

UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:

SCHOOL SPECIALTY, INC. *et al.*,¹

Debtors.

Chapter 11

Case No. 13-10125 ()

Joint Administration Requested

**DECLARATION OF AGNES K. TANG IN SUPPORT OF
MOTION OF DEBTORS FOR ENTRY OF INTERIM AND FINAL ORDERS
(I) AUTHORIZING DEBTORS TO (A) OBTAIN POSTPETITION FINANCING
PURSUANT TO 11 U.S.C. §§ 105, 361, 362, 364(c)(1), 364(c)(3), 364(d)(1), 364(e) AND 507,
(B) UTILIZE CASH COLLATERAL PURSUANT TO 11 U.S.C. § 363, (C) GRANT
PRIMING LIENS AND SUPERPRIORITY CLAIMS TO THE DIP LENDERS,
(D) PROVIDE ADEQUATE PROTECTION TO PREPETITION SECURED PARTIES
PURSUANT TO 11 U.S.C. §§ 361, 362, 363 AND 364, AND
(E) REPAY IN FULL AMOUNTS OWED IN CONNECTION WITH THE
PREPETITION SECURED LOANS OR OTHERWISE CONVERTING THE
PREPETITION SECURED OBLIGATIONS INTO POSTPETITION SECURED
OBLIGATIONS, (II) SCHEDULING A FINAL HEARING PURSUANT TO
BANKRUPTCY RULES 4001(b) AND (c) AND (III) GRANTING RELATED RELIEF**

AGNES K. TANG, pursuant to 28 U.S.C. §1746, declares:

1. I am a Managing Director of Perella Weinberg Partners LP (“PWP”) which together with its affiliates is a global financial services firm that provides corporate advisory and asset management services. PWP is headquartered at 767 Fifth Avenue, New York, New York 10153. I submit this declaration (the “Declaration”) in support of the Debtors’ Motion for (a) entry of the Interim DIP Order (I) authorizing the Debtors to (A) obtain postpetition senior secured super-priority financing, (B) use the cash collateral of the Prepetition

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.



Secured Lenders, (C) grant priming liens, priority liens, and superpriority claims to the DIP Lenders (as defined below), (D) provide adequate protection to the Prepetition Secured Lenders, and (E) repay in full amounts owed in connection with the Prepetition ABL Credit Agreement or otherwise convert prepetition obligations into postpetition obligations; (II) scheduling a hearing to consider the relief requested in this Motion on a final basis; and (III) granting related relief; (b) entry of a final order (i) authorizing, among other things, the Debtors to repay in full amounts owed in connection with the Prepetition Term Loan Credit Agreement² and (ii) granting the relief requested in this Motion on a final basis.

2. Except as otherwise indicated, all statements in this Declaration are based on my personal experience and knowledge, my discussions with responsible management and professionals of the Debtors and/or my review of relevant documents. If called to testify, I could and would testify to each of the facts set forth herein based on such personal knowledge, discussions and/or review of documents. I am authorized to submit this Declaration on behalf of the Debtors. I am not being compensated specifically for this testimony other than payments received by PWP as a professional proposed to be retained in these chapter 11 cases.

MY BACKGROUND AND QUALIFICATIONS

3. As noted above, I am a Managing Director at PWP, and in such capacity, I have advised numerous clients in a variety of different types of distressed transactions since 2008. Prior to my employment with PWP, from July 2002 through October 2008, I held a number of positions in the Financial Restructuring Group at Houlihan Lokey Capital, Inc. (“Houlihan Lokey”). In addition, from July 1998 through December 2000, I was at Marsh and McLennan Capital, a private investment fund of Marsh and McLennan, Inc. Finally, from July

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

1996 through July 1998, I worked at Mercer Management Consulting, now known as Oliver Wyman.

4. I received a Bachelor of Arts in Economics and in Mathematics from Northwestern University and a Masters in Business Administration from The Harvard Business School. I hold Series 6 and Series 24 securities licenses.

5. The nature of my work for PWP and Houlihan Lokey over the past 10 years has been primarily focused on bankruptcy and restructuring situations, representing debtors, creditors, and investors in distressed companies. Among other things, I advise companies with respect to corporate restructurings, recapitalizations, sale transactions, obtaining credit facilities, refinancings, and negotiations with interested purchasers, credit providers, and creditors, among other constituents. I have worked on a number of restructuring transactions, representing companies, creditors and investors in both "out-of-court" transactions and Chapter 11 cases, including Hawker Beechcraft Inc., RJ O'Brien, Contech Construction Products, Inc., Houghton Mifflin Harcourt, Inc., Education Media Publishing Group, QCE Holdings, LLC, Aurora Foods, Inc., Winn-Dixie, Inc., Galey & Lord, Inc., Salton, Inc., Danka Business Systems, PLC, and Protection One, Inc., among others.

6. In connection with the above-referenced restructuring engagements, I have advised distressed companies in connection with obtaining financing, including assisting such companies in determining financing needs, identifying potential sources of financing, and negotiating the terms of such financing.

7. As a finance and restructuring professional, I closely follow developments in the financial markets and, in particular, the credit markets, and keep abreast of the terms of current financing transactions in distressed and bankruptcy situations.

PWP's QUALIFICATIONS

8. PWP is a financial services firm providing corporate advisory and asset management services to clients around the world. Today, in its London, Austin, Abu Dhabi, Beijing, San Francisco, Denver, and New York offices, PWP and its affiliates comprises 52 partners and over 400 employees recruited from a wide variety of leading financial institutions.

9. PWP professionals have extensive experience in the reorganization and restructuring of troubled companies, both out-of-court and in chapter 11 cases. PWP's professionals have advised debtors, creditors, equity constituencies, and government agencies in many complex financial reorganizations and restructurings. In particular, PWP has provided services to debtors and other constituents in a number of chapter 11 cases, including among others, *In re Hawker Beechcraft, Inc.*, Case No. 12-11873 (Bankr. S.D.N.Y. May 3, 2012); *In re AMR Corp.*, Case No. 11-15463 (SHL) (Bankr. S.D.N.Y. Mar. 26, 2012); *In re Hostess Brands, Inc.*, Case No. 12-22052 (RDD) (Bankr. S.D.N.Y. Jan. 27, 2012); *In re Catalyst Paper Corp.*, Case No. 12-10221 (PJW) (Bankr. D. Del. Jan. 17, 2012); *In re Loehmann's Holdings, Inc.*, Case No. 10-16077 (REG) (Bankr.S.D.N.Y. Dec. 15, 2010); *In re Boston Generating, LLC*, Case No. 10-14419 (SCC) (Bankr. S.D.N.Y. Oct. 20, 2010); *In re Panolam Holdings Co.*, Case No. 09-13889 (MFW) (Bankr. D.Del. Dec. 9, 2009); *In re Accuride Corp.*, Case No. 09-13449 (BLS) (Bankr. D. Del. Nov. 2, 2009); *In re Masonite Corp.*, Case No. 09-10844 (PJW) (Bankr. D. Del. April 14, 2009).

10. On or about October 29, 2012, PWP was engaged by the Debtors to provide investment banking and financial advisory services in connection with their restructuring efforts. PWP, among other advisory services, has: (a) analyzed the Debtors' current liquidity and projected cash flow; (b) assisted the Debtors in evaluating their restructuring and other strategic alternatives; (c) helped the Debtors prepare for a potential chapter 11 filing; and (d) as

part of that preparation for a possible chapter 11 filing, conducted a comprehensive search to obtain debtor-in-possession financing for the Debtors on the most competitive terms and conditions available to them.

11. Since PWP's engagement in October 2012, I, along with other members of the team at PWP, have worked closely with the Debtors' senior management team and Alvarez & Marsal ("A&M") and developed substantial knowledge regarding the Debtors' business, finances, operations and systems that allows us to provide an assessment of, and demonstrate the need for, the proposed DIP Facilities.

THE DEBTORS' NEED FOR POSTPETITION FINANCING

12. It is critical that the Debtors have access to the loans under the DIP Facilities and the use of Cash Collateral so they can continue to operate their business operations in the ordinary course to preserve and maximize the value of the Debtors' estates. As set forth in the First Day Declaration, absent access to the liquidity provided by the DIP Facilities, the Debtors do not have sufficient liquidity to maintain their business operations and will likely have to commence an immediate shut down of their operations. See First Day Declaration ¶48. The DIP budget, attached to the Interim Order as Exhibit C, is a pro forma 13-week cash flow forecast of the Debtors (the "Thirteen Week Forecast"), prepared by A&M in consultation with the Debtors and PWP. As described in the Motion, the Thirteen Week Forecast reflects the Debtors' reasonable judgment as to the cash required over the identified period to keep the Debtors' businesses operational. The Company's business is highly seasonal with the majority of sales occurring during the "back-to-school" season in May and October.³ In anticipation of the selling season, the Company begins to build inventory as early as January with peak

³ See First Day Declaration ¶29.

inventory levels occurring in June. The cash position of the Debtors after the period identified in the Thirteen Week Forecast will depend on a number of factors, including projected sales performance, access to trade credit vendor terms, and inventory purchases leading up to the “back-to-school” selling season.

13. Without access to the DIP Facilities and the use of Cash Collateral requested in the DIP Motion, the Debtors will likely have to terminate their business operations on an immediate basis to the material detriment of their creditors, customers, vendors, employees, and other parties in interest. In light of the foregoing, I believe that the Debtors require postpetition financing in addition to the use of cash collateral. As reflected in the Motion and the Thirteen Week Cash Forecast, the Debtors have an immediate need during the interim period to access (i) the amounts available under the ABL DIP Facility and (ii) at least approximately \$25,000,000 under the Bayside DIP Facility during the period from the Petition Date through the anticipated date of the entry of the Final Order approving the DIP Facilities. Upon entry of the Final Order, the Debtors will need the balance of the Bayside DIP Facility as well as continued access to full amounts available under the ABL DIP Facility, for the remainder of these Chapter 11 Cases. Based on the Debtors’ liquidity needs as described in the Thirteen Week Cash Forecast, the proposed DIP Facilities will provide the Debtors with sufficient funds during these Chapter 11 Cases to meet their obligations to vendors and customers, and to satisfy working capital and their operational needs, all of which will preserve the value of the Debtors’ estates.

THE DEBTORS’ EFFORTS TO OBTAIN POSTPETITION FINANCING

14. As set forth in the First Day Declaration, the Debtors’ management team has worked diligently in recent months to address the risks presented by a continued

deterioration of the Company's liquidity position. See First Day Declaration, ¶¶34-36. These efforts have included various strategies, including the pursuit of additional short term and more comprehensive strategic and financial solutions to the Company's liquidity situation. See First Day Declaration, ¶¶34-35.

15. To aid the Debtors' management and board of directors in these endeavors, the Debtors engaged PWP, as financial advisors, in late October 2012, and Paul, Weiss, Rifkind, Wharton & Garrison LLP, as legal advisors, in November 2012. With the assistance of PWP, during November 2012 through January 2013, the Debtors have explored multiple strategic and financing alternatives, including amendments of the Debtors' credit facilities, the sale of all or specific portions of the Company's operations (including the sale of certain business segments that were already being considered), new debt and/or new equity infusions, a debt for equity exchange, and a comprehensive restructuring of the Company's balance sheet. In connection with such efforts, PWP contacted 29 financial parties, including banks and private equity investors resulting in the Company's entry into 22 non-disclosure agreements.

16. A primary component of such efforts has been discussions with the Company's key stakeholders, including (i) the Prepetition Agents for each of the Term Loan Facility and ABL Facility, (ii) an *ad hoc* group of Convertible Noteholders (the "Convertible Noteholder Group"), and (iii) certain large equity holders. This process involved extensive negotiations between legal and financial advisors for each of these parties and the Company's advisors, as well as a number of management presentations and other meetings where members of the Company's senior management team met in-person with the ABL lenders, Bayside, members of the Convertible Noteholder Group and third parties. To facilitate these discussions,

with the assistance of PWP, the Prepetition Secured Lenders, the Convertible Noteholder Group, and certain key equity holders and third parties conducted due diligence about the Company and its business operations on a confidential basis. In addition to pursuing these potential alternatives, PWP continued to have communications with a number of third-parties in connection with obtaining postpetition financing.

17. The urgency to find an immediate comprehensive liquidity solution, including postpetition financing in the event the Company and its subsidiaries would need to commence chapter 11 cases, increased at the end of December 2012. As described in the First Day Declaration, on January 4, 2013, the Company reported that it was not in compliance with the month-end Minimum Liquidity Covenant under the ABL and Term Loan Agreements, thus triggering events of default under the ABL and Term Loan Agreements. As a result, pursuant to the terms of the Term Loan Agreement, on January 4, 2013, the Prepetition Term Loan Agent accelerated the debt and the amounts outstanding under the Term Loan Agreement immediately became due and payable.

18. On January 4, 2013, both the Prepetition ABL Lenders and Bayside entered into forbearance agreements (the "Forbearance Agreements") with respect to these events of default until the earlier of February 1, 2013 and certain other specified events. To provide the Company with sufficient liquidity during the one-month forbearance period to continue to pursue a comprehensive solution to their liquidity needs, the Forbearance Agreements, among other things, reduced the Minimum Liquidity Covenant in the ABL and Term Loan Agreements from \$20.0 million to \$3.0 million.

19. In connection with these efforts, the Company logically identified the Prepetition Secured Lenders as the most likely sources of postpetition financing that could be

obtained within the time period imposed by the Forbearance Agreements and the Company's rapidly dwindling liquidity position, particularly given the Prepetition Secured Lenders' respective liens on substantially all of the Company's assets, history with the Company, and involvement over the past several months with the Company's restructuring efforts. Indeed, as described in the Motion and the First Day Declaration the Company's assets are substantially fully encumbered. As a result, the prospect of obtaining postpetition financing from a third party lender outside of the Prepetition Lender base would have contemplated one of four difficult alternatives: (a) to find a lender willing to extend postpetition financing on an unsecured basis, (b) to find a lender willing to extend postpetition financing with priority junior to that of the Prepetition Secured Parties, (c) to obtain postpetition financing that primed the liens of the Prepetition Secured Parties without such parties' consent, or (d) arrange a refinancing of the Company's ABL and Term Loan debt.

20. Nonetheless, the Company and its advisors approached third parties to ascertain whether or not such third parties would be willing to provide postpetition financing.

21. The results of these efforts were debtor-in-possession financing proposals from Bayside, the ABL Agent, the Convertible Noteholder Group, and a third-party bank. None of these proposals contemplated postpetition financing that would provide the Debtors with sufficient liquidity to fund these Chapter 11 Cases, including on an unsecured or non-consensual priming basis or on a priority junior to that of the Prepetition Secured Parties.

22. The postpetition financing proposal from Bayside was conditioned on certain milestones, including a sale of substantially all of the Company's assets by way of a section 363 auction process, with Bayside or its affiliate serving as the stalking horse bidder. As

part of this proposal, Bayside and the ABL Lenders would provide debtor-in-possession financing to the Debtors to fund their Chapter 11 Cases.⁴

23. PWP has advised management of the Company that PWP believes that under the circumstances, including the Company's liquidity position, the upcoming deadline of February 1, 2013, and the results of recent conversations with a variety of stakeholders and other parties, the DIP Facilities provided by Bayside and the ABL DIP Lenders are the best options available to the Debtors to provide them with sufficient liquidity to fund the Chapter 11 Cases. The Company determined that there were no viable alternatives. The Company also determined that the other proposals received, including from the Convertible Noteholder Group and the third-party bank, were inferior in comparison to the postpetition financing proposals of Bayside and ABL Lenders, including amongst other things, because they did not provide sufficient liquidity to fund the Chapter 11 Cases, and thus, the Company concluded there were no viable alternatives to the Bayside and ABL DIP Facilities.

24. The DIP Facilities are premised on a consensual priming of the ABL Lenders' liens and the Term Loan Lenders' liens on the ABL Priority Collateral and the Term Loan Priority Collateral, respectively. In addition to providing the Company with the necessary liquidity, the DIP Facilities avoid the need for a lengthy and uncertain priming dispute. As such, they represent the best postpetition financing option available to the Company. As a result, the DIP Facilities proposed by Bayside and the Prepetition ABL Agent provide for debtor-in-possession financing on more favorable terms than other offers received by the Company.

⁴ The Convertible Noteholder Group provided its proposal for postpetition financing under Rule 408 of the Federal Rules of Evidence and the only other proposal was provided on a confidential basis.

25. The interest rates of the DIP Facilities are the same or better than the current interest rates in effect under the Prepetition Loan Agreements. Specifically, the interest rate under the Bayside DIP Facility is the same as the prepetition default interest rate pursuant to the Prepetition Term Loan Agreement, and the interest rate under the ABL DIP Facility is 3.75% as opposed to the pre-petition default rate of 4.75% under the ABL Agreement. In addition, with respect to the ABL DIP Facility, the “new money” availability under the borrowing base to the Debtors is expected to be in excess of approximately \$15,000,000 through the anticipated closing date of the contemplated sale of the Debtors’ assets.

26. Moreover, the following factors all weigh in favor of the DIP Facilities offered by Bayside and the Prepetition ABL Agent: (i) the Company’s familiarity and prior experience with Bayside and the Prepetition ABL Agent, (ii) the execution risk, (ii) certainty of closing, and (iii) likelihood of flexibility and supportiveness in the future.

27. Based on my experience and discussions with various lenders and financing providers, I do not believe the Debtors could have obtained any viable postpetition financing facilities of the type and magnitude required in these cases on an unsecured basis or on any other basis than the terms of the DIP Facilities.

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct.

Dated: New York, New York
January 28, 2013

/s/ Anges Tang

AGNES TANG