

UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF DELAWARE

In re:

SCHOOL SPECIALTY, INC. *et al.*,<sup>1</sup>

Debtors.

Chapter 11

Case No. 13-10125 (PJW)

Joint Administration Requested

Objection Deadline: N/A

Hearing Date: N/A

**DEBTORS' MOTION FOR AN ORDER SHORTENING THE TIME FOR NOTICE OF THE DEBTORS' MOTION FOR ENTRY OF (A) AN ORDER UNDER 11 U.S.C. §§ 105(a), 363 AND 365, AND FED. R. BANKR. P. 2002, 6004, 6006 AND 9014: (I) SCHEDULING HEARING ON APPROVAL OF ASSET SALE, ASSUMPTION AND ASSIGNMENT OF EXECUTORY CONTRACTS TO BAYSIDE SCHOOL SPECIALTY, LLC (OR ITS ASSIGNEE) AND ASSUMPTION OF CERTAIN LIABILITIES, AND (II) APPROVING BIDDING PROCEDURES, BREAKUP FEE AND EXPENSE REIMBURSEMENT, AND FORM AND MANNER OF NOTICE THEREOF; AND (B) AN ORDER (I) APPROVING THE ASSET PURCHASE AGREEMENT; (II) AUTHORIZING THE SALE OF ALL OR SUBSTANTIALLY ALL OF THE DEBTORS' ASSETS FREE AND CLEAR OF ALL LIENS, CLAIMS, INTERESTS OR ENCUMBRANCES; (III) AUTHORIZING THE ASSUMPTION AND ASSIGNMENT OF CERTAIN EXECUTORY CONTRACTS AND UNEXPIRED LEASES; AND (IV) GRANTING RELATED RELIEF**

School Specialty, Inc. ("School Specialty") and its affiliated debtors and debtors-in-possession (each a "Debtor" and collectively the "Debtors") hereby move (the "Motion to Shorten")<sup>2</sup> pursuant to Rules 2002 and 9006 of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules") and Rules 2002-1(b) and 9006-1(e) of the Local Rules of Bankruptcy Practice and Procedure of the United States Bankruptcy Court for the District of Delaware (the

<sup>1</sup> 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.

<sup>2</sup> Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the Asset Purchase Agreement, or the Bidding Procedures, as applicable.



“Local Rules”), for the entry of an order, substantially in the form attached hereto as Exhibit A, (i) shortening the applicable notice period for the hearing to consider the *Debtors’ Motion for Entry of (A) an Order Under 11 U.S.C. §§ 105(a), 363 and 365, and Fed. R. Bankr. P. 2002, 6004, 6006 and 9014: (I) Scheduling Hearing on Approval of Asset Sale, Assumption and Assignment of Executory Contracts to Bayside School Specialty, LLC (or its Assignee) and Assumption of Certain Liabilities, and (II) Approving Bidding Procedures, Breakup Fee and Expense Reimbursement, and Form and Manner of Notice Thereof; and (B) an Order (I) Approving the Asset Purchase Agreement; (II) Authorizing the Sale of All or Substantially All of the Debtors’ Assets Free and Clear of All Liens, Claims, Interests or Encumbrances; (III) Authorizing the Assumption and Assignment of Certain Executory Contracts and Unexpired Leases; and (IV) Granting Related Relief* (the “Bidding Procedures Motion”), which the Debtors are filing contemporaneously herewith; (ii) permitting parties to file objections to the Bidding Procedures Motion, if any, at 12:00 p.m. (prevailing Eastern Time) on the date that falls 2 days prior to the hearing on the Bidding Procedures Motion; and (iii) scheduling the Bidding Procedures Motion to be heard on or before February 8, 2013 at a time that is convenient for the Court (the “Bidding Procedures Hearing”). In support of this Motion to Shorten, the Debtors respectfully represent as follows:

**Relief Requested**

1. The Debtors request that the Court (a) shorten the period for notice of and schedule a hearing to consider the proposed bidding and sale procedures set forth in the Bidding Procedures Motion (the “Bidding Procedures”) for a date that is on or before February 8, 2013 at a time that is convenient for the Court, and (b) set an objection deadline of 12:00 p.m. (prevailing

Eastern Time) on the date that falls 2 days prior to the Bidding Procedures Hearing for any objections to the Bidding Procedures.

**Basis for Relief**

2. Local Rule 9006-1(c)(i) requires that all motion papers be filed and served at least fourteen (14) days prior to the hearing date scheduled for such motion, and seventeen (17) days prior to the hearing if notice is given by mail, unless the Bankruptcy Rules state otherwise. Bankruptcy Rule 2002 requires twenty-one (21) days' notice prior to the hearing on a motion seeking the "proposed use, sale, or lease of property of the estate other than in the ordinary course of business . . . ." Fed. R. Bankr. P. 2002(a)(2). Further, pursuant to Local Rule 9006-1(e), such period may be shortened by order of the Court upon written motion specifying the exigencies supporting shortened notice. See also Fed. R. Bankr. P. 2002(a)(2) (providing that the court for cause shown may shorten time or direct another method of providing notice).

3. For the reasons set forth herein, the Debtors believe that cause exists for consideration of the Bidding Procedures Motion on an expedited basis.

4. School Specialty is the largest supplier of educational products and equipment to the pre-kindergarten through twelfth grade market in the United States. School Specialty offers more than 75,000 different items, including basic school supplies, furniture, and proprietary branded products such as agendas and curriculum programs, for sale to public school districts, individual private and parochial schools, educators and individual customers. School Specialty believes that, in fiscal year 2012, it supplied approximately 70% of the estimated 130,000 schools in the United States, reaching a majority of the 3.8 million teachers at those schools. School Specialty maintains their corporate headquarters in Greenville, Wisconsin, and leases or owns a total of 15 facilities throughout the country. As of the date hereof (the "Petition

Date”), the Debtors employed approximately 2,000 employees, including approximately 300 seasonal employees.

5. 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 government. Faced with diminishing funding, school districts have been forced to take dramatic steps to reduce spending. This has caused a material and ongoing reduction in the overall size of the school-supply market in which the Debtors operate. Consequently, the Debtors have experienced a dramatic downturn in their financial performance.

6. As a result of this downturn and increasing pressure on their liquidity position, on January 4, 2013, the Debtors reported that they were not in compliance with the year-end \$20.0 million minimum liquidity covenant (the “Minimum Liquidity Covenant”) under both their revolving senior secured asset-based credit facility agreement (as amended, modified, and/or restated from time to time, the “Prepetition ABL Agreement”) between School Specialty and certain of its subsidiaries, as borrowers, Wells Fargo Capital Finance, LLC, as administrative agent, and certain financial institutions, as lenders (the “ABL Lenders”) and their term loan agreement (as amended, modified, and/or restated from time to time, the “Prepetition Term Loan Agreement,” and together with the Prepetition ABL Agreement, the “Prepetition Loan Agreements”) among School Specialty and certain of its subsidiaries, as borrowers, and Bayside Finance, LLC, as administrative agent, collateral agent and lender (“Bayside”). The Debtors’ failure to satisfy the Minimum Liquidity Covenant triggered events of default under the Prepetition Loan Agreements.

7. On January 4, 2013, Bayside exercised its right to accelerate the debt and declare the amounts outstanding under the Prepetition Term Loan Agreement immediately due

and payable. However, pursuant to negotiated forbearance agreements dated as January 4, 2013 (the “Forbearance Agreements”), both Bayside and the ABL Lenders agreed to forebear from exercising their rights with respect to the Debtors’ breach of the Minimum Liquidity Covenant until the earlier of February 1, 2013 and certain specified events.

8. The Forbearance Agreements reduced the Minimum Liquidity Covenant in the Prepetition Loan Agreements from \$20.0 million to \$3.0 million. In exchange, the Forbearance Agreements required that the Debtors, among other things, engage and appoint a Chief Restructuring Officer (“CRO”). The Debtors selected Thomas E. Hill from Alvarez & Marsal North America, LLC to serve as the Debtors’ CRO.

9. After careful review of strategic alternatives and extensive, good faith, and arm’s-length negotiations with Bayside and the ABL Lenders regarding a consensual path forward premised upon a long-term solution to the Debtors’ capital structure and liquidity challenges, the Debtors, in consultation with the CRO and their legal and financial advisors, determined that an orderly sale of the Debtors’ assets would likely provide the most effective and efficient means to maximize a return for the Debtors, their estates, and all parties in interest.

10. On the Petition Date, each of the Debtors filed a petition with the Court under chapter 11 of the Bankruptcy Code to permit them to effectuate a sale of their assets to the Purchaser. Prior to the Petition Date, the Debtors and their advisors explored multiple strategic alternatives, including the sale of all or specific portions of the Debtors’ operations, a new debt or equity infusion, and a comprehensive restructuring of the Debtors’ balance sheet. To assist the Debtors’ management and board of directors in their evaluation of these alternatives, the Debtors engaged Perella Weinberg Partners (“Perella Weinberg”) as financial advisors in late October 2012. In connection with the parties’ negotiations of the Forbearance Agreements, the

parties also engaged in extensive negotiations regarding a possible sale of the Debtors' assets. With the help of Perella Weinberg, the Debtors began to explore the sale of all or specific portions of the Debtors' operations, and developed a list of parties who they believed might potentially be interested in a purchase of the Debtors' assets and who the Debtors reasonably believed would have the financial resources to consummate a sale. During the course of the Debtors' negotiations of the Forbearance Agreements, however, it became clear that a sale of the Debtors' assets to the Purchaser would maximize the value of the Debtors' estates.

11. Specifically, Bayside, the Debtors' prepetition term loan lender, indicated an interest in acquiring substantially all of the Debtors' assets through a credit bid of its secured debt under the Prepetition Term Loan Agreement. To facilitate an orderly sale process, Bayside also agreed to participate in funding the Debtors' postpetition financing needs and worked with the agent under the Prepetition ABL Agreement regarding the Debtors' proposed senior secured super-priority debtor-in-possession credit facilities (the "DIP Facilities").

12. To ensure the Debtors receive the highest or best offer for the sale of their assets in their chapter 11 cases, once the bidding and auction procedures are approved by the Court, the Debtors, together with Perella Weinberg, will launch a marketing process and contact a wide range of potential strategic investors and financial investors, including existing stakeholders, that might be interested in purchasing some or all of the Debtors' assets. To the extent the Debtors receive competitive offers, based on the qualification criteria described below, the Debtors intend to utilize section 363 of the Bankruptcy Code to host an auction to determine the highest or best bid for the Debtors' assets. The primary purpose of the sale process will be to provide for a sale of substantially all of the Debtors' assets and operations as a going concern to the party that submits the highest or best offer in accordance with the Bidding Procedures.

13. The Debtors have engaged in extensive, good faith and arm's-length negotiations with the Purchaser regarding the terms of the Asset Purchase Agreement. These negotiations culminated in the execution of the Asset Purchase Agreement with the Purchaser on January 28, 2013. The Debtors believe that, subject to the receipt of higher or better proposals through the Bidding Procedures, the Asset Purchase Agreement represents the best alternative currently available to the Debtors.

14. The Asset Purchase Agreement may be terminated by the Purchaser if the Bidding Procedures Order is not entered by February 8, 2013, if the auction has not commenced by March 24, 2013, if the Court has not entered the Sale Order by March 27, 2013, and if the Closing has not occurred by April 11, 2013. Expedited consideration of the Bidding Procedures Motion is essential to comply with the milestones set forth in the Asset Purchase Agreement. The failure to meet such milestones could jeopardize the Debtors' sale efforts, to the detriment of the Debtors' creditors and stakeholders. Further, the Debtors have served the Bidding Procedures Motion, as well as this Motion to Shorten, on the Notice Parties (as defined below) by overnight mail, thereby providing sufficient notice for parties-in-interest to receive, and reply if applicable, to the Bidding Procedures Motion. Accordingly, the Debtors believe that consideration of the Bidding Procedures Motion on an expedited basis is justified, in the best interests of the Debtors' estates, creditors and stakeholders and does not prejudice the parties-in-interest.

15. Therefore, the Debtors respectfully request that (i) the Bidding Procedures Motion be scheduled for hearing on or before February 8, 2013 at a time that is convenient for the Court, and (ii) objections or responses to the relief requested in the Bid Procedures Motion be filed and served on the undersigned counsel for the Debtors by 12:00 p.m. (prevailing Eastern

Time) on the date that falls 2 days prior to the Bidding Procedures Hearing, unless such time is extended by the Debtors.

**NOTICE**

16. Notice of this Motion to Shorten has been given to the following parties or, in lieu thereof, to their counsel, if known: (a) the U.S. Trustee; (b) counsel to the agent under the Debtors' ABL Agreement; (c) counsel to the agent under the Debtors' Term Loan Agreement; (d) counsel to the agent under the Bayside DIP Facility; (e) counsel to the agent under the Wells DIP Facility; (f) the indenture trustee for the Debtors' convertible debentures; (g) counsel for the ad hoc group of convertible debenture holders; (h) the holders of the forty (40) largest unsecured claims against the Debtors, on a consolidated basis; (i) any entity known or reasonably believed to have asserted a security interest in or lien against any of the Acquired Assets; (j) any entity that has expressed a bona fide interest in acquiring the Acquired Assets; (k) the Internal Revenue Service; and (l) the United States Department of Justice ((a)-(l) collectively, the "Notice Parties"). Following the first day hearing in these cases, the Debtors will serve the order approving the Motion to Shorten, if granted, on those persons who have requested notice pursuant to Rule 2002 of the Federal Rules of Bankruptcy Procedure. The Debtors submit that, in light of the nature of the relief requested, no other or further notice need be given.

**NO PRIOR REQUEST**

17. No previous request for the relief sought herein has been made to this or any other court.



**CONCLUSION**

WHEREFORE, the Debtors respectfully request that the Court enter an order, substantially in the form attached hereto as Exhibit A, (i) approving the shortened notice period requested herein and the form, manner and sufficiency of notice of Bidding Procedures Motion; (ii) permitting parties to file objections to the Bidding Procedures Motion, if any, on or before 12:00 p.m. (prevailing Eastern Time) on the day that falls 2 days prior to the Bidding Procedures Hearing; (iii) granting the Debtors' request to schedule the Bidding Procedures Motion for a hearing on or before February 8, 2013 at a time that is convenient for the Court; and (iv) granting the Debtors such other and further relief as the Court deems just and proper.

Dated: January 28, 2013  
Wilmington, Delaware

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**EXHIBIT A**

**Proposed Order**

UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF DELAWARE

In re:

SCHOOL SPECIALTY, INC. *et al.*,<sup>1</sup>  
Debtors.

Chapter 11

Case No. 13-10125 (PJW)

Joint Administration Requested

Re: Docket No. \_\_\_\_

**ORDER SHORTENING THE TIME FOR NOTICE OF THE DEBTORS' MOTION FOR ENTRY OF (A) AN ORDER UNDER 11 U.S.C. §§ 105(a), 363 AND 365, AND FED. R. BANKR. P. 2002, 6004, 6006 AND 9014: (I) SCHEDULING HEARING ON APPROVAL OF ASSET SALE, ASSUMPTION AND ASSIGNMENT OF EXECUTORY CONTRACTS TO BAYSIDE SCHOOL SPECIALTY, LLC (OR ITS ASSIGNEE) AND ASSUMPTION OF CERTAIN LIABILITIES, AND (II) APPROVING BIDDING PROCEDURES, BREAKUP FEE AND EXPENSE REIMBURSEMENT, AND FORM AND MANNER OF NOTICE THEREOF; AND (B) AN ORDER (I) APPROVING THE ASSET PURCHASE AGREEMENT; (II) AUTHORIZING THE SALE OF ALL OR SUBSTANTIALLY ALL OF THE DEBTORS' ASSETS FREE AND CLEAR OF ALL LIENS, CLAIMS, INTERESTS OR ENCUMBRANCES; (III) AUTHORIZING THE ASSUMPTION AND ASSIGNMENT OF CERTAIN EXECUTORY CONTRACTS AND UNEXPIRED LEASES; AND (IV) GRANTING RELATED RELIEF**

Upon the motion (the "Motion to Shorten")<sup>2</sup> of School Specialty, Inc. ("School Specialty") and its affiliated debtors and debtors-in-possession (each a "Debtor" and collectively the "Debtors") for entry of an order shortening notice pursuant to Rules 2002 and 9006 of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules") and Rules 2002-1(b) and 9006-1(e) of the Local Rules of Bankruptcy Practice and Procedure of the United States

<sup>1</sup> 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.

<sup>2</sup> Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the Motion to Shorten.

Bankruptcy Court for the District of Delaware (the "Local Rules"), with respect to a hearing on the Debtors' Motion for Entry of (A) an Order Under 11 U.S.C. §§ 105(a), 363 and 365, and Fed. R. Bankr. P. 2002, 6004, 6006 and 9014: (I) Scheduling Hearing on Approval of Asset Sale, Assumption and Assignment of Executory Contracts to Bayside School Specialty, LLC (or its Assignee) and Assumption of Certain Liabilities, and (II) Approving Bidding Procedures, Breakup Fee and Expense Reimbursement, and Form and Manner of Notice Thereof; and (B) an Order (I) Approving the Asset Purchase Agreement; (II) Authorizing the Sale of All or Substantially All of the Debtors' Assets Free and Clear of All Liens, Claims, Interests or Encumbrances; (III) Authorizing the Assumption and Assignment of Certain Executory Contracts and Unexpired Leases; and (IV) Granting Related Relief (the "Bidding Procedures Motion"); and it appearing that the relief requested in the Motion to Shorten is in the best interests of the Debtors' estates, creditors and other parties in interest; and notice of the Motion to Shorten being appropriate under the particular circumstances and no other or further notice need be given; and after due deliberation and sufficient cause appearing therefore,

IT IS HEREBY ORDERED that:

1. The Motion to Shorten is granted as set forth herein.
2. Parties shall file and serve objections to the Bidding Procedures Motion, if any, on or before \_\_\_\_\_, 2013 at \_\_:\_\_.m. (prevailing Eastern Time).
3. A hearing with respect to the Bidding Procedures Motion and any objections thereto shall be held on \_\_\_\_\_, 2013 at \_\_:\_\_.m. (prevailing Eastern Time).

4. This Court shall retain jurisdiction over any and all matters arising from or related to the implementation or interpretation of this Order.

Dated: January \_\_\_\_, 2013  
Wilmington, Delaware

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UNITED STATES BANKRUPTCY JUDGE