.5%) of New SSI Common Stock on account of such Noteholder Unsecured Claims.

Class 7 is Impaired under the Plan. Holders of Allowed Noteholder Unsecured Claims in Class 7 are entitled to vote to accept or reject the Plan.

(h) Class 8 — Convenience Class Claims

A Convenience Class Claim is any Allowed General Unsecured Claim or Allowed Trade Unsecured Claim of three thousand dollars ($3,000) or less. Any Claims objections filed in respect of such Claims shall be made prior to the Effective Date. Any holder of an Allowed General Unsecured Claim or an Allowed Trade Unsecured Claim may make the Convenience Election to voluntarily reduce the Allowed amount of such Claim to $3,000 to receive the treatment set forth below.

Article IV.H of the Plan provides that each holder of a Convenience Class Claim shall receive, in full and final satisfaction of such Claim, a one-time payment in Cash equal to twenty percent (20%) of the Allowed amount of such Claim, on or as soon as practicable after the Effective Date or when such Claim is Allowed.

Class 8 is Impaired under the Plan. Holders of Allowed Convenience Class Claims in Class 8 are entitled to vote to accept or reject the Plan.

(i) Class 9 — Equity Interests in SSI

Equity Interests in SSI consist of any equity security within the meaning of section 101(16) of the Bankruptcy Code or any other instrument evidencing an ownership interest in School Specialty, Inc., whether or not transferable, and any option, warrant, or right, contractual or otherwise, to acquire, sell or subscribe for any such interest.

Pursuant to Article IV.I of the Plan, the holders of Equity Interests in SSI shall neither receive distributions nor retain any property under the Plan on account of such Equity Interests. On the Effective Date, Equity Interests in SSI shall be canceled and extinguished and shall be of no further force and effect, whether surrendered for cancelation or otherwise.

Class 9 is Impaired under the Plan. Holders of Equity Interests in SSI are presumed to reject the Plan and are not entitled to vote to accept or reject the Plan.

B. Deemed Substantive Consolidation of the Debtors

Article V.A of the Plan provides that the Plan is predicated upon, and it is a condition precedent to confirmation of the Plan, that the Bankruptcy Court provide in the Confirmation

Order for the substantive consolidation of the Estates of the Debtors into a single Estate solely for purposes of the Plan and the Distributions thereunder, as of the Effective Date. To the extent a Claim (including any Disputed Claim) becomes an Allowed Claim, such Claim shall be satisfied in accordance with the provisions of the Plan.

Pursuant to the Confirmation Order and as of the Effective Date, except as expressly provided in the Plan, (i) all assets and liabilities of the substantively consolidated Debtors and their Estates will be deemed to be merged solely for purposes of the Plan and Distributions to be made thereunder, (ii) the obligations of each Debtor will be deemed to be the obligation of the substantively consolidated Debtors and their Estates solely for purposes of the Plan and Distributions thereunder, (iii) any Claims filed or to be filed in connection with any such obligations will be deemed Claims against the substantively consolidated Debtors and their Estates, (iv) each Claim filed in the Chapter 11 Case of any Debtor will be deemed filed against the Debtors and their Estates in the consolidated Chapter 11 Cases in accordance with the substantive consolidation of the assets and liabilities of the Debtors, (v) all transfers, disbursements and distributions made by any Debtor under the Plan will be deemed to be made by the substantively consolidated Debtors and their Estates, and (vi) all guarantees of the Debtors of the obligations of any other Debtors shall be deemed eliminated so that any Claim against any Debtor and any guarantee thereof executed by any other Debtor and any joint or several liability of any of the Debtors shall be deemed to be one obligation of the substantively consolidated Debtors and their Estates. Holders of Allowed Claims in each Class shall be entitled to their share of assets available for distribution to such Class without regard to which Debtor was originally liable for such Claim.

The Debtors believe that substantive consolidation for voting and distribution purposes is warranted here because, among other reasons, the Debtors historically operated on a consolidated basis. The Debtors have a centralized, integrated cash management system and other systems, and are generally viewed by their creditors and vendors as one company. The Debtors will be prepared to offer further arguments in support of this provision of the Plan at Confirmation.

C. General Settlement of Claims and Equity Interests

As discussed herein and as otherwise provided in the Plan, pursuant to section 1123 of the Bankruptcy Code, and in consideration for the classification, Distributions, releases and other benefits provided under the Plan, upon the Effective Date, the provisions of the Plan shall constitute a good faith compromise and settlement of all Claims and Equity Interests and controversies resolved pursuant to the Plan. Subject to Article IV of the Plan, all Distributions made to holders of Allowed Claims or Equity Interests in any Class are intended to and shall be final.

D. Nonconsensual Confirmation

Article V.C of the Plan provides that the Debtors will seek to have the Court confirm the Plan under section 1129(b) of the Bankruptcy Code with respect to any Impaired Class of Claims or Equity Interests that does not vote to accept the Plan or is otherwise deemed to reject the Plan pursuant to section 1126(g) of the Bankruptcy Code.

E. Intercompany Claims

Article V.D of the Plan provides that upon the occurrence of the Effective Date, each Intercompany Claim shall be eliminated by offset, distribution, cancelation, assumption or contribution of such Intercompany Claim or otherwise.

F. Liens

Article V.E.(a) of the Plan provides that, notwithstanding anything to the contrary contained in the Plan, the substantive consolidation of the Debtors pursuant to Article V.A of the Plan shall not affect the extent or validity of any Lien or encumbrance.

Article V.E.(b) of the Plan provides that, upon the treatment or other satisfaction of any secured Claims as set forth in the Plan, the Liens or encumbrances securing such secured Claim shall be deemed released, terminated and extinguished, in each case without further notice to or order of the Bankruptcy Court, act or action under applicable law, regulation, order or rule or the vote, consent, authorization or approval of any Person.

G. Cancelation of Securities and Agreements

Article V.F of the Plan provides that on the Effective Date, except as otherwise specifically provided for in the Plan, (1) the obligations of the Debtors under the Notes Indenture and any other certificate, share, note, bond, indenture, purchase right, or other instrument or document directly or indirectly evidencing or creating any indebtedness or obligation of or ownership interest, equity, or profits interest in the Debtors or any warrants, options, or other securities exercisable or exchangeable for, or convertible into, debt, equity, ownership, or profits interests in the Debtors giving rise to any Claim or Equity Interest (except such certificates, notes, or other instruments or documents evidencing indebtedness or obligations of the Debtors that are specifically reinstated pursuant to the Plan), shall be canceled as to the Debtors, and the Reorganized Debtors shall not have any continuing obligations thereunder; and (2) the obligations of the Debtors pursuant, relating, or pertaining to any agreements, indentures, certificates of designation, bylaws, or certificate or articles of incorporation or similar documents governing the shares, certificates, notes, bonds, indentures, purchase rights, options, warrants, or other instruments or documents evidencing or creating any indebtedness or obligation of the Debtors shall be fully released, settled, and compromised except as expressly provided in the Plan; provided, however, that notwithstanding the occurrence of the Effective Date, any such agreement that governs the rights of the holder of a Claim or Equity Interest shall continue in effect solely for purposes of allowing such Holders to receive distributions under the Plan as provided therein; provided, further, that notwithstanding the foregoing and anything else contained in the Plan, the Notes Indenture will continue in effect solely for the purposes of (i) allowing Distributions to be made under the Plan pursuant to the Notes Indenture and for the Notes Indenture Trustee to perform such other necessary functions with respect thereto and to have the benefit of all the protections and other provisions of the Notes Indenture in doing so; (ii) preserving any rights of the Notes Indenture Trustee to indemnification or contribution from the Noteholders pursuant and subject to the terms of the Notes Indenture as in effect on the Effective Date; and (iii) permitting the Notes Indenture Trustee to maintain or assert any right or charging lien it may have against distributions pursuant to the terms of the Plan to recover unpaid fees and

expenses (including the fees and expenses of their counsel, agents, and advisors) of the Notes Indenture Trustee. On and after the Effective Date, all duties and responsibilities of the Notes Indenture Trustee under the Notes Indenture shall be discharged except to the extent required in order to effectuate the Plan. On the Effective Date, except to the extent otherwise provided in the Plan, the Notes Indenture shall be deemed to be canceled, as permitted by section 1123(a)(5)(F) of the Bankruptcy Code, and the obligations of the Debtors thereunder shall be fully released, settled, and compromised.

H. Enforcement of Subordination

Article V.G of the Plan provides that the classification and manner of satisfying all Claims and Equity Interests and the respective distributions and treatments under the Plan take into account or conform to the relative priority and rights of the Claims and Equity Interests in each Class in connection with any contractual, legal and equitable subordination rights relating thereto whether under general principles of equitable subordination, section 510(b) of the Bankruptcy Code or otherwise, and any and all such rights are settled, compromised and released pursuant to the Plan. The Confirmation Order shall enjoin, effective as of the Effective Date, all persons and entities from enforcing or attempting to enforce any such contractual, legal and/or equitable rights so satisfied, compromised and settled. Pursuant to section 510 of the Bankruptcy Code, the Reorganized Debtors reserve the right to reclassify any Allowed Claim (other than the DIP Facilities) or Equity Interest in accordance with any contractual, legal or equitable subordination relating thereto.

I. Implementation of Reorganization

Article V.H of the Plan provides that the following additional steps shall be taken:

1. Exit Facilities

Article V.H.1 of the Plan provides that on or before the Effective Date, the Debtors shall have closed on the Exit Facilities and, in connection therewith, delivered the ABL DIP Payoff Letter to the ABL DIP Agent. The amounts borrowed under the Exit Facilities shall, among other things, be used to (i) pay in Cash the DIP Financing Claims, to the extent provided for in the Plan, (ii) make required Distributions under the Plan, (iii) satisfy certain Plan-related expenses, and (iv) fund the Reorganized Debtors' working capital needs.

2. Issuance of New SSI Common Stock and New Subsidiary Equity Interests

Article V.H.2 of the Plan provides that on the Effective Date, Reorganized SSI shall issue for distribution the New SSI Common Stock pursuant to the terms of the Plan and the Plan Supplement Documents, subject to dilution pursuant to the Management Incentive Plan.

On the Effective Date, Equity Interests in the Subsidiaries shall be deemed canceled and extinguished and shall be of no further force and effect, whether surrendered for cancelation or otherwise. On the Effective Date, each Reorganized Subsidiary shall be deemed to issue and distribute the New Subsidiary Equity Interests. The ownership and terms of the New Subsidiary Equity Interests in the Reorganized Subsidiaries shall be the same as the ownership and terms of

the Equity Interests in the Subsidiaries immediately prior to the Effective Date, unless otherwise provided in the Plan Supplement.

3. Amendments to Articles of Incorporation

(a) School Specialty, Inc.

Article V.H.3(a) of the Plan provides that on the Effective Date, or as soon thereafter as is practicable, the articles of incorporation and bylaws of SSI shall be amended to (i) authorize the issuance of the New SSI Common Stock, (ii) provide for the cancelation of all outstanding Equity Interests in SSI other than the New SSI Common Stock, and (iii) prohibit the issuance of nonvoting equity securities only so long as, and to the extent that, the issuance of nonvoting equity securities is prohibited by the Bankruptcy Code. Reorganized SSI is authorized to issue or cause to be issued the New SSI Common Stock for distribution in accordance with the terms of the Plan and the amended certificate of incorporation without the need for any further corporate or shareholder action.

(b) The Subsidiaries

Article V.H.3(b) of the Plan provides that on the Effective Date, the charter documents and bylaws (or other formation documents relating to limited liability companies, limited partnerships, or other forms of Entity) of each Reorganized Subsidiary shall be amended in a form as may be required to be consistent with the provisions of the Plan and the Bankruptcy Code, including to prohibit the issuance of nonvoting equity securities only so long as, and to the extent that, the issuance of nonvoting equity securities is prohibited by the Bankruptcy Code. The certificate of incorporation and bylaws (or other formation documents relating to limited liability companies, limited partnerships, or other forms of Entity) of each Reorganized Subsidiary shall be amended to (i) provide for the cancelation of all outstanding Equity Interests in the respective Debtor, and (ii) authorize the issuance of the New Subsidiary Equity Interests in the applicable Reorganized Subsidiary.

4. Appointment of Senior Executive Officers and Directors

Pursuant to Article V.H.4 of the Plan, on the Effective Date, the terms of the current directors, managers of the boards of directors or board of managers of the Debtors, as the case may be, shall expire and such directors and managers shall be deemed removed from such boards (without the need for any further action on the part of, or notice to, any Person). The initial board of directors of Reorganized SSI and the Reorganized Subsidiaries shall be comprised of such members chosen by the Required Ad Hoc DIP Lenders and the Debtors or the Reorganized Debtors, as the case may be, and one of which shall be the Chief Executive Officer of Reorganized SSI. On the Effective Date, the officers of each of the Reorganized Debtors shall be appointed in accordance with the New Organizational Documents and other constituent documents of each Reorganized Debtor. Pursuant to section 1129(a)(5) of the Bankruptcy Code, to the extent known, the identities and affiliations of the initial board members and initial senior executive officers of each Reorganized Debtor as of the Effective Date will be disclosed in the Plan Supplement. Any successors to the Reorganized Debtors' initial boards will be appointed in compliance with the applicable Reorganized Debtor's New Organizational Documents, and each

such director and officer shall serve from and after the Effective Date pursuant to the terms of the New Organizational Documents and other constituent documents of the Reorganized Debtors.

5. Powers of Officers

Article V.H.5 of the Plan provides that the senior executive officers of the Debtors or the Reorganized Debtors, as the case may be, shall have the power to enter into or execute any documents or agreements that they deem reasonable and appropriate to effectuate the terms of the Plan.

6. Restructuring Transactions

Article V.H.6 of the Plan provides that on the Effective Date or as soon as reasonably practicable thereafter, the Reorganized Debtors may simplify and rationalize their corporate structure by eliminating certain entities that are deemed no longer essential to the Reorganized Debtors and may take all actions as may be necessary or appropriate to effect such transactions, including any transaction described in, approved by, contemplated by or necessary to effectuate the Plan, including: (1) the execution and delivery of appropriate agreements or other documents of merger, consolidation, restructuring, conversion, disposition, transfer, dissolution or liquidation containing terms that are consistent with the terms of the Plan and that satisfy applicable requirements of applicable law and any other terms to which the applicable entities may agree; (2) the execution and delivery of appropriate instruments of transfer, assignment, assumption or delegation of any asset, property, right, liability, debt or obligation on terms consistent with the terms of the Plan and having other terms for which the applicable parties agree; (3) the filing of appropriate certificates or articles of incorporation, reincorporation, merger, consolidation, conversion or dissolution pursuant to applicable state law; and (4) all other actions that the applicable entities determine to be necessary or appropriate, including making filings or recordings that may be required by applicable law. To the extent deemed helpful or appropriate to the Reorganized Debtors, the elimination of certain of these entities may be effected pursuant to Sections 368 and 381 of the Internal Revenue Code of 1986, as amended, to preserve for the Reorganized Debtors the tax attributes of such entities. Prior to the Effective Date, the Debtors shall have obtained the consent of the Required Ad Hoc DIP Lenders with respect to any such restructuring transactions.

7. Management of Reorganized Debtors

Article V.H.7 of the Plan provides that the Reorganized Debtors' senior executive officers shall serve in accordance with any employment agreement with the Reorganized Debtors and applicable non-bankruptcy law. The Debtors will disclose the terms of any such employment agreements at or prior to the Confirmation Hearing.

8. Indemnification of Directors, Officers and Employees

Pursuant to Article V.H.8 of the Plan, upon the Effective Date, the charters and bylaws of Reorganized SSI and each Reorganized Debtor shall contain provisions which (i) eliminate the personal liability of the Reorganized Debtors' then-present and future directors and officers for post-Effective Date monetary damages resulting from breaches of their fiduciary duties to the fullest extent permitted by applicable law in the state in which the subject Reorganized Debtor is

organized; and (ii) require such Reorganized Debtor, subject to appropriate procedures, to indemnify the Reorganized Debtors' directors, officers, and other employees serving on or after the Effective Date for all post-Effective Date claims and actions to the fullest extent permitted by applicable law in the state in which the subject Reorganized Debtor is organized.

9. Management Incentive Plan

Pursuant to Article V.H.9 of the Plan, following the Effective Date, the terms of the Management Incentive Plan shall be determined by the New Board and be implemented in accordance with its terms. Pursuant to the Management Incentive Plan, Reorganized SSI may grant participating employees, officers and directors New SSI Common Stock and/or options to acquire shares of New SSI Common Stock, and/or to provide such participating employees, officers and directors with such other consideration, including cash bonuses. The amount of the New SSI Common Stock to be reserved for distribution shall be identified in the Plan Supplement. For the avoidance of doubt, entry of the Confirmation Order neither approves nor authorizes the terms of the Management Incentive Plan.

10. Corporate Action

Article V.H.10 of the Plan provides that, except as set forth therein, any action under the Plan to be taken by or required of the Debtors or the Reorganized Debtors, including, without limitation, the adoption or amendment of certificates of incorporation and bylaws, the issuance of securities and instruments or the selection of senior executive officers or directors, shall be authorized and approved in all respects, without any requirement of further action by any of the Debtors' or Reorganized Debtors' boards of directors or managers, as applicable, or security holders.

The Debtors or the Reorganized Debtors, shall be authorized to execute, deliver, file, and record such documents (including the Plan Supplement Documents), contracts, instruments, releases and other agreements, each of which shall be acceptable to the Required Ad Hoc DIP Lenders, and take such other action as may be necessary to effectuate and further evidence the terms and conditions of the Plan, without the necessity of any further Court, corporate, board or shareholder approval or action. In addition, the selection of the Persons who will serve as the initial directors, senior executive officers and managers of the Reorganized Debtors as of the Effective Date shall be deemed to have occurred and be effective on and after the Effective Date without any requirement of further action by the board of directors, board of managers, or stockholders of the applicable Reorganized Debtor.

11. New Shareholders Agreement

Article V.H.11 of the Plan provides that, on the Effective Date, Reorganized SSI and all of the holders of New SSI Common Stock (including any options, warrants or securities convertible into, or exercisable or exchangeable for, shares of New SSI Common Stock) then outstanding shall be deemed to be parties to the new Shareholders Agreement, without the need for execution by any such holder other than Reorganized SSI. The Shareholders Agreement shall be binding on all parties receiving, and all holders of, New SSI Common Stock (including any options, warrants or securities convertible into, or exercisable or exchangeable for, shares of New

SSI Common Stock) regardless of whether such parties execute the Shareholders Agreement. In the period pending distribution of the New SSI Common Stock to any holder entitled pursuant to the Plan to receive New SSI Common Stock, such holder shall be bound by, have the benefit of, and be entitled to enforce the terms and conditions of the Shareholders Agreement and shall be entitled to exercise any voting rights and receive any dividends or other distributions payable in respect of such holder's New SSI Common Stock (including receiving any proceeds of permitted transfers of such New SSI Common Stock) and to exercise all other rights in respect of the New SSI Common Stock as if the holder were an owner of the New SSI Common Stock (so that such holder shall be deemed for tax purposes to be the owner of the New SSI Common Stock).

J. Implementation of Class 5 and 6 Distributions

1. Distribution Cap

Article V.I.1 of the Plan provides that distributions to holders of Allowed General Unsecured Claims and Allowed Trade Unsecured Claims in Class 5 and Class 6 shall be reduced Pro Rata in the event that the Distribution Cap of $60 million is exceeded. The Distribution Cap means the total amount of Allowed General Unsecured Claims, Allowed Trade Unsecured Claims and Allowed Convenience Class Claims (but excluding all Claims on account of which no Distributions shall be made in accordance with Article VI.3.C.1.e of the Plan).

2. Change of Control

Article V.I.2 of the Plan provides that distributions to holders of Allowed General Unsecured Claims and Allowed Trade Unsecured Claims in Classes 5 and 6 shall accelerate upon a Change of Control and shall be paid upon consummation of the Change of Control, subject to the conditions set forth in V.I.6 of the Plan.

3. Dividends and Related Distributions

Article V.I.3 of the Plan provides that no dividend or equity distribution in any form, including, without limitation, the return of capital, pursuant to a redemption, spinoff or otherwise shall be paid or made to holders of New SSI Common Stock before holders of Allowed General Unsecured Claims and Allowed Trade Unsecured Claims (regardless of whether such holder made the Trade Election) are fully paid the Distributions provided in the Plan except as set forth in this paragraph. To the extent Reorganized SSI is permitted by the Exit Facilities (or any refinancings thereof) and applicable law to declare and pay a dividend or make any other such equity distribution to the holders of New SSI Common Stock and it determines to do so, such dividend or equity distribution shall be paid as follows: (i) the amount of the dividends or other such equity distributions paid to the Ad Hoc DIP Lenders who are holders of New SSI Common Stock shall be limited to the amount of the Converted DIP Claims;[14] and (ii) such dividend or equity distribution shall be paid pro rata (for computation purposes, based upon the amount of the Converted DIP Claims and the total amount (exclusive of accruing interest) payable to Trade

[14] The Plan defines Converted DIP Claims to mean the amount of Ad Hoc DIP Financing Claims (excluding interest accruing after the Effective Date) that have been converted to New SSI Common Stock, which amount shall be reduced after the Effective Date by the amount, if any, of the Prepetition Escrowed Amounts paid over to the Ad Hoc DIP Lenders.

Claims in Class 6) among the holders of New SSI Common Stock and Trade Claimants (x) until such time as the amount owed to Trade Claimants under the Plan as of the date of such dividend or equity distribution has been reduced from a forty-five percent (45%) recovery to a twenty percent (20%) recovery on account of their Allowed Claims, and (y) after which time, any dividend or other such equity distribution shall be paid pro rata (for computation purposes, based upon the amount of the Converted DIP Claims and the total amount (exclusive of accruing interest) payable to holders of Allowed Trade Unsecured Claims (including Trade Claimants), holders of Allowed General Unsecured Claims) among holders of New SSI Common Stock on account of the Converted DIP Claims, Trade Claimants, holders of Allowed Trade Unsecured Claims and holders of Allowed General Unsecured Claims until such time as Trade Claimants and holders of such Claims have been fully paid the Distributions provided herein and the Converted DIP Claims (as applicable). If, at any time after payment of a dividend or equity distribution under Article V.I.3 of the Plan, the Converted DIP Claims are reduced as a result of the return of all or a portion of the Prepetition Escrowed Amounts, the reduced Converted DIP Claim shall be used for any subsequent dividend or other equity distribution and in connection with any subsequent dividend or other equity distribution Trade Claimants, holders of Allowed Trade Unsecured Claims and holders of Allowed General Unsecured Claims, as the case may be, shall receive additional distributions in an amount equal to the difference between the amounts that were paid and the amounts that would have been paid if such prior distributions under the Article V.I.3 of the Plan were calculated using such amount of the reduced Converted DIP Claims.

4. Ombudsman

Article V.I.4 of the Plan provides that, as set forth herein and in the Plan Supplement, the duties of the Ombudsman shall include, among other things, to (a) monitor the Trade Election, (b) mediate and resolve any disputes arising therefrom concerning the provision of Customary Trade Terms and any breach thereof, (c) resolve any disputes concerning the Distributions to be made to holders of Claims in Classes 5 and 6, and in the event a consensual resolution cannot be reached, seek judicial determination of any such dispute, including the filing of motions on behalf of and representing holders of such Claims in Court, and (d) pursue remedies of other protections to ensure the provisions of Article V.I and the treatment afforded to holders of Allowed Claims in Classes 5 and 6 are adhered to, as may be appropriate.

5. Creditor Protections

Article V.I.5 of the Plan provides that Trade Claimants shall be relieved of their obligation to provide Customary Trade Terms through the Trade Payment Period, without forfeiting the Trade Payment, if the Reorganized Debtors (i) are in payment default or default of any of the financial covenants in the Exit Facilities (or any refinancings thereof) after the expiration of any applicable cure periods (regardless of whether such defaults are waived or a forbearance agreement is entered into with respect thereto) or (ii) breach ~~of~~ the agreed-upon Customary Trade Terms by the Reorganized Debtors by failing to comply with their payment obligations to the Trade Claimant.

6. Vesting Trade Payment

Article V.I.6 of the Plan provides that a Trade Claimant's entitlement to receive the Trade Payment in full shall vest immediately upon the Trade Election if such Trade Claimant makes the Trade Election on or before the Effective Date, or such later date agreed to by the Reorganized Debtors and the Creditors Committee, so long as such Trade Claimant provides Customary Trade Terms to the Reorganized Debtors for the Trade Payment Period. If, however, a Trade Claimant makes the Trade Election after the Effective Date, such Trade Claimant's entitlement to receive the Trade Payment shall vest in its entirety on the one-year anniversary of such Trade Election. For the avoidance of doubt, any Trade Claimant's vesting of the Trade Payment pursuant to this paragraph shall not be affected by a default of the kind set forth in Article V.I.5 of the Plan or a breach of the Customary Trade Terms by the Reorganized Debtors. For the avoidance of doubt, only the election regarding the Trade Election must be made by the Effective Date for an electing Trade Claimant to obtain the benefits described in this paragraph. Negotiations between the Debtors or Reorganized Debtors, as applicable, and each electing Trade Claimant regarding Customary Trade Terms will be conducted on an individualized, rolling basis beginning as promptly as possible after the date hereof, and do not need to be completed by the Effective Date.

7. Right to Receive Trade Payment

Article V.I.7 of the Plan provides that notwithstanding anything to the contrary set forth therein, a Trade Claimant is entitled to receive the Trade Payment only so long as such Trade Claimant fulfills its obligation to provide Customary Trade Terms to the Reorganized Debtors during the Trade Payment Period. If a Trade Claimant ceases to provide Customary Trade Terms to the Reorganized Debtors during the Trade Payment Period, such Trade Claimant shall forfeit its right to receive the Trade Payment, and instead shall be entitled to receive the Class 6 Distribution on account of its Allowed Trade Unsecured Claim.

8. Transferability

Article V.I.8 of the Plan provides that distributions to holders of Allowed General Unsecured Claims and Allowed Trade Unsecured Claims (other than the Trade Payment to a Trade Claimant) in Classes 5 and 6 shall be freely transferable upon written notice to the Reorganized Debtors and the Ombudsman.

Prior to the expiration of the Trade Payment Period, the Trade Claimant's entitlement to the Trade Payment shall be freely transferable at any time with the prior written consent of the Reorganized Debtors and the Ombudsman, such consent not to be unreasonably withheld or delayed. After the Trade Payment Period, the Trade Claimant's entitlement to the Trade Payment shall be freely transferable upon written notice to the Reorganized Debtors and the Ombudsman.

9. Early Satisfaction

Article V.I.9 of the Plan provides that the Reorganized Debtors may, in their sole discretion, retire and/or satisfy any payment obligation to be made on account of such Distributions to holders of Allowed General Unsecured Claims and Allowed Trade Unsecured Claims (including, for the avoidance of doubt, the Trade Payment) in Classes 5 and 6 prior to the

Payment Date at a Cash price equal to the then accrued amount (including any paid-in-kind interest) owing to the holders of such Claims on the date such payment obligation is retired and/or satisfied.

K. Voting, Distribution, Claims and Estimation

1. Voting of Claims

Pursuant to Article VI.A of the Plan, each holder of an Allowed Claim in an Impaired Class of Claims entitled to vote on the Plan shall be entitled to vote to accept or reject the Plan as provided in the Disclosure Statement Approval Order.

2. Designation of Reorganized Debtors to Make Distributions

(a) Distributions by the Reorganized Debtors

Article VI.B.1 of the Plan provides that the Reorganized Debtors or any Disbursing Agent acting on their behalf shall make all Distributions required to be made under the Plan.

(b) The Rights and Powers of the Reorganized Debtors

Article VI.B.2 of the Plan provides that the Reorganized Debtors shall be empowered to (i) effect all actions and execute all agreements, instruments, and other documents necessary to perform their duties under the Plan, (ii) make all applicable distributions or payments contemplated thereby, (iii) employ professionals to represent them with respect to their responsibilities, and (iv) exercise such other powers as may be vested in the Reorganized Debtors by order of the Court (including any order issued after the Effective Date), pursuant to the Plan, or as deemed by the Reorganized Debtors to be necessary and proper to implement the provisions thereof.

(c) Expenses Incurred by the Disbursing Agent

Article VI.B.3 of the Plan provides that except as otherwise ordered by the Bankruptcy Court, the amount of any reasonable fees and out-of-pocket expenses incurred by the Disbursing Agent, on or after the Effective Date (including, without limitation, reasonable attorney and other professional fees and expenses) shall be paid in Cash by the Reorganized Debtors.

3. Distributions

(a) Allowed Claims

Article VI.C.1 of the Plan provides the following with respect to Distributions to holders of Allowed Claims.

(i) *Delivery of Distributions*. Distributions under the Plan shall be made by the Reorganized Debtors or any Disbursing Agent acting on their behalf to the holders of Allowed Claims in all Classes (i) at the addresses set forth on the Schedules, unless such addresses are superseded by proofs of claim or transfers of claim filed pursuant to

Bankruptcy Rule 3001 by the Record Date, (ii) at the last known addresses of such holders if the Reorganized Debtors have been notified in writing of a change of address, (iii) with respect to the holders of Allowed DIP Financing Claims, to, or at the direction of, the applicable DIP Agent, or (iv) with respect to the holders of Allowed Noteholder Unsecured Claims to, or at the direction of, the Notes Indenture Trustee.

(ii) *Distribution of Cash*. Any payment of Cash by the Reorganized Debtors or any Disbursing Agent acting on their behalf pursuant to the Plan shall be made at the option and in the sole discretion of the Reorganized Debtors by (i) a check drawn on, or (ii) wire transfer from, a domestic bank selected by the Reorganized Debtors or the Disbursing Agent, provided, however, that all Cash payments in respect of the DIP Facilities shall be by wire transfer (unless otherwise agreed to by the applicable DIP Agent).

(iii) *Undeliverable and Unclaimed Distributions*. In the event that any Distribution to any holder is returned as undeliverable, no Distribution to such holder shall be made unless and until the Reorganized Debtors have determined the then current address of such holder, at which time such Distribution shall be made to such holder without interest; provided, however, that such Distributions shall be deemed unclaimed property at the expiration of one (1) year from the Effective Date.

After such date, all unclaimed Distributions of New SSI Common Stock under the Plan, "Pro Rata" shall be determined as if the Claim underlying such unclaimed Distribution had been disallowed) without the need for a further order by the Court (notwithstanding any applicable federal, provincial, or state escheat, abandoned, or unclaimed property laws to the contrary), and the entitlement by the holder of such unclaimed Allowed Claim to such Distribution or any subsequent Distribution on account of such Allowed Claim shall be extinguished and forever barred.

After such date, all unclaimed Distributions of Cash made under the Plan on account of Allowed General Unsecured Claims and Allowed Trade Unsecured Claims (and, for the avoidance of doubt, including Trade Payments) shall (x) become the property of the Reorganized Debtors without the need for a further order by the Court (notwithstanding any applicable federal, provincial, or state escheat, abandoned, or unclaimed property laws to the contrary) if the Distribution Cap is not exceeded and (y) be distributed Pro Rata among holders of Allowed General Unsecured Claims and Allowed Trade Unsecured Claims if the Distribution Cap is exceeded, up to the maximum amount of the recoveries set forth in the Plan. After such date, all unclaimed Distributions of Cash made under the Plan on account of Convenience Class Claims shall become property of the Reorganized Debtors without the need for a further order by the Court (notwithstanding any applicable federal, provincial, or state escheat, abandoned, or unclaimed property laws to the contrary). In all such cases, the entitlement by the holder of such unclaimed Allowed Claim to such Distribution or any subsequent Distribution on account of such Allowed Claim shall be extinguished and forever barred.

(iv) *Saturdays, Sundays, or Legal Holidays*. If any payment, distribution or act under the Plan is required to be made or performed on a date that is not a Business Day, then the making of such payment or the performance of such act may be

completed on the next succeeding Business Day, and shall be deemed to have been completed as of the required date.

(v) *Fractional New SSI Common Stock, and De Minimis Distributions.* Notwithstanding any other provision in the Plan to the contrary, no fractional interests of New SSI Common Stock shall be issued or distributed pursuant to the Plan. Whenever any payment of a fraction of a share of New SSI Common Stock would otherwise be required under the Plan, the actual distribution made shall reflect a rounding of such fraction to the nearest whole share (up or down), with shares less than half shares being rounded down and fractions equal to half shares or greater than half shares being rounded up. If two or more holders are entitled to equal fractional entitlements and the number of holders so entitled exceeds the number of whole shares, as the case may be, which remain to be allocated, the Reorganized Debtors shall allocate the remaining whole shares to such holders by random lot or such other impartial method as the Reorganized Debtors deem fair, in the Reorganized Debtors' sole discretion. Upon the allocation of all of the whole New SSI Common Stock authorized under the Plan, all remaining fractional portions of the entitlements shall be canceled and shall be of no further force and effect.

The Reorganized Debtors shall not be required to, but may in their sole and absolute discretion, make distributions to any holder of a Claim of Cash in an amount less than fifteen dollars ($15). Any Claims affected by this de minimis distribution provision of the Plan (as described in this Article of the Disclosure Statement) shall be discharged and forever barred from assertion against the Debtors, the Reorganized Debtors and their respective property or Estates.

(vi) *Distributions for Claims Allowed as of the Initial Distribution Date*. On the Initial Distribution Date, the Reorganized Debtors or the Disbursing Agent acting on their behalf shall distribute Cash or New SSI Common Stock, as the case may be, to the holders of Allowed Claims as contemplated under the Plan.

(vii) *Distributions as of the Record Date.* As of the close of business on the Record Date, the claims register (for Claims) and transfer ledger (for Equity Interests) shall be closed, and there shall be no further changes in the record holders of any Claims or Equity Interests. The Debtors or the Reorganized Debtors, as applicable, shall have no obligation to, but may in their sole and absolute discretion, recognize any transfer of any Claims or Equity Interests occurring after the Record Date. The Debtors or the Reorganized Debtors, as applicable, shall instead be entitled to recognize and deal for purposes under the Plan with only those record holders stated on the claims register (for Claims) and transfer ledgers (for Equity Interests) as of the close of business on the Record Date.

(viii) *Distributions on Account of the Noteholder Unsecured Claims.* Distributions on account of Noteholder Unsecured Claims shall (a) be made by the Disbursing Agent to the Notes Indenture Trustee for the benefit of the Noteholders and (b) be deemed completed when made by the Disbursing Agent to the Notes Indenture Trustee. Nothing in the Plan is intended to affect any charging lien of the Notes Indenture Trustee or the Notes Indenture Trustee's rights thereunder to be paid its reasonable fees and expenses (including the fees and expenses of its counsel, agents, and advisors) or to assert any rights to be paid any or all such fees and expenses pursuant to the Bankruptcy Code or otherwise.

(ix) *Interest on Claims*. Except as specifically provided for in the Plan or the Confirmation Order, no Claims other than Allowed General Unsecured Claims and Trade Unsecured Claims (including Administrative Claims), Allowed or otherwise, shall be entitled, under any circumstances, to receive any interest on a Claim.

(x) *Expungement or Adjustment to Claims.* Any Claim that has been paid, satisfied or superseded may be expunged on the claims register by the Debtors or the Reorganized Debtors, as applicable, and any Claim that has been amended may be adjusted thereon by the Debtors or the Reorganized Debtors, as applicable, without a Claim objection.

4. Disputed Claims

(a) Objections to and Resolution of Claims

Article IV.C.2(a) of the Plan provides that after the Effective Date, the Reorganized Debtors, in consultation with the Creditors Committee, shall have the right to make and to file objections to, or otherwise contest the allowance of, Claims (other than Fee Claims) subsequent to the Confirmation Date. Unless otherwise ordered by the Court, objections to, or other proceedings concerning the allowance of, Claims (other than Fee Claims) shall be filed and served upon the holders of the Claims as to which the objection is made, or otherwise commenced, as the case may be, as soon as practicable, but in no event later than the Claims Objection Deadline. Objections to Fee Claims of Professionals shall be filed and served within fifty-one (51) days of the Effective Date (or such longer period as may be allowed by order of the Court).

Objections to, or other proceedings contesting the allowance of, Claims (other than Fee Claims) may be litigated to judgment, settled or withdrawn by the Reorganized Debtors, in consultation with the Creditors Committee. The Reorganized Debtors may settle any such objections or proceedings without Court approval or may seek Court approval without notice to any Person, except as set forth in the Plan. From and after the Effective Date, the Reorganized Debtors shall have the sole authority to administer and adjust the claims register to reflect such settlements or compromises without any further notice to or action, order or approval of the Bankruptcy Court. Notwithstanding anything to the contrary in the Plan or in this Disclosure Statement, any tort claims shall be liquidated, determined and satisfied in accordance with Article VII.G of the Plan.

In the event any proof of Claim is permitted to be filed after the Claims Objection Deadline, the Reorganized Debtors shall have ninety (90) days from the date of such order or agreement to object to such Claim, which deadline may be extended by the Court on motion of the Reorganized Debtors without a hearing or notice to Creditors.

(b) No Distributions or Payments Pending Allowance

Article IV.C.2(b) of the Plan provides that no payments or Distributions shall be made on account of a Claim until such Claim becomes an Allowed Claim.

(c) Distributions Following Allowance

Pursuant to Article VI.C.2(c) of the Plan and notwithstanding anything to the contrary set forth in the Plan or in the Confirmation Order, each holder of a Disputed Claim that becomes an Allowed Claim subsequent to the Initial Distribution Date shall receive the Distribution to which such holder of an Allowed Claim is entitled at such time that the Reorganized Debtors determine, in their discretion, to make subsequent Distributions to holders of other Claims Allowed following the Initial Distribution Date, provided that the Reorganized Debtors shall make such Distributions quarterly during the first year after the Effective Date and semi-annually thereafter. Nothing in the Plan prohibits the Reorganized Debtors, in their discretion, from making a Distribution on account of any Claim at any time after such Claim becomes an Allowed Claim. For the avoidance of doubt, nothing in Article VI.C.2(c) shall accelerate payment of Distributions on account of Allowed General Unsecured Claims or Allowed Trade Unsecured Claims.

5. Estimation

Article VI.D of the Plan provides that the Debtors or the Reorganized Debtors may at any time, request that the Court estimate any contingent or unliquidated Claim pursuant to section 502(c) of the Bankruptcy Code regardless of whether the Debtors, the Reorganized Debtors or any other Person has previously objected to such Claim. The Court will retain jurisdiction to estimate any Claim at any time, including during proceedings concerning any objection to such Claim and any appeal thereof. In the event that the Court estimates any contingent or unliquidated Claim, such estimated amount may constitute either (a) the Allowed amount of such Claim, (b) the amount on which a reserve is to be calculated for purposes of any reserve requirement in the Plan, or (c) a maximum limitation on such Claim, as determined by the Court. If the estimated amount constitutes a maximum limitation on such Claim, the Reorganized Debtors may elect to object to ultimate payment of such Claim. All of the aforementioned Claims objection, estimation and resolution procedures are cumulative and not necessarily exclusive of one another.

L. Treatment of Executory Contracts and Unexpired Leases

The Bankruptcy Code grants the Debtors the power, subject to the approval of the Bankruptcy Court, to assume or reject executory contracts and unexpired leases. If an executory contract or unexpired lease is rejected, the other party to the agreement may file a claim for damages, if any, incurred by the reason of the rejection. In the case of the Debtors' rejection of leases of real property and employment agreements, such damage claims are subject to certain caps imposed by the Bankruptcy Code.

1. Assumption and Rejection

Pursuant to Article VII.A of the Plan, to the extent not (i) assumed in the Chapter 11 Cases prior to the Confirmation Date, (ii) rejected in the Chapter 11 Cases prior to the Confirmation Date, (iii) subject of a separate motion to assume or reject under section 365 of the Bankruptcy Code pending on the Effective Date, or (iv) specifically rejected pursuant to the Plan, as set forth in the following paragraph, in the case of each of (i)-(iv) above, with the consent of the Required Ad Hoc DIP Lenders, each executory contract and unexpired lease that exists

between any Debtor and any Person is specifically assumed by the Debtor that is a party to such executory contract or unexpired lease as of and subject to the Effective Date pursuant to the Plan and in accordance with sections 365 and 1123 of the Bankruptcy Code.

Pursuant to the Plan, the Debtors will reject those executory contracts and unexpired leases identified in the Schedule of Rejected Executory Contracts and Unexpired Leases, which will be set forth in the Plan Supplement to be filed on or before May 9, 2013. Except for those counterparties that have filed Claims for rejection damages prior to the Bar Date, counterparties will not receive a Ballot in respect of any rejection damages claim they may assert after the date hereof. For each executory contract that is rejected, the Debtors shall provide a notice of such rejection to such contract counterparties, who shall have thirty (30) days after service of such notice to file any rejection damages claims.

Entry of the Confirmation Order shall constitute a Court order approving the assumptions, assignment or rejections of such executory contracts or unexpired leases described above pursuant to sections 365(a) and 1123 of the Bankruptcy Code, which assumptions, assignment and rejections shall be effective as of the Effective Date.

Assumption and assignment of any executory contract or unexpired lease pursuant to the Plan, or otherwise, shall result in the full release and satisfaction of any Claims or defaults, whether monetary or nonmonetary or other bankruptcy-related defaults, arising under any assumed executory contract or unexpired lease at any time prior to the date of assumption or assignment, as applicable upon payment of any cure amount pursuant to Article VII.C of the Plan.

2. Limited Extension of Time to Assume or Reject

Pursuant to Article VII.B of the Plan, in the event of a dispute as to whether a contract or lease is executory or unexpired, the right of the Debtors or the Reorganized Debtors, as applicable, to move to assume or reject such contract or lease shall be extended until the date that is thirty (30) days after the entry of a Final Order by the Court determining that the contract or lease is executory or unexpired. The deemed assumptions and rejections provided for in Article VII.B of the Plan shall not apply to such contract or lease.

In the event the Debtors or the Reorganized Debtors become aware after the Effective Date of the existence of an executory contract or unexpired lease that was not included in the Schedules, the right of the Reorganized Debtors to move to assume or reject such contract or lease shall be extended until the date that is thirty (30) days after the date on which the Reorganized Debtors becomes aware of the existence of such contract or lease. The deemed assumptions provided for in Article VII.B of the Plan shall not apply to any such contract or lease.

The Debtors reserve the right to amend the list of executory contracts and unexpired leases to be rejected at any time prior to the Confirmation Hearing, subject to the consent of the Required Ad Hoc DIP Lenders.

3. Cure

Article VII.C of the Plan provides that the applicable Debtor or the Reorganized Debtor, except as otherwise agreed by the parties, will cure any and all undisputed defaults under any executory contract or unexpired lease that is assumed by such Debtor or the Reorganized Debtor pursuant to the Plan in accordance with section 365 of the Bankruptcy Code. In the event there is a dispute as of the Effective Date regarding the amount required to cure defaults under any executory contract or unexpired lease that the Debtors or the Reorganized Debtors propose to assume, the Debtors or the Reorganized Debtors shall have until 30 days after entry of a Final Order determining the amount, if any, of the applicable Debtor's or the Reorganized Debtor's liability with respect thereto, or as may otherwise be agreed by the parties, to determine whether to assume or reject the related executory contract or unexpired lease. In the event the applicable Debtor or the Reorganized Debtor determines to assume the applicable executory contract or unexpired lease related to the disputed cure, such disputed cure amount shall be paid either within 30 days of the entry of a Final Order determining the amount, if any, of the applicable Debtor's or the Reorganized Debtor's liability with respect thereto, or as may otherwise be agreed to by the parties.

4. Rejection Damage Claims

Article VII.D of the Plan provides that all Claims for damages arising from the rejection of executory contracts or unexpired leases must be filed with the Court in accordance with the terms of the order authorizing such rejection, but in no event later than thirty (30) days after service of notice of the Effective Date (unless rejected at a later date as a result of a disputed cure amount as set forth in Article VII.C of the Plan). Any Claims not filed within such time will be forever barred from assertion against the Debtors, their respective Estates and the Reorganized Debtors. All Allowed Claims arising from the rejection of executory contracts or unexpired leases shall be treated as General Unsecured Claims.

5. Postpetition Contracts and Leases

The Debtors shall not be required to assume or reject any contract or lease entered into by the Debtors after the Petition Date. Any such contract or lease shall continue in effect in accordance with its terms after the Effective Date, unless the Debtors or the Reorganized Debtors have obtained a Final Order of the Court approving termination of such contract or lease.

M. Benefit Plans

Pursuant to Article VII.F of the Plan, as of and subject to the Effective Date, except as set forth therein, all employee compensation and any benefit plans, policies, and programs of the Debtors applicable generally to their employees, including agreements and programs subject to section 1114 of the Bankruptcy Code, as in effect on the Effective Date, including, without limitation, all savings plans, retirement plans, health care plans, disability plans, incentive plans, and life, accidental death, and dismemberment insurance plans, but excluding any employment and severance agreements, plans or policies (unless such employment and severance agreements, plans or policies are assumed by the Debtors pursuant to a separate Court order), shall be deemed to be, and shall be treated as though they are, executory contracts that are assumed under the

Plan, and the Debtors' obligations under such agreements and programs shall survive the Effective Date of the Plan, without prejudice to the Reorganized Debtors' rights under applicable non-bankruptcy law to modify, amend, or terminate the foregoing arrangements, except for (i) such executory contracts or plans specifically rejected pursuant to the Plan (to the extent such rejection does not violate sections 1114 and 1129(a)(13) of the Bankruptcy Code), and (ii) such executory contracts or plans as have previously been terminated, or rejected, pursuant to a Final Order, or specifically waived by the beneficiaries of such plans, contracts, or programs.

N. Insurance Policies, Indemnification Obligations Owed by the Debtors

1. Workers' Compensation Claims and Other Insured Claims

Pursuant to Article VII.G of the Plan, as of the Effective Date, except as set forth therein or in the Plan Supplement, the Debtors and the Reorganized Debtors shall continue to honor their obligations under: (i) all applicable federal and state workers' compensation laws; and (ii) the Debtors' written contracts, agreements, agreements of indemnity, self-insurer workers' compensation bonds, policies, programs and plans for workers' compensation and workers' compensation insurance.

Article VII.G of the Plan further provides that any Insured Claims, including, but not limited to, employer liability claims, tort claims and Workers Compensation Claims as to which a proof of claim was filed in the Chapter 11 Cases and is not a Disputed Claim and as to which the Debtors have insurance coverage for such claim shall be determined and liquidated in accordance with applicable non-bankruptcy law. Recovery on account of any such Claims shall be limited to applicable insurance.

2. Preservation of Insurance

Article VII.H of the Plan provides that the Debtors' discharge and release from all Claims as provided in the Plan, except as necessary to be consistent with the Plan, shall not diminish or impair the enforceability of any insurance policy that may cover Claims against the Debtors, the Reorganized Debtors (including, without limitation, their senior executive officers and current and former directors) or any other person or entity. The Debtors shall maintain tail coverage under their existing directors' and officers' liability insurance policies covering their senior executive officers and current directors for any and all Claims brought against them, which coverage shall extend for a period of not less than six (6) years after the Effective Date.

3. Indemnification Obligations Owed by the Debtors

Article VII.I of the Plan provides that Indemnification Obligations owed to directors, officers, and employees of the Debtors (or the Estates of any of the foregoing) who served or were employed by the Debtors as of or after the Petition Date, excluding claims which have been determined by Final Order to have resulted from gross negligence, willful misconduct or intentional tort, shall be deemed to be, and shall be treated as though they are, executory contracts that are assumed pursuant to section 365 of the Bankruptcy Code under the Plan. In addition, and notwithstanding any other term of the Plan, the Indemnification Obligations owed to the Prepetition Agents under the Prepetition Facilities shall be deemed to be, and shall be

treated as though they are, executory contracts that are assumed pursuant to section 365 of the Bankruptcy Code.

Article VII.I of the Plan further provides that, notwithstanding anything to the contrary in the Plan, following the Effective Date, each of the Reorganized Debtors shall jointly and severally indemnify and hold harmless (i) the Prepetition Agents, the Prepetition ABL Lenders, DIP Agents, DIP Collateral Agents, Bayside DIP Agent, the Notes Indenture Trustee, and the DIP Lenders and (ii) the respective members, affiliates, officers, directors, employees, representatives, successors, permitted assigns, attorneys, advisors and agents of any of the foregoing (the "Indemnitees") from and against any claims, demands, judgments, actions or Causes of Action, liabilities, obligations, damages, losses, deficiencies, assessments, costs, fines, penalties, interest and expenditures (including the reasonable fees and out-of-pocket expenses of counsel) suffered or incurred by any Indemnitee arising out of, based upon, attributable to or resulting from: (w) the DIP Facilities, the Prepetition Facilities or the Notes Indenture, (x) any breach or inaccuracy of any representation or warranty made by the Debtors; (y) any breach or failure by the Debtors to perform any of their respective covenants or obligations contained in the Plan; or (z) any legal proceedings relating to or arising out of the Plan or the Chapter 11 Cases, in each case except to the extent of the fraud, gross negligence or willful misconduct of an Indemnitee (as finally determined by a court of competent jurisdiction). The pre-petition indemnity agreement and the post-petition indemnity agreement between SSI and Berkley shall be deemed assumed, and Indemnification Obligations owed to Berkley with respect thereto shall be Allowed as Ordinary Course Administrative Claims under the Plan.

O. Conditions Precedent to Confirmation and Effectiveness of the Plan

1. Conditions to Confirmation

Pursuant to Article VIII.A of the Plan, confirmation of the Plan is subject to:

(a) the Disclosure Statement having been approved by the Court as having adequate information in accordance with section 1125 of the Bankruptcy Code, and notice having been given to all relevant parties in accordance with Bankruptcy Rules 2002(b), 3017, 9019 and 3020(b);

(b) an order approving the solicitation, cure and Plan Objection procedures and deadlines having been entered by the Court;

(c) the Plan and Plan Supplement Documents, including any exhibits, schedules, amendments, modifications or supplements thereto having been filed in substantially final form; and

(d) the Debtors shall have entered into a binding commitment for the Exit Facilities on terms and conditions reasonably acceptable to the ABL Co-Collateral Agents and the Required Ad Hoc DIP Lenders.

2. Conditions Precedent to Effectiveness

Pursuant to Article VIII.B of the Plan, the Plan shall not become effective unless and until it has been confirmed and the following conditions have been satisfied in full or waived pursuant to Article VIII.C of the Plan:

(a) the Confirmation Order, in form and substance satisfactory to the Debtors, the ABL Co-Collateral Agents and the Required Ad Hoc DIP Lenders, shall have become a Final Order;

(b) all authorizations, consents and regulatory approvals required (if any) for the Plan's effectiveness shall have been obtained;

(c) each of the Plan Supplement Documents shall be in form and substance satisfactory to the Debtors, the Required Ad Hoc DIP Lenders and, to the extent required, the ABL Co-Collateral Agents and the Creditors Committee, and any conditions (other than the occurrence of the Effective Date or certification by a Debtor that the Effective Date has occurred) contained therein having been satisfied or waived in accordance therewith;

(d) the articles or certificates of incorporation for each of the Debtors shall have been amended as provided in Articles V.G.3(a) and V.G.3(b) of the Plan;

(e) the New SSI Common Stock and New Subsidiary Equity Interests to be issued pursuant to Article V.G.2 of the Plan shall be consistent with the Plan; and

(f) on and simultaneously with the occurrence of the Effective Date, the Debtors shall have closed on the Exit Facilities and executed and delivered the ABL DIP Payoff Letter, and the Payment in Full of the ABL DIP Financing Claims with proceeds from the Exit Facilities shall have occurred on or before May 31, 2013 or such later date as agreed to in writing by the ABL Co-Collateral Agents.

3. Waiver of Conditions

Article VIII.C of the Plan provides that the Debtors (x) subject to the agreement of the Required Ad Hoc DIP Lenders, may waive any of the conditions set forth in Articles VIII.A.3, VIII.A.4 and VIII.B of the Plan, (y) subject to the agreement of the ABL Co-Collateral Agents, may waive any of the conditions set forth in Articles VIII.A.3, VIII.A.4 and VIII.B.1, VIII.B.3 (as applicable to ABL Co-Collateral Agents) and VIII.B.6 of the Plan, and (z) subject to the agreement of the Creditors Committee, may waive any of the conditions set forth in Articles VIII.A.3 and VIII.B.3 of the Plan (as applicable to the Creditors Committee), in each case, at any time and without leave of or order of the Court and without any formal action.

4. Effect of Failure of Conditions

Pursuant to Article VIII.D of the Plan, in the event that the Effective Date does not occur on or before May 31, 2013, or such later date as may be agreed by the Debtors, the ABL Co-Collateral Agents, the Required Ad Hoc DIP Lenders, and the Creditors Committee, and upon notification submitted by the Debtors to the Court: (a) the Confirmation Order shall be

vacated, (b) no distributions under the Plan shall be made, (c) the Debtors and all holders of Claims and Equity Interests shall be restored to the *status quo ante* as of the day immediately preceding the Confirmation Date as though the Confirmation Date had never occurred, and (d) the Debtors' obligations with respect to the Claims and Equity Interests shall remain unchanged and nothing contained in the Plan shall constitute or be deemed a waiver or release of any Claims or Equity Interests by or against the Debtors or any other person or to prejudice in any manner the rights of the Debtors or any person in any further proceedings involving the Debtors unless extended by Court order.

5. Substantial Consummation

Article VIII.E of the Plan provides that "Substantial Consummation" of the Plan, as defined in 11 U.S.C. § 1101(2), shall be deemed to occur on the Effective Date.

6. Vacatur of Confirmation Order

Article VIII.F of the Plan provides that if a Final Order denying confirmation of the Plan is entered, or if the Confirmation Order is vacated, then the Plan shall be null and void in all respects, and nothing contained in the Plan shall (a) constitute a waiver or release of any Claims against or Equity Interests in the Debtors; (b) prejudice in any manner the rights of the holder of any Claim against, or Equity Interest in, the Debtors; (c) prejudice in any manner any right, remedy or claim of the Debtors; or (d) be deemed an admission against interest by the Debtors.

P. Effect of Confirmation of the Plan on Assets, Claims and Equity Interests

1. Continued Corporate Existence Following the Reorganization

Article IX.A of the Plan provides that the Debtors, as Reorganized Debtors, shall continue to exist after the Effective Date with all powers of a corporation or limited liability company, as the case may be, under the laws of the respective states governing their formation and without prejudice to any right to alter or terminate such existence (whether by merger or otherwise) under such applicable state law, except as such rights may be limited and conditioned by the Plan and the documents and instruments executed and delivered in connection therewith. In addition, the Reorganized Debtors may operate their business free of any restrictions imposed by the Bankruptcy Code, the Bankruptcy Rules or by the Court, subject only to the terms and conditions of the Plan as well as the documents and instruments executed and delivered in connection therewith, including without limitation, the documents and instruments included in the Plan Supplement. The Reorganized Debtors shall be responsible for filing required post-confirmation reports and each Reorganized Debtor shall pay quarterly fees of such Debtor due to the Office of the United States Trustee until such time as a final decree is entered closing the applicable Chapter 11 Case or the Bankruptcy Code orders otherwise.

2. Dissolution of the Creditors Committee

Article IX.B of the Plan provides that the Creditors Committee shall continue in existence until the Effective Date to exercise those powers and perform those duties specified in section 1103 of the Bankruptcy Code. On the Effective Date, the Creditors Committee shall be dissolved automatically and its members shall be deemed released of all their duties, responsibilities and

obligations in connection with the Chapter 11 Cases or the Plan and its implementation, and the retention or employment of the Creditors Committee's attorneys, financial advisors, and other agents shall terminate as of the Effective Date; provided, however, (i) such dissolution shall be stayed until the later of (a) the entry of a final, non-appealable order disposing of the Prepetition Escrowed Amounts, (b) entry of a final, non-appealable order disposing of any other claim asserted by the Creditors Committee against Bayside, and (c) resolution of any and all Objections to Claims in accordance with Article VI.C.2 of the Plan, and (ii) such attorneys and financial advisors shall be entitled to pursue their own Fee Claims and represent the Creditors Committee in connection with the review of and the right to be heard in connection with all Fee Claims.

3. Vesting of Property

Pursuant to Article IX.C of the Plan and except as otherwise provided therein, on the Effective Date, the property of the Debtors' Estates shall automatically vest or revest in the Reorganized Debtors free and clear of all liens, Claims, charges or other encumbrances, except for Liens securing the Exit Facilities, if applicable, except as specifically provided in the Plan or the Confirmation Order and the Reorganized Debtors shall receive the benefit of any and all discharges under the Plan. On and after the Effective Date, except as otherwise provided in the Plan, the Reorganized Debtors may operate the Debtors' business and may use, acquire or dispose of property and compromise or settle any Claims or Causes of Action without supervision or approval by the Court and free of any restrictions of the Bankruptcy Code or Bankruptcy Rules.

4. Discharge of the Debtors

Article IX. D of the Plan provides that the rights afforded in the Plan and the treatment of all Claims and Equity Interests in the Plan shall be in exchange for and in complete satisfaction, discharge, and release of all Claims, Equity Interests and Causes of Action of any nature whatsoever, including any interest accrued on such Claims from and after the Petition Date, against the Debtors, the Debtors in Possession, or any of their respective assets or properties, arising prior to the Effective Date. Except as otherwise expressly specified in the Plan, the Confirmation Order shall act as of the Effective Date as a discharge of all debts of, Claims or Equity Interest against, and Liens on the Debtors, their respective assets and properties, arising at any time before the Effective Date, regardless of whether a proof of Claim with respect thereto was filed, whether the Claim is Allowed, or whether the holder thereof votes to accept the Plan or is entitled to receive a distribution thereunder. Except as otherwise expressly specified in the Plan, after the Effective Date, any holder of such discharged Claim shall be precluded from asserting against the Debtors, the Reorganized Debtors, or any of their respective assets or properties, any other or further Claim based on any document, instrument, act, omission, transaction, or other activity of any kind or nature that occurred before the entry of the Confirmation Order.

5. Injunction

Article IX.E of the Plan provides that except as otherwise expressly provided in the Plan, the Confirmation Order, or a separate order of the Court, all entities who have held, hold, or may hold Claims or Equity Interests against the Debtors that arose before or were held as of the

Effective Date, are permanently enjoined, on and after the Effective Date, from (a) commencing or continuing in any manner any action or other proceeding of any kind against the Debtors or the Reorganized Debtors, with respect to any such Claim or Equity Interest, (b) the enforcement, attachment, collection, or recovery by any manner or means of any judgment, award, decree, or order against the Debtors or the Reorganized Debtors, on account of any such Claim or Equity Interest, (c) creating, perfecting, or enforcing any encumbrance of any kind against the Debtors or the Reorganized Debtors, or against the property or interests in property of the Debtors on account of any such Claim or Equity Interest, and (d) asserting any right of setoff (except to the extent asserted prior to the Petition Date), or subrogation of any kind against any obligation due from the Debtors or the Reorganized Debtors or against the property or interests in property of the Debtors on account of any such Claim or Equity Interest. Such injunction shall extend to successors of the Debtors (including, without limitation, the Reorganized Debtors) and their respective properties and interests in property; provided, however, that, notwithstanding the foregoing, holders of Allowed Class 5, 6 and 8 Claims shall retain the right of setoff against any obligation due from the Debtors or against the property or interests in property of the Debtors arising prior to the Petition Date on account of such holder's Allowed Claim. Such injunction shall not apply in respect of Ordinary Course Administrative Claims, the Prepetition Agents', DIP Agents', DIP Lenders', Notes Indenture Trustee's and Bayside DIP Agent's fees and their professionals' fees and expenses.

6. Preservation of Causes of Action

Article IX.F of the Plan provides that the Reorganized Debtors shall retain all Causes of Action, other than as expressly provided below. Except as expressly provided in the Plan or the Confirmation Order, nothing contained in the Plan or the Confirmation Order shall be deemed to be a waiver or relinquishment of any such Causes of Action. Nothing contained in the Plan, the Confirmation Order or in this Disclosure Statement shall be deemed a waiver or relinquishment of any Claim, Cause of Action, right of setoff, or other legal or equitable defense that the Debtors had immediately prior to the Petition Date that is not specifically waived or relinquished by the Plan. The Reorganized Debtors shall have, retain, reserve and be entitled to assert all such Claims, Causes of Action, except for all potential Causes of Action under Chapter 5 of the Bankruptcy Code related to payments made by the Debtors to holders of General Unsecured Claims, Trade Unsecured Claims and Convenience Class Claims which are waived on the Effective Date, rights of setoff and other legal or equitable defenses that the Debtors had immediately prior to the Petition Date as fully as if the Chapter 11 Cases had not been commenced, and all of the Reorganized Debtors' legal and equitable rights respecting any Claims that are not specifically waived or relinquished by the Plan may be asserted after the Effective Date to the same extent as if the Chapter 11 Cases had not been commenced. Except as expressly provided in the Plan or the Confirmation Order, the Reorganized Debtors may settle any such Causes of Action without Court approval. Notwithstanding the foregoing, no Causes of Action may be asserted against the DIP Agents, the Bayside DIP Agent, the DIP Collateral Agents, the DIP Lenders, the Notes Indenture Trustee, the Noteholders, the Prepetition Agents and the Prepetition Lenders to the extent such Causes of Action were waived, released, settled or otherwise discharged or satisfied pursuant to the terms of the Final Orders regarding the DIP Facilities.

7. Votes Solicited in Good Faith

Pursuant to Article IX.G of the Plan, the Debtors have, and upon confirmation of the Plan shall be deemed to have, solicited acceptances of the Plan in good faith and in compliance with the applicable provisions of the Bankruptcy Code. The Debtors (and each of their respective affiliates, agents, directors, officers, members, employees, advisors, and attorneys) have participated in good faith and in compliance with the applicable provisions of the Bankruptcy Code in the offer and issuance of the securities offered and sold under the Plan and therefore have not, and on account of such offer and issuance will not be, liable at any time for the violation of any applicable law, rule, or regulation governing the solicitation of acceptances or rejections of the Plan or the offer or issuance of the securities offered and distributed under the Plan.

8. Administrative Claims Incurred After the Effective Date

Article IX.H of the Plan provides that Administrative Claims incurred by the Reorganized Debtors after the Effective Date including (without limitation) Claims for Professionals' fees and expenses incurred after such date, may be paid by the Reorganized Debtors in the ordinary course of business and without application for or Court approval, subject to any agreements with any claim holders.

Q. Releases and Related Matters

1. Releases

(a) Releases by the Debtors

Article IX.I of the Plan provides that on the Effective Date, the Debtors and the Reorganized Debtors, on behalf of themselves and their estates, shall be deemed to release unconditionally (a) all of their respective officers, directors, employees, partners, advisors, attorneys, financial advisors, accountants, and other professionals, who served in such capacities on or after the Petition Date, (b) (i) the DIP Agents and the Bayside DIP Agent, (ii) the DIP Collateral Agents, (iii) the Notes Indenture Trustee and (iv) the Prepetition Agents, (c) officers, directors, principals, members, employees, partners, subsidiaries, affiliates, advisors, attorneys, financial advisors, accountants, and other professionals of each of the DIP Agents, the Bayside DIP Agent, DIP Collateral Agents, Collateral Agents, the Notes Indenture Trustee and the Prepetition Agents, (d) the DIP Lenders and the Prepetition Lenders, (e) officers, directors, principals, members, employees, partners, subsidiaries, affiliates, advisors, attorneys, financial advisors, accountants, and other professionals of the DIP Lenders, and the Prepetition Lenders, (f) the members of the Creditors Committee and the Noteholders, and (g) officers, directors, principals, members, employees, partners, subsidiaries, affiliates, advisors, attorneys, financial advisors, accountants, and other professionals of the Creditors Committee and the Noteholders (collectively, the "Released Parties" and each a "Released Party") from any and all claims, obligations, suits, judgments, damages, rights, Causes of Action and liabilities whatsoever, whether known or unknown, foreseen or unforeseen, existing or hereafter arising, in law, equity or otherwise, based in whole or in part upon actions taken solely in their respective capacities described above for any omission, transaction, event or other occurrence taking place on or prior

to the Effective Date in any way relating to the Debtors, the Chapter 11 Cases, the Disclosure Statement or the Plan, except that (i) no individual shall be released from any act or omission that constitutes gross negligence, willful misconduct, fraud or criminal acts as determined by a Final Order, (ii) the Reorganized Debtors shall not relinquish or waive the right to assert any of the foregoing as a legal or equitable defense or right of set off or recoupment against any Claims of any such persons asserted against the Debtors, (iii) the foregoing release shall not apply to any obligations that remain outstanding in respect of loans or advances made to individuals by the Debtors, and (iv) the foregoing release applies to the Released Parties solely in their respective capacities described above. For the avoidance of doubt, the Debtors shall release the Noteholders only to the extent permitted by law and to the extent that such Noteholders vote in favor of the Plan and do not mark their Ballots to indicate their refusal to grant the releases of the released parties provided for in the Plan. Notwithstanding the foregoing, no claims of the Estates asserted by the Creditors Committee against the Prepetition Term Loan Lenders, including without limitation in respect of the Prepetition Escrowed Amounts, shall be released by this provision.

(b) Releases by Non-Debtors

Article IX.J of the Plan provides that on the Effective Date, the DIP Lenders, the Prepetition Lenders and all Persons who directly or indirectly, have held, hold, or may hold Claims, and (a) vote to accept the Plan as set forth on the relevant Ballot, and do not mark their Ballot to indicate their refusal to grant the releases provided in this paragraph, or (b) are presumed to have voted to accept the Plan under section 1126(f) of the Bankruptcy Code shall be deemed, by virtue of their receipt of Distributions and/or other treatment contemplated under the Plan, to have forever released and covenanted with the Reorganized Debtors and the Released Parties not to (x) sue or otherwise seek recovery from any of the Reorganized Debtors or any Released Party on account of any Claim in any way related to the Debtors or their business and affairs, the Chapter 11 Cases, the Disclosure Statement, or the Plan, including but not limited to any Claim based upon tort, breach of contract, violations of federal or state securities laws or otherwise, based upon any act, occurrence, or failure to act from the beginning of time through the Effective Date or (y) assert against any of the Reorganized Debtors or any Released Party any claim, obligation, right, cause of action or liability that any holder of a Claim or Equity Interest may be entitled to assert, whether known or unknown, foreseen or unforeseen, existing or hereafter arising, based in whole or in part on any act or omission, transaction, or occurrence from the beginning of time through the Effective Date in any way relating to the Debtors, the Chapter 11 Cases, the Disclosure Statement or the Plan, provided, however, (i) none of the Released Parties shall be released from any claim primarily based on any act or omission that constitutes gross negligence, willful misconduct, fraud or criminal acts as determined by a Final Order, (ii) the foregoing release shall not apply to obligations arising under the Plan, (iii) the foregoing release shall not be construed to prohibit a party in interest from seeking to enforce the terms of the Plan, and (iv) the foregoing release shall not apply to any indemnification and other surviving obligation as set forth in the Plan.

2. Exculpation and Injunction in Respect of Released Parties

(a) Exculpation

Pursuant to Article IX.K.1 of the Plan, as of the Effective Date, the Debtors, the Reorganized Debtors, the Creditors Committee, the Notes Indenture Trustee, and with respect to all of the foregoing, their respective officers, directors, members, managers, attorneys and advisors shall have no liability whatsoever to any holder or purported holder of an Administrative Claim, a Claim, or an Equity Interest for any act or omission in connection with, or arising out of, the Plan, the Disclosure Statement, the negotiation of the Plan and the Disclosure Statement, the negotiation of the documents included in the Plan Supplement, the pursuit of approval of the Disclosure Statement or the solicitation of votes for confirmation of the Plan, the Chapter 11 Cases, the consummation of the Plan, the administration and implementation of the Plan or the property to be distributed under the Plan, or any transaction contemplated by the Plan, the Disclosure Statement or in furtherance thereof except for any act or omission that constitutes gross negligence, willful misconduct, fraud or criminal acts as determined by a Final Order. This exculpation shall be in addition to, and not in limitation of, all other releases, indemnities, exculpations and any other applicable law or rules protecting such Released Parties from liability.

For the avoidance of doubt, notwithstanding anything to the contrary herein, no release or injunction provided for in Articles IX.I, IX.J or IX.K of the Plan shall prohibit or otherwise impair the right of Berkley Regional Insurance Company with respect to any letters of credit provided in connection with bonds issued by Berkley related to the Debtors.

3. Term of Bankruptcy Injunction or Stays

Article IX.L of the Plan provides that all injunctions or stays provided for in the Chapter 11 Cases under sections 105 or 362 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation Date, shall remain in full force and effect until the Effective Date.

R. Modification, Revocation, Withdrawal or Non-Consummation of the Plan

1. Modification of the Plan

Pursuant to Article X.A of the Plan and subject to the limitations contained in the Plan: (1) the Debtors reserve the right, with the consent of the Required Ad Hoc DIP Lenders and the ABL Co-Collateral Agents (only with respect to Articles III.D.1, VIII.A.4, VIII.B.6, IX.I, and IX.J or any other provision of the Plan to the extent relating to the Payments in Full of the ABL DIP Facility as set forth in the Plan or any other rights under the Plan of the Prepetition ABL Lenders, Prepetition ABL Agent, ABL DIP Lenders or ABL Co-Collateral Agents) and the Creditors Committee, and in accordance with the Bankruptcy Code and the Bankruptcy Rules, to amend or modify the Plan prior to the entry of the Confirmation Order, including amendments or modifications to satisfy section 1129(b) of the Bankruptcy Code and, as appropriate, not re-solicit votes on such modified Plan; and (2) after the entry of the Confirmation Order, the Debtors or the Reorganized Debtors, as the case may be, may (and, in the case of each of clause (1) and clause (2), to the extent such amendments or modifications affect the rights of the DIP Agents or the DIP Lenders, with the prior written consent of the applicable affected party) and upon order of the Court, amend or modify the Plan, in accordance with section 1127(b) of the

Bankruptcy Code; provided, however, that any pre-confirmation amendments shall not materially or adversely affect the interests, rights or treatment of any Allowed Claim or Equity Interest under the Plan.

2. Right to Revoke or Withdraw

Article X.B of the Plan provides that subject to the terms of, and without prejudice to the rights of any party, the Debtors (with the consent of the Required Ad Hoc DIP Lenders and the Creditors Committee) reserve the right to revoke or withdraw the Plan at any time prior to the Effective Date.

3. Effect of Withdrawal, Revocation, or Non-Consummation

Article X.C of the Plan provides that if the Debtors revoke or withdraw the Plan prior to the Effective Date, or if the Confirmation Date or the Effective Date does not occur, the Plan, any settlement or compromise embodied in the Plan (including the fixing or limiting to an amount certain any Claim or Equity Interest or Class of Claims or Equity Interests), the assumption or rejection of executory contracts, unexpired leases, or benefit plans effected by the Plan, any release, exculpation or indemnification provided for in the Plan, and any document or agreement executed pursuant to the Plan shall be null and void. In such event, nothing in the Plan, and no acts taken in preparation for consummation of the Plan shall be deemed to constitute a waiver or release of any Claims by or against or Equity Interests in the Debtors or any other Person, to prejudice in any manner the rights of the Debtors or any Person in any further proceedings involving the Debtors, or to constitute an admission of any sort by the Debtors or any other Person.

S. Retention of Jurisdiction

Article XI of the Plan provides that the Court shall have exclusive jurisdiction over all matters arising out of, and related to, the Chapter 11 Cases and the Plan pursuant to, and for the purposes of, section 105(a) and section 1142 of the Bankruptcy Code, notwithstanding entry of the Confirmation Order and occurrence of the Effective Date, for, among other things, the following purposes: (1) to hear and determine motions for the assumption or rejection of executory contracts or unexpired leases pending on the Confirmation Date, and the allowance of Claims resulting therefrom; (2) to determine any other applications, adversary proceedings, and contested matters pending on the Effective Date; (3) to ensure that distributions to holders of Allowed Claims are accomplished as provided under the Plan; (4) to resolve disputes as to the ownership of any Claim or Equity Interest; (5) to hear and determine objections to Claims and to consider Claims or the allowance, classification, priority, compromise, estimation, or payment of any Claim, including any Administrative Expense Claim; (6) to enter and implement such orders as may be appropriate in the event the Confirmation Order is for any reason stayed, revoked, modified or vacated; (7) to issue such orders in aid of execution of the Plan, to the extent authorized by section 1142 of the Bankruptcy Code; (8) to consider any modifications of the Plan, to cure any defect or omission, or to reconcile any inconsistency in any order of the Court, including, without limitation, the Confirmation Order; (9) to hear and determine all applications for compensation and reimbursement of expenses of Professionals under sections 330, 331 and 503(b) of the Bankruptcy Code; (10) hear and determine disputes arising in connection with the

interpretation, implementation, or enforcement of the Plan, including without limitation any dispute concerning Distributions made on account of Allowed Claims in Classes 5 and 6, including the Trade Payment, and the provision of Customary Trade Terms by any Trade Claimant, solely in the event that the Reorganized Debtors and the holder of such Claim failed to resolve their dispute before the Ombudsman according to the procedure that shall be set forth in a Plan Supplement Document; (11) to hear and determine any issue for which the Plan requires a Final Order of the Court; (12) to hear and determine matters concerning state, local, and federal taxes in accordance with sections 346, 505 and 1146 of the Bankruptcy Code; (13) to hear and determine disputes arising in connection with compensation and reimbursement of expenses of professionals for services rendered during the period commencing on the Petition Date through and including the Effective Date; (14) to hear and determine any Causes of Action preserved under the Plan under Bankruptcy Code sections 544, 547, 548, 549, 550, 551, 553, and 1123(b)(3); (15) to hear and determine any matter regarding the existence, nature and scope of the Debtors' discharge; (16) to hear and determine any matter regarding the existence, nature, and scope of the releases and exculpation provided in Article IX.I-K of the Plan; and (17) to enter a final decree closing the Chapter 11 Cases. After a final decree closing the Chapter 11 Cases has been entered, in the event there is a dispute between the Reorganized Debtors and any holder of a Claim in Classes 5 and 6 or regarding the payment of any Distributions made on account of such Claim or the provision of Customary Trade Terms by a Trade Claimant that cannot be resolved by the Ombudsman, the Debtors' Chapter 11 Cases shall be re-opened at the Reorganized Debtors' expense to enable the Court to hear and resolve such dispute.

T. Miscellaneous Provisions

1. Payment of Statutory Fees

Article XII.A of the Plan provides that all fees due and payable pursuant to section 1930 of Title 28 of the U.S. Code prior to the Effective Date shall be paid by the Debtors. On and after the Effective Date, the Debtors shall pay any and all such fees when due and payable, and shall file with the Bankruptcy Court quarterly reports in a form reasonably acceptable to the United States Trustee. Notwithstanding the deemed_substantive consolidation of the Debtors called for in the Plan, each and every one of the Debtors shall remain obligated to pay quarterly fees to the Office of the United States Trustee until the earliest of that particular Debtor's case being closed, dismissed or converted to a case under Chapter 7 of the Bankruptcy Code.

2. Payment of Notes Indenture Trustee Fees and Expenses

Article XII.B of the Plan provides that all reasonable fees and expenses of the Notes Indenture Trustee incurred before the Effective Date (and their counsel, agents, and advisors) shall be paid in full by the Debtors in Cash without a reduction to the recoveries of applicable Holders of Allowed Claims on the Effective Date (subject to the Debtors', counsel to the Ad Hoc DIP Lenders', counsel to the ABL DIP Lenders' and counsel to the Creditors Committee's prior receipt of invoices in customary form in connection therewith and without the requirement to file a fee application with the Court). To the extent invoices are submitted after the Effective Date, such invoices shall be paid as soon as reasonably practicable. Copies of invoices shall be served on the United States Trustee, who will have an opportunity to review and object. Notwithstanding the foregoing, to the extent any fees or expenses of the Notes Indenture Trustee

are not paid, the Notes Indenture Trustee may assert its charging liens against any recoveries received on account of Allowed Noteholder Unsecured Claims for payment of such unpaid amounts. All disputes related to the fees and expenses of the Notes Indenture Trustee shall be subject to the jurisdiction of and decided by the Court.

3. Governing Law

Article XII.C of the Plan provides that unless a rule of law or procedure is supplied by Federal law (including the Bankruptcy Code and Bankruptcy Rules) or the Delaware General Corporation Law, (a) the laws of the State of Delaware (without reference to the conflicts of laws provisions thereof) shall govern the construction and implementation of the Plan and any agreements, documents, and instruments executed in connection with the Plan, unless otherwise specified and (b) the laws of the state of incorporation of the Debtors shall govern corporate matters with respect to the Debtors, in each case without giving effect to the principles of conflicts of law thereof.

4. Filing or Execution of Additional Documents

Article XII.D of the Plan provides that on or before the Effective Date, the Debtors or the Reorganized Debtors, shall file with the Court or execute, as appropriate, such agreements and other documents (in form and substance acceptable to the Required Ad Hoc DIP Lenders) as may be necessary or appropriate to effectuate and further evidence the terms and conditions of the Plan.

5. Withholding and Reporting Requirements

Article XII.E of the Plan provides that in connection with the Plan and all instruments issued in connection therewith and distributions thereon, the Reorganized Debtors shall comply with all withholding and reporting requirements imposed by any federal, state, local or foreign taxing authority and all distributions hereunder shall be subject to any such withholding and reporting requirements. Notwithstanding the above and except as otherwise provided by the DIP Facilities, each holder of an Allowed Claim that is to receive a Distribution shall have the sole and exclusive responsibility for the satisfaction and the payment of any tax obligations imposed by any Governmental Unit, including income, withholding and other tax obligations, on account of such Distribution to the extent required. Except with respect to the DIP Facilities, the Reorganized Debtors have the right, but not the obligation, to not make a Distribution until such holder has made arrangements satisfactory to such Reorganized Debtor for payment of any such tax obligations. The Reorganized Debtors may require, as a condition to receipt of a Distribution, that the holder of an Allowed Claim provide a completed W-8, W-9 and/or other tax information deemed necessary in the sole discretion of the Reorganized Debtors, as applicable to each such holder. If the Reorganized Debtors make such a request and the holder fails to comply before the date that is one (1) year after Distributions are made to holders of Allowed Claims in such holder's Class, the amount of such Distribution shall be deemed an unclaimed Distribution pursuant to Article VI.C.1(c) of the Plan, and any Claim in respect of such Distribution shall be discharged and forever barred from assertion against such Reorganized Debtor or its property.

6. Exemption from Transfer Taxes

Article XII.F of the Plan provides that pursuant to, and to the fullest extent permitted by, section 1146(c) of the Bankruptcy Code, (a) the issuance, transfer or exchange under the Plan of New Equity and the security interests in favor of the lenders under the Exit Facilities, (b) the making or assignment of any lease or sublease, or (c) the making or delivery of any other instrument whatsoever, in furtherance of or in connection with the Plan shall not be subject to any stamp tax or other similar tax.

7. Allocation Between Principal and Accrued Interest

Article XII.G of the Plan provides that for tax purposes, the aggregate consideration paid to holders with respect to their Allowed Claims shall be treated pursuant to the Plan as allocated first to the principal amount of such Allowed Claim (to the extent thereof) and, thereafter, to interest, if any, accrued through the Effective Date.

8. Section 1145 Exemption

Article XII.H of the Plan provides that pursuant to, in accordance with, and solely to the extent provided under section 1145 of the Bankruptcy Code, the issuance of the New SSI Common Stock and distribution thereof to the Debtors' creditors under the Plan will be exempt from registration under applicable securities laws (including without limitation, Section 5 of the Securities Act or any similar state or local law requiring the registration for offer or sale of a security or registration or licensing of an issuer of a security) pursuant to section 1145(a) of the Bankruptcy Code, and to the extent such issuance is deemed to be a public offering, the New SSI Common Stock may be sold without registration in accordance with section 1145 of the Bankruptcy Code.

9. Waiver of Federal Rule of Civil Procedure 62(a)

Article XII.I of the Plan provides that the Debtors may request that the Confirmation Order include (a) a finding that Fed. R. Civ. P. 62(a) shall not apply to the Confirmation Order, and (b) authorization for the Debtors to consummate the Plan immediately after entry of the Confirmation Order.

10. Exhibits/Schedules

All exhibits and schedules to the Plan and the Plan Supplement Documents are incorporated into and constitute a part of the Plan as if set forth therein.

11. Notices

All notices, requests, and demands with respect to the Plan to be effective shall be in writing and unless the Plan expressly provides otherwise, shall be deemed to have been duly given or made when actually delivered or, in the case of notice by facsimile transmission, when received and telephonically confirmed, addressed as follows:

To the Debtors: School Specialty, W6316 Design Drive, Greenville, Wisconsin 54942, attention Michael Lavelle, with a copy to Paul, Weiss, Rifkind, Wharton & Garrison LLP, 1285 Avenue of the Americas, New York, New York 10019, attention Jeffrey D. Saferstein, Esq. and Lauren Shumejda, Esq., Tel: (212) 373-3000, Fax: (212) 757-3990, and a copy to Young Conaway Stargatt & Taylor, LLP, Rodney Square, 1000 North King Street, Wilmington, Delaware 19801, attention Pauline K. Morgan, Esq. and Maris Kandestin, Esq., Tel: (302) 571-6600, Fax: (302) 571-1253.

To the Creditors Committee: In care of Brown Rudnick LLP, Seven Times Square, New York, New York 10036, attention Robert J. Stark, Esq., Tel: (212) 209-4800, Fax: (212) 209-4801, and Brown Rudnick LLP, One Financial Center, Boston, Massachusetts 02111, attention Steven D. Pohl, Esq. and Thomas H. Montgomery, Esq., Tel: (617) 856-8200, Fax: (617) 856-8201 and Venable LLP, 1201 North Market Street, Suite 1400, Wilmington, Delaware 19801, attention Jamie L. Edmonson, Esq. and Darek S. Bushnaq, Esq., Tel: (302) 298-3535, Fax: (302) 298-3550.

To the Prepetition ABL Agents and ABL DIP Agent: In care of Goldberg Kohn Ltd., 55 East Monroe Street, Suite 3300, Chicago, Illinois 60603, attention Jeremy Downs, Esq. and Randall Klein, Esq., Tel: (312) 201-4000, Fax: (312) 332-2196 and Richards Layton & Finger PA, One Rodney Square, 920 North King Street, Wilmington, Delaware 19801, attention Paul N. Heath, Esq. And Zachary I. Shapiro, Esq., Tel: (302) 651-7700, Fax: (302) 651-7701.

To the Ad Hoc DIP Agent: In care of Stroock & Stroock & Lavan LLP, 180 Maiden Lane, New York, New York 10038, attention Kristopher M. Hansen, Esq. and Jonathan D. Canfield, Esq., Tel: (212) 806-5400, Fax: (212) 806-6006 and Duane Morris LLP, 222 Delaware Avenue, Suite 1600, Wilmington, Delaware 19801, attention Michael R. Lastowki, Esq., Christopher M. Winter, Esq., and Jarret P. Hitchings, Esq., Tel: (302) 657-4900, Fax: (302) 657-4901.

12. Plan Supplement

Article XII.L of the Plan provides that forms of the Plan Supplement Documents (which may be in substantially final form) or term sheets relating to the Exit Facilities, the Shareholders Agreement, amendments to certificates of incorporation and bylaws, the Trade Election and Trade Payment, the New SSI Common Stock, the amount of New SSI Common Stock which shall be reserved for distribution under the Management Incentive Plan, and such other documents as the Debtors determine to be necessary or appropriate to the implementation and/or confirmation of the Plan shall be contained in the Plan Supplement, which will be filed with the Clerk of the Court no later than ~~three~~seven ~~(3) Business Days~~7) calendar days prior to the Voting Deadline. The Plan Supplement may be inspected in the office of the Clerk of the Court during normal court hours and shall be available online at https://ecf.deb.uscourts.gov. The Plan Supplement may also be obtained at no cost from the Claims Agent's website at http://www.kccllc.net/schoolspecialty or by requesting the Plan Supplement from the Debtors' counsel by calling or emailing Troy Bollman of Young Conway Stargatt & Taylor, LLP (Tel: (302) 573-7796; Email: Tbollman@ycst.com) or in writing in accordance with Article XII.K of the Plan.

13. Conflict

The terms of the Plan shall govern in the event of any inconsistency with the summaries of the Plan set forth in this Disclosure Statement.

VIII.

CONFIRMATION OF THE PLAN

A. Confirmation Hearing

Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court, after notice, to hold a hearing on confirmation of the Plan. The Confirmation Hearing will be held on **May 20, 2013 at 1:30 p.m. prevailing Eastern Time**, before the Honorable Kevin J. Carey, United States Bankruptcy Court, 824 North Market Street, 5th Floor, Courtroom #5, Wilmington, Delaware 19801. The Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court without further notice except for the announcement of adjournment at the Confirmation Hearing, or at any subsequent adjourned Confirmation Hearing.

Section 1128(b) of the Bankruptcy Code provides that any party in interest may object to confirmation of a plan. Any objection to confirmation of the Plan must: (i) be made in writing; (ii) state the name and address of the objecting party and the nature of the Claim or Equity Interest of such party; (iii) state with particularity the legal and factual basis and nature of any objection to the Plan; and (iv) be filed with the Bankruptcy Court, together with proof of service, and served so that they are received **on or before May 16, 2013 at 4:00 p.m. prevailing Eastern Time** by the following parties:

To the Debtors: School Specialty, W6316 Design Drive, Greenville, Wisconsin 54942, attention Michael Lavelle, with a copy to Paul, Weiss, Rifkind, Wharton & Garrison LLP, 1285 Avenue of the Americas, New York, New York 10019, attention Jeffrey D. Saferstein, Esq. and Lauren Shumejda, Esq., Tel: (212) 373-3000, Fax: (212) 757-3990, and a copy to Young Conaway Stargatt & Taylor, LLP, Rodney Square, 1000 North King Street, Wilmington, Delaware 19801, attention Pauline K. Morgan, Esq. and Maris Kandestin, Esq., Tel: (302) 571-6600, Fax: (302) 571-1253.

To the Creditors Committee: In care of Brown Rudnick LLP, Seven Times Square, New York, New York 10036, attention Robert J. Stark, Esq., Tel: (212) 209-4800, Fax: (212) 209-4801, and Brown Rudnick LLP, One Financial Center, Boston, Massachusetts 02111, attention Steven D. Pohl, Esq. and Thomas H. Montgomery, Esq., Tel: (617) 856-8200, Fax: (617) 856-8201; and Venable LLP, 1201 North Market Street, Suite 1400, Wilmington, Delaware 19801, attention Jamie L. Edmonson, Esq. and Darek S. Bushnaq, Esq., Tel: (302) 298-3535, Fax: (302) 298-3550.

To the Prepetition ABL Agents and ABL DIP Agent: In care of Goldberg Kohn Ltd., 55 East Monroe Street, Suite 3300, Chicago, Illinois 60603, attention Jeremy Downs, Esq. and Randall Klein, Esq., Tel: (312) 201-4000, Fax: (312) 332-2196; and Richards Layton &

Finger PA, One Rodney Square, 920 North King Street, Wilmington, Delaware 19801, attention Paul N. Heath, Esq. and Zachary I. Shapiro, Esq., Tel: (302) 651-7700, Fax: (302) 651-7701.

To the Ad Hoc DIP Agent: In care of Stroock & Stroock & Lavan LLP, 180 Maiden Lane, New York, New York 10038, attention Kristopher M. Hansen, Esq. and Jonathan D. Canfield, Esq., Tel: (212) 806-5400, Fax: (212) 806-6006; and Duane Morris LLP, 222 Delaware Avenue, Suite 1600, Wilmington, Delaware 19801, attention Michael R. Lastowki, Esq., Christopher M. Winter, Esq., and Jarret P. Hitchings, Esq., Tel: (302) 657-4900, Fax: (302) 657-4901.

To the United States Trustee: Office of the United States Trustee, 844 King Street, Suite 2207, Lock Box 35, Wilmington, Delaware 19801, attention Juliet Sarkessian, Esq., Tel: (302) 573-6008, Fax: (302) 573-6497.

Objections to confirmation of the Plan are governed by Rule 9014 of the Bankruptcy Rules. UNLESS AN OBJECTION TO CONFIRMATION IS TIMELY AND PROPERLY SERVED AND FILED, IT MAY NOT BE CONSIDERED BY THE BANKRUPTCY COURT.

B. Statutory Requirements for Confirmation of the Plan in Chapter 11 Cases

At the Confirmation Hearing, the Bankruptcy Court will confirm the Plan only if all of the requirements of section 1129 of the Bankruptcy Code are met. Among the requirements for confirmation are that the Plan (i) is accepted by all Classes of Claims and Equity Interests or, if rejected by an impaired Class, the Plan "does not discriminate unfairly" and is "fair and equitable" as to such Class, (ii) is feasible and (iii) is in the "best interests" of holders of Claims and Equity Interests impaired under the Plan.

As explained above, the Bankruptcy Code contains provisions for confirmation of a plan even if it is not accepted by all classes. These so-called "cramdown" provisions are set forth in section 1129(b) of the Bankruptcy Code, which provides that a plan can be confirmed even if it has not been accepted by all impaired classes of claims and equity interests as long as at least one impaired class of non-insider claims has voted to accept the plan and the plan "does not discriminate unfairly" and is "fair and equitable" with respect to each class of impaired claims and equity interests. A summary of these requirements is set forth below.

1. Acceptance

Classes 5, 6, 7 and 8 are impaired under the Plan, and, therefore, holders of Allowed Claims in these Classes are entitled to vote on the Plan.

Classes 1, 2, 3 and 4 are Unimpaired under the Plan, and, therefore, the holders of Allowed Claims in each of these Classes are conclusively presumed to have accepted the Plan.

Class 9 is impaired and the holders of such Equity Interests in SSI will not receive or retain any property under the Plan. Accordingly, holders of Equity Interests in this Class are deemed to have rejected the Plan.

2. Unfair Discrimination and the Fair and Equitable Test

The Debtors will seek to confirm the Plan notwithstanding the deemed non-acceptance of the Plan by Class 9. The Debtors believe that the Plan "does not discriminate unfairly" and is "fair and equitable" with respect to such dissenting impaired Class. A plan does not discriminate unfairly if the legal rights of a dissenting class are treated in a manner consistent with the treatment of other classes whose legal rights are substantially similar to those of the dissenting class and if no class receives more than it is entitled to on account of its claims or interests. The Debtors believe that the Plan satisfies these requirements.

The Bankruptcy Code establishes different "fair and equitable" tests for secured claims, unsecured claims and equity interests, as follows:

(a) Secured Creditors. Either (i) each holder of an impaired secured claim retains its liens securing its secured claim and receives on account of its secured claim deferred cash payments having a present value equal to the amount of its allowed secured claim, (ii) each impaired secured creditor realizes the "indubitable equivalent" of its allowed secured claim, or (iii) the property securing the claim is sold free and clear of liens, with such liens attaching to the proceeds of the sale and the treatment of such liens on proceeds is as provided in clauses (i) or (ii) above.

(b) Unsecured Creditors. Either (i) each holder of an impaired unsecured claim receives or retains under the plan property of a value equal to the amount of its allowed claim or (ii) the holders of claims and equity interests that are junior to the claims of the dissenting class will not receive or retain any property under the plan.

(c) Equity Interest Holders. Either (i) each holder of an equity interest will receive or retain under the plan property of a value equal to the greater of the fixed liquidation preference to which such holder is entitled, or the fixed redemption price to which such holder is entitled or the value of the equity interest, or (ii) the holders of equity interests that are junior to the non-accepting class will not receive or retain any property under the plan.

THE DEBTORS BELIEVE THAT THE PLAN MAY BE CONFIRMED ON A NONCONSENSUAL BASIS (PROVIDED AT LEAST ONE IMPAIRED CLASS OF CLAIMS VOTES TO ACCEPT THE PLAN). ACCORDINGLY, THE DEBTORS WILL DEMONSTRATE AT THE CONFIRMATION HEARING THAT THE PLAN SATISFIES THE REQUIREMENTS OF SECTION 1129(b) OF THE BANKRUPTCY CODE AS TO ANY NON-ACCEPTING CLASS.

3. Feasibility

Pursuant to section 1129(a)(11) of the Bankruptcy Code, among other things, the Bankruptcy Court must determine that confirmation of the Plan is not likely to be followed by the liquidation or need for further financial reorganization of the Debtors or any successors to the

Debtors under the Plan. This condition is often referred to as the "feasibility" of the Plan. The Debtors believe that the Plan satisfies this requirement.

For purposes of determining whether the Plan meets this requirement, the Debtors and their financial advisors have analyzed the Debtors' ability to meet their obligations under the Plan and maintain sufficient liquidity and capital resources to conduct their business after emergence from chapter 11. As part of that analysis, the Debtors have prepared consolidated projected financial results for fiscal 2014 through and including fiscal 2017. These financial projections, and the assumptions on which they are based, are annexed hereto as Exhibit B (the "Financial Projections"). Based upon the Financial Projections, the Debtors believe that the Reorganized Debtors will be able to make all payments required pursuant to the Plan, and therefore, that confirmation of the Plan is not likely to be followed by liquidation or the need for further reorganization.

The Financial Projections should be read in conjunction with the assumptions, qualifications, and explanations set forth in this Disclosure Statement and in the Plan in their entirety, and the historical consolidated financial statements (including the notes and schedules thereto) and other financial information set forth in School Specialty's Annual Report on Form 10-K for the fiscal year ended April 28, 2012, as amended, and other reports filed by School Specialty with the SEC filed prior to the Bankruptcy Court's approval of this Disclosure Statement. These filings are available by visiting the SEC's website at http://www.sec.gov or School Specialty's website at www.schoolspecialty.com.

The Debtors prepared the Financial Projections based upon, among other things, the anticipated future financial condition and results of operations of the Reorganized Debtors. The Debtors do not, as a matter of course, publish their business plans, strategies, projections, or their anticipated results of operations or financial condition. Accordingly, the Debtors and the Reorganized Debtors do not intend to update or otherwise revise the Financial Projections, or to include such information in documents required to be filed with the SEC or otherwise make such information public to reflect events or circumstances existing or arising after the date of this Disclosure Statement or to reflect the occurrence of unanticipated events, even in the event that any or all of the underlying assumptions are shown to be in error.

THE FINANCIAL PROJECTIONS WERE NOT PREPARED TO COMPLY WITH THE GUIDELINES FOR PROSPECTIVE FINANCIAL STATEMENTS PUBLISHED BY THE FINANCIAL ACCOUNTING STANDARDS BOARD. THE DEBTORS' INDEPENDENT ACCOUNTANTS HAVE NEITHER EXAMINED NOR COMPILED THE ACCOMPANYING FINANCIAL PROJECTIONS AND ACCORDINGLY DO NOT EXPRESS AN OPINION OR ANY OTHER FORM OF ASSURANCE WITH RESPECT TO THE FINANCIAL PROJECTIONS, ASSUME NO RESPONSIBILITY FOR THE FINANCIAL PROJECTIONS AND DISCLAIM ANY ASSOCIATION WITH THE FINANCIAL PROJECTIONS. EXCEPT FOR PURPOSES OF THIS DISCLOSURE STATEMENT, THE DEBTORS DO NOT PUBLISH FINANCIAL PROJECTIONS OF THEIR ANTICIPATED FINANCIAL POSITION OR RESULTS OF OPERATIONS. EXCEPT AS MAY OTHERWISE BE PROVIDED IN THE PLAN OR THIS DISCLOSURE STATEMENT, THE DEBTORS DO NOT INTEND TO UPDATE OR OTHERWISE REVISE THESE FINANCIAL PROJECTIONS TO REFLECT EVENTS OR CIRCUMSTANCES EXISTING OR ARISING AFTER THE DATE OF THIS

DISCLOSURE STATEMENT OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS.

THE FINANCIAL PROJECTIONS, WHILE PRESENTED WITH NUMERICAL SPECIFICITY, ARE NECESSARILY BASED ON A VARIETY OF ESTIMATES AND ASSUMPTIONS THAT, THOUGH CONSIDERED REASONABLE BY THE DEBTORS, MAY NOT BE REALIZED, AND ARE INHERENTLY SUBJECT TO SIGNIFICANT BUSINESS, ECONOMIC, COMPETITIVE, INDUSTRY, REGULATORY, MARKET AND FINANCIAL UNCERTAINTIES AND CONTINGENCIES, MANY OF WHICH WILL BE BEYOND THE REORGANIZED DEBTORS' CONTROL. THE DEBTORS CAUTION THAT NO REPRESENTATIONS CAN BE OR ARE MADE AS TO THE ACCURACY OF THE FINANCIAL PROJECTIONS OR TO THE REORGANIZED DEBTORS' ABILITY TO ACHIEVE THE PROJECTED RESULTS. SOME ASSUMPTIONS INEVITABLY WILL BE INCORRECT. MOREOVER, EVENTS AND CIRCUMSTANCES OCCURRING SUBSEQUENT TO THE DATE ON WHICH THE PROJECTIONS WERE PREPARED MAY BE DIFFERENT FROM THOSE ASSUMED, OR, ALTERNATIVELY, MAY HAVE BEEN UNANTICIPATED, AND THUS MAY AFFECT FINANCIAL RESULTS IN A MATERIAL AND POSSIBLY ADVERSE MANNER. THE FINANCIAL PROJECTIONS, THEREFORE, MAY NOT BE RELIED UPON AS A GUARANTEE OR OTHER ASSURANCE OF THE ACTUAL RESULTS THAT WILL OCCUR. *SEE* ARTICLE IX, "CERTAIN RISK FACTORS TO BE CONSIDERED."

IN DECIDING WHETHER TO VOTE TO ACCEPT OR REJECT THE PLAN, HOLDERS OF CLAIMS MUST MAKE THEIR OWN DETERMINATIONS AS TO THE REASONABLENESS OF SUCH ASSUMPTIONS AND THE RELIABILITY OF THE FINANCIAL PROJECTIONS AND SHOULD CONSULT WITH THEIR OWN ADVISORS.

4. Best Interests Test

(a) Generally

The "best interests" test under section 1129 of the Bankruptcy Code requires as a condition to confirmation of the Plan that each holder of Impaired Claims or Impaired Equity Interests receive property with a value not less than the amount such holder would receive in a chapter 7 liquidation. The Debtors believe that, under the Plan, holders of Impaired Claims and Impaired Interests will receive property with a value equal to or in excess of the value such holders would receive in a liquidation of the Debtors under chapter 7 of the Bankruptcy Code. The chapter 7 liquidation analysis set forth below demonstrates that the Plan satisfies the requirements of the "best interests" test.

To estimate potential returns to holders of Claims and Equity Interests in a chapter 7 liquidation, the Debtors determined the amount of liquidation proceeds that might be available for distribution (net of liquidation related costs) and the allocation of such proceeds among the Classes of Claims and Equity Interests based on their relative priority as set forth in the Bankruptcy Code. The Debtors considered many factors and data and have assumed that the liquidation of all assets would be conducted in an orderly manner. The liquidation proceeds available for distribution to holders of Claims against and Equity Interests in the Debtors would

consist of the net proceeds from the disposition of the Debtors' assets, augmented by any other cash that the Debtors held and generated during the assumed holding period and after deducting the incremental expenses of operating the business pending disposition.

In general, after deducting the costs of liquidation, including the fees and expenses incurred by the liquidating trustee and other administrative expenses incurred in connection with liquidation, liquidation proceeds would be allocated in the following priority:

- first, to the Claims of secured creditors to the extent of the value of their collateral;
- second, to the unpaid Administrative Claims;
- third, to Priority Tax Claims and other Claims entitled to priority in payment under the Bankruptcy Code;
- fourth, to General Unsecured Claims, Trade Unsecured Claims, Noteholder Unsecured Claims and Convenience Class Claims; and
- fifth, to Equity Interests.

The Debtors' liquidation costs in a chapter 7 case would include the compensation of a chapter 7 trustee, as well as compensation of counsel and other professionals retained by such trustee, asset disposition expenses, applicable taxes, litigation costs, Claims arising from the Debtors' operation during the pendency of the chapter 7 cases and all unpaid Administrative Claims that are allowed in the chapter 7 cases. The liquidation itself might trigger certain non-tax claims that are entitled to priority over General Unsecured Claims, Trade Unsecured Claims, Noteholder Unsecured Claims, Convenience Class Claims and Equity Interests, and would likely accelerate Claims or, in the case of taxes, make it likely that the Internal Revenue Service would assert all of its claims as Priority Tax Claims rather than asserting them in due course as is expected to occur under the Chapter 11 Cases. These Priority Tax and non-tax claims that are entitled to priority would be paid in full out of the net liquidation proceeds, after payment of secured Claims, chapter 7 costs of administration and other Administrative Claims, and before the balance would be made available to pay General Unsecured Claims, Trade Unsecured Claims, Noteholder Unsecured Claims, and Convenience Class Claims or to make any distribution in respect of Equity Interests.

The Liquidation Analysis (as defined below) provided herein is provided solely to discuss the effects of a hypothetical chapter 7 liquidation of the Debtors and is subject to the assumptions set forth below. The Debtors cannot assure you that these assumptions would be accepted by a Bankruptcy Court. The Liquidation Analysis has not been independently audited or verified.

(b) Liquidation Analysis

A liquidation analysis (the "Liquidation Analysis") has been prepared solely for purposes of estimating proceeds available in a liquidation under chapter 7 of the Bankruptcy Code (a "Chapter 7 Liquidation") and is attached as Exhibit C to this Disclosure Statement. The Liquidation Analysis is based on a number of estimates and assumptions that are inherently subject to significant economic, competitive and operational uncertainties and contingencies that are beyond the control of the Debtors and their management. Further, the actual amounts of claims against the Debtors' estates in a Chapter 7 Liquidation could vary materially from the

estimates set forth in the Liquidation Analysis, depending on, among other things, the claims asserted during any Chapter 7 Liquidation proceedings. Accordingly, while the information contained in the Liquidation Analysis is necessarily presented with numerical specificity, the Debtors cannot assure you that the values assumed would be realized or the claims estimates assumed would not change if the Debtors were in fact liquidated, nor can assurances be made that the Court would accept this analysis or concur with these assumptions in making its determination under section 1129(a) of the Bankruptcy Code.

The Liquidation Analysis assumes the Chapter 7 Liquidation commences on May 31, 2013 and will take 6 months to complete (the "Liquidation Period"). The Liquidation Analysis was prepared using the Debtors' books and records, unaudited financial information, certain independent appraisals prepared in conjunction with financings and valuation information prepared in conjunction with the Plan.

As set forth in detail in the Liquidation Analysis attached hereto, the Debtors believe that the Plan will produce a greater recovery for the holders of Claims than would be achieved in a Chapter 7 Liquidation. Consequently, the Debtors believe that the Plan, which provides for the continuation of the Debtors' businesses, will provide a substantially greater ultimate return to the holders of Claims than would a Chapter 7 Liquidation. In addition, nothing contained in the Liquidation Analysis is intended to or may be asserted to constitute a concession or admission of the Debtors for any other purpose.

C. Valuation of the Reorganized Debtors

The Debtors have been advised by Perella, their financial advisor, with respect to the reorganization value of the Reorganized Debtors on a going concern basis. Perella has determined the estimated range of the reorganization value of the Reorganized Debtors to be approximately $225 to $275 million with a mid-point estimate of approximately $250 million as of an assumed Effective Date of May 31, 2013.[15]

1. Overview

The estimated range of the reorganization value of the Reorganized Debtors, as of an assumed Effective Date of May 31, 2013, reflects work performed by Perella on the basis of information in respect of the business and assets of the Debtors provided to Perella as of March 27, 2013. Changes in facts and circumstances between such date and the Effective Date, including, without limitation, a delay in the Effective Date, may result in changes to the reorganization value of the Reorganized Debtors. Perella will consider any such changes in facts and circumstances and may modify its estimate of the reorganization value prior to the Effective Date.

The foregoing estimates of the reorganization value of the Reorganized Debtors are based on a number of assumptions, including a successful reorganization of the Debtors' business and finances in a timely manner, the implementation of the Reorganized Debtors' Business Plan (the "Business Plan"), the achievement of the forecasts reflected in the Business Plan, access to

[15] The estimated reorganization value provided herein is subject to change based upon the completion of a tax analysis by the Company's tax advisors.

adequate exit financing, continuity of a qualified management team, market conditions through the period covered by the Financial Projections, and the Plan becoming effective in accordance with the estimates and other assumptions discussed below.

With respect to the Debtors' Financial Projections, which were prepared by the management of the Debtors, and are included as Exhibit B to this Disclosure Statement, Perella has assumed that the Financial Projections have been reasonably prepared in good faith and on a basis reflecting the best currently available estimates and judgments of the management of the Debtors as to the future operating and financial performance of the Reorganized Debtors. Perella's estimate of a range of reorganization values assumes that operating results projected by the Debtors will be achieved by the Reorganized Debtors in all material respects, including revenue growth and improvements in operating margins, earnings and cash flow. If the business performs at levels above or below those set forth in the Financial Projections, such performance may have a material impact on the Financial Projections and on the estimated range of values derived there from.

In estimating the range of the reorganization value of the Reorganized Debtors, Perella: (i) reviewed certain historical financial information of the Debtors for recent years and interim periods; (ii) reviewed certain internal financial and operating data of the Debtors, including the Financial Projections; (iii) met with certain members of management of the Debtors to discuss the Financial Projections and the Debtors' operations and future prospects; (iv) reviewed publicly available financial data and considered the market value of public companies that Perella deemed generally comparable to the operating businesses of the Debtors; (v) considered relevant precedent transactions in industries most comparable to the Debtors' operating businesses; (vi) considered certain economic and industry information relevant to the operating businesses; and (vii) conducted such other studies, analyses, inquiries, and investigations as it deemed appropriate. Perella assumed and relied on the accuracy and completeness of all financial and other information furnished to it by the Debtors, as well as publicly available information.

In addition, Perella did not independently verify management's Financial Projections in connection with such estimates of the reorganization value of the Reorganized Debtors, and no other valuations or appraisals of the Debtors were sought or obtained in connection herewith.

Estimates of the reorganization value of the Reorganized Debtors do not purport to be appraisals or necessarily reflect the values that may be realized if assets are sold as a going concern, in liquidation, or otherwise.

In the case of the Reorganized Debtors, the estimates of the reorganization value prepared by Perella represent the hypothetical reorganization value of the Reorganized Debtors. Such estimates were developed for purposes of the formulation and negotiation of the Plan and the analysis of implied relative recoveries to creditors thereunder. Such estimates reflect computations of the range of the estimated reorganization value of the Reorganized Debtors through the application of various valuation techniques and do not purport to reflect or constitute appraisals, liquidation values or estimates of the actual market value that may be realized through the re-sale of any New SSI Common Stock issued pursuant to the Plan, which may be significantly different than the amounts set forth herein.

The value of an operating business is subject to numerous uncertainties and contingencies which are difficult to predict and will fluctuate with changes in factors affecting the financial condition and prospects of such a business. As a result, the estimate of the ranges of the reorganization value of the Reorganized Debtors set forth herein is not necessarily indicative of actual outcomes, which may be significantly more or less favorable than those set forth herein. Because such estimates are inherently subject to uncertainties, none of the Debtors, Perella, the Debtors' other advisors or any other person assumes responsibility for their accuracy. In addition, the valuation of newly issued New SSI Common Stock is subject to additional uncertainties and contingencies, all of which are difficult to predict.

Actual market prices of such New SSI Common Stock at issuance will depend upon, among other things, prevailing interest rates, conditions in the financial markets, available liquidity, the anticipated initial securities holdings of prepetition creditors, some of which may prefer to liquidate their investment rather than hold it on a long-term basis, and other factors which generally influence the prices of securities.

2. Valuation Methodology

Perella performed a variety of analyses and considered a variety of factors in preparing its estimate of the reorganization value of the Reorganized Debtors. Perella primarily relied on two widely-recognized valuation methodologies: comparable public company analysis and discounted cash flow analysis. While a precedent transactions analysis was also performed, Perella did not rely on this analysis in determining its estimated reorganization value as it was determined that the relevant characteristics were uncomparable to School Specialty. Perella made judgments as to the relative significance of each analysis in determining the Debtors' estimated reorganization value range. Perella's valuation must be considered as a whole, and selecting just one methodology or portions of the analyses, without considering the analyses as a whole, could create a misleading or incomplete conclusion as to the Reorganized Debtors' reorganization value.

The following summary does not purport to be a complete description of the analyses and factors undertaken to support Perella's conclusions. The preparation of a valuation is a complex process involving various determinations as to the most appropriate analyses and factors to consider, as well as the application of those analyses and factors under the particular circumstances. As a result, the process involved in preparing a valuation is more complex than the summary provided below.

(a) Comparable Public Company Analysis

A comparable public company analysis estimates value based on a comparison of the target company's financial statistics with the financial statistics of public companies that are similar to the subject company. It establishes a benchmark for asset valuation by deriving the value of "comparable" assets through a standardized approach that uses a common variable such as revenues, earnings, and cash flows. The analysis includes a detailed financial comparison of each company's income statement, balance sheet, and cash flow statement. In addition, each company's performance, profitability, margins, leverage and business trends are also examined.

Based on these analyses, a number of financial multiples and ratios are calculated to gauge each company's relative performance and valuation.

A key factor to this approach is the selection of companies with relatively similar business and operational characteristics to the target company. Criteria for selecting comparable companies include, among other relevant characteristics, similar lines of businesses, business risks, target market segments, growth prospects, maturity of businesses, market presence, size, and scale of operations. The selection of truly comparable companies is often difficult and subject to interpretation. However, the underlying concept is to develop a premise for relative value, which, when coupled with other approaches, presents a foundation for determining reorganization value.

While calculating the current trading value for the comparable companies, Perella analyzed the current value for the comparable companies as a multiple of projected fiscal year end 2014 and 2015 earnings before interest, taxes, depreciation and amortization ("EBITDA"). These multiples were then applied to the Debtors' fiscal year end 2014 and 2015 forecasted Adjusted EBITDA to determine the range of reorganization values. Adjusted EBITDA ("Adjusted EBITDA") is measured as earnings (defined as operating income (loss) plus other income less other expenses) before interest, taxes, depreciation and amortization and excluding restructuring, other one-time charges and working capital adjustments.

(b) Discounted Cash Flow Analysis

The discounted cash flow ("DCF") valuation methodology 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. The DCF methodology is a "forward looking" approach that discounts the expected future cash flows by a theoretical or observed discount rate determined by calculating the average cost of debt and equity for publicly traded companies that are similar to the Debtors. The expected future cash flows have two components: the present value of the projected unlevered after-tax free cash flows for a determined period and the present value of the terminal value of cash flows (representing firm value beyond the time horizon of the Financial Projections). Perella's discounted cash flow valuation is based on four year projection of the Debtors' operating results (FY2014E-FY2017E). Perella discounted the projected cash flows using the Debtors' estimated weighted average cost of capital, and calculated the terminal value of the Debtors using trailing EBITDA multiples consistent with the comparable companies analysis.

The DCF approach relies on a company's ability to project future cash flows with some degree of accuracy. Because the Financial Projections reflect significant assumptions made by the Debtors' management concerning anticipated results, the assumptions and judgments used in the Financial Projections may or may not prove correct and, therefore, no assurance can be provided that projected results are attainable or will be realized. Perella cannot and does not make any representations or warranties as to the accuracy or completeness of the Financial Projections.

(c) Precedent Transactions Analysis

While precedent transactions analysis was performed on School Specialty, Perella did not rely on this analysis in determining its estimated reorganization value as it was determined that the relevant characteristics were uncomparable to School Specialty.

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The estimates of the reorganization value of the Reorganized Debtors determined by Perella represent estimated reorganization values and do not reflect values that could be attainable in public or private markets. The estimate of the range of the reorganization value of the Reorganized Debtors ascribed in the analysis does not purport to be an estimate of the post-reorganized publicly trading value. Any such trading value may be materially different from the estimate of the reorganization value range for the Reorganized Debtors associated with Perella's valuation analysis.

($ in millions)		Low	Mid	High
Estimated Enterprise Value [1]		$225.0	$250.0	$275.0
Less: Average Annual ABL [2]		(40.0)	(40.0)	(40.0)
Less: Illustrative New Term Loan		(75.0)	(100.0)	(125.0)
Less: Capital Leases		(12.0)	(12.0)	(12.0)
Less: Trade and Non-Trade Structured Payments [3]		(15.3)	(15.3)	(15.3)
Distributable Equity Value		**$82.7**	**$82.7**	**$82.7**
Ad Hoc Ownership per POR	**87.5%**	**$72.4**	**$72.4**	**$72.4**
Noteholder Ownership per POR	**12.5%**	**10.3**	**10.3**	**10.3**

ASSUMES MAKE WHOLE AMOUNT ALLOWED IN FULL

ILLUSTRATIVE RECOVERY CALCULATION		Low		Mid		High	
	Estimated Claim	($)	(%)	($)	(%)	($)	(%)
Ad Hoc TL DIP Financing							
Cash [4]		$38.3	24.7%	$63.3	40.8%	$88.3	57.0%
Reorganized Equity		72.4	46.7%	72.4	46.7%	72.4	46.7%
Total Ad Hoc DIP Claim [5]	**$155.0**	**$110.7**	**71.4%**	**$135.7**	**87.5%**	**$160.7**	**103.7%**
Unsecured Claims							
Class 5 - General Unsecured Claims - Non-Trade [6]	$20.9	$4.2	20.0%	$4.2	20.0%	$4.2	20.0%
Class 6 - General Unsecured Claims - Trade [7]	34.1	11.1	32.5%	11.1	32.5%	11.1	32.5%
Class 7 - Noteholder Unsecured Claims	170.8	10.3	6.1%	10.3	6.1%	10.3	6.1%
Class 8 - General Unsecured Claims - Convenience [8]	1.5	0.3	20.0%	0.3	20.0%	0.3	20.0%
Total Unsecured Claims	**$227.3**	**$25.9**	**NA**	**$25.9**	**NA**	**$25.9**	**NA**
ILLUSTRATIVE REORGANIZED EQUITY OWNERSHIP							
Ad Hoc TL DIP		$72.4	87.5%	$72.4	87.5%	$72.4	87.5%
Class 7 - Noteholder Unsecured Claim		10.3	12.5%	10.3	12.5%	10.3	12.5%
Total Reorganized Equity Ownership		**$82.7**	**100.0%**	**$82.7**	**100.0%**	**$82.7**	**100.0%**

Notes:

1) Subject to completion of tax analysis
2) Assumes average balance
3) Principal amount of notes at emergence
4) Cash available to Ad Hoc DIP claimants is a function of size and covenants of exit financing package
5) On April 22, 2013, the Court ruled that the make whole is enforceable in full. The recovery analysis presented herein assumes that the entire amount of the make whole is allowed, consistent with the Court's decision. If however, the decision is appealed and all or a portion of the make whole amount is recovered by the Ad Hoc DIP Lenders, the Ad Hoc DIP recovery range improves to 85.2%, 104.4% and 123.6% for low, medium and high cases, respectively. A make whole recovery will not impact recoveries of unsecured claimants.
6) Represents amount based on initial recovery of $4mm (20% of $18mm claim), which will earn 5% PIK interest for 6.5 years
7) Assumes 50% Trade claimants choose the Trade Election. For Trade Election, represents amount based on initial recovery of approximately $8mm (45% of $17mm), which will earn 10% PIK interest for 6.5 years. For non-election, represents amount based on an initial recovery of approximately $3mm (20% of $17mm), which will earn 5% PIK interest for 6.5 years
8) Represents one-time cash payment based on a 20% recovery for Convenience claims

IX.

CERTAIN RISK FACTORS TO BE CONSIDERED

HOLDERS OF CLAIMS AGAINST ANY OF THE DEBTORS SHOULD READ AND CAREFULLY CONSIDER THE RISK FACTORS SET FORTH BELOW AS WELL AS THE OTHER INFORMATION SET FORTH IN THIS DISCLOSURE STATEMENT (AND THE DOCUMENTS DELIVERED TOGETHER HEREWITH AND/OR INCORPORATED HEREIN BY REFERENCE), INCLUDING THE DISCLAIMERS SET FORTH ABOVE, PRIOR TO VOTING TO ACCEPT OR REJECT THE PLAN. THESE RISK FACTORS SHOULD NOT, HOWEVER, BE REGARDED AS CONSTITUTING THE ONLY RISKS INVOLVED IN CONNECTION WITH THE PLAN AND ITS IMPLEMENTATION, OR ALTERNATIVES TO THE PLAN.

A. Proposed Financial Information

The Financial Projections included in this Disclosure Statement are dependent upon the successful implementation of the Reorganized Debtors' business plan and the validity of the assumptions contained therein. These projections reflect numerous assumptions, including, without limitation, confirmation and consummation of the Plan in accordance with its terms, the Reorganized Debtors' anticipated future performance, including the establishment of trade credit with vendors and the ability to build inventory in accordance with historical capacity, the future performance of the preK-12 market, certain assumptions with respect to the Reorganized Debtors' competitors, general business and economic conditions and other matters, including tax considerations, many of which are beyond the control of the Reorganized Debtors. In addition, unanticipated events and circumstances occurring subsequent to the preparation of the Financial Projections may affect the Reorganized Debtors' actual financial results. Although the Reorganized Debtors believe that the Financial Projections are reasonably attainable, variations between the actual financial results and those projected may occur and be material.

B. Risks Relating to Valuation

The valuation included in this Disclosure Statement is dependent upon the Financial Projections, and thus subject to same risks described above. In addition, as discussed in Article VII.C, the value of an operating business is subject to numerous uncertainties and contingencies which are difficult to predict and will fluctuate with changes in factors affecting the financial condition and prospects of such a business. As a result, the estimate of the ranges of the valuation of the Reorganized Debtors set forth herein are not necessarily indicative of actual outcomes, which may be significantly more or less favorable than those set forth herein.

C. Risks Related to the Reorganized Debtors' Business and Operations

1. Government Funding

The Debtors' profitability is affected by fluctuations in student population and expenditures per student in preK-12 schools. The level of student enrollment is largely a

function of demographics, while expenditures per student are affected by federal, state and local government budgets. Given the Debtors' dependence on state and local government funding, any significant and sustained decline in student enrollment and/or expenditures per student could have an adverse effect on the Debtors' business.

Macroeconomic conditions may also impact government funding of education and, in turn, affect the Debtors' business. For example, as described above, 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. As a result, schools have, among other things, deferred planned purchases of the Debtors' content-based products and decreased orders of the Debtors' furniture and equipment lines. These trends may continue, which would impact the Debtors' business.

2. Seasonality

The preK-12 market is highly cyclical. Historically, the Debtors' 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 season, the Debtors will typically earn all of their annual profits; during the remaining months of the year, the Debtors will typically report a loss. To the extent the Debtors are unable to sell products to schools during the peak shipping season, many of such sales opportunities will be lost and will not be available in subsequent quarters.

3. Marketing and Competition

The market for supplemental educational products and equipment is highly competitive and fragmented. The Debtors estimate that more than 3,000 companies market supplemental educational products and equipment to schools with preK-12 as a primary focus of their business. The Debtors also face competition from office supply stores, office product contract stationers, and purchasing cooperatives that have not traditionally focused on marketing supplemental educational products and equipment. Price, quality of products and business relationships are important aspects of the Debtors' business, and the competitive environment is often affected by factors beyond the Debtors' control.

For example, the Debtors face increased competition and pricing pressure as a result of the accessibility of the internet. The growth in web-based supplements could reduce the physical paper-based supplements the Debtors currently market. While the Debtors continue to enhance their product lines with digital alternatives, it is possible that the Debtors' paper-based products could be supplanted and/or replaced by online sources that are supplied by the Debtors' competitors.

4. Vendors and Distribution

The Debtors depend on a limited number of suppliers for certain of their products, such as furniture and certain proprietary products. The Debtors also depend on a limited number of service providers for the delivery of their products. Furthermore, many of the Debtors' agreements with suppliers are terminable at any time or on short notice, with or without cause. If significant suppliers or service providers are unable or unwilling to perform their agreements

with the Debtors, or if the agreements with such parties are suddenly and unexpectedly terminated, or if the terms by which the Reorganized Debtors purchase products are significantly amended in a manner adverse to the Reorganized Debtors, supply costs could increase and disruptions in distributions could occur that would have a material adverse effect on the Reorganized Debtors' business, liquidity and results of operations.

The Reorganized Debtors believe that the sophistication and size of their distribution network and greater scale and scope of operations relative to competitors provide them with significant competitive advantages, particularly through their ability to operate as a single-source supplier and meet consumer needs through a sophisticated and national distribution network. If the Debtors were to experience higher than expected costs and other difficulties associated with the distribution of their products, it could detract from their competitive advantage in this regard.

5. Retention of Key Personnel

The Debtors' business is impacted by the abilities and continued efforts of executive officers and senior management. A loss of one or more of these key employees, or if the Reorganized Debtors are unable to attract and retain other key personnel, could harm the Reorganized Debtors' business and prevent them from implementing their business strategy.

6. Increasing Emphasis on Imported Goods and Private Label Products

The Debtors' business strategy includes an increased emphasis on offering private label products and sourcing quality merchandise directly from low-cost suppliers outside the United States. This could potentially increase the Debtors' exposure to products liability claims. In addition, the Debtors' reputation may become more closely tied to private label products and may suffer to the extent that customers are not satisfied with the quality of such products. Reliance on private label products may also increase the Debtors' risks associated with returns and inventory obsolescence.

To the extent that cost of imported goods rises or there is a disruption in the flow of foreign goods, the Debtors' increasing reliance on imported goods could adversely impact profits, revenues and cash flows. Additionally, this could potentially result in: (a) increased difficulties in ensuring quality control; (b) disruptions in the flow of imported goods due to factors such as raw material shortages, work stoppages, strikes, and political unrest in foreign countries; (c) problems with oceanic shipping, including shipping container shortages; (d) variability due to economic crises and international disputes; (e) increases in the cost of purchasing or shipping foreign merchandise resulting from a failure of the United States to maintain normal trade relations with China and the other countries the Debtors do business in; (f) import duties, import quotas, and other trade sanctions; and (g) increases in shipping rates imposed by the trans-Pacific shipping cartel. Moreover, reliance on imported merchandise may exacerbate the cost and difficulty of transitioning to domestic products or alternate sources if such imported merchandise becomes more expensive or unavailable.

7. Complaints or Litigation

The Debtors are from time to time subject to various employee claims, as well as customer and third party claims. Regardless of whether any claims against the Reorganized Debtors are valid or whether they are ultimately determined to be liable, claims may be expensive to defend and may divert time and money away from the Reorganized Debtors' operations and hurt the Reorganized Debtors' financial performance. A significant judgment for any claim(s) could materially adversely affect the Reorganized Debtors' financial condition or results of operations.

8. Currency Exchange Rates

To the extent the Debtors source merchandise from overseas manufacturers and sell products internationally, exchange rate fluctuations could have an adverse effect on results of operations and ability to service U.S. dollar-denominated debt. All of the Debtors' debt is in U.S. dollars while a portion of their revenue is derived from imported products and international sales. Therefore, fluctuations in the exchange rate of foreign currencies versus the U.S. dollar could impact the Debtors' costs and revenues. In addition, for the purposes of financial reporting, any change in the value of the foreign currencies against the U.S. dollar during a given financial reporting period would result in a foreign currency loss or gain. Consequently, the Debtors' reported earnings could fluctuate as a result of foreign exchange translation and may not be comparable from period to period.

D. Ability of Reorganized Debtors to Obtain and Repay Exit Financing, and Comply with the Restrictions Imposed by Such Indebtedness

Following the Effective Date, the Reorganized Debtors' working capital needs and letter of credit requirements are anticipated to be funded by the Exit Facilities. Accordingly, the Debtors' entry into the binding Exit Facilities is a condition to consummation of the Plan. There can be no assurance at this time that this financing will be available, or that it will be available on terms that are favorable to the Debtors, in which case the Debtors' emergence from the Chapter 11 Cases could be delayed indefinitely or the Debtors may be forced to accept unfavorable terms that could affect their ability to succeed in the future.

The Exit Facilities will likely restrict, among other things, the Reorganized Debtors' ability to incur additional indebtedness, consummate certain asset sales, create liens on assets, make investments, loans or advances, consolidate or merge with or into any other person, or convey, transfer or lease all or substantially all of their assets or change the business to be conducted by the Reorganized Debtors. In addition, the Exit Facilities may contain certain other and more restrictive covenants. A breach of any of these covenants could result in a default under the Exit Facilities. It is also anticipated that substantially all of the assets of the Reorganized Debtors will be pledged as security under the Exit Facilities.

The Debtors cannot provide any assurances that they will be able to generate sufficient cash flow from operations to enable them to repay their indebtedness under the Exit Facilities and they may not be able to extend the maturity of or refinance this indebtedness on commercially reasonable terms or at all.

E. Certain Bankruptcy Considerations

1. Risk of Non-Confirmation or Delay of Confirmation of the Plan

Although the Debtors believe that the Plan satisfies all of the requirements necessary for confirmation by the Court, there can be no assurance that the Court will reach the same conclusion. Moreover, there can be no assurance that modifications of the Plan will not be required for confirmation or that such modifications would not necessitate the resolicitation of votes to accept the Plan, as modified. If the Plan is not confirmed, significant delay will ensue, which the Debtors believe may hamper their prospects for successful Chapter 11 Cases, and likely result in smaller recoveries to creditors.

2. Risk of Non-Occurrence of the Effective Date

The Debtors anticipate that the Effective Date will occur during the second calendar quarter of 2013, or such later date as may be agreed by the Debtors and the DIP Agents. In the event that the Effective Date does not occur, there can be no assurance that the Chapter 11 Cases will continue rather than be converted to a Chapter 7 Liquidation or that any alternative plan of reorganization would be on terms as favorable to the holders of Claims against the Debtors as the terms of the Plan. If a liquidation or protracted reorganization of the Debtors' Estates were to occur, there is a substantial risk that the Debtors' going concern value would be eroded to the detriment of all stakeholders.

3. The Actual Amount of Allowed Claims May Differ from the Estimated Claims and Adversely Affect the Percentage Recovery of Claims

The estimated Claims set forth in this Disclosure Statement are based on various assumptions, and the actual Allowed amounts of Claims may significantly differ from the estimates. Should one or more of the underlying assumptions ultimately prove to be incorrect, the actual Allowed amounts of Claims may vary from the estimated Claims contained in this Disclosure Statement. Such differences may materially and adversely affect, among other things: the Debtors' ability to consummate the Plan and the Reorganized Debtors' ability to realize the Financial Projections upon emergence.

4. The Chapter 11 Cases May Adversely Affect the Debtors' Operations Going Forward

The fact that the Debtors have been subject to the Chapter 11 Cases may adversely affect their operations after emergence, including their ability to negotiate favorable terms from suppliers and others, and to attract and retain customers. The failure to obtain such favorable terms and retain customers could adversely affect the Debtors' profitability and financial condition and performance.

Moreover, any delay in the Debtors' emergence from chapter 11 could have a material adverse effect on business operations, particularly in light of the seasonal nature of the Debtors' businesses and the restrictions presently imposed by the chapter 11 process on normal operations.

F. Certain Risks Relating to the Equity Securities Under the Plan

1. Significant Holders

If holders of significant numbers of shares of New SSI Common Stock were to act as a group, such holders could be in a position to control the outcome of actions requiring stockholder approval, including the election of directors. This concentration of ownership could also facilitate or hinder a negotiated change of control of the Reorganized Debtors and, consequently, have an impact upon the value of the New SSI Common Stock.

Further, one or more of the holders of a significant number of shares of New SSI Common Stock may determine to sell all or a large portion of their shares of New SSI Common Stock in a short period of time, which may adversely affect the market price of the New SSI Common Stock.

2. Lack of Established Market for New SSI Common Stock

The New SSI Common Stock issued under the Plan will be a new issue of stock for which no trading market currently exists and will not be listed on any securities exchange or over-the-counter market. There can be no assurance that an active trading market for the New SSI Common Stock will develop. Accordingly, no assurance can be given that a holder of New SSI Common Stock will be able to sell such securities in the future or as to the price at which any such sale may occur. If such market were to develop, the liquidity of the market for such securities and the prices at which such securities would trade will depend upon many factors, including the number of holders, investor expectations for the Debtors, and other factors beyond the Debtors' control. In addition, the New SSI Common Stock will be issued to prepetition creditors of the Debtors, some of whom may prefer to liquidate their investment rather than to hold it on a long-term basis, which may create an initial imbalance in the market if and when one were to develop. In addition, the marketability of the New SSI Common Stock will also be impacted by the terms and provisions of the Shareholders Agreement and creditors receiving such stock should familiarize themselves with the terms of such agreement (which will be contained in the Plan Supplement).

G. Lack of Publicly Available Information About the Debtors

After the Effective Date, holders of New SSI Common Stock and holders of General Unsecured Claims and Trade Unsecured Claims may not be entitled to receive information concerning the results of operations and financial condition of the Reorganized Debtors, which may make it difficult for such holders to assess and evaluate their investment in the New SSI Common Stock and/or the value of their Claims.

H. Certain Risks Relating to the Treatment of Holders of General Unsecured Claims and Trade Unsecured Claims

Cash Payments to holders of General Unsecured Claims and Trade Unsecured Claims will be made from funds generated in the Reorganized Debtors' business operations. If the Debtors fail to achieve the Financial Projections due to any of the risk factors discussed herein, or if any of the risk factors related to the Reorganized Debtors' business and operations

materialize, or if the Reorganized Debtors incur additional secured or priority debt, it may adversely impact the Reorganized Debtors' ability to generate sufficient cash to make the required payments to holders of General Unsecured Claims and Trade Unsecured Claims under the Plan.

X.

ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN

If the Plan is not confirmed and consummated, the alternatives to the Plan include (i) a Chapter 7 Liquidation and (ii) an alternative plan of reorganization or a plan of liquidation.

A. Alternative Plan of Reorganization or Plan of Liquidation

If the Plan is not confirmed, the Court could confirm a different plan, which might involve either a reorganization and continuation of the Debtors' business or an orderly liquidation of the Debtors' assets. The Debtors believe that the Plan, as described herein, enables creditors to realize the highest and best value under the circumstances. Such other alternatives could involve diminished recoveries, significant delay, uncertainty, and substantial additional administrative costs and could also face additional opposition from the Debtors' constituencies. The Debtors believe that their Plan provides the best recovery to their creditors.

B. Chapter 7 Liquidation

If no plan is confirmed, the Chapter 11 Cases may be converted to cases under chapter 7 of the Bankruptcy Code, pursuant to which a trustee would be appointed or elected to liquidate the Debtors' assets for distribution in accordance with the priorities established by chapter 7 of the Bankruptcy Code. A discussion of the effects that a Chapter 7 Liquidation would have on the recoveries of holders of Claims and Equity Interests is set forth in the Liquidation Analysis attached as Exhibit C to this Disclosure Statement. For the reasons articulated in Article VIII.B.4 above, the Debtors believe that a Chapter 7 Liquidation would result in smaller distributions being made to creditors than those provided for in the Plan.

XI.

SECURITIES LAW MATTERS

In respect of the New SSI Common Stock to be issued under the Plan, no registration statement will be filed under the Securities Act or any state securities laws with respect to the distribution of such securities (as defined in this Article, the "Plan Securities"). The Debtors believe that the provisions of section 1145(a)(1) of the Bankruptcy Code exempt the offer and distribution of the Plan Securities from federal and state securities registration requirements (including, without limitation, section 5 of the Securities Act or any similar state or local law requiring the registration for offer or sale of a security of registration of licensing of an issuer or a security).

A. Bankruptcy Code Exemptions from Registration Requirements

1. Initial Offer and Sale of Plan Securities

Section 1145(a)(1) of the Bankruptcy Code exempts the offer and sale of securities under a plan of reorganization from registration under the Securities Act and state laws if three principal requirements are satisfied: (i) the securities must be offered and sold under a plan of reorganization and must be securities of the debtor, of an affiliate participating in a joint plan of reorganization with the debtor or of a successor to the debtor under the plan; (ii) the recipients of the securities must each hold a prepetition or administrative expense claim against the debtor or an interest in the debtor; and (iii) the securities must be issued entirely in exchange for the recipient's claim against or interest in the debtor, or principally in such exchange and partly for cash or property. The Debtors believe that the distribution of the Plan Securities under the Plan satisfy the requirements of section 1145(a)(1) of the Bankruptcy Code and are, therefore, exempt from registration under the Securities Act and state securities laws.

The exemptions provided for in section 1145 do not apply to an entity that is deemed an "underwriter" as such term is defined in section 1145(b). Section 1145(b) identifies four types of "underwriters":

(a) persons who purchase a claim against, an interest in, or a claim for administrative expense against, the debtor, with a view to distributing any security received in exchange for such a claim or interest ("accumulators");

(b) persons who offer to sell securities offered under a plan for the holders of such securities ("distributors");

(c) persons who offer to buy securities from the holders of such securities, if the offer to buy is (a) with a view to distributing such securities and (b) made under a distribution agreement; and

(d) a person who is an "issuer" with respect to the securities, as the term "issuer" is defined in section 2(11) of the Securities Act.

2. Subsequent Transfers of Plan Securities

In general, all resales and subsequent transactions in the Plan Securities will be exempt from registration under the Securities Act pursuant to section 4(1) of the Securities Act, unless the holder thereof is deemed to be an "issuer," an "underwriter" or a "dealer" with respect to such securities.

As used in this definition, an "issuer" includes any "affiliate" of the issuer which means any person directly or indirectly controlling, controlled by or under common control with the issuer. Under section 2(12) of the Securities Act, a "dealer" is any person who engages either for all or part of his or her time, directly or indirectly, as agent, broker or principal, in the business of offering, buying, selling or otherwise dealing or trading in securities issued by another person. Whether or not any particular person would be deemed to be an "underwriter" or a "dealer" with respect to any Plan Security or to "control," be under "common control with," or be "controlled"

by, an issuer would depend upon various facts and circumstances applicable to that person. Accordingly, the Debtors express no view as to whether any person would be an "underwriter" or a "dealer" with respect to any Plan Security or to "control," be under "common control with," or be "controlled" by, an issuer.

The SEC has taken the position that resales of securities distributed under a plan of reorganization by accumulators and distributors of securities who are not affiliates of the issuer of such securities are exempt from registration under the Securities Act if effected in "ordinary trading transactions." The staff of the SEC has indicated in this context that a transaction by such non-affiliates may be considered an "ordinary trading transaction" if it is made on an exchange or in the over-the-counter market and does not involve any of the following factors:

(a) (i) concerted action by the recipients of securities issued under a plan in connection with the sale of such securities or (ii) concerted action by distributors on behalf of one or more such recipients in connection with such sales;

(b) the use of informational documents concerning the offering of the securities prepared or used to assist in the resale of such securities, other than a bankruptcy court-approved disclosure statement and supplements thereto, and documents filed with the SEC pursuant to the Exchange Act; or

(c) the payment of special compensation to brokers and dealers in connection with the sale of such securities designed as a special incentive to the resale of such securities (other than the compensation that would be paid pursuant to arm's-length negotiations between a seller and a broker or dealer, each acting unilaterally, not greater than the compensation that would be paid for a routine similar-sized sale of similar securities of a similar issuer).

The views of the SEC on the matter have not, however, been sought by the Debtors and, therefore, no assurance can be given regarding the proper application of the "ordinary trading transaction" exemption described above. Any person intending to rely on such exemption is urged to consult their counsel as to the applicability thereof to their circumstances.

The Debtors believe that, pursuant to section 1145(c) of the Bankruptcy Code, the Plan Securities will not be "restricted securities" as defined in Rule 144(a)(3). In addition, affiliates of the issuer will not be deemed to be engaged in a distribution of the Plan Securities and therefore not be deemed to be "underwriters" under section 2(11) of the Securities Act if they comply with the requirements of Rule 144 under the Securities Act for the resale of their Plan Securities. Rule 144 allows a holder of securities that is an affiliate of the issuer of such securities to sell, without registration, within any three-month period a number of such securities that does not exceed the greater of one percent (1%) of the number of outstanding securities in question or the average weekly trading volume in the securities in question during the four (4) calendar weeks preceding the date on which notice of such sale was filed pursuant to Rule 144, subject to the satisfaction of

certain other requirements of Rule 144 regarding the manner of sale, notice requirements and the availability of current public information regarding the issuer.

GIVEN THE COMPLEX NATURE OF THE QUESTION OF WHETHER A PARTICULAR PERSON MAY BE AN UNDERWRITER, AFFILIATE OR DEALER, THE DEBTORS MAKE NO REPRESENTATIONS CONCERNING THE RIGHT OF ANY PERSON TO TRADE IN THE PLAN SECURITIES. ACCORDINGLY, THE DEBTORS EXPRESS NO VIEW AS TO WHETHER ANY PERSON WOULD BE DEEMED TO BE AN ISSUER, UNDERWRITER OR DEALER WITH RESPECT TO SUCH SECURITIES. THE DEBTORS RECOMMEND THAT HOLDERS OF CLAIMS CONSULT THEIR OWN COUNSEL CONCERNING WHETHER THEY MAY FREELY TRADE SUCH SECURITIES.

State securities laws generally provide registration exemptions for subsequent transfers by a bona fide owner for their own account and subsequent transfers to institutional or accredited investors. Such exemptions are generally expected to be available for subsequent transfers of Plan Securities.

Under section 1145(a)(4) of the Bankruptcy Code, stockbrokers effecting transactions in the Plan Securities prior to the expiration of 40 days after the Effective Date are required to deliver to the purchaser of such securities a copy of this Disclosure Statement (and supplements hereto, if any, if ordered by the Court) at or before the time of delivery of such securities to such purchaser.

THE DEBTORS DO NOT PRESENTLY INTEND TO SUBMIT ANY NO-ACTION OR INTERPRETATIVE REQUESTS TO THE SEC WITH RESPECT TO ANY SECURITIES LAWS MATTERS DISCUSSED HEREIN.

Following the Effective Date, the Plan Securities are not expected to be traded on any internationally recognized stock exchange or other quotation system. Additionally, the Debtors will not be obligated to file annual, quarterly or other reports under the Securities Exchange Act or otherwise comply with the SEC's disclosure or reporting requirements.

After the Effective Date, holders of New SSI Common Stock may not be entitled to receive information concerning the results of operations and financial condition of the Reorganized Debtors, which may make it difficult for such holders to assess and evaluate their investment in the New SSI Common Stock.

XII.

CERTAIN U.S. INCOME TAX CONSIDERATIONS

A summary description of certain material U.S. federal income tax consequences of the Plan is provided below. This description is for informational purposes only and, due to a lack of definitive judicial or administrative authority or interpretation, substantial uncertainties exist with respect to various tax consequences of the Plan as discussed herein. Only the principal consequences of the Plan for the Debtors and those holders of Allowed Ad Hoc DIP Financing Claims, Allowed General Unsecured Claims, Allowed Trade Unsecured Claims, Allowed

Noteholder Unsecured Claims and Allowed Convenience Class Claims (collectively, "Specified Claims") are described below. No opinion of counsel has been sought or obtained with respect to any tax consequences of the Plan. No rulings or determinations of the U.S. Internal Revenue Service (the "IRS") or any other tax authorities have been sought or obtained with respect to any tax consequences of the Plan, and the discussion below is not binding on the IRS or such other authorities. As a result, there can be no assurance that the IRS will not disagree with or challenge any of the conclusions we have reached and describe herein. In addition, a significant amount of time may elapse between the date of this Disclosure Statement and the receipt of a final distribution under the Plan. Events occurring after the date of this Disclosure Statement, including changes in law and changes in administrative positions, could affect the U.S. federal income tax consequences of the Plan. No representations are being made regarding the particular tax consequences of the confirmation and consummation of the Plan to the Debtors or any holder of a Specified Claim. No assurance can be given that the IRS would not assert, or that a court would not sustain, a different position from any discussed herein.

This summary does not address any estate or gift tax consequences of the Plan or tax consequences of the Plan under any state, local or foreign laws. Furthermore, this discussion does not address all tax considerations that might be relevant to particular holders of Specified Claims in light of their personal circumstances or to persons that are subject to special tax rules. In addition, this description of the material U.S. federal income tax consequences does not address the tax treatment of special classes of holders of Specified Claims, such as financial institutions, regulated investment companies, real estate investment trusts, tax-exempt entities, insurance companies, persons holding Specified Claims as part of a hedging, integrated or conversion transaction, constructive sale or "straddle," U.S. expatriates, persons subject to the alternative minimum tax, and dealers or traders in securities or currencies. Moreover, this summary addresses only holders that hold their Specified Claims as "capital assets" within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the "Tax Code") (generally, property held for investment) and have not claimed any bad debt or other losses with respect to their Specified Claims.

For purposes of this discussion, you are a "U.S. Holder" if you are a beneficial holder of a Specified Claim that is, for U.S. federal income tax purposes, (1) a citizen or individual resident of the United States, as determined for U.S. federal income tax purposes; (2) a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States or any state thereof or the District of Columbia; (3) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (4) a trust (A) if a court within the United States is able to exercise primary jurisdiction over its administration and one or more U.S. persons have authority to control all substantial decisions of the trust or (B) that has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person.

For purposes of this discussion, you are a "Non-U.S. Holder" if you are a beneficial holder of a Specified Claim that is not a U.S. Holder and that is, for U.S. federal income tax purposes, an individual, corporation, estate or trust.

If a partnership or other pass-through entity is a holder of a Specified Claim, the tax treatment of a partner or other owner will generally depend upon the status of the partner (or

other owner) and the activities of the entity. If you are a partner (or other owner) of a pass-through entity that is a holder of a Specified Claim, you should consult your tax advisor regarding the tax consequences of the Plan to your particular situation.

The following discussion is based upon the Tax Code, U.S. judicial decisions, administrative pronouncements and existing and proposed Treasury Regulations, all as in effect as of the date hereof. All of the preceding authorities are subject to change, possibly with retroactive effect, so as to result in U.S. federal income tax consequences different from those discussed below.

The following discussion is for general information only and is not intended to be, nor should it be construed to be, legal or tax advice to any holder of a Specified Claim and no opinion or representation with respect to the U.S. federal income tax consequences to any such holder is made. You are urged to consult your own tax advisor regarding the application of U.S. federal, state and local tax laws, as well as any applicable foreign tax laws, to your particular situation.

IRS Circular 230 disclosure: To ensure compliance with requirements imposed by the IRS, each holder of a Specified Claim is hereby notified that: (a) any discussion of U.S. federal tax issues in this document is not intended or written by us to be relied upon, and cannot be relied upon by you, for the purpose of avoiding penalties that may be imposed on you under the Internal Revenue Code; (b) such discussion is written in connection with the promotion or marketing of the transactions or matters addressed herein; and (c) you should seek advice based on your particular circumstances from an independent tax advisor.

A. Certain U.S. Federal Income Tax Consequences to the Debtors

1. Cancelation of Indebtedness Income

It is anticipated that the implementation of the Plan will result in the cancelation of (i) the Allowed Ad Hoc DIP Financing Claims in exchange for Cash and issuance of the New SSI Common Stock, (ii) the Allowed Noteholder Unsecured Claims in exchange for issuance of the New SSI Common Stock and (iii) the Allowed Convenience Class Claims in exchange for Cash. It is further anticipated that the implementation of the Plan will result in the exchange of the Allowed General Unsecured Claims and Allowed Trade Unsecured Claims in exchange for Cash or a delayed Cash payment as described in Articles IV.E.1 and IV.F.1 of the Plan, respectively (such delayed payment, which, for the avoidance of doubt, includes the Trade Payment, is defined in this Article as the "Delayed Cash Payment"). In general, the discharge of a debt obligation in exchange for an amount of cash and other property having a fair market value less than the "adjusted issue price" of the debt that is discharged gives rise to cancelation of indebtedness ("COD") income to the debtor. However, COD income is not taxable to the debtor if the debt discharge occurs pursuant to a Title 11 bankruptcy proceeding. The Tax Code provides that a debtor in bankruptcy will exclude its COD income from gross income and requires the debtor to reduce its tax attributes – such as net operating loss ("NOL") carryforwards, current year operating losses, tax credits, and tax basis in assets – by the amount of the excluded COD income, subject to certain limitations. Where the debtor joins in the filing

of a consolidated U.S. federal income tax return, applicable Treasury regulations require, in certain circumstances, that the tax attributes of the consolidated subsidiaries of the debtor and other members of the group also be reduced. The reduction in tax attributes occurs at the beginning of the taxable year following the taxable year in which the discharge occurs. Any excess COD income over the amount of available tax attributes is not subject to U.S. federal income tax.

The Debtors will not be required to include any COD income in gross income because the cancelation of the Specified Claims will occur pursuant to a Title 11 bankruptcy proceeding. Because the Allowed Ad Hoc DIP Financing Claims (in part) and the Allowed Noteholder Unsecured Claims (in full) will be satisfied in exchange for New SSI Common Stock, the amount of COD income, and accordingly, the amount of tax attributes required to be reduced, will depend in part on the fair market value of the New SSI Common Stock. These values cannot be known with certainty until after the Effective Date. Thus, although it is expected that the Debtors will be required to reduce their tax attributes, the exact amount of such reductions will not be known until after the Effective Date.

2. Net Operating Losses – Section 382

The Debtors expect to generate a significant NOL for U.S. federal income tax purposes for the taxable year ending April 27, 2013, and to carry back all or a portion of this NOL to prior taxable years. The Debtors expect that this carryback will result in a material refund of U.S. federal income tax. As a consequence, the Debtors do not expect to have a material NOL carryforward for U.S. federal income tax purposes as of the Effective Date.

Following the Effective Date, any remaining NOL carryforwards and certain other tax attributes allocable to periods prior to the Effective Date (collectively, "pre-change losses") will be subject to limitations if section 382 of the Tax Code applies as a result of the changes in ownership described below, and may also be subject to limitations as a result of prior ownership changes. Any section 382 limitations apply in addition to, and not in lieu of, the use of attributes or the attribute reduction that results from the COD arising in connection with the Plan. It is unclear whether there will be material pre-change losses remaining after the Effective Date (after reduction on account of COD as discussed above) to which section 382 of the Tax Code would apply.

Under section 382 of the Tax Code, if a corporation (or consolidated group) undergoes an "ownership change," the amount of its pre-change losses that may be utilized to offset future taxable income is subject to an annual limitation. The consummation of the transactions contemplated by the Plan is expected to constitute an "ownership change" of the Debtors for these purposes.

In general, the amount of the annual limitation to which a corporation that undergoes an ownership change will be subject is equal to the product of (i) the fair market value of the stock of the corporation *immediately before* the ownership change (with certain adjustments) multiplied by (ii) the "long-term tax-exempt rate" in effect for the month in which the ownership change occurs. As discussed below, this annual limitation often may be increased in the event the corporation (or consolidated group) has an overall "built-in" gain in its assets at the time of

the ownership change. For a corporation (or consolidated group) in bankruptcy that undergoes an ownership change pursuant to a confirmed bankruptcy plan, the fair market value of the stock of the corporation is generally determined immediately *after* (rather than before) the ownership change after giving effect to the discharge of creditors' claims, but subject to certain adjustments; in no event, however, can the stock value for this purpose exceed the pre-change gross value of the corporation's assets.

Any portion of the annual limitation that is not used in a given year may be carried forward, thereby adding to the annual limitation for the subsequent taxable year. However, if the corporation does not continue its historic business or use a significant portion of its historic assets in a new business for at least two years after the ownership change, or if certain shareholders claim worthless stock deductions and continue to hold their stock in the corporation at the end of the taxable year, the annual limitation resulting from the ownership change is reduced to zero, thereby precluding any utilization of the corporation's pre-change losses, absent any increases due to recognized built-in gains discussed below. Generally, NOL carryforwards expire after 20 years.

Section 382 of the Tax Code also limits the deduction of certain "built-in" losses recognized subsequent to the date of the ownership change. If a loss corporation has a net unrealized built-in loss at the time of an ownership change (taking into account most assets and items of "built-in" income, gain, loss and deduction), then any built-in losses recognized during the following five years (up to the amount of the original net unrealized built-in loss) generally will be treated as pre-change losses and similarly will be subject to the annual limitation. Conversely, if the loss corporation has a net unrealized built-in gain at the time of an ownership change, any built-in gains recognized (or, according to an IRS notice, treated as recognized) during the following five years (up to the amount of the original net unrealized built-in gain) generally will increase the annual limitation in the year recognized, such that the loss corporation would be permitted to use its pre-change losses against such built-in gain income in addition to its regular annual allowance. In general, a loss corporation's net unrealized built-in gain or loss will be deemed to be zero unless the actual value is greater than the lesser of (i) $10 million or (ii) 15% of the fair market value of its assets (with certain adjustments) before the ownership change.

The application of section 382 of the Tax Code will be materially different from that described above if the Debtors are subject to the special rules for corporations in bankruptcy provided in section 382(l)(5) of the Tax Code. The Debtors generally would qualify for the special rules provided in section 382(l)(5) of the Tax Code if certain historic holders of the Allowed Ad Hoc DIP Financing Claims and the Allowed Noteholder Unsecured Claims own equity interests representing at least 50% of the voting power and equity value of the Debtors following consummation of the transactions under the Plan. In that case, the Debtors' ability to use its pre-change losses would not be limited as described in the preceding paragraph. However, several other limitations would apply to the Debtors under section 382(l)(5), including (a) the Debtors' pre-change losses would be calculated without taking into account deductions for interest paid or accrued in the portion of the current tax year ending on the Effective Date and all other tax years ending during the three-year period prior to the current tax year with respect to the Allowed Ad Hoc DIP Financing Claims and the Allowed Noteholder Unsecured Claims that are exchanged for New SSI Common Stock pursuant to the Plan, and (b) if the Debtors undergo

another ownership change within two years after the Effective Date, the Debtors' section 382 limitation following that ownership change will be zero. It is uncertain whether the provisions of section 382(l)(5) will be available in the case of the ownership change that is expected to occur as a result of the confirmation of the Plan. If the Debtors qualify for the special rule under section 382(l)(5), the use of the Debtors' pre-change losses, if any, will be subject to section 382(l)(5) of the Tax Code unless the Debtors affirmatively elect for the provisions not to apply. The Debtors have not yet determined whether, if they qualify for the special rules under section 382(l)(5), it would be advantageous for section 382(l)(5) to apply to the ownership change resulting from consummation of the Plan, or whether Debtors will elect not to have the provisions of Section 382(l)(5) apply to the ownership change arising from the consummation of the Plan.

If the Debtors do not qualify for, or elect not to apply, the special rule under section 382(l)(5) of the Tax Code described above, the provisions of section 382(l)(6) applicable to corporations under the jurisdiction of a bankruptcy court may apply in calculating the annual section 382 limitation. Under this rule, the limitation will be calculated by reference to the lesser of the value of the New SSI Common Stock (with certain adjustments) immediately after the ownership change or the value of the Debtors' assets (determined without regard to liabilities) immediately before the ownership change. Although such calculation may substantially increase the annual section 382 limitation, the Debtors' use of any pre-change losses or other tax attributes remaining after implementation of the Plan may still be substantially limited after an ownership change.

B. Certain U.S. Federal Income Tax Consequences to U.S. Holders

The following discusses certain U.S. federal income tax consequences of the transactions contemplated by the Plan to holders of Specified Claims that are U.S. Holders, as described above. If you are a holder of a Specified Claim that is a U.S. Holder, you should consult your own tax advisor for information that may be relevant to your particular situation and circumstances and the particular tax consequences to you of the transactions contemplated by the Plan.

1. Exchange of Specified Claims for New SSI Common Stock, the Delayed Cash Payment or Cash

Pursuant to the Plan, the Debtors will (x) pay Cash and issue New SSI Common Stock to holders of Allowed Ad Hoc DIP Financing Claims to discharge their Allowed Ad Hoc DIP Financing Claims, (y) issue New SSI Common Stock to holders of Allowed Noteholder Unsecured Claims to discharge their Allowed Noteholder Unsecured Claims; and (z) make the Delayed Cash Payment or pay Cash to holders of Allowed General Unsecured Claims, Allowed Trade Unsecured Claims and Allowed Convenience Class Claims to discharge their Allowed General Unsecured Claims, Allowed Trade Unsecured Claims or Allowed Convenience Class Claims. You will recognize gain or loss in full upon the exchange, unless such exchange qualifies as a tax-free recapitalization under Section 368(a)(1)(E) of the Tax Code. In order for the exchange of Specified Claims for New SSI Common Stock or the Delayed Cash Payment to qualify as a tax-free recapitalization, the Specified Claims must be treated as "securities" under the relevant provisions of the Tax Code. The term "securities" is not defined in the Tax Code or

in applicable Treasury Regulations, and it has not been clearly defined by judicial decisions. The classification of a debt instrument as a security is a determination based on all facts and circumstances, including, but not limited to: (i) the term (i.e., duration) of the instrument, (ii) whether or not the instrument is secured, (iii) the degree of subordination of the debt instrument, (iv) the ratio of debt to equity of the issuer, and (v) the riskiness of the business of the issuer. Most authorities have held that the term to maturity of a debt instrument is one of the most significant factors in determining whether it qualifies as a security. A debt instrument with a term of more than ten years generally is treated as a security while a debt instrument with a term of five years or less generally is not treated as a security.

(a) Allowed Ad Hoc DIP Financing Claims

We believe that the Allowed Ad Hoc DIP Financing Claims do not constitute "securities" for purposes of section 368(a)(1)(E), and accordingly, we intend to take the position that the exchange of Allowed Ad Hoc DIP Financing Claims for Cash and New SSI Common Stock pursuant to the Plan will not qualify as a recapitalization. Under such characterization, you generally will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized by you in the exchange and your adjusted tax basis in your Allowed Ad Hoc DIP Financing Claims surrendered in the exchange. The amount that you realize in the exchange will equal the amount of the Cash and the fair market value of the shares of New SSI Common Stock that you receive at the time of the exchange (except to the extent attributable to accrued and unpaid stated interest on your Allowed Ad Hoc DIP Financing Claims, which will be taxable as described below). Your adjusted tax basis in your Allowed Ad Hoc DIP Financing Claims surrendered in the exchange will be equal to the amount paid therefor, increased by any original issue discount ("OID") and any market discount previously accrued and reduced by any amortizable bond premium previously taken into account. Your adjusted basis in the shares of New SSI Common Stock will equal the fair market value of such shares. Your holding period in the New SSI Common Stock will begin on the day after the day of the exchange. Any gain or loss realized will generally be capital gain or loss (except, as described below, to the extent of market discount) and will be long-term capital gain or loss if your holding period in your Allowed Ad Hoc DIP Financing Claims at the time of the exchange exceeds one year.

(b) Allowed Noteholder Unsecured Claims

We intend to take the position that the Allowed Noteholder Unsecured Claims should be considered "securities" for purposes of section 368(a)(1)(E), and accordingly, the exchange of Allowed Noteholder Unsecured Claims for New SSI Common Stock pursuant to the Plan should qualify as a recapitalization. Under such characterization, you will not recognize any loss on such exchange, and will recognize gain only to the extent of any amounts received in respect of accrued but unpaid interest on your Allowed Noteholder Unsecured Claim. You will take a tax basis in the New SSI Common Stock equal to your adjusted tax basis in your Allowed Noteholder Unsecured Claim immediately prior to the exchange, and your holding period for the New SSI Common Stock will include your holding period in the Allowed Noteholder Unsecured Claim surrendered in the exchange.

Our position that the exchange of Allowed Noteholder Unsecured Claims for New SSI Common Stock pursuant to the Plan should qualify as a tax-free recapitalization is not free from doubt, however, and it is possible that the IRS might assert that the Allowed Noteholder Unsecured Claims are not "securities" for U.S. federal income tax purposes, or that the exchange otherwise fails to qualify as a tax-free recapitalization for U.S. federal income tax purposes. If such exchange fails to qualify for treatment as a tax-free recapitalization, then the U.S. federal income tax consequences of such exchange should be as described in "1(a) Allowed Ad Hoc DIP Financing Claims," above, except without regard to the reference to the receipt of Cash.

(c) Allowed General Unsecured Claims and Allowed Trade Unsecured Claims Exchanged for the Delayed Cash Payment

The U.S. federal income tax treatment of the Delayed Cash Payment is unclear. Because the Delayed Cash Payment is a legally enforceable obligation of SSI to pay a fixed or determinable sum of money at a future date, we intend to take the position that the Delayed Cash Payment will constitute indebtedness of SSI for U.S. federal income tax purposes. Our position that the Delayed Cash Payment constitutes indebtedness of SSI for U.S. federal income tax purposes is not free from doubt, however, and it is possible that the IRS might assert that the Delayed Cash Payment constitutes equity of SSI or some other type of property. You are urged to consult your own tax advisor as to the U.S. federal income tax treatment of the Delayed Cash Payment.

We believe that the Allowed General Unsecured Claims and Allowed Trade Unsecured Claims do not constitute "securities" for purposes of section 368(a)(1)(E). Accordingly, we intend to take the position that the exchange of Allowed General Unsecured Claims or Allowed Trade Unsecured Claims for the Delayed Cash Payment pursuant to the Plan will not qualify as a recapitalization. Under such characterization, you generally will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized by you in the exchange and your adjusted tax basis in your Allowed General Unsecured Claims or Allowed Trade Unsecured Claims surrendered in the exchange. The amount that you realize in the exchange will equal the "issue price" of the Delayed Cash Payment (determined as described in "3(a) Issue Price of the Delayed Cash Payment," below) that you receive at the time of the exchange (except to the extent attributable to accrued and unpaid stated interest on your Allowed General Unsecured Claims or Allowed Trade Unsecured Claims, which will be taxable as described below). Your adjusted tax basis in your Allowed General Unsecured Claims or Allowed Trade Unsecured Claims surrendered in the exchange will be equal to the amount paid therefor, increased by any OID and any market discount previously accrued and reduced by any amortizable bond premium previously taken into account. Your adjusted basis in the Delayed Cash Payment will equal its issue price. Your holding period in the Delayed Cash Payment will begin on the day after the day of the exchange. Any gain or loss realized will generally be capital gain or loss (except, as described below, to the extent of market discount) and will be long-term capital gain or loss if your holding period in your Allowed General Unsecured Claims or Allowed Trade Unsecured Claims at the time of the exchange exceeds one year.

The foregoing discussion may not apply to you if you do not hold your Claim as a "capital asset" within the meaning of Section 1221 of the Tax Code. Such holders are urged to consult

their own tax advisors as to the amount and character of any gain or loss that you recognize for U.S. federal income tax purposes in the exchange.

(d) Allowed General Unsecured Claims and Allowed Trade Unsecured Claims Exchanged for Cash Pursuant to the Convenience Election and Convenience Class Claims Exchanged for Cash

If you hold an Allowed General Unsecured Claim or Allowed Trade Unsecured Claim and receive Cash in exchange for your Allowed General Unsecured Claim or Allowed Trade Unsecured Claim pursuant to the Convenience Election, or if you hold an Allowed Convenience Class Claim, you will recognize gain or loss in an amount equal to the difference between (x) the amount of Cash you received in satisfaction of your Allowed Claim (except to the extent attributable to accrued and unpaid stated interest on your Allowed Claim, which will be taxable as described below) and (y) your adjusted tax basis in your Allowed Claim surrendered in the exchange. Any gain or loss realized will generally be capital gain or loss (except, as described below, to the extent of market discount) and will be long-term capital gain or loss if your holding period in your Allowed Claims at the time of the exchange exceeds one year.

The foregoing discussion may not apply to you if you do not hold your Claim as a "capital asset" within the meaning of Section 1221 of the Tax Code. Such holders are urged to consult their own tax advisors as to the amount and character of any gain or loss that you recognize for U.S. federal income tax purposes in the exchange.

You are urged to consult your own tax advisor as to the amount and character of any gain or loss that you recognize for U.S. federal income tax purposes in the exchange.

(e) Market Discount

You may be subject to the market discount provisions of the Tax Code if you purchased your Specified Claims at a "market discount." In general, a debt obligation (other than a debt obligation with a fixed maturity of one year or less) is considered to be acquired with market discount if its stated redemption price at maturity exceeds the adjusted tax basis of such debt obligation in the holder's hand immediately after its acquisition by at least a statutory *de minimis* amount.

Under these rules, any gain recognized on the taxable exchange of Specified Claims (other than in respect of accrued but unpaid interest) generally will be treated as ordinary income to the extent of the market discount accrued during your period of ownership, unless you elected to include the market discount in income as it accrued. If you did not elect to include market discount in income as it accrued and thus, under the market discount rules, were required to defer all or a portion of any deductions for interest on debt incurred or maintained to purchase or carry your Specified Claims, such deferred amounts would become deductible at the time of the exchange, up to the amount of gain that you recognize in the exchange.

The foregoing discussion may not apply to you if you do not hold your Claim as a "capital asset" within the meaning of Section 1221 of the Tax Code. Such holders are urged to consult their own tax advisors as to the amount and character of any gain or loss that you recognize for U.S. federal income tax purposes in the exchange.

(f) Payment for Accrued but Unpaid Interest

Under the Plan, some property may be distributed or deemed distributed to certain holders of Specified Claims with respect to their Specified Claims for accrued interest. A holder of Specified Claims for accrued interest will be required to recognize ordinary income equal to the fair market value of the property received with respect to such Specified Claims for accrued interest if such holder has not previously included such accrued interest in income. Conversely, a holder generally recognizes a deductible loss to the extent that any accrued interest was previously included in income but is not paid in full, although the character of such loss is not entirely clear. Pursuant to the Plan, the Debtors will allocate for U.S. federal income tax purposes all distributions in respect of any Specified Claim first to the principal amount of such Specified Claim, and thereafter to accrued but unpaid interest. Certain legislative history indicates that an allocation of consideration between principal and interest provided for in a bankruptcy plan of reorganization is binding for U.S. federal income tax purposes. However, no assurance can be given that the IRS will not challenge such allocation. If a distribution with respect to a Specified Claim is entirely allocated to the principal amount of such Specified Claim, a holder may be entitled to claim a loss to the extent of any accrued but unpaid interest on the Specified Claim that was previously included in the holder's gross income. You are urged to consult your own tax advisor regarding the particular U.S. federal income tax consequences to you of the treatment of accrued but unpaid interest, as well as the character of any loss claimed with respect to accrued but unpaid interest previously included in gross income.

(g) Bad Debt Deduction

If, under the Plan, you receive an amount in exchange for a Specified Claim that is less than your tax basis in such Specified Claim, you may be entitled in the year of receipt (or in an earlier year) to a bad debt deduction in some amount under Section 166(a) of the Tax Code. The rules governing the character, timing and amount of bad debt deductions vary according to the particular facts and circumstances of the holder, the obligor, the instrument or claim and the transaction establishing the loss with respect to which a deduction is claimed. You are urged to consult your tax advisor with respect to your ability to take, and the amount and character of, such a deduction.

(h) Additional Tax on Passive Income

Non-corporate U.S. Holders whose income exceeds certain thresholds generally will be subject to an additional 3.8% tax on, among other things, capital gains from the sale or exchange of Specified Claims subject to certain limitations and exceptions. If you are a non-corporate U.S. Holder, you should consult your tax advisor regarding the applicability of this additional tax on your capital gains in respect of the exchange of your Specified Claims pursuant to the Plan.

2. Ownership and Disposition of New SSI Common Stock

(a) Distributions on New SSI Common Stock

Generally, the gross amount of any distribution of cash or property made with respect to New SSI Common Stock will be includible by you in gross income as dividend income to the extent that such distributions are paid out of the current or accumulated profits of SSI as

determined under U.S. federal income tax principles. A distribution that is treated as a dividend for U.S. federal income tax purposes may qualify for the 70% dividends-received deduction if such amount is distributed to a holder that is a corporation and certain holding period and taxable income requirements are satisfied. Any dividend received by a holder that is a corporation may be subject to the "extraordinary dividend" provisions of the Tax Code.

A distribution in excess of SSI's current and accumulated earnings and profits will first be treated as a return of capital to the extent of your adjusted tax basis in your New SSI Common Stock and will be applied against and reduce such basis dollar-for-dollar (thereby increasing the amount of gain and decreasing the amount of loss recognized on a subsequent taxable disposition of the New SSI Common Stock). To the extent that such distribution exceeds your adjusted tax basis in your New SSI Common Stock, the distribution will be treated as capital gain, and will be treated as long-term capital gain if your holding period in such New SSI Common Stock exceeds one year as of the date of the distribution. Dividends received by non-corporate holders may qualify for a reduced rate of taxation if certain holding period and other requirements are met.

(b) Sale, Exchange or Other Taxable Disposition of New SSI Common Stock

Upon the sale, retirement or other taxable disposition of a share of New SSI Common Stock, you generally will recognize gain or loss in an amount equal to the difference between the sum of cash plus the fair market value of any property received and your adjusted tax basis in such New SSI Common Stock. Such gain or loss will generally constitute capital gain or loss, and will be long-term capital gain or loss if at the time of the sale, exchange, retirement or other taxable disposition, you held the share of New SSI Common Stock for more than one year. Long-term capital gains of a non-corporate taxpayer are eligible for favorable tax rates. The deductibility of capital losses is subject to limitations.

(c) Additional Tax on Passive Income

Non-corporate U.S. Holders whose income exceeds certain thresholds generally will be subject to an additional 3.8% tax on, among other things, dividends on and capital gains from the sale or other disposition of stock subject to certain limitations and exceptions. If you are a non-corporate U.S. Holder, you should consult your tax advisor regarding the applicability of this additional tax on your income and gains in respect of your investment in the New SSI Common Stock.

The foregoing discussion in "3. Ownership and Disposition of the Delayed Cash Payment" may not apply to you if you do not hold your Claim as a "capital asset" within the meaning of Section 1221 of the Tax Code. Such holders are urged to consult their own tax advisors as to the U.S. federal income tax consequences of the ownership and disposition of the Delayed Cash Payment.

3. Ownership and Disposition of the Delayed Cash Payment

We intend to take the position that the Delayed Cash Payment constitutes indebtedness of SSI for U.S. federal income tax purposes. See "1(c) Allowed General Unsecured Claims and Allowed Trade Unsecured Claims Exchanged for the Delayed Cash Payment," above.

(a) Issue Price of the Delayed Cash Payment

For U.S. federal income tax purposes, the "issue price" of the Delayed Cash Payments depends on whether the Delayed Cash Payment or the Allowed General Unsecured Claims and Allowed Trade Unsecured Claims for which they are exchanged are deemed to be "publicly traded" within the meaning of applicable Treasury Regulations. We intend to take the position that none of the Allowed General Unsecured Claims or Allowed Trade Unsecured Claims exchanged for the Delayed Cash Payment are publicly traded. Accordingly, the Delayed Cash Payments will have an issue price equal to their stated principal amount so long as there is "adequate stated interest" within the meaning of Section 1274(c)(2) of the Tax Code, which generally means that the stated principal amount of the Delayed Cash Payment is less than or equal to the sum of the present values of all payments due under the Delayed Cash Payment calculated as of the date of the exchange and by using a discount rate equal to the applicable federal rate, compounded semi-annually, as published by the IRS.

(b) Original Issue Discount

A debt instrument with a term that exceeds one year will be treated as issued with OID if the stated redemption price at maturity of the debt instrument exceeds its issue price by at least the *de minimis* amount of ¼ of 1 percent of the "stated redemption price at maturity" multiplied by the number of complete years from the issue date of the debt instrument to its maturity. The "issue price" of the Delayed Cash Payment is determined as described above under "3(a) Issue Price of the Delayed Cash Payment." The "stated redemption price at maturity" of the Delayed Cash Payment is the total of all payments provided by the Delayed Cash Payment that are not payments of "qualified stated interest." Generally, an interest payment on a debt instrument is "qualified stated interest" if it is one of a series of stated interest payments on a note that are unconditionally payable at least annually at a single fixed rate, with certain exceptions for lower rates paid during some periods, applied to the outstanding principal amount of the debt instrument.

Because SSI will not be paying interest currently on the Delayed Cash Payment, it is expected that the Delayed Cash Payment will be issued with OID. Accordingly, regardless of your regular method of accounting for U.S. federal income tax purposes, you will be required to include in taxable income for each taxable year the daily portion of OID that accrues on the Delayed Cash Payment for each day in such taxable year in which you hold the Delayed Cash Payment. Thus, you will be required to include OID in income in advance of the receipt of the cash to which such OID is attributable. The daily portion of OID is determined by allocating to each day of an accrual period (generally, the period between interest payments or compounding dates) a pro rata portion of the OID allocable to such accrual period. The amount of OID that will accrue during an accrual period is the product of the "adjusted issue price" of the Delayed Cash Payment at the beginning of the accrual period multiplied by the yield-to-maturity of the Delayed Cash Payment less the amount of any qualified stated interest allocable to such accrual period. The "adjusted issue price" of the Delayed Cash Payment at the beginning of an accrual period will equal its issue price, determined as described under (a), above, "Issue Price of the Delayed Cash Payment," increased by the aggregate amount of OID that has accrued on the Delayed Cash Payment in all prior accrual periods, and decreased by any payments made during

all prior accrual periods of amounts included in the stated redemption price at maturity of the Delayed Cash Payment.

(c) Sale, Exchange, Redemption or other Taxable Disposition of the Delayed Cash Payment

Upon the sale, retirement or other taxable disposition of the Delayed Cash Payment, you generally will recognize gain or loss in an amount equal to the difference between the sum of cash plus the fair market value of any property received (other than any amount received that is attributable to accrued but unpaid interest not previously included in income, which will be taxable as ordinary interest income) and your adjusted tax basis in the Delayed Cash Payment. You generally will recognize capital gain or loss if you dispose of the Delayed Cash Payment in a sale, exchange, redemption or other taxable disposition. Any capital gain or loss will be long-term capital gain or loss if at the time of the sale, exchange, retirement or other taxable disposition of the Delayed Cash Payment, you held the Delayed Cash Payment for more than one year. Long-term capital gains of a non-corporate taxpayer are eligible for favorable tax rates. The deductibility of capital losses is subject to limitations.

(d) Additional Tax on Passive Income

Non-corporate U.S. Holders whose income exceeds certain thresholds generally will be subject to an additional 3.8% tax on, among other things, interest on and capital gains from the sale or other disposition of debt instruments subject to certain limitations and exceptions. If you are a non-corporate U.S. Holder, you should consult your tax advisor regarding the applicability of this additional tax on your income and gains in respect of your investment in the Delayed Cash Payment.

4. Information Reporting and Backup Withholding

Payments of interest (including accruals of OID) or dividends and any other reportable payments, possibly including amounts received pursuant to the Plan and payments of proceeds from the sale or other disposition of the New SSI Common Stock or the Delayed Cash Payment received pursuant to the Plan, generally are subject to information reporting by the payor to the IRS. Moreover, such reportable payments are subject to backup withholding at a rate of 28% under certain circumstances. Under the backup withholding rules, you may be subject to backup withholding with respect to such payment unless you (i) are an exempt recipient, such as a corporation, and when required, demonstrate this exemption or (ii) timely provide a correct U.S. taxpayer identification number and make certain certifications under penalties of perjury.

Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules may be credited against your U.S. federal income tax liability, and you may obtain a refund of excess amounts withheld under the backup withholding tax rules by timely filing an appropriate claim for refund with the IRS.

C. Certain U.S. Federal Income Tax Consequences to Non-U.S. Holders

This subsection applies to you if you are a Non-U.S. Holder.

The rules governing U.S. federal income taxation of Non-U.S. Holders are complex. If you are a Non-U.S. Holder, you should consult with your own tax advisor to determine the effect of U.S. federal, state, local and foreign income tax laws, as well as treaties, with regard to your participation in the transactions contemplated by the Plan and your ownership of New SSI Common Stock or the Delayed Cash Payment including any reporting requirements.

1. Exchange of Specified Claims for New SSI Common Stock, the Delayed Cash Payment, or Cash

Subject to the discussion in "4. Information Reporting and Backup Withholding," below, any gain or loss realized by you in connection with the surrender of a Specified Claim in exchange for New SSI Common Stock, the Delayed Cash Payment, or Cash pursuant to the Plan should not be recognized for U.S. federal income tax purposes, unless:

- the gain or loss is effectively connected with your conduct of a trade or business in the United States (and, if required by an applicable income tax treaty, is attributable to a U.S. permanent establishment that you maintain), in which case the gain or loss will be treated in the manner described in "2(c) Effectively Connected Income and Loss," below;

- you are an individual who is present in the United States for 183 days or more during the taxable year of the Exchange, and certain other conditions are met, in which case the gain (reduced by any U.S.-source capital losses) will be subject to 30% tax; or

- you are subject to Tax Code provisions applicable to certain former citizens or residents.

If payments attributable to accrued and unpaid interest do not qualify for the exception from withholding described above, you will be subject to U.S. withholding tax at a rate of 30% on such amounts unless (A) you have provided a properly completed IRS Form W-8BEN (or successor form) claiming an exemption from or reduction in withholding under an applicable tax treaty, (B) such interest is effectively connected with your conduct of a U.S. trade or business and you have provided a properly completed IRS Form W-8ECI (or successor form) or (C) you qualify for exemption from U.S. federal income tax with respect to such interest as described in "2(b) Payments of Interest on the Delayed Cash Payment," below, and you satisfy the certification requirements described therein (as applied *mutatis mutandis* to such interest).

2. Ownership of New SSI Common Stock and the Delayed Cash Payment

(a) Distributions on New SSI Common Stock

Distributions of cash and property that SSI pays in respect of New SSI Common Stock will constitute dividends for U.S. federal income tax purposes to the extent paid from its current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Distributions of cash and property that constitute dividends for U.S. federal income tax purposes generally will be subject to U.S. federal withholding at a 30% rate unless a reduced rate is prescribed by an applicable income tax treaty. If the amount of a distribution exceeds SSI's

current and accumulated earnings and profits, such excess first will be treated as a return of capital to the extent of your tax basis in the New SSI Common Stock, and thereafter will be treated as gain from the disposition of such share of New Stock, subject to tax as described in "3. Sale, Exchange or Disposition of New SSI Common Stock," below.

In order to obtain a reduced rate of U.S. federal withholding tax under an applicable income tax treaty, you will be required to provide a properly executed IRS Form W-8BEN certifying your entitlement to benefits under the treaty. If you are eligible for a reduced rate of U.S. withholding tax under a treaty, you may obtain a refund or credit of any excess amounts withheld by filing an appropriate claim for a refund with the IRS. You should consult your own tax advisor regarding your possible entitlement to benefits under a treaty.

The U.S. federal withholding tax described above will not apply to dividends paid to you if such dividends represent U.S. trade or business income for you and you provide a properly executed IRS Form W-8ECI certifying that the dividends are effectively connected with your conduct of a trade or business within the United States, in which case such dividends will be subject to tax as described in "(c) Effectively Connected Income or Loss," below.

(b) Payments of Interest on the Delayed Cash Payment

Subject to the discussion below concerning backup withholding, payments of interest on the Delayed Cash Payment (which, for purposes of this "C. Certain U.S. Federal Income Tax Consequences to Non-U.S. Holders," includes OID) to you generally will not be subject to U.S. federal income tax or withholding tax, if:

- you do not own, actually or constructively, for U.S. federal income tax purposes, 10% or more of the total combined voting power of all classes of the voting stock of SSI;
- you are not, for U.S. federal income tax purposes, a controlled foreign corporation related, directly or indirectly, to SSI through stock ownership under applicable rules of the Tax Code;
- you are not a bank receiving interest described in Section 881(c)(3)(A) of the Tax Code; and
- the certification requirement, as described below, is fulfilled with respect to the beneficial owner of the Delayed Cash Payment.

The certification requirement referred to above will be fulfilled if either (A) you provide to SSI or its paying agent an IRS Form W-8BEN (or successor form), signed under penalties of perjury, that includes your name and address and a certification as to your non-U.S. status, or (B) a securities clearing organization, bank or other financial institution that holds customers' securities in the ordinary course of its trade or business holds the Delayed Cash Payment on behalf of the beneficial owner and provides a statement to Debtor or its paying agent, signed under penalties of perjury, in which the organization, bank or financial institution certifies that it has received an IRS Form W-8BEN (or successor form) from the non-U.S. beneficial owner or from another financial institution acting on behalf of such beneficial owner and furnishes SSI or its paying agent with a copy thereof and otherwise complies with the applicable IRS

requirements. Other methods might be available to satisfy the certification requirements described above, depending on your particular circumstances.

The gross amount of payments of interest that do not qualify for the exception from withholding described above will be subject to United States withholding tax at a rate of 30% unless (A) you provide a properly completed IRS Form W-8BEN (or successor form) claiming an exemption from or reduction in withholding under an applicable tax treaty, or (B) such interest is effectively connected with your conduct of a United States trade or business and you provide a properly completed IRS Form W-8ECI (or successor form).

(c) Effectively Connected Income and Loss

If you are engaged in a trade or business in the United States and if any dividend with respect to your shares of New SSI Common Stock, any payment of interest with respect to the Delayed Cash Payment or gain or loss realized on the disposition of your shares of New SSI Common Stock or the Delayed Cash Payment is effectively connected with the conduct of such trade or business, such dividend or interest payment received by you or gain or loss realized by you will be recognized in full for U.S. federal income tax purposes in the same manner as if you were a U.S. Holder, unless an applicable treaty provides otherwise. If, contrary to its belief discussed below, SSI is or has been a USRPHC at any time during the shorter of the five-year period ending on the date of the disposition of your shares of New SSI Common Stock and your holding period for your shares of New SSI Common Stock, gain on the disposition generally will be subject to U.S. federal income tax in the same manner. In addition, if you are a foreign corporation, you may also be subject to a branch profits tax on your earnings and profits for the taxable year, subject to certain adjustments, at a rate of 30% unless reduced or eliminated by an applicable tax treaty. Even though any such effectively connected income is subject to income tax, and may be subject to the branch profits tax, it is not subject to withholding tax if you satisfy the certification requirements described above.

3. Sale, Exchange or Disposition of New SSI Common Stock and the Delayed Cash Payment

Subject to the discussion below concerning backup withholding, if you are a Non-U.S. Holder of a share of New SSI Common Stock or the Delayed Cash Payment, you generally will not recognize any gain or loss realized on the sale, exchange or other taxable disposition of such New SSI Common Stock or Delayed Cash Payment for U.S. federal income tax purposes, unless:

- you are an individual who is present in the United States for 183 days or more in the taxable year of disposition, and certain other conditions are met;
- such gain represents accrued but unpaid interest not previously included in income, in which case the rules regarding interest would apply;
- such gain is effectively connected with your conduct of a trade or business in the United States, in which case the rules described in "2(c) Effectively Connected Income and Loss," above, would apply; or

- With respect to New SSI Common Stock, SSI is or has been a "U.S. real property holding corporation" (a "USRPHC") under section 897 of the Tax Code at any time during the shorter of the five-year period ending on the date of the disposition and your holding period for your shares of New SSI Common Stock, in which case the rules described in "2(c) Effectively Connected Income and Loss," above, generally would apply.

In general, a corporation is a USRPHC if the fair market value of its "U.S. real property interests" equals or exceeds 50% of the sum of the fair market value of its worldwide real property interests and its other assets used or held for use in a trade or business. The Debtors believe that SSI is not currently, and does not anticipate becoming in the future, a USRPHC for U.S. federal income tax purposes.

4. Information Reporting and Backup Withholding

Unless certain exceptions apply, the Debtors must report annually to the IRS and to you the amount of any dividends paid to you (whether such dividend income is subject to U.S. federal withholding tax or exempt from such tax pursuant to an income tax treaty) as well as the amount of any interest paid to you. Copies of these information returns may also be made available under the provisions of a specific treaty or other agreement to the tax authorities of the country in which you reside.

Under current U.S. federal income tax law, backup withholding tax will not apply to payments of dividends or interest by the Debtors or their paying agent if you provide a properly executed IRS Form W-8BEN (or successor form), or otherwise establish your eligibility for an exemption, provided that the Debtors or their paying agent, as the case may be, does not have actual knowledge or reason to know that you are a U.S. person.

Payments on the sale, exchange or other disposition of a share of New SSI Common Stock or the Delayed Cash Payment made to or through a foreign office of a foreign broker generally will not be subject to backup withholding or information reporting. However, if such broker is for U.S. federal income tax purposes (i) a U.S. person; (ii) a controlled foreign corporation; (iii) a foreign person 50% or more of whose gross income is effectively connected with a U.S. trade or business for a specified three-year period; (iv) a foreign partnership with certain connections to the United States, then information reporting will be required unless the broker has in its records documentary evidence that the beneficial owner is not a U.S. person and certain other conditions are met or the beneficial owner otherwise establishes an exemption. Backup withholding may apply to any payment that such broker is required to report if the broker has actual knowledge or reason to know that the payee is a U.S. person. Payments to or through the U.S. office of a broker will be subject to backup withholding and information reporting unless the beneficial owner certifies, under penalties of perjury, that it is not a U.S. person, or otherwise establishes an exemption.

Backup withholding is not an additional tax; any amounts withheld from a payment to you under the backup withholding rules will be allowed as a credit against your U.S. federal income tax liability and may entitle you to a refund, provided that the required information is furnished to the IRS. You should consult your tax advisor regarding the application of

information reporting and backup withholding in your particular situation, the availability of an exemption from backup withholding and the procedure for obtaining such an exemption, if available.

5. Additional Withholding Requirements Under FATCA

Under sections 1471 through 1474 of the Code (provisions which are commonly referred to as "FATCA"), the relevant withholding agent may be required to withhold 30% of any dividends or interest paid after December 31, 2013, and any proceeds of a sale or other disposition of the New SSI Common Stock or the Delayed Cash Payment paid after December 31, 2016, to (i) a foreign financial institution (whether holding New SSI Common Stock or the Delayed Cash Payment for its own account or on behalf of its account holders/investors) unless such foreign financial institution agrees to verify, report and disclose its U.S. account holders and meets certain other specified requirements or (ii) a non-financial foreign entity that is the beneficial owner of New SSI Common Stock or the Delayed Cash Payment (or is holding the New SSI Common Stock or the Delayed Cash Payment on behalf of any other non-financial foreign entity) unless such entity certifies that it does not have any substantial United States owners or provides the name, address and taxpayer identification number of each substantial United States owner and such entity meets certain other specified requirements. An intergovernmental agreement between the United States and an applicable non-U.S. country may modify such requirements. Non-U.S. Holders should consult their own tax advisors regarding the effect of this newly enacted legislation.

XIII.

CONCLUSION AND RECOMMENDATION

The Debtors believe that confirmation of the Plan in the Chapter 11 Cases is preferable to the alternatives described above because it provides the greatest distributions and opportunity for distributions to holders of Claims against the Debtors. In addition, any alternative to confirmation of the Plan in the Chapter 11 Cases could result in extensive delays and increased administrative expenses, or the ultimate liquidation of certain or all of the Debtors. Accordingly, the Debtors urge all holders of Claims entitled to vote on the Plan to vote to accept the Plan in the Chapter 11 Cases.

Dated: April ~~23,~~24, 2013

Respectfully submitted,

SCHOOL SPECIALTY, INC.

By: _____
Name: Michael P. Lavelle
Title: President and CEO

SAX ARTS & CRAFTS, INC.

By: _____
Name: Michael P. Lavelle
Title: Sole Director

FREY SCIENTIFIC, INC.

By: _____
Name: Michael P. Lavelle
Title: Sole Director

PREMIER AGENDAS, INC.

By: _____
Name: Michael P. Lavelle
Title: Sole Director

CHILDCRAFT EDUCATION CORP.

By: _____
Name: Michael P. Lavelle
Title: Sole Director

CALIFONE INTERNATIONAL, INC.

By: _____
Name: Michael P. Lavelle
Title: Sole Director

BIRD-IN-HAND WOODWORKS, INC.

By: _____
Name: Michael P. Lavelle
Title: Sole Director

CLASSROOMDIRECT.COM, LLC

By: _____
Name: Michael P. Lavelle
Title: President and CEO

DELTA EDUCATION, LLC

By: _____
Name: Michael P. Lavelle
Title: President and CEO

SPORTIME, LLC

By: _____
Name: Michael P. Lavelle
Title: President and CEO