

**UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re:

SCHOOL SPECIALTY, INC., *et al.*,Debtors.¹

Chapter 11

Case No. 13-10125 ()

Joint Administration Requested

**DEBTORS' MOTION FOR AN ORDER (I) APPROVING CONTINUED USE OF
THE DEBTORS' EXISTING CASH MANAGEMENT SYSTEM,
(II) AUTHORIZING USE OF EXISTING BANK ACCOUNTS AND CHECKS,
(III) WAIVING THE REQUIREMENTS OF 11 U.S.C. § 345(B) ON AN INTERIM BASIS,
AND (IV) GRANTING ADMINISTRATIVE EXPENSE STATUS TO POSTPETITION**

School Specialty, Inc. and its affiliated debtors and debtors-in-possession (each a “Debtor” and, collectively, the “Debtors”) hereby move (the “Motion”), pursuant to sections 105(a), 345(b), 363(c) and 503(b)(1) of title 11 of the United States Code (the “Bankruptcy Code”) and rule 6004 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”) and rules 2015-2(a) and (b) of the Local Rules of Bankruptcy Practice and Procedure of the United States Bankruptcy Court for the District of Delaware (the “Local Rules”), for entry of an order, substantially in the form annexed hereto as Exhibit A (the “Proposed Order”):

(i) authorizing and approving the Debtors to continue using their existing cash management system; (ii) authorizing the Debtors to continue using prepetition bank accounts and existing checks; (iii) waiving the requirements of section 345(b) of the Bankruptcy Code on an interim basis with respect to the Debtors’ deposit and investment practices; and (iv) granting administrative expense status to postpetition intercompany claims pursuant to section 503(b)(1)

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.



of the Bankruptcy Code. In support of this Motion, the Debtors rely on the Declaration of Gerald T. Hughes in Support of Chapter 11 Petitions and First Day Relief (the "First Day Declaration")² and respectfully state as follows:

JURISDICTION

1. The Court has jurisdiction to consider this matter pursuant to 28 U.S.C. §§ 157 and 1334 and the Amended Standing Order of Reference from the United States District Court for the District of Delaware dated as of February 29, 2012. Venue is proper in this district pursuant to 28 U.S.C. §§ 1408 and 1409. This matter is a core proceeding pursuant to 28 U.S.C. § 157(b)(2).

2. The statutory and legal predicates for the relief requested are sections 105(a), 345, 363 and 503 of the Bankruptcy Code, Bankruptcy Rule 6004 and Local Rules 2015-2(a) and (b).

BACKGROUND

3. On the date hereof (the "Petition Date"), each of the Debtors filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code thereby commencing the instant cases (the "Chapter 11 Cases"). The Debtors continue to manage and operate their businesses as debtors-in-possession under sections 1107 and 1108 of the Bankruptcy Code.

4. No trustee, examiner or official committee has been appointed in the Chapter 11 Cases.

5. Information regarding the Debtors' businesses, their capital and debt structure, and the events leading to the filing of the Chapter 11 Cases is contained in the First Day Declaration.

² The First Day Declaration is being filed substantially contemporaneous with this Motion and is incorporated herein by reference. Capitalized terms used but not defined herein shall have the meanings ascribed to them in the First Day Declaration.

RELIEF REQUESTED

6. By this Motion, the Debtors request entry of an order, substantially in the form attached hereto as Exhibit A: (a) authorizing the Debtors to (i) continue to utilize their prepetition cash management system (the “Cash Management System”) and (ii) maintain and continue using the Debtors’ existing bank accounts (collectively, the “Bank Accounts”) and existing checks; (b) authorizing the Debtors to continue their deposit and investment practices and waiving the requirements of section 345(b) of the Bankruptcy Code on an interim basis; and (c) granting administrative expense status to postpetition intercompany claims pursuant to section 503(b)(1) of the Bankruptcy Code. In connection with this relief, the Debtors respectfully request a waiver of certain of the operating guidelines (the “U.S. Trustee Guidelines”) established by the Office of the United States Trustee (the “U.S. Trustee”) that require the Debtors to close all prepetition bank accounts, open new accounts designated as debtor-in-possession accounts and obtain new checks bearing a “debtor-in possession” legend.

Request for Authority to Continue Using Existing Cash Management System

7. The Debtors maintain an integrated cash management and disbursement system in the ordinary course of their business operations that allows them to effectively and efficiently administer their cash and financial affairs.³ A diagram of the Cash Management System is attached as Exhibit B. As described herein, any disruption to the Cash Management System would have an immediate adverse impact on the Debtors’ businesses. Accordingly, to minimize the disruption caused by these bankruptcy filings and maximize the value of the Debtors’ estates, the Debtors request authority to continue to utilize their existing Cash Management System during the pendency of the Chapter 11 Cases.

³ Califone International, Inc. (“Califone”) and one division of School Specialty, Inc. (“SSI”) maintain separate accounting systems from the Oracle-based Cash Management System. However, all collections and disbursements for all Debtors are monitored by SSI’s Cash Management System as described herein.

8. The Debtors' Cash Management System consists of twenty-eight (28) Bank Accounts at four (4) banking and investment institutions. Each Bank Account maintained by the Debtors is set forth on the attached Exhibit D.

9. Pursuant to the Cash Management System, the Debtors collect and concentrate the funds generated by the Debtors' operations and use amounts collected to satisfy obligations under the Debtors' prepetition secured asset-based credit agreement (the "ABL")⁴ with Wells Fargo Capital Finance, LLC as Administrative Agent ("Wells Fargo") on a daily basis. The Debtors also use the Cash Management System to fund disbursements to their vendors, suppliers, employees and other creditors incurred in the operations of the Debtors' businesses. The Cash Management System uses an Oracle Enterprise Resource Planning System (ERP) platform, a comprehensive, integrated system that handles all key business functions. In particular, the Oracle platform enables the Debtors to accurately maintain and track their cash and ensure payment of their obligations. The Debtors' treasury department ("Treasury") exercises primary oversight over the Cash Management System.

10. The movement of funds through the Cash Management System is described in detail below.

Cash Position Forecasting

11. The Debtors manage cash and investments through a rolling cash forecast model ("Cash Forecast") that shows all expected collections and cash disbursements on a daily basis. Treasury employees create the Cash Forecast for the quarter based on historical information and forecasts from various departments that tie into the Debtors' budget. Forecasted information includes: (i) a collections forecast based on expected sales and returns; (ii) payroll forecasts

⁴ Details regarding the ABL may be found in the First Day Declaration and the DIP Motion.

based on employment changes and previous actual payroll disbursements; (iii) sales and use tax disbursement forecasts based on forecasted sales in various states and countries; and (iv) accounts payable forecasts calculated on a weekly basis. The Cash Forecast is updated with actual amounts when available, including (i) lockbox reports showing actual collections, (ii) operating account activity (described below), (iii) Automated Clearing House ("ACH") and check disbursement reports, and (iv) payroll reports.

12. Treasury reconciles the Cash Forecast with the funds that are collected in SSI's main operating account (the "Main Operating Account") located at JPMorgan Chase Bank, N.A. ("JPM") on a daily basis. Treasury researches any activity in the Main Operating Account that was not forecasted and will update the Cash Forecast model accordingly. The records used for the Cash Forecast are available on the Oracle platform, which enables corporate accounting ("Accounting") and Treasury management to update the Cash Forecast on a real-time basis. Accounting uses a cash worksheet model (the "Cash Worksheet") to post entries into the Debtors' general ledger detailing borrowing activity on a daily basis. Treasury employees compare the Cash Forecast and the Cash Worksheet with actual expenditures and reconcile any variances on a monthly basis.

13. Treasury employees also compare the Cash Forecast with the Cash Worksheet continually to evaluate the Debtors' cash position and to make decisions regarding borrowing. As detailed in the First Day Declaration, the Debtors receive the bulk of their collections during the months of September through December. Consequently, the Debtors borrow more heavily during the period of January through August.

Receipts

14. The Debtors maintain four bank accounts (the “Lockbox Accounts”) located at JPM, three for SSI and one for subsidiary Califone.⁵ The cash receipts from each of SSI’s and Califone’s customers are deposited in their respective Lockbox Accounts, either by direct remittance from the customers or, when customers send payment directly to the Debtors, by deposit into a local JPM branch by the Debtors’ employees.

15. The Debtors also maintain five credit card clearing accounts (the “Credit Card Accounts”) located at JPM: three for SSI, one for Califone and one for subsidiary Delta Education, LLC (“Delta”). Credit card receivables from each of SSI’s, Califone’s and Delta’s customers are deposited in their respective Credit Card Accounts.

16. The Debtors also maintain four depository accounts (the “Depository Accounts”), three located at JPM, two for SSI and one for subsidiary Premier Agendas, Inc. (“Premier”), and one located at Wells Fargo Bank for Califone. Of SSI’s Depository Accounts, one collects online payments (the “Online Payment Depository Account”) and one collects customer payments made by ACH or wire transfer. Accounting utilizes Califone’s and Premier’s Depository Accounts to deposit payments that are mailed directly to the respective Debtor rather than remitted through the Lockbox Accounts or Credit Card Accounts.

17. Other than accounts held by Califone and SSI’s Online Payment Depository Account, each of the foregoing Lockbox, Credit Card, and Depository Accounts is a “zero balance account.” As such, each evening, the funds in these accounts are automatically swept

⁵ SSI also maintains certain bank accounts in Canada, including three lockbox accounts (the “SSI Canadian Lockbox Accounts”), of which two are inactive. SSI also maintains one “zero balance” credit card account (the “SSI Canadian Credit Card Account”), which collects *de minimis* receipts from Canadian customers. The collections from the SSI Canadian Lockbox Account and the SSI Canadian Credit Card Account are swept into the SSI Canadian Operating Account (as defined below). A diagram of the cash flow for all of SSI’s bank accounts held in Canada is attached as Exhibit C. The Debtors’ non-Debtor subsidiaries also maintain and operate their own bank accounts in Canada, which are not included in this Motion.

into SSI's concentration account (the "Concentration Account"). Each day, in turn, the funds in SSI's Concentration Account, SSI's Online Payment Depository Account, and Califone's accounts are transferred by wire to Wells Fargo and applied against the Debtors' obligations under the ABL.

Disbursements

18. Disbursements made by the Debtors fall into two general categories: payments in respect of inventory-related and fixed asset purchases made pursuant to purchase orders; and payments in respect of non-purchase order transactions, such as general corporate expenditures and payroll. Both types of disbursements are subject to institutional controls under a reservation of authority policy (the "Reservation of Authority"). The Reservation of Authority helps to ensure that all expenditures of the Debtors' funds are appropriately authorized by creating authorization limits for certain of the Debtors' personnel to be followed in the day-to-day operation of the Debtors' businesses.

19. Purchase orders are placed by the Debtors' purchasing department ("Purchasing"). Pursuant to the Reservation of Authority, employees in Purchasing are authorized to place orders in amounts that depend on their level of seniority. When purchase orders are issued by Purchasing, they are automatically recorded in the Debtors' Cash Management System; this system also automatically matches invoices with the corresponding purchase order and confirms receipt of the inventory by the Debtors' warehouses. Once the Cash Management System confirms that the invoice amount corresponds with the amounts specified on the purchase order and the amounts of product actually received by the Debtors, subject to certain built-in tolerances for discrepancies between the price quoted on the purchase order and the amount billed on the invoice, the invoice is automatically scheduled for payment. If,

however, an invoice exceeds these tolerances, the Cash Management System automatically suspends payment pending subsequent review and approval by Accounting and Purchasing.

20. Disbursements with respect to transactions that are not documented through purchase orders must receive transaction authority by the appropriate department head or other members of management.⁶ While the right to authorize payment in these circumstances is not automatic, no one single authorization system exists; rather, approval authority depends on the type of transaction and the department that is responsible for it.

21. Once invoices are approved for payment, payments are generally made by check and issued against one of eight disbursement accounts maintained with JPM (the “Disbursement Accounts”), one for Califone, one for subsidiary Bird-in-Hand Woodworks, Inc. (“Bird-in-Hand”) and six for SSI.⁷ Certain of SSI’s Disbursement Accounts are segmented for particular employee wage uses, namely, payroll, PPO medical disbursements and flexible spending.⁸

22. The Disbursement Accounts are “zero balance accounts.” When checks are written or wire transfers are initiated against the zero balance Disbursement Accounts, funds must be transferred from a central operating account (the “Main Operating Account”) maintained

⁶ The Debtors utilize three corporate cards (the “Corporate Credit Cards”), one issued by Bank of America and two issued by American Express. The Debtors also utilize approximately 25 purchasing cards (the “Purchasing Cards,” together with the Corporate Credit Cards, the “Corporate Cards”) issued by American Express. The Debtors’ employees use the Corporate Cards to pay for certain business and administrative expenses. Bank of America and American Express provide monthly invoices to the Debtors, which are submitted to Accounting after approval by the appropriate authority. This is described in more detail in the Motion for an Order Authorizing But Not Directing the Debtors to Pay Certain Prepetition Wages (the “Wages Motion”), filed contemporaneously with this Motion.

⁷ SSI also maintains certain bank accounts in Canada, including one operating account (the “SSI Canadian Operating Account”) and two disbursement accounts (each an “SSI Canadian Disbursement Account”), one of which is inactive. The accounts are used to pay SSI’s Canadian vendors who have requested payment in Canadian dollars. SSI funds these disbursements from the Main Operating Account (as defined below) to SSI’s Canadian Operating Account. SSI then transfers these funds from the Canadian Disbursement Account to the Canadian vendors.

⁸ The Debtors’ wage-related obligations are funded in gross to a third-party payment administrator, Automatic Data Processing, Inc. (“ADP”), and ADP disburses such amounts from its own accounts to the Debtors’ employees, taxing authorities and other applicable third parties. This is described in more detail in the Wages Motion.

by SSI into the respective Disbursement Accounts to honor the checks or wire transfers. However, because the Debtors' receipts were swept by Wells Fargo on a daily basis prior to the Petition Date, the Debtors were required to fund their ongoing business needs – including the Main Operating Account – by borrowing under the ABL on an as-needed basis. Specifically, the Debtors would submit daily borrowing requests based on their Cash Forecast and the approved Disbursements for the day; approved borrowings under the ABL were funded into SSI's Main Operating Account and then disbursed from the Main Operating Account into the respective Disbursement Accounts. Once funded, these amounts would then be available to cover the amounts of checks or ACH transfers presented against the Checking Accounts and ACH Accounts, respectively.

23. The Debtors also maintain three letter of credit collateral accounts (the "L/C Collateral Accounts"), one at Bank of America, one at JPM and one at Comerica. There are currently six⁹ letters of credit (the "L/Cs") outstanding that existed under the Debtors' previous financing with Bank of America. After the Debtors' refinancing in May 2012, Bank of America and Comerica required the Debtors to post cash collateral as a backstop for the undrawn L/Cs. The L/C Collateral Account at Comerica has a balance of approximately \$1.45 million, the L/C Collateral Account at Bank of America has a balance of approximately \$18,500 and the L/C Collateral Account at JPM has a balance of approximately \$262,500. Treasury is currently migrating these L/Cs to the ABL. After Treasury transfers an L/C to Wells Fargo under the ABL, the cash collateral is released and the funds are applied to pay down the ABL.

24. In the ordinary course of business, the Debtors incur fees for credit card processing (the "Processing Fees"), fees owed to JPM for administering the Debtors' bank

⁹ In addition to the four L/Cs that remain from the Debtors' previous financing that require cash collateral, two L/Cs have also been transferred to the ABL with Wells Fargo and do not require cash collateral.

accounts and fees owed to third party vendors, such as Oracle and ADP, for the ancillary services (collectively, and together with the Processing Fees, the “Cash Management Fees”) provided in the implementation of the Cash Management System as discussed above. The providers of these services are critical to the functioning of the Cash Management System, and any cessation in the provision of these services due to the Debtors’ inability to pay the Cash Management Fees would be extremely disruptive to the Debtors’ treasury operations and the Debtors’ businesses overall. The Debtors estimate that approximately \$40,000 of prepetition Cash Management Fees are outstanding as of the Petition Date.

**Maintaining the Existing Cash Management System
Is in the Best Interest of the Debtors’ Estates**

25. By this Motion, the Debtors seek the authority to continue their current Cash Management System. Under the circumstances, maintenance of the Cash Management System is in the best interest of the Debtors’ estates. The basic structure of the Cash Management System constitutes the Debtors’ ordinary and usual business practices, and the Cash Management System is consistent with those utilized by corporate enterprises comparable to the Debtors in size and complexity. Moreover, the centralized and automated Cash Management System presently used by the Debtors is critical to their ability to manage their cash and centrally coordinate the transfer of funds to efficiently and effectively continue their operations.

26. Any disruption to the Debtors’ current cash management procedures would impair the Debtors’ ability to successfully administer the Chapter 11 Cases. It would be time consuming, difficult and costly for the Debtors to establish an entirely new system of accounts and a new cash management system. The attendant delays from revising cash management procedures and redirecting receipts would create unnecessary pressure on the Debtors and their employees while they work to meet the other administrative obligations imposed by chapter 11.

Furthermore, preserving the “business as usual” atmosphere and avoiding the unnecessary and costly distractions that would inevitably be associated with any substantial disruption in the Cash Management System will facilitate the Debtors’ efforts in this regard. Finally, maintaining the Cash Management System, as modified herein, is a requirement under the Debtors’ DIP Credit Agreements, as described in the DIP Motion.

27. Furthermore, given the cyclical nature of the Debtors’ business operations, as described in the First Day Declaration, it is imperative that the Cash Management System continue unimpaired during the weeks following the commencement of these Chapter 11 Cases, since the vast majority of the Debtors’ annual orders will be placed in the near term. Any disruption to the Cash Management System at the outset of these Chapter 11 Cases could hamper the Debtors’ ability to compete in the marketplace during this critical period.

28. The Debtors will maintain records of all transfers within the Cash Management System to the same extent they were recorded by the Debtors before the commencement of the Chapter 11 Cases. As a result, the Debtors will be able to document and record the transactions occurring within the Cash Management System for the benefit of all parties in interest.

29. Allowing the Debtors to utilize their prepetition Cash Management System is entirely consistent with applicable provisions of the Bankruptcy Code. Section 363(c)(1) of the Bankruptcy Code authorizes a debtor-in-possession to “use property of the estate in the ordinary course of business without notice or a hearing.” 11 U.S.C. § 363(c)(1). The purpose of section 363(c)(1) of the Bankruptcy Code is to provide a debtor-in-possession with the flexibility to engage in the ordinary transactions required to operate its business without undue oversight by creditors or the court. See, e.g., In re Roth American, Inc., 975 F.2d 949, 952 (3d Cir. 1992). Included within the purview of section 363(c) is a debtor’s ability to continue the “routine

transactions” necessitated by a debtor’s cash management system. Amdura Nat’l Distrib. Co. v. Amdura Corp. (In re Amdura Corp.), 75 F.3d 1447, 1453 (10th Cir. 1996). Accordingly, the Debtors seek authority under section 363(c)(1) of the Bankruptcy Code to continue the collection, concentration and disbursement of funds pursuant to the Cash Management System described above.

30. Delaware bankruptcy courts have recognized that an integrated cash management system “allows efficient utilization of cash resources and recognizes the impracticalities of maintaining separate cash accounts for the many different purposes that require cash.” In re Columbia Gas Sys., Inc., 136 B.R. 930, 934 (Bankr. D. Del. 1992), aff’d in part and rev’d in part, 997 F.2d 1039 (3d Cir. 1993), cert. denied sub nom Official Comm. of Unsecured Creditors v. Columbia Gas Transmission Corp., 510 U.S. 1110 (1994). The Third Circuit has agreed, emphasizing the “huge administrative burden” and economic inefficiency of requiring the debtors to maintain all accounts separately. Columbia Gas Sys., 997 F.2d at 1061; see also In re Southmark Corp., 49 F.3d 1111, 1114 (5th Cir. 1995) (maintaining an existing cash management system allows the debtor “to administer more efficiently and effectively its financial operations and assets”).

31. Bankruptcy courts routinely grant chapter 11 debtors authority to continue utilizing existing cash management systems and treat requests for such authority as a relatively “simple matter.” In re Baldwin-United Corp., 79 B.R. 321, 327 (Bankr. S.D. Ohio 1987). Courts in this circuit have recognized that allowing a debtor to maintain its existing cash management system is often appropriate. See, e.g., In re Genesis Health Ventures, Inc., 402 F.3d 416, 424 (3d Cir. 2005); In re Kindred Healthcare, Inc., 2003 WL 22327933, at *1 (Bankr. D. Del. Oct. 9, 2003).

32. Similar relief to that sought in this Motion has been routinely granted in this District. See, e.g., In re THQ Inc., Case No. 12-13398 (MFW) (Bankr. D. Del. Dec. 20, 2012) (authorizing Debtors to continue using cash management system, maintain existing bank accounts and waive deposit requirements of section 345(b)); In re A123 Systems, Inc., Case No. 12-12859 (KJC) (Bankr. D. Del. Oct. 18, 2012) (same); In re Bicent Holdings LLC, Case No. 12-11304 (KG) (Bankr. D. Del. April 24, 2012) (same); In re Buffets Restaurants Holdings, Inc. Case No. 12-10237 (MFW) (Bankr. D. Del. January 18, 2012) (same); In re Perkins & Marie Callender's Inc., Case No. 11-11795 (KG) (Bankr. D. Del. June 14, 2011) (same); In re Allen Family Foods, Inc., Case No. 11-11764 (BLS) (Bankr. D. Del. June 10, 2011) (same); In re Jackson Hewitt Tax Serv., Inc., Case No. 11-11587 (MFW) (Bankr. D. Del. May 25, 2011) (same); In re Harry & David Holdings Inc., Case No. 11-10884 (MFW) (Bankr. D. Del. Mar. 29, 2011) (same); In re Summit Business Media Holding Co., Case No. 11-10231 (PJW) (Bankr. D. Del. Jan. 28, 2011) (same); In re Atrium Corp., Case No. 10-10150 (BLS) (Bankr. D. Del. Jan. 21, 2010) (same); In re Stock Building Supply Holdings, LLC, Case No. 09-11554 (MFW) (Bankr. D. Del. May 7, 2009) (same); In re The Fairchild Corp., Case No. 09-10899 (CSS) (Bankr. D. Del. March 20, 2009) (same); In re Nortel Networks Inc., Case No. 09-10138 (KG) (Bankr. D. Del. Jan. 15, 2009) (same).

33. The Court may also exercise its equitable powers to grant the relief requested herein. Section 105(a) of the Bankruptcy Code empowers the Court to “issue any order, process, or judgment that is necessary or appropriate to carry out the provisions of this title.” 11 U.S.C. § 105(a). Continuing the Debtors’ Cash Management System without interruption is important to the success of the Chapter 11 Cases, and it is well within the Court’s equitable power under section 105(a) to approve its continued use.

Maintaining Existing Bank Accounts and Checks and Providing Protections to Existing Cash Management Banks Is Warranted and Appropriate under the Circumstances

34. The U.S. Trustee Guidelines require that chapter 11 debtors, among other things: (a) close all existing bank accounts upon filing their petitions and open new “debtor-in-possession” accounts in certain financial institutions designated as authorized depositories by the U.S. Trustee; (b) establish one debtor-in-possession account for all estate monies required for the payment of taxes; and (c) maintain a separate debtor-in-possession account for cash collateral. By this Motion, the Debtors seek a waiver of the U.S. Trustee Guidelines’ requirement that their bank accounts be closed and that new postpetition bank accounts be opened.

35. The Debtors can achieve the goals of the U.S. Trustee Guidelines without closing their existing Bank Accounts and opening new ones. The Debtors can and will identify all prepetition checks and other forms of payment outstanding on the Petition Date and notify the appropriate bank not to pay such checks or obligations. The systems currently employed by the Debtors and their banks are sufficient to ensure that prepetition obligations are not paid improperly. However, to avoid delays in payments to administrative creditors, to ensure a transition into chapter 11 with minimal disruption, and to aid in the Debtors’ efforts to preserve and maximize the value of their assets, it is important that the Debtors be permitted to continue to maintain the Bank Accounts with the same account numbers following the commencement of the Chapter 11 Cases.

36. By preserving business continuity and avoiding disruption and delay to the collection of the Debtors’ receipts and making of disbursements that would necessarily result from closing the Bank Accounts and opening new accounts, all parties in interest, including employees, vendors, and customers, will be best served. The confusion that would result absent the relief requested herein would ill serve the Debtors’ chapter 11 efforts.

37. The Debtors also seek an order granting the Banks authority to continue to treat, service and administer the Bank Accounts as accounts of each respective Debtor as a debtor-in-possession without interruption and in the usual and ordinary course, and to receive, process and honor and pay any and all postpetition checks, drafts, wires or ACH Transfers drawn on the Bank Accounts by the holders or makers thereof, as the case may be.

38. Notwithstanding anything to the contrary in any other order of this Court, the Debtors request that the Banks be authorized to accept and honor all representations from the Debtors as to which checks, drafts, wires, or ACH Transfers should be honored or dishonored consistent with any order of this Court and governing law, whether such checks, drafts, wires, or ACH Transfers are dated prior to, on, or subsequent to the Petition Date. Pursuant to the relief requested in this Motion, the Banks shall not be liable to any party on account of (a) following the Debtors' instructions or representations as to any order of this Court, (b) the honoring of any prepetition check or item in a good faith belief that the Court has authorized such prepetition check or item to be honored, or (c) an innocent mistake made despite implementation of reasonable item handling procedures.

39. To minimize expenses, the Debtors further request, pursuant to Local Rule 2015-2(a), that they be authorized to continue to use their pre-printed checks without reference to their status as debtors-in-possession. However, if the Debtors need to purchase new check stock or utilize electronically prepared checks during the pendency of the Chapter 11 Cases, such checks will include a legend referring to the Debtors as "Debtors-in-Possession" or "DIP."

40. If the Debtors are not permitted to maintain and utilize their Bank Accounts and continue to use their existing checks as set forth herein, it would (a) disrupt the ordinary financial affairs and business operations of the Debtors, (b) delay the administration of the Debtors'

estates, (c) compromise the Debtors' internal controls and accounting system, and (d) require the estates spend unnecessary money to set up new systems and open new accounts and print new checks. As noted above, courts in this District routinely grant the relief requested with respect to these matters. Accordingly, this request should be granted.

Authority to Continue to Open and Close Bank Accounts

41. Pursuant to this Motion, the Debtors also seek authorization to implement changes to the Cash Management System in the ordinary course of business, including opening any additional bank accounts or closing any existing Bank Account, as they may deem necessary and appropriate. The Debtors request that the Court authorize any bank to honor the Debtors' requests to open or close, as the case may be, such bank accounts or additional bank accounts. However, should the Debtors open any new domestic account during the pendency of the Chapter 11 Cases, in accordance with the requirements of the U.S. Trustee Guidelines, the Debtors will cause such new account to be with (i) a bank insured by the Federal Deposit Insurance Corporation ("FDIC") or the Federal Savings and Loan Insurance Corporation ("FSLIC") that is organized under the laws of the United States or any State therein, or (ii) in the case of accounts that may carry a balance exceeding the insurance limitations set by the FDIC or FSLIC, a bank that has executed a Uniform Deposit Agreement ("UDA") with the U.S. Trustee's office.

Interim Waiver of the Deposit and Investment Requirements of 11 U.S.C. § 345

42. By this Motion, the Debtors are also requesting that the Court waive the requirements of section 345(b) of the Bankruptcy Code on an interim basis and permit them to maintain any deposits in their Bank Accounts in accordance with their existing practices until such time as the Debtors are able to comply with, or obtain this Court's final approval to deviate from, the guidelines imposed under section 345(b) of the Bankruptcy Code.

43. Section 345(a) of the Bankruptcy Code authorizes deposits or investments of money of a bankruptcy estate, such as cash, in a manner that will “yield the maximum reasonable net return on such money, taking into account the safety of such deposit or investment.” 11 U.S.C. § 345(a). For deposits or investments that are not “insured or guaranteed by the United States or by a department, agency or instrumentality of the United States or backed by the full faith and credit of the United States,” section 345(b) of the Bankruptcy Code provides that the estate must require from the entity with which the money is deposited or invested a bond in favor of the United States secured by the undertaking of an adequate corporate surety. 11 U.S.C. § 345(b).

44. A court may, however, relieve a debtor-in-possession of the restrictions imposed by section 345(b) of the Bankruptcy Code for “cause.” 11 U.S.C. § 345(b). Consistent with section 345(b) of the Bankruptcy Code, Local Rule 2015-2(b) provides that no waiver of “section 345 shall be granted by the Court without notice and an opportunity for hearing in accordance with these Local Rules.” Del. Bankr. L.R. 2015-2(b). However, Local Rule 2015-2(b) further provides that “if a motion for such waiver is filed on the first day of a chapter 11 case in which there are more than 200 creditors, the Court may grant an interim waiver until a hearing on the debtors’ motion can be held.” *Id.*

45. As this Motion is being filed on the first day of the Debtors’ Chapter 11 Cases and the Debtors have in excess of 200 creditors, the Debtors request that the Court enter an order waiving, on an interim basis, the requirements of section 345(b) of the Bankruptcy Code for sixty (60) days, without prejudice to the Debtors’ ability to seek a further interim or final waiver. The Debtors maintain the Bank Accounts at JPM and Wells Fargo, and the Debtors believe JPM and Wells Fargo have executed UDAs with the U.S. Trustee’s office. Therefore, the Bank

Accounts are likely already in compliance with the requirements of section 345(b) of the Bankruptcy Code. However, out of an abundance of caution, the Debtors seek additional time to ensure that all of their Bank Accounts are in compliance with section 345(b) of the Bankruptcy Code. Given the structure and relative security of the Cash Management System, the Debtors submit that cause exists to grant an interim sixty (60) day waiver of the requirements of section 345(b) of the Bankruptcy Code, without prejudice to the Debtors' ability to request further waivers.

Administrative Expense Status to Postpetition Intercompany Claims

46. SSI is the primary payor of substantially all obligations incurred by the Debtors. To run operations, the Debtors routinely transfer funds between SSI and its Debtor and non-Debtor subsidiaries. Moreover, products produced by one Debtor are frequently used or sold by an affiliate Debtor or non-Debtor subsidiary; as such, the Debtors routinely sell products among different Debtors and to the non-Debtor subsidiaries (these transactions are collectively referred to the "Intercompany Transactions"). Such Intercompany Transactions may result in intercompany receivables and payables (the "Intercompany Claims").

47. In addition, with few exceptions, management and administrative functions among the Debtors are centralized. This centralized administration also creates Intercompany Claims. However, the continued performance of ordinary-course Intercompany Transactions and related functions is necessary to ensure the Debtors' ability to operate their business as debtors-in-possession. If the Debtors were unable to continue entering into Intercompany Transactions in the ordinary course, the Debtors' businesses could be unnecessarily harmed to the detriment of the estates' creditors.

48. In particular, SSI's two Canadian non-Debtor subsidiaries, Select Agendas Corp. ("Select") and Premier School Agendas, Ltd. ("Premier School," and together with Select, the

“Canadian Subsidiaries”), use the same software system for their Cash Management System as the Debtors. Premier School, on behalf of itself and Select, routinely purchases products from Debtors SSI and Premier, and these Intercompany Claims are regularly recorded and settled. The continued performance of these Intercompany Transactions is essential to ensure that the non-Debtor Canadian Subsidiaries are able to purchase supplies to sell to their customers in Canada notwithstanding these Chapter 11 Cases.

49. The Debtors request that, pursuant to section 503(b)(1) of the Bankruptcy Code, any Intercompany Claims accorded administrative expense priority status, to the extent that such Intercompany Claims can be ascertained, traced and accounted for by the Debtors’ Cash Management System and accounting functions. Transfers among the Debtors, as well as with their non-Debtor subsidiaries, represent extensions of intercompany credit. See 11 U.S.C. §§ 364(a) and 503(b). According administrative expense status to Intercompany Claims will ensure that each individual Debtor contributing funds to, or utilizing the funds of, another Debtor will continue to receive credit, or bear ultimate repayment responsibility, for such funds, as applicable.

REQUEST FOR WAIVER OF STAY

50. Finally, by this Motion, the Debtors seek a waiver of any stay of the effectiveness of the order approving this Motion. Pursuant to Bankruptcy Rule 6004(h), “[a]n order authorizing the use, sale, or lease of property other than cash collateral is stayed until the expiration of 14 days after entry of the order, unless the court orders otherwise.” As set forth above, the uninterrupted use of the Bank Accounts, Cash Management System and checks is essential to prevent potentially irreparable damage to the Debtors’ operations, going concern value, and ability to implement their chapter 11 strategy. Accordingly, the Debtors submit that ample cause exists to justify a waiver of the fourteen-day stay imposed by Bankruptcy Rule 6004(h), to the extent that it applies.

NOTICE

51. Notice of this Motion will be provided to: (i) the U.S. Trustee; (ii) counsel to the agent under the Debtors’ ABL Agreement; (iii) counsel to the agent under the Debtors’ Term Loan Agreement; (iv) the indenture trustee for the Debtors’ convertible debentures; (iii) counsel for the *ad hoc* group of convertible debenture holders; (iv) the holders of the forty (40) largest unsecured claims against the Debtors, on a consolidated basis; (v) the Debtors’ cash management banks; and (v) the Internal Revenue Service. Notice of this Motion and any order entered hereon will be served in accordance with Local Rule 9013-1(m). In light of the nature of the relief requested herein, the Debtors submit that no other or further notice is necessary.

CONCLUSION

WHEREFORE, the Debtors respectfully request the entry of the Proposed Order granting the relief requested herein and such other and further relief as is just and proper.

Dated: January 28, 2013
Wilmington, Delaware

YOUNG CONAWAY STARGATT & TAYLOR, LLP

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- and -

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*Proposed Counsel to the Debtors and
Debtors-in-Possession*

EXHIBIT A

Proposed Order

**UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re:

SCHOOL SPECIALTY, INC., *et al.*,

Debtors.¹

Chapter 11

Case No 12-10125 ()

Jointly Administered

Re: Docket No. ____

**ORDER (I) APPROVING CONTINUED USE OF THE DEBTORS' EXISTING
CASH MANAGEMENT SYSTEM, (II) AUTHORIZING USE OF EXISTING
BANK ACCOUNTS AND CHECKS, (III) WAIVING THE REQUIREMENTS OF
11 U.S.C. 345(b) ON AN INTERIM BASIS, AND (IV) GRANTING ADMINISTRATIVE
EXPENSE STATUS TO POSTPETITION INTERCOMPANY CLAIMS**

Upon consideration of the motion (the "Motion")² of the Debtors, pursuant to sections 105(a), 345(b), 363(c) and 503(b)(1) of the Bankruptcy Code, Bankruptcy Rule 6004 and Local Rules 2015-2(a) and (b); this Court having jurisdiction to consider the Motion pursuant to 28 U.S.C. §§ 157 and 1334 and the Amended Standing Order of Reference from the United States District Court for the District of Delaware dated as of February 29, 2012; venue of these Chapter 11 Cases and the Motion in this district being proper pursuant to 28 U.S.C. §§ 408 and 1409; this matter being a core proceeding pursuant to 28 U.S.C. § 157(b); proper and adequate notice having been given and no other or further notice being required; and a hearing having been held to consider the relief requested in the Motion; and upon the record of the hearing and all of the proceedings had before the Court; and the Court having found and determined that the

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.

² Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Motion.

relief sought in the Motion is in the best interests of the Debtors, their estates, their creditors and all other parties in interest; and that the legal and factual bases set forth in the Motion establish just cause for the relief granted herein; and after due deliberation and sufficient cause appearing therefor, it is hereby ORDERED, ADJUDGED, and DECREED that:

1. The Motion is GRANTED to the extent provided herein.
2. The Debtors are authorized and empowered, pursuant to sections 105(a), 345(b), 363(c), and 503(b)(1) of the Bankruptcy Code, to continue to maintain, operate and make transfers under their Cash Management System, and to continue all Intercompany Claims between and among the Debtors in a manner consistent with the Debtors' prepetition practices.
3. The Debtors may continue all Intercompany Transactions between and among the Debtors and non-Debtor subsidiaries in a manner consistent with the Debtors' prepetition practices.
4. The Debtors are authorized to continue to maintain the Bank Accounts with the same account numbers following the commencement of the Chapter 11 Cases.
5. The Banks are authorized and directed to continue to treat, service, and administer the Bank Accounts as accounts of the respective Debtor as a debtor-in-possession without interruption and in the usual and ordinary course and to receive, process and honor and pay any and all postpetition checks, drafts, wires, or ACH transfers drawn on the Bank Accounts by the holders or makers thereof, as the case may be.
6. The Debtors are authorized to make and implement such modifications to the Cash Management System as may be necessary or appropriate in their discretion, including, but not limited to, the establishment of new bank accounts; provided that the Debtors shall not establish any new bank accounts without the consent of the DIP Agents.

7. The Debtors are authorized, but not obligated or directed, in the reasonable exercise of their business judgment and in the ordinary course of business, to pay and honor amounts on account of the Cash Management Fees.

8. Notwithstanding anything to the contrary in any other order of this Court, the Banks (a) are authorized to accept and honor all representations from the Debtors as to which checks, drafts, wires or ACH transfers should be honored or dishonored, consistent with any order of this Court and governing law, whether such checks, drafts, wires, or ACH transfers are dated prior to, on, or subsequent to the Petition Date, and (b) have no duty to independently inquire as to whether such payments are authorized by an order of this Court.

9. The Banks shall not be liable to any party on account of (a) following the Debtors' instructions or representations as to any order of this Court, (b) the honoring of any prepetition check or item in a good faith belief that the Court has authorized such prepetition check or item to be honored, or (c) an innocent mistake made despite implementation of reasonable item handling procedures.

10. The Banks are authorized and directed to honor the Debtors' requests to open or close, as the case may be, such bank accounts or additional bank accounts effective as of the Petition Date; provided, however, that any new account that is a domestic account shall be with a bank (i) insured by the FDIC or the FSLIC and that is organized under the laws of the United States or any State therein, or (ii) in the case of accounts that may carry a balance exceeding the insurance limitations set thereby, a bank that is party to an UDA with the U.S. Trustee's office; provided, further, that the Debtors shall promptly notify the U.S. Trustee and counsel to any official committee appointed in the Chapter 11 Cases of the opening or closing of any bank account.

11. The Debtors are authorized to continue to use their preprinted checks, substantially in the form existing immediately before the Petition Date, without reference to their status as debtors-in-possession; provided, however, if the Debtors need to purchase new preprinted checks during the pendency of the Chapter 11 Cases, such checks will include a legend referring to the Debtors as "Debtors-in-Possession" or "DIP."

12. The Debtors are authorized to deposit and invest their cash and cash equivalents in the Bank Accounts consistent with their prepetition practices and the Cash Management System. The Debtors are relieved from the obligations under section 345(b) to obtain a bond from any entity with which money is deposited or maintained in the Bank Accounts, and the requirements of section 345(b) of the Bankruptcy Code or of the U.S. Trustee Guidelines are waived for a period of sixty (60) days without prejudice to the Debtors' right to seek a further waiver.

13. All Intercompany Claims arising from postpetition intercompany transfers among Debtors and among the Debtors and their non-Debtor subsidiaries shall be entitled to administrative expense priority pursuant to section 503(b)(1) of the Bankruptcy Code, to extent that the Debtors maintain current records with respect to all transfers of cash so that all transactions, including intercompany transactions, may be readily ascertained, traced, and recorded properly on applicable intercompany accounts; provided that such Intercompany Claims shall, at all times, be junior to the DIP Superpriority Claims, adequate protection claims and prepetition lender claims as described in the DIP Motion.

14. The Debtors are authorized and empowered to take all actions necessary to implement the relief granted in this Order.

15. Notwithstanding any applicability of Bankruptcy Rule 6004(h), the terms and conditions of this Order shall be immediately effective and enforceable upon its entry.

16. This Court shall retain jurisdiction with respect to all matters arising from or related to the implementation of this Order.

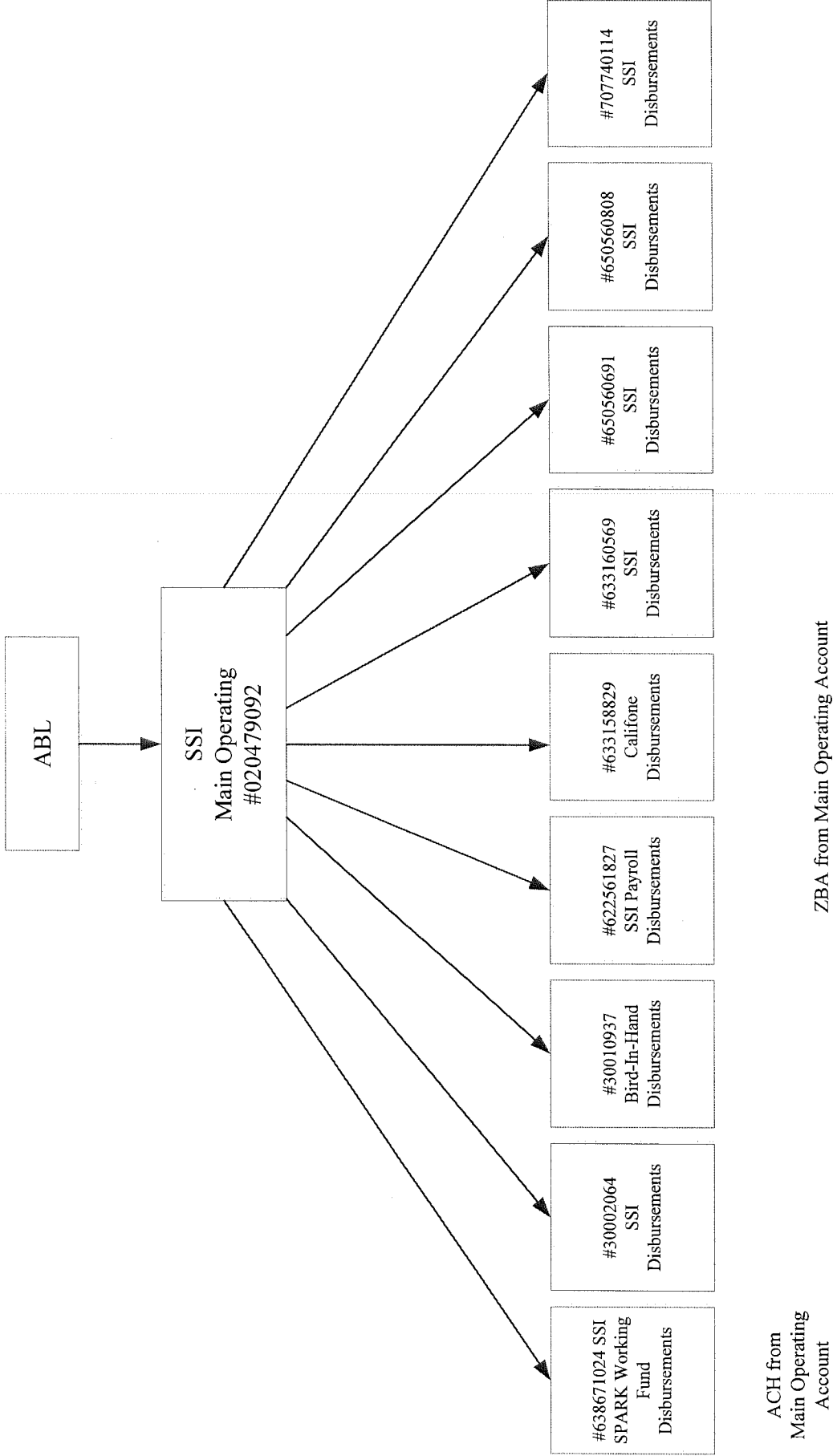
Dated: _____, 2013
Wilmington, Delaware

UNITED STATES BANKRUPTCY JUDGE

EXHIBIT B

Cash Management System

U.S. Funds Flow - Disbursements



U.S. Funds Flow - Collections

Lockbox Accounts to Concentration Account

SSI
#683106

SSI
#683107

Califone
#7027

SSI (EPS Division)
#681035

Credit Card Accounts ZBA to Concentration Account

Califone CC
#660611831

SSI CC
#020480014

SSI (EPS Division) CC
#650560816

Delta CC
#643620396

SSI CC
#707700092

Depository Accounts ZBA to Concentration Accounts

SSI
#938345964

Premier
#470056560

SSI Concentration
#468214536

Daily Wires to Wells Fargo

SSI
#707782298

Califone
#422146895

Wells Fargo
(paydown ABL)

Collateral Accounts

SSI (JPMC)
#466888737

SSI (Comerica)
#1852879814

SSI (BofA)
#1233294889

SSI (JPMC)
#3030406838

EXHIBIT C

Canadian Cash Flow

Canadian Funds Flow¹

Collections

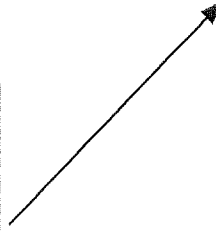
Lockbox Account

SSI CAD
#4661248103

Credit Card Account ZBA

SSI CAD CC
#4661248104

SSI CAD
Operating
#4661248101



Disbursements

SSI CAD
Operating
#4661248101



SSI CAD
Disbursements
#4661248103

Disbursement Account ZBA

¹. Note: Inactive bank accounts are not included.

EXHIBIT D

U.S. and Canadian Bank Accounts

Exhibit D
Debtors' Bank Accounts

US Accounts

<u>Owner</u>	<u>Type of Account</u>	<u>Bank</u>	<u>Account Number</u>
School Specialty, Inc.	Lockbox	JPMorgan Chase	**3106
School Specialty, Inc.	Lockbox	JPMorgan Chase	**3107
Califone International, Inc.	Lockbox	JPMorgan Chase	7027
School Specialty, Inc. (EPS)	Lockbox	JPMorgan Chase	**1035
Califone International, Inc.	Credit Card	JPMorgan Chase	****11831
School Specialty, Inc.	Credit Card	JPMorgan Chase	*****0014
School Specialty, Inc.	Credit Card	JPMorgan Chase	*****0816
Delta Education, LLC	Credit Card	JPMorgan Chase	*****0396
School Specialty, Inc.	Credit Card	JPMorgan Chase	*****0092
School Specialty, Inc.	Depository	JPMorgan Chase	*****5964
Premier Agendas, Inc.	Depository	JPMorgan Chase	*****6560
Califone International, Inc.	Depository	Wells Fargo Bank	*****8895
School Specialty, Inc.	Concentration	JPMorgan Chase	*****2298
School Specialty, Inc.	Concentration	JPMorgan Chase	*****4536
School Specialty, Inc.	Disbursement	JPMorgan Chase	*****2064
Bird in Hand Woodworks, Inc.	Disbursement	JPMorgan Chase	*****0937
School Specialty, Inc.	Disbursement	JPMorgan Chase	*****1827
Califone International, Inc.	Disbursement	JPMorgan Chase	*****8829
School Specialty, Inc.	Disbursement	JPMorgan Chase	*****0569
School Specialty, Inc.	Flex Spending	JPMorgan Chase	*****0691
School Specialty, Inc.	Disbursement	JPMorgan Chase	*****0808
School Specialty, Inc.	Disbursement	JPMorgan Chase	*****0114
School Specialty, Inc.	Working Fund	JPMorgan Chase	*****1024
School Specialty, Inc.	Operating	JPMorgan Chase	*****9092
School Specialty, Inc.	Depository-TL Collateral	JPMorgan Chase	*****8737
School Specialty, Inc.	Depository-LC Collateral	Comerica Bank	*****9814
School Specialty, Inc.	Depository-LC Collateral	Bank of America	*****4889
School Specialty, Inc.	Depository-LC Collateral	JPMorgan Chase	*****6838

Canadian Accounts

<u>Owner</u>	<u>Type of Account</u>	<u>Bank</u>	<u>Account Number</u>
School Specialty, Inc.	Lockbox and Disbursements	JPMorgan Chase	*****8103
School Specialty, Inc.	Credit Card Depository	JPMorgan Chase	*****8104
School Specialty, Inc.	Operating Account	JPMorgan Chase	*****8101