

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

In re:

SCHOOL SPECIALTY, INC., *et al.*,¹

Debtors.

Chapter 11

Case No. 13-10125 (KJC)

(Jointly Administered)

Related to Docket Nos. 12 and 59

**SUPPLEMENTAL OBJECTION OF THE AD HOC COMMITTEE AND JOINDER
TO THE STEERING COMMITTEE'S OBJECTION TO THE DEBTORS' MOTION
FOR ENTRY OF A FINAL ORDER TO OBTAIN POSTPETITION FINANCING**

The ad hoc committee of holders (collectively, the “**Ad Hoc Committee**”) of 3.75% Convertible Subordinated Notes Due 2026 (the “**Convertible Notes**”), issued pursuant to that certain indenture by and between School Specialty, Inc. and the Bank of New York Mellon Trust Company, N.A., as trustee, dated as of March 1, 2011 (as amended, modified, waived or supplemented through the date hereof) hereby files this supplemental objection and joinder (the “**Supplemental Objection**”) to the Steering Committee’s² objection to the *Motion of Debtors for Entry of Interim and Final Orders (I) Authorizing Debtors (A) to Obtain Postpetition Financing Pursuant to 11 U.S.C. §§ 105, 361, 362, 364(c)(1), 364(c)(2), 364(c)(3), 364(d)(1), 364(e) and*

¹ The Debtors in these chapter 11 cases (the “**Chapter 11 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 such terms in the *Objection of the Steering Committee of Convertible Noteholders of School Specialty, Inc. to Debtors’ Motion of Debtors’ for Entry of Interim and Final Orders (I) Authorizing Debtors (A) to Obtain Postpetition Financing Pursuant to 11 U.S.C. §§ 105, 361, 362, 364(c)(1), 364(c)(2), 364(c)(3), 364(d)(1), 364(e) and 507 and (B) to Utilize Cash Collateral Pursuant to 11 U.S.C. § 363, (C) to Grant Priming Liens and Superpriority Claims to the DIP Lenders, (D) to Provide Adequate Protection to Prepetition Secured Parties Pursuant to 11 U.S.C. §§ 361, 362, 363 and 364, and (E) to Repay in Full Amounts Owed in Connection with the Prepetition Secured Loans or Otherwise Converting the Prepetition Secured Obligation into Postpetition Secured Obligations; (II) Scheduling Final Hearing Pursuant to Bankruptcy Rules 4001(a) and (c); and (III) Granting Related Relief* [Docket No. 59] (the “**Steering Committee Objection**”).



507 and (B) to Utilize Cash Collateral Pursuant to 11 U.S.C. § 363, (C) to Grant Priming Liens and Superpriority Claims to the DIP Lenders, (D) to Provide Adequate Protection to Prepetition Secured Parties Pursuant to 11 U.S.C. §§ 361, 362, 363 and 364, and (E) to Repay in Full Amounts Owed in Connection with the Prepetition Secured Loans or Otherwise Converting the Prepetition Secured Obligation into Postpetition Secured Obligations; (II) Scheduling Final Hearing Pursuant to Bankruptcy Rules 4001(a) and (c); and (III) Granting Related Relief [Docket No. 12] (the “**DIP Motion**”). In support this Supplemental Objection, the Ad Hoc Committee incorporates by reference the Steering Committee Objection which is adopted herein as if set forth at length,³ and respectfully represents as follows:

PRELIMINARY STATEMENT

1. As this Court is well aware, the proposed debtor-in-possession loan (the “**Bayside DIP Facility**”) offered by the Debtors’ prepetition secured lender, Bayside Finance, LLC (together with its affiliates, “**Bayside**”), if approved on a final basis, would serve as a roadmap for Bayside to capture significant upside enterprise value of the Debtors for itself. That value should rightfully flow to the Debtors’ unsecured creditors absent a short-term liquidity crunch caused, in part, by Bayside’s precipitous prepetition actions. The Debtors’ own financial metrics support this conclusion, as all financial indicators and analyses put forth thus far show that there exists substantial enterprise value above and beyond the Debtors’ secured debt.

2. Regardless of how they came to be in this situation, the Debtors cannot survive and distribute value to unsecured creditors absent adequate postpetition financing. In response, the Ad Hoc Committee has worked tirelessly with the Debtors and the Creditors’ Committee over the last week to develop a superior alternative to the Bayside DIP Facility aimed at

³ Pursuant to this Supplemental Objection, the Ad Hoc Committee is substituting for the Steering Committee as the objecting party under the Steering Committee Objection.

maximizing value for all of the Debtors' constituencies. Assuming that the Debtors' liquidity forecast is acceptable to the Ad Hoc Committee, these efforts will hopefully culminate in the Ad Hoc Committee providing the Debtors with a binding commitment for a new debtor-in-possession loan to refinance the Bayside DIP Facility, repay Bayside's prepetition term loan and escrow an amount equal to the Make-Whole Payment allegedly due plus disputed default interest to be distributed pursuant to a final court order determining Bayside's entitlement, if any, to the amounts (the "**Ad Hoc DIP Commitment**"). Once the pressure that Bayside is exerting on the Debtors is removed, the Ad Hoc Committee, the Creditors' Committee and the Debtors can run a controlled, value-maximizing dual-track process comprised of a marketing effort and plan negotiations.

3. As set forth in this Supplemental Objection, the Ad Hoc DIP Commitment is superior to the Bayside DIP Facility in every respect – it will provide the Debtors with certainty of process, a lower cost of capital, a longer runway and enhanced flexibility. Moreover, the Ad Hoc DIP Commitment also restores the Debtors' control over the Chapter 11 Cases while providing unsecured creditors the ability to control more of their own destiny – one that would almost certainly end in zero recovery if Bayside controls the process.

BACKGROUND

4. Prior to the commencement of the Chapter 11 Cases, the Steering Committee retained Baker & McKenzie LLP as counsel, and Blackstone Advisory Partners L.P. as financial advisor, and delivered to the Debtors a commitment to provide \$50 million of new capital for a debtor-in-possession loan to be secured on a junior third lien basis, and fully convertible into equity on the effective date of a plan of reorganization (the "**Junior DIP Facility**").

5. The Debtors apparently did not select the Junior DIP Facility because the Bayside DIP Facility—although onerous and oppressive to the Debtors' reorganization efforts—offered

the Debtors certainty over process. Accordingly, on January 28, 2013 (the “**Petition Date**”), the Debtors filed the DIP Motion pursuant to which they sought approval of the Bayside DIP Facility, as well as approval of an up to \$175 million senior revolving asset-based working capital DIP financing facility (the “**ABL DIP Facility**”). Both the Bayside DIP Facility and the ABL DIP Facility contain certain restrictive milestones (collectively, the “**Milestones**”). Failure to comply with any of these Milestones will result in a default under the respective credit documents.

6. On January 29, 2013, the Steering Committee filed the Steering Committee Objection pursuant to which it argued that the Debtors were unable to satisfy their burden of establishing that the Bayside DIP Facility was fair and reasonable and that better financing alternatives were unavailable. In support of its argument, the Steering Committee asserted, among other things, that the Junior DIP Facility would provide the Debtors with the same liquidity, but at a lower cost of capital, and also allow the Debtors to maximize the value of their estates for the benefit of all creditors. Moreover, the Steering Committee alleged that the Bayside DIP Facility imposed an artificial timeline for a sale of the Debtors’ assets without the benefit of either a meaningful sale process or an opportunity for any stakeholder to propose an alternative plan of reorganization that would satisfy Bayside’s prepetition claim and preserve value for junior creditors.

7. On January 31, 2013, the Court entered an order approving the DIP Motion on an interim basis [Docket No. 86] (the “**Interim Order**”), and set a final hearing on the relief requested for February 25, 2013 (the “**Final Hearing**”).

8. On or about February 10, 2013, holders representing almost 95% in face amount of the Convertible Notes began exploring whether there was interest among them to advance a

larger, better-structured debtor-in-possession loan proposal to the Debtors. The Ad Hoc Committee was then constituted and retained Stroock & Stroock & Lavan LLP (“**Stroock**”) as counsel to represent them in the Chapter 11 Cases. Thereafter, on February 12, 2013, the Ad Hoc Committee sent a draft term sheet proposal for alternative debtor-in-possession financing (the “**Ad Hoc DIP Proposal**”) to the Debtors and the Creditors’ Committee. A fully executed copy of Ad Hoc DIP Proposal was then delivered to the Debtors and the Creditors’ Committee on February 14, 2013, and to the Court and other parties-in-interest on February 15, 2013. A copy of the fully executed Ad Hoc DIP Proposal is attached hereto as **Exhibit A**.

9. Assuming that the Debtors can provide the Ad Hoc Committee with comfort that their cash needs are being managed appropriately, and that the amount to be committed suffices to administer a longer, more value-enhancing process, it is anticipated that the Ad Hoc Committee will deliver the Ad Hoc DIP Commitment to the Debtors no later than February 20, 2013.

SUPPLEMENTAL OBJECTION

10. The Ad Hoc Committee stands ready, willing and able to provide the Debtors with sufficient liquidity to fund the Chapter 11 Cases, at a lower cost of capital, and with terms that are *fundamentally more fair* on both economics and process than the Bayside DIP Facility. Moreover, the Ad Hoc DIP Commitment allows the holders of the Convertible Notes to have more control over their own destiny in the Chapter 11 Cases through either a sale or restructuring process, and does not deprive unsecured creditors of the material recovery to which they are entitled (which would be the outcome if the Bayside DIP Facility were to remain in place). The Ad Hoc DIP Commitment will also offer the Debtors flexibility to effectively run their chapter

11 process – something which the Debtors would otherwise be prevented from doing should the Bayside DIP Facility be approved on a final basis.

11. The Ad Hoc DIP Commitment contains numerous terms⁴ that are more favorable to the Debtors and their stakeholders. Among other features, the Ad Hoc DIP Commitment:

- provides the Debtors with the same \$50 million of new money capital that they would receive under the Bayside DIP Facility;
- provides the Debtors with a longer runway and enhanced flexibility by allowing them to manage a dual-track plan of reorganization and sale process in order to determine the most value-accretive path for their creditors;
- provides the Debtors with a lower cost of capital by eliminating the closing fee and unused line fee, and reducing the administrative agency fee by \$100,000;
- reduces the interest rate by 400 basis points and the default interest rate by 100 basis points; and
- provides for Bayside to receive payment in full, in cash, for all of its pre- and postpetition debt (including the establishment of an escrow fund in the amount of Bayside's disputed Make-Whole Payment and default interest).

12. Accordingly, now that a superior alternative to the Bayside DIP Facility will imminently be on the table, there is no legitimate reason why the Debtors should relinquish control of the reorganization process to Bayside and rush to sell their assets at a fire-sale which will almost certainly extinguish junior creditor interests. Bankruptcy courts do not allow DIP lenders such as Bayside to propose financing terms that have the effect of converting “the bankruptcy process from one designed to benefit all creditors to one designed for the unwarranted benefit of the post-petition lender.” *In re Berry Good, LLC*, 400 B.R. 741, 747 (Bankr. D. Ariz. 2008). That is exactly what will happen if the DIP Motion is approved on a

⁴ Attached as **Exhibit B** to this Supplemental Objection is a comparison chart of the general economic terms of Bayside DIP Facility and the Ad Hoc DIP Commitment.

final basis; the fate of the Debtors will be sealed, and they can close up shop and turn the keys over to Bayside because a one month sale process will almost certainly be nonproductive.

A. The Debtors' Value Significantly Exceeds the Secured Debt

13. As has been discussed at length thus far in the courtroom and in the various pleadings filed with respect to the DIP Motion and the bidding procedures, the Debtors' enterprise value is well in excess of their secured debt (even when factoring in Bayside's entitlement to the disputed Make-Whole Payment) and clearly places their unsecured creditors in the money. In fact, the Debtors' own EBITDA projections and valuation multiples support this conclusion.⁵ See January 30, 2013 Hr'g Tr., 112:6-18, appended to *Req. for Adjournment and Objection of the Official Committee of Unsecured Creditors to Debtors' Mot. Establishing Bid Procedures* (the "**UCC Objection**") as Ex. A, Tab G., Feb. 13, 2013, ECF No. 177; see also *Socrates Financial Model*, dated January 19, 2013, at 2, appended to UCC Objection as Ex. A, Tab E.

14. The financial advisor to the Creditors' Committee also concurs, finding that the Debtors' projections and valuation multiples make it "clear that the Debtors' value significantly exceeds the [Debtors' secured debt] and presents viable restructuring alternatives, which would not be realized through the sale to Bayside." See *Decl. of Nicholas P. Leone in Supp. of Req. for Adjournment and Objection of the Official Committee of Unsecured Creditors to Debtors' Mot. Establishing Bid Procedures* (the "**Leone Decl.**") ¶¶ 24-26, appended to UCC Objection as Ex. A.

⁵ Projected EBITDA in FY2013 in \$46.4 million. Using the Debtors' valuation multiples of 4.5x to 6.0x, valuation ranges between approximately \$209 million and \$278.5 million, far in excess of the pre- and postpetition secured debt of the Debtors.

15. For these reasons, the Bayside DIP Facility undoubtedly serves only as a means to an end for Bayside to take this significant upside value by forcing a sale of the Debtors on a commercially unreasonable timeline.

B. The Milestones are Artificial and Serve Only to Benefit Bayside

16. Simply stated, the process embedded in the Bayside DIP Facility strips away the Debtors' ability to manage their own restructuring process by imposing mandatory Milestones with which the Debtors must comply or otherwise risk a default. The Milestones effectively lock the Debtors into a course of action that will eliminate any ability to restructure through other value-maximizing alternatives or to generate real bids of any value, as third-party bidders cannot be expected to complete diligence, arrange financing and negotiate an asset purchase agreement in less than a month with a business of this size.

17. Indeed, the Milestones are completely arbitrary and serve no legitimate purpose other than to deliver the businesses to Bayside. For example, the Bayside DIP Facility requires that: (i) qualified bids for the Debtors' assets must be submitted by March 19, 2013; (ii) the Debtors must commence the auction by March 25, 2013 (where Bayside unsurprisingly will serve as stalking horse bidder); (iii) a sale order must be entered by the Court on March 27, 2013; and (iv) the sale must close by April 11, 2013. *See Bayside DIP Credit Agreement*, Schedule 5.18, appended to DIP Motion as Ex. B. However, there is no justifiable reason for this sprint to the finish. The Debtors' financial forecasts indicate that liquidity runs beyond the mandated closing date of April 11th. *See Budget*, appended to DIP Motion as Ex. G. Likewise, the Debtors' annual spend does not start in earnest until the end of May. As a result, the Debtors have nearly five additional weeks in which they *could* run a more fulsome sale process or other value-enhancing alternative. To that end, a liquidity forecast is, by its nature, very conservative

and probably has cushion through trade credit terms, professional fee savings and many other areas that could let the process extend even further.

18. Therefore, the expedited sale process, while beneficial to Bayside, will harm all other creditors by denying the Debtors the opportunity to maximize recoveries through a fully developed sale or reorganization process. This is especially true in absence of any real urgency to proceed so quickly – the Debtors’ projections support a reasoned opinion that its businesses are stable and improving, even at a time when the Debtors are operating in a low point in their business cycle. *See* Leone Decl. ¶ 26. Section 364 of the Bankruptcy Code was not designed as a secured lender-driven system to circumvent the fundamental underpinning of the Bankruptcy Code of a more level “playing field.” *See generally In re Ames Dep’t Stores, Inc.*, 115 B.R. 34, 37 (Bankr. S.D.N.Y. 1990). Accordingly, the Bayside DIP Facility should not be permitted to restrict the Debtors while Bayside steals a march on the unsecured creditors in the Chapter 11 Cases. Doing so would lead to the exact result the *Tenney* court found so perverse. *See In re Tenney Vill. Co., Inc.*, 104 B.R. 562, 568 (Bankr. D.N.H. 1989).

C. The Ad Hoc DIP Commitment Will Offer the Best Path Forward

19. The Ad Hoc DIP Commitment effectively unlocks the handcuffs Bayside has placed on the Debtors by (i) facilitating a commercially reasonable marketing and sale process on a relaxed timeline to encourage robust bidding at an auction of the Debtors’ assets and (ii) allowing the Debtors to dual-track their sale effort with a plan process under chapter 11 in order to select the most value-enhancing path forward.

20. Under the timeline set forth in the Bayside DIP Facility, qualified bids for the Debtors’ assets must be received in a mere *29 days from today*. Moreover, even assuming that the Debtors began marketing their assets to potential purchasers after the bidding procedures

were preliminarily approved on February 15th, they have, at most, 32 days to provide potential bidders with the vital due diligence information and materials they will need to make a competing bid for the assets.

21. While it goes without saying that most debtors want to rehabilitate and exit bankruptcy as soon as possible, the Ad Hoc Committee also understands that rushing the process will harm a debtor's chance for successful emergence. With this difficult balancing act in mind, the timeline proposed in the Ad Hoc DIP Commitment has been designed to ensure a robust bidding environment, allowing the Debtors' management and financial advisors the necessary time—*over 90 days*—to market the assets, solicit potential purchasers, execute confidentiality agreements, conduct presentations and continue to update and populate the data room (established less than a week ago) with documentation that is crucial to any diligence effort.⁶ Likewise, a longer runway will also inure to the benefit of potential purchasers, who will be afforded valuable time to undertake site-visits, review the materials contained in the data room in detail, fully diligence the assets and submit a competitive and fully-informed bid in advance of the auction. This is not without reason; as this Court is aware, the financial advisor for the Creditors' Committee has already been contacted by parties potentially interested in purchasing the Debtors' businesses. The Ad Hoc Committee believes that providing purchasers with the time necessary for the sale process to properly mature benefits all parties and could ultimately lead to a successful emergence from bankruptcy as a plan alternative if all parties agree that it makes the most sense.

22. If, however, the Debtors do not receive sufficient indications of interest for a sale of their assets, or if the initial bids received from potential purchasers do not yield the amount of

⁶ Attached as **Exhibit C** to this Supplemental Objection is a comparison of the timeline of events proposed under both the Bayside DIP Facility and the Ad Hoc DIP Commitment.

cash consideration that the Debtors believe is adequate to warrant an auction taking place, the parameters of the dual-track plan and sale process embedded in the Ad Hoc DIP Commitment provides for the Debtors to simultaneously pursue a reorganization of their estates, thus preserving optionality until it becomes clear which route (sale or plan) will yield the highest value.

23. At bottom, the Ad Hoc DIP Commitment allows the holders of the Convertible Notes the ability to have some measure of control over their own destiny in the Chapter 11 Cases. If the Debtors fail to achieve a value-maximizing sale of their assets, the Debtors and their creditors will have the ability to negotiate a consensual resolution through the plan process. Without the Ad Hoc DIP Commitment available to the Debtors as an alternative source of postpetition financing, unsecured creditors would be left with no choice but to hope for the unlikely possibility of a competitive bidder emerging to compete against Bayside at the March 25th auction.

RESERVATION OF RIGHTS

24. Nothing contained herein shall constitute a waiver of the Ad Hoc Committee's rights or remedies under the Bankruptcy Code or applicable law, including, without limitation, the right to further amend or supplement the Steering Committee Objection or this Supplemental Objection, or join in any argument or objection made by any person relating to the DIP Motion. The Ad Hoc Committee also reserves the right to introduce evidence at the Final Hearing.

CONCLUSION

25. The Ad Hoc DIP Commitment will offer the best path forward for the Debtors and their constituents, both from an economic perspective and based on principles of fundamental fairness. Moreover, this Court should not approve a DIP facility that places the Debtors' fate in the hands of its prepetition secured lender and limits the Debtors' ability to

manage their own restructuring process by imposing unnecessary requirements upon them to seek an exit from bankruptcy through an accelerated one-month sale process. If the Bayside DIP Facility were to be approved on a final basis, unsecured creditors in the Chapter 11 Cases would be deprived of significant value to which they are due, while Bayside would be overcompensated for its claim.

WHEREFORE, for all the reasons set forth herein, and in the Steering Committee Objection to which it joins and adopts herein as if set forth at length, the Ad Hoc Committee respectfully requests entry of an order (a) denying approval of the Bayside DIP Facility on a final basis; and (b) granting such other and further relief as is just and proper.

Dated: February 18, 2013
Wilmington, DE

Respectfully submitted,

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Specialty, Inc. 3.75% Convertible
Subordinated Notes Due 2026*

EXHIBIT A

SCHOOL SPECIALTY, INC., et al.
\$145,000,000 DEBTOR-IN-POSSESSION DELAYED DRAW
TERM LOAN FACILITY
Summary of Principal Terms and Conditions

This Summary of Terms and Conditions (the “Term Sheet”), dated as of February 13, 2013, sets forth certain terms of the DIP Facility (as defined below) proposed to be provided by the DIP Lenders (as defined below) subject to the conditions and as set forth more fully below. This Term Sheet, and the commitments of each of the Initial DIP Lenders (as defined below), is subject to continued due diligence by the Initial DIP Lenders, and remains subject to the execution of a definitive commitment letter in form and substance acceptable to the DIP Lenders (a “Commitment Letter”). Except to the extent set forth in the preceding sentence, this Term Sheet does not constitute a commitment, a contract to provide a commitment, or any agreement by the DIP Lenders. This Term Sheet does not attempt to describe all of the terms, conditions, and requirements that would pertain to the financing described herein, but rather is intended to be a summary outline of certain basic items, which shall be set forth in final documentation in form and substance acceptable to the parties.

- Borrowers:** School Specialty, Inc., ClassroomDirect.com, LLC, Delta Education, LLC, Sportime, LLC, Childcraft Education Corp., Bird-in-Hand Woodworks, Inc., Califone International, Inc., and Premier Agendas, Inc., as debtors and debtors-in-possession in a case under chapter 11 of the United States Bankruptcy Code, 11 U.S.C. §§ 101, et seq. commenced in the United States Bankruptcy Court for the District of Delaware (the “Bankruptcy Court”, and such case, the “Case”) (each a “DIP Borrower” and collectively, the “DIP Borrowers”).
- Guarantors:** Frey Scientific, Inc., Sax Arts & Crafts, Inc., and Select Agendas, Corp. (each a “DIP Guarantor” and collectively, the “DIP Guarantors”, and together with the DIP Borrowers, the “DIP Obligors”).
- Administrative Agent/
Collateral Agent:** U.S. Bank National Association (the “DIP Agent”).
- Initial DIP Lenders:** Each of the entities listed on the signature pages to this Term Sheet.
- Lenders:** A syndicate of institutions including the Initial DIP Lenders and such other institutions as determined by the DIP Agent and the Initial DIP Lenders pursuant to a syndication process run by the DIP Agent (each a “DIP Lender” and collectively, the “DIP Lenders”).
- Facility:** A new money non-amortizing superpriority multiple draw term loan facility in an aggregate principal amount of up to \$145,000,000 (the “DIP Facility”; the DIP Lenders’ commitment under the DIP Facility, the “DIP Commitment”; the loans under the DIP Facility, the “DIP Loans”; and the

transactions contemplated hereby, the “Transactions”). The DIP Loans will be made solely for the purposes set forth under “Use of Proceeds” below. As of the date of this Term Sheet each of the Initial DIP Lender’s DIP Commitment is set forth on Annex A hereto, which Annex A shall be filed with the Bankruptcy Court under seal.

The DIP Loans may be incurred during the Availability Period (as defined below) as follows: (i) an initial drawing of the DIP Facility on the Closing Date (as defined below) in an aggregate principal amount of \$[] million; and (ii) following entry of a final order by the Bankruptcy Court approving the DIP Facility (the “Final DIP Order”), up to two (2) additional drawings of the DIP Facility upon five (5) business days’ prior written notice to the DIP Agent and the DIP Lenders, each in an aggregate principal amount of not less than \$5 million and in the aggregate for such two (2) additional drawings, in a principal amount not to exceed \$145 million less the amount drawn on the Closing Date (the date of any draw under the DIP Facility pursuant to clause (i) or (ii), a “Draw Date”). Once repaid, the DIP Loans incurred under the DIP Facility cannot be reborrowed.

Availability Period: The DIP Loans may be drawn during the period from and including the Closing Date up to but excluding the DIP Termination Date (as defined below) (such period, the “Availability Period”). The DIP Commitment will expire at the end of the Availability Period. The DIP Commitment shall be permanently reduced on each Draw Date by the aggregate principal amount of DIP Loans made on such Draw Date.

Use of Proceeds: Proceeds of the DIP Loans under the DIP Facility will be used only for the following purposes, in each case in accordance with and subject to the Approved Budget (as defined below): (i) to provide working capital for the DIP Obligors during the Case in the ordinary course of business and other costs and expenses of administration of the Case, in an aggregate principal amount not to exceed \$50,000,000 less any amounts used to prepay the Bayside DIP Obligations pursuant to clause (iii) of this paragraph, (ii) to refinance the outstanding balance of principal, accrued interest and other fees and charges (the “Prepetition Bayside Obligations”) due in respect of the prepetition term loan facility (the “Prepetition Bayside Facility”) provided by Bayside Finance, LLC (“Bayside”) in an aggregate principal amount not to exceed \$67,000,000¹ other than amounts thereunder related to the Make-Whole Payment (as defined below) and Default Interest (as defined below), (iii) to refinance the outstanding balance of principal, accrued interest and other fees and charges (the “Bayside DIP Obligations”) due in respect of that certain Senior Secured Super Priority

¹ The Prepetition Bayside Obligations were estimated in that certain Declaration of Gerald T. Hughes Pursuant to Local Bankruptcy Rule 1007-2 and In Support of Chapter 11 Petition and First Day Motions, dated January 28, 2013, [ECF No. 2] (the “First Day Affidavit”) at ¶ 22, as being approximately, \$67,000,000.00.

Debtor-In-Possession Credit Agreement, dated as of January 31, 2013, by and among the DIP Obligors, the Lenders as defined therein and Bayside (as amended pursuant to the interim order of the Bankruptcy Court dated January 31, 2013 [Docket No. 88] approving the incurrence of the Bayside DIP Obligations, the “Bayside DIP Credit Agreement”) in an aggregate principal amount not to exceed \$25,000,000, (iv) to fund an interest-bearing escrow account (the “Escrow Account”) in an aggregate amount not to exceed \$25,000,000 which may be used, if and to the extent the Escrow Condition (as defined below) is satisfied, for potential payment to Bayside of the Early Payment Fee (as defined in and calculated under the Prepetition Bayside Facility, the “Make-Whole Payment”) and Default Interest (as defined in and calculated under the Prepetition Bayside Facility) and (v) to pay fees and expenses related to the DIP Facility.

Restrictions on use of proceeds substantially similar to the Bayside DIP Credit Agreement, and in any event including, among other things, prohibitions regarding (x) repayment or prepayment of Prepetition Indebtedness under the Prepetition ABL Credit Agreement (each as defined in the Bayside DIP Credit Agreement), (y) payment of any taxes upon or as a result of the Disposition (as defined in the Existing DIP Intercreditor Agreement (as defined below)) or the ABL Priority Collateral (as defined in the Existing DIP Intercreditor Agreement) and (z) affirmatively commencing or supporting, or paying any professional fees incurred in connection with, any adversary proceeding, motion or other action that seeks to challenge, contest or otherwise seek to impair or object to the validity, extent, enforceability or priority of the liens, claims or rights in favor of the DIP Agent or the DIP Lender (or any of their affiliates).

Escrow Account:

The Escrow Account shall be established under an escrow agreement between the DIP Borrowers and Bayside, the terms and provisions of which shall be reasonably satisfactory in form and substance to Bayside, the DIP Lenders and the OCC.

Within 10 business days of the entry of a final, non-appealable order of the Bankruptcy Court (a) directing that each of the Make Whole or Default Interest are due and payable to Bayside (the “Escrow Condition”), corresponding amounts shall be released from the Escrow Account to Bayside, or (b) determining that Bayside is not entitled to payment of the Make Whole or Default Interest, corresponding amounts shall be released from the Escrow Account to the DIP Agent for payment to the DIP Lenders. To the extent that any settlement is entered into among Bayside and any party alleging that Bayside is not entitled to payment of the Make Whole or Default Interest, such settlement shall require the reasonable consent of the Requisite DIP Lenders (as defined below) to become effective.

- Maturity:** All DIP Obligations will be due and payable in full in cash on the earliest of (i) September 15, 2013 (the “DIP Maturity Date”), (ii) consummation of a sale of all or substantially all of the assets of the DIP Obligors under section 363 of the Bankruptcy Code (iii) if the Final DIP Order has not been entered, the date that is thirty (30) calendar days after the date of entry of the Interim DIP Order (as defined below), (iv) the effective date of a Plan (as defined below) in the Case, (v) the acceleration of the DIP Loans and the termination of the DIP Commitments upon the occurrence of an event referred to below under “Termination” or (vi) unless waived by the DIP Lenders in their sole discretion, if any of the DIP Obligors files a motion with the Bankruptcy Court for authority to proceed with the sale or liquidation or any of the DIP Obligors (or any material portion of the assets or all of the equity of any of the DIP Obligors) or files a plan of reorganization, in either case, without the consent of the DIP Lenders, except pursuant to a proposed sale of all or substantially all of the DIP Borrowers’ assets or all of the equity of School Specialty, Inc. or any subsidiary thereof or a plan of reorganization, that provides for the actual payment in cash and in full of the DIP Obligations by no later than twenty (20) calendar days after the filing of the Plan or motion establishing procedures with respect to the Sale Effort (as defined below).
- Interest Rate:** LIBOR Rate plus 10.00% per annum, payable monthly in cash in arrears, calculated on an actual 360 day basis. LIBOR Floor: 1.50%.
- Default Rate:** +2.00% per annum, calculated on an actual 360 day basis.
- Documentation:** The DIP Facility will be evidenced by a credit agreement (the “DIP Credit Agreement”), security documents, guarantees and other legal documentation (collectively, together with the DIP Credit Agreement, the “DIP Loan Documents”) required by the DIP Agent and the DIP Lenders, which DIP Loan Documents shall be prepared by, and shall be in form and substance and on terms satisfactory to, the DIP Agent and the Requisite DIP Lenders.
- DIP Priority Account:** Pending use in accordance with the terms of the DIP Credit Agreement, all proceeds of the DIP Loans under the DIP Facility shall be deposited into a segregated account of the DIP Borrowers (the “DIP Priority Account”) and invested at all times in cash and Cash Equivalents (to be defined in the DIP Credit Agreement). The DIP Priority Account shall be subject to a control agreement with a securities intermediary acceptable to the DIP Agent, in form and substance satisfactory to the DIP Agent, which establishes “control” (as defined in the Uniform Commercial Code as in effect from time to time in the State of New York) in favor of the DIP

Agent for the benefit of the DIP Lenders, and withdrawals from such account shall only be used for the permitted purposes described under “Use of Proceeds” above or to make payments on the DIP Facility. Under no circumstances may any cash, funds, securities, financial assets or other property held in or credited to the DIP Priority Account or the proceeds thereof held therein or credited thereto be used to pay any pre-petition obligations or for any purpose not permitted under the Final DIP Order or Interim DIP Order.

Collateral:

All obligations of the DIP Obligors to the DIP Agent and the DIP Lenders under the DIP Facility, including, without limitation, all principal and accrued interest, premiums (if any), costs, fees and expenses or any other amounts due, or any exposure of each DIP Lender and its affiliates in respect of cash management incurred on behalf of the DIP Obligors under the DIP Facility (collectively, the “DIP Obligations”), shall be secured by collateral (the “Collateral”) substantially similar to Collateral for the Bayside DIP Credit Agreement including, but not limited to, liens on Avoidance Actions (as defined in the Bayside DIP Credit Agreement). Among other things, the DIP Obligations shall be secured (i) by a first priority lien on the Term Loan Priority Collateral and (ii) by a second priority lien on the ABL Priority Collateral (each as defined in the Existing DIP Intercreditor Agreement).

Pursuant to Bankruptcy Code section 364(c)(1), all of the obligations under the DIP Facility shall constitute allowed senior administrative expense claims against each of the DIP Obligors (the “Superpriority Claims”) with priority over any and all administrative expenses, adequate protection claims, diminution claims and all other claims against the DIP Obligors, now existing or hereafter arising, of any kind whatsoever, including, without limitation, all administrative expenses of the kind specified in Bankruptcy Code sections 503(b) or 507(b), and over any and all administrative expenses or other claims arising under Bankruptcy Code sections 105, 326, 328, 330, 331, 503(b), 506(c), 507(a), 507(b), 546, 726, 1113 or 1114, whether or not such expenses or claims may become secured by a judgment lien or other non-consensual lien, levy or attachment, which allowed claims shall for purposes of Bankruptcy Code section 1129(a)(9)(A) be considered administrative expenses allowed under Bankruptcy Code section 503(b), and which shall be payable from and have recourse to all pre- and post-petition property of the DIP Obligors and all proceeds thereof, including, without limitation, all Avoidance Actions (as defined in the Bayside DIP Credit Agreement), subject only to the payment of the Carve-Out to the extent specifically provided for herein. The Superpriority Claims granted hereunder to the DIP Lenders shall be *pari passu* with the Superpriority Claims granted to the ABL DIP Lenders (as defined in that certain Debtor-In-Possession Credit Agreement dated as

of January 31, 2013 by and among Wells Fargo Capital Finance, LLC, the lenders party thereto, the Borrowers party thereto, and the other parties thereto (the “ABL DIP Facility”).

Milestones:

The DIP Borrowers shall undertake a dual track process by which they market the assets of the DIP Obligors for sale and pursue a plan of reorganization in order to maximize recoveries for all of their stakeholders according to the following milestones, except to the extent the failure to meet any such milestone is due to the Bankruptcy Court’s scheduling requirements (but not any scheduling requirements that are done or made at the request of the DIP Borrowers):

- i. on or before the date that is 15 days after entry of the Interim DIP Order, the DIP Borrowers shall have prepared a Confidential Information Memorandum that is reasonably acceptable to the DIP Lenders, for the purpose of marketing the sale of the DIP Obligors’ assets (the “Sale Effort”);
- ii. on or before the date that is 25 days after entry of the Interim DIP Order, the DIP Borrowers shall commence the marketing process related to the Sale Effort;
- iii. on or before the date that is 30 days after entry of the Interim DIP Order, (a) the Bankruptcy Court shall have entered a final order establishing procedures with respect to the Sale Effort and approving bidding procedures related thereto, which order shall be in form and substance reasonably acceptable to the DIP Borrowers and DIP Lenders; and (b) the DIP Borrowers shall have filed with the Bankruptcy Court, a plan of reorganization (the “Plan”) and a motion seeking approval of the disclosure statement and solicitation procedures related to the Plan (the “Disclosure Statement Motion”), which motion shall be in form and substance acceptable to the DIP Borrowers and DIP Lenders;
- iv. on or before the date that is 61 days after entry of the Interim DIP Order, the Bankruptcy Court shall have entered an order granting the Disclosure Statement Motion, which order shall be in form and substance reasonably acceptable to the DIP Borrowers and DIP Lenders;
- v. on or before the date that is 65 days the after entry of the Interim DIP Order, the DIP Borrowers shall have commenced solicitation of votes in connection with the Plan pursuant to sections 1125 and 1126 of the Bankruptcy Code;

- vi. on or before the date that is 85 days the after entry of the Interim DIP Order, assuming sufficient interest to purchase the DIP Obligors' assets has been expressed in the DIP Borrowers' business reasonable judgment, with the reasonable consent of the DIP Lenders, an auction shall have been conducted in connection with the Sale Effort to determine the highest and/or best bid for the DIP Borrowers' assets (the "Auction");
- vii. on or before the date that is 110 days after the after entry of the Interim DIP Order, the Bankruptcy Court shall have conducted a hearing (a) assuming that an Auction has been held and a winning bidder and backup bidder, if any, have been selected, to obtain entry of a final order approving the sale of the DIP Borrowers' assets to the winning bidder at the Auction (the "Sale Order"), and (b) to confirm the Plan;
- viii. on or before the date that is 112 days after entry of the Interim DIP Order, the Bankruptcy Court shall have entered (a) the Sale Order (assuming that an Auction has been held and a winning bidder and backup bidder, if any, have been selected), which order shall be in form and substance reasonably acceptable to the DIP Borrowers and DIP Lenders, and (b) the order confirming the Plan pursuant to section 1129 of the Bankruptcy Code, which order shall be in form and substance reasonably acceptable to the DIP Borrowers and DIP Lenders; and
- ix. on or before the date that is 120 days after entry of the Interim DIP Order, (a) the sale of the DIP Obligors' assets shall have closed (assuming that an Auction has been held and a winning bidder and backup bidder, if any, have been selected), and (b) the Plan shall have become effective.

Credit Bid: In conjunction with a section 363 sale of all or substantially all of the DIP Borrowers' assets the DIP Lenders shall be permitted to credit bid up to the full amount of the outstanding DIP Obligations.

Representations and Warranties: Substantially similar to the representations and warranties of the DIP Borrowers under the Bayside DIP Credit Agreement.

Covenants: Substantially the same as in Bayside DIP Credit Agreement, and in any event including, among other things, continued retention of Alvarez & Marsal or another comparable crisis management or restructuring firm reasonably satisfactory to the DIP Lenders as the Chief Restructuring Officer on terms and conditions acceptable to the DIP Lenders; periodic

calls between members of the DIP Obligors' management, the DIP Lenders and the DIP Agent (the frequency to be determined by the DIP Lenders and DIP Borrowers); and a variance test of the certain items in the Approved Budget substantially similar to the Bayside DIP Credit Agreement.

Financial Covenants: Substantially similar to the Bayside DIP Credit Agreement.

Approved Budget: Substantially similar to the Approved Budget under the Bayside DIP Credit Agreement. As a condition to closing the DIP Agent shall have received, an updated budget, projecting operations for the ensuing six-month period and including, without limitation (i) a thirteen-week cash flow forecast, (ii) a six-month consolidated balance sheet, income statement and statement of cash flows, and (iii) income statements by Business Segment (as currently defined in the Bayside DIP Credit Agreement); such thirteen-week cash flow forecast to be updated (in substantially the same format as the prior thirteen-week cash flow forecast) monthly by the DIP Borrowers, submitted to the DIP Agent and, upon acceptance by the DIP Agent in its sole discretion, the prior budget, as modified by the updated thirteen-week cash flow forecast shall constitute the budget (the "Approved Budget").

Conditions Precedent to Closing: The DIP Credit Agreement will contain conditions precedent to the Closing Date substantially similar to the conditions in the Bayside DIP Credit Agreement, and in any event will include customary conditions for financings of this type and other conditions deemed by the DIP Lenders in their discretion to be appropriate to the Transactions, including, without limitation, the following:

- All documentation relating to the DIP Facility shall be in form and substance satisfactory to the DIP Agent and the DIP Lenders and their counsel.
- All fees, costs, disbursements and expenses of (i) the DIP Agent (including fees, costs, disbursements and expenses of its counsel,) and (ii) the Initial DIP Lenders (including fees, costs, disbursements and expenses of (a) their outside counsel, Stroock & Stroock & Lavan LLP ("Stroock"), and their local counsel, (b) a financial advisor to the Initial DIP Lenders, if any, and (c) any other professional advisors retained by the Initial DIP Lenders or their counsel), in each case, shall have been paid in full in cash, to the extent invoiced to the DIP Borrowers no later than one business day prior to the Closing Date.
- The DIP Agent and the DIP Lenders shall have received the items described under "Approved Budget" above.
- All motions and other documents to be filed with and submitted to the Bankruptcy Court related to the DIP Facility and the approval thereof

shall be in form and substance satisfactory to the Requisite DIP Lenders.

- There shall not exist any law, regulation, ruling, judgment, order, injunction or other restraint that, in the judgment of the DIP Agent at the direction of the Requisite DIP Lenders, prohibits, restricts or imposes a materially adverse condition on the DIP Borrowers or the DIP Guarantors, the DIP Facility or the exercise by the DIP Agent at the direction of the DIP Lenders of its rights as a secured party with respect to the Collateral.
- The DIP Agent and the DIP Lenders shall have received satisfactory and customary opinions of independent counsel to the DIP Obligors, addressing such matters as the DIP Agent or the DIP Lenders shall reasonably request.
- There shall have occurred no event which has resulted in or could reasonably be expected to result in a material adverse change in (i) the business, assets, operations, performance, properties, condition (financial or otherwise), contingent liabilities, prospects or material agreements of the DIP Obligors and their subsidiaries, individually, and the DIP Obligors and their subsidiaries, taken as a whole, since December 29, 2012 (other than the commencement of the Case and the continuation of the Case), (ii) the legality, validity or enforceability of any DIP Loan Document, the Interim DIP Order or the Final DIP Order, (iii) the ability of the DIP Obligors to perform their respective obligations under the DIP Loan Documents, (iv) the value of the Collateral, (v) the perfection or priority of the liens granted pursuant to the DIP Loan Documents, the Interim DIP Order or the Final DIP Order, or (vi) the ability of the DIP Agent and the DIP Lenders to enforce the DIP Loan Documents (any of the foregoing being a “Material Adverse Change”).
- Other than the Case, or as stayed upon the commencement of the Case, there shall exist no action, suit, investigation, litigation or proceeding pending or threatened in any court or before any arbitrator or governmental instrumentality that (i) could reasonably be expected to result in a Material Adverse Change or, except as disclosed, if adversely determined, could reasonably be expected to result in a Material Adverse Change or (ii) restrains, prevents or imposes or can reasonably be expected to impose materially adverse conditions upon the DIP Facility, the Collateral or the transactions contemplated thereby.
- All governmental and third party consents and approvals necessary in connection with the DIP Facility and the Transactions shall have been obtained (without the imposition of any conditions that are not acceptable to the DIP Agent and the Requisite DIP Lenders) and shall remain in effect.

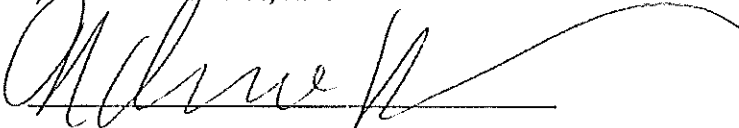
- The DIP Agent, for the benefit of the DIP Lenders, shall have a valid and perfected lien on and security interest in the Collateral on the basis and with the priority set forth herein.
- The DIP Agent and the Requisite DIP Lenders shall be satisfied with the amount, types and terms and conditions of all insurance and bonding maintained by the DIP Obligors and their subsidiaries. Upon request of the DIP Agent, the DIP Borrowers shall, within thirty (30) days following such request, obtain endorsements naming the DIP Agent, on behalf of the DIP Lenders, as an additional insured or loss payee, as applicable, under all insurance policies to be maintained with respect to the properties of the DIP Obligors and their subsidiaries forming part of the DIP Lenders' collateral, which endorsements shall provide for 30 days' prior notice of cancellation of such policies to be delivered to the DIP Agent.
- The Bankruptcy Court shall have entered an interim order (the "Interim DIP Order") within three (3) calendar days following the date on which the motion to approve the Interim DIP Order is heard, in form and substance satisfactory to the DIP Agent and the Requisite DIP Lenders, which Interim DIP Order shall include, without limitation, copies of the DIP Facility and the Approved Budget as exhibits thereto, entered on notice to such parties as may be satisfactory to the DIP Agent and the Requisite DIP Lenders, (i) authorizing and approving the DIP Facility and the Transactions, including, without limitation, the granting of the superpriority status, security interests and priming liens, and the payment of all fees, referred to herein; (ii) lifting or modifying the automatic stay to permit the DIP Obligors to perform their obligations and the DIP Lenders to exercise their rights and remedies with respect to the DIP Facility; (iii) authorizing the use of cash collateral and providing for adequate protection to the extent agreed by the Initial DIP Lenders; and (iv) reflecting such other terms and conditions that are satisfactory to the DIP Agent and the Requisite DIP Lenders in their sole discretion; which Interim DIP Order shall be in full force and effect, shall not have been reversed, vacated or stayed and shall not have been amended, supplemented or otherwise modified without the prior written consent of the DIP Agent and the Requisite DIP Lenders.
- The DIP Borrowers or their agent shall have delivered to the DIP Agent, on behalf of the DIP Lenders, financial projections satisfactory to the DIP Lenders in their sole discretion, including income statement, balance sheet and cash flow statement, each in form and substance consistent with the DIP Obligors' internal financial statements, for fiscal years ending 2013 and 2014 presented on a monthly basis.

DIP Intercreditor Agreement:	Substantially similar to that certain Intercreditor Agreement dated as of January 31, 2013 by and between Bayside and Wells Fargo Capital Finance, LLC (the “ <u>Existing DIP Intercreditor Agreement</u> ”).	
Waiver/Modification of Automatic Stay:	Waiver/Modification of Automatic Stay provisions substantially similar to the Bayside DIP Credit Agreement.	
Applicability of Nonbankruptcy Law Relating to Perfection or Enforceability of Liens:	All liens granted for the benefit of the DIP Agent and the DIP Lenders, shall be valid, enforceable, non-avoidable, and perfected, effective as of the Closing Date, and no further action shall be required to effect such perfection.	
Expenses:	The DIP Borrowers shall pay: (a) all reasonable out-of-pocket expenses of the DIP Agent and the DIP Lenders (x) associated with the preparation, negotiation, execution and delivery of this term sheet and associated with the preparation, negotiation, execution, delivery and administration of the DIP Loan Documents and any amendment or waiver with respect thereto (including the reasonable fees, disbursements and other charges of counsel) and (y) incurred by DIP Agent and DIP Lenders in connection with the Case, including charges of counsel to the steering committee of convertible note holders incurred in connection with the objection to the Bayside DIP on January 30, 2013; and (b) all out-of-pocket expenses of the DIP Agent and the DIP Lenders (including the fees, disbursements and other charges of counsel) in connection with the enforcement of the DIP Loan Documents.	
Indemnification:	Indemnification provisions substantially similar to the indemnification provisions of the Bayside DIP Credit Agreement.	
Fees:	Commitment Fee:	2% of the aggregate DIP Commitment, which Commitment Fee shall be fully earned by the Initial DIP Lenders upon execution of a Commitment Letter and shall be payable in cash to the Initial DIP Lenders on the Closing Date.
	Administrative Agency Fee:	\$50,000, payable in cash to the DIP Agent on the Closing Date.
Carve-Out:	Carve-out provisions substantially similar to the carve-out provisions of the Bayside DIP Credit Agreement except that the amount of the carve-out (the “ <u>Carve-Out</u> ”) shall be increased to \$1,000,000.	

- Events of Default:** Substantially similar to the Events of Default (as defined in the Bayside DIP Credit Agreement), including, but not limited to (i) the filing of or confirmation of a plan of reorganization that does not provide for the repayment of all DIP Obligations in full in cash on the “Effective Date”, (ii) conversion of any Chapter 11 Case to a chapter 7 case, or (iii) the Final DIP Order is not entered on or before March 1, 2013.
- Requisite DIP Lenders:** DIP Lenders holding more than 50% of the outstanding DIP Commitment and DIP Loans (the “Requisite DIP Lenders”) except as to matters requiring unanimity under the DIP Credit Agreement (e.g., the reduction of interest rates, the extension of interest payment dates, the reduction of fees, the extension of the maturity of the DIP Obligations, any change in the superpriority status of the DIP Obligors’ obligations under the DIP Facility and the release of all or substantially all of the Collateral).
- Remedies:** Substantially similar to the Bayside DIP Credit Agreement.
- Closing Date:** On or before March 1, 2013 (the “Closing Date”).
- Governing Law, Etc.:** The State of New York, except as governed by the Bankruptcy Code. The DIP Obligors will waive their right to jury trial.

ANGELO, GORDON & CO., L.P.

By:


Name: Michael L. Gordon
Title: Chief Operating Officer

DIP Commitment Amount: As set forth on Annex A

Notice Address:

Gary Wolf
Angelo, Gordon & Co.
245 Park Avenue
26th Floor
New York, NY 10167
Email: gwolf@angelogordon.com
Telephone: 212-692-2058
Fax: 212-867-6395
Attention: Gary Wolf

With a copy to:

Fax:
Attention:

[Signature Page to DIP Term Sheet]

DAVIS SELECTED ADVISERS, LLP

By: Keith J. Sabol

Name: Keith J. Sabol
Title: Portfolio Manager

DIP Commitment Amount: As set forth on Annex A

Notice Address:

Keith Sabol
c/o Davis Funds
124 East Marcy Street
Santa Fe, NM 087501
Email: ksabol@dsaco.com
Telephone: 505-820-3032
Fax: 505-820-3008
Attention: Keith Sabol

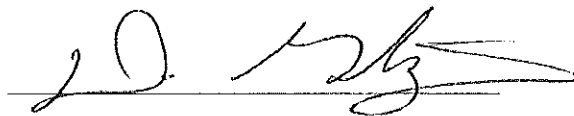
With a copy to:

Fax:
Attention:

[Signature Page to DIP Term Sheet]

DG VALUE PARTNERS II MASTER FUND, L.P.

By:



Name:

Dov Gertzulin

Title:

Managing Member

DIP Commitment Amount: As set forth on Annex A

Notice Address: 460 Park Ave, 13th Floor,
New York, NY 10022

Email:

rgeffner@dgcapitalmgmt.com

jburgida@dgcapitalmgmt.com

Telephone: 646-942-5700

Fax: 212-202-4639

Attention: Robyn Geffner
and Jacob Burgida

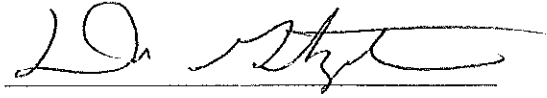
With a copy to:

Fax:

Attention:

DG VALUE PARTNERS, L.P.

By:



Name:

Dov Gertzulin

Title:

Managing Member

DIP Commitment Amount: As set forth on Annex A

Notice Address: 460 Park Ave, 13th Floor,
New York, NY 10022

Email:

rgeffner@dgcapitalmgmt.com

jburgida@dgcapitalmgmt.com

Telephone: 646-942-5700

Fax: 212-202-4639

Attention: Robyn Geffner and
Jacob Burgida

With a copy to:

Fax:

Attention:

SPECIAL SITUATIONS LLC

By:



Name:

Dov Gertzulin

Title:

Managing Member

DIP Commitment Amount: As set forth on Annex A

Notice Address: 460 Park Ave, 13th Floor,
New York, NY 10022

Email:

rgeffner@dgcapitalmgmt.com

jburgida@dgcapitalmgmt.com

Telephone: 646-942-5700

Fax: 212-202-4639

Attention: Robyn Geffner and
Jacob Burgida

With a copy to:

Fax:

Attention:

SPECIAL SITUATIONS X LLC

By:



Name:

Dov Gertzulin

Title:

Managing Member

DIP Commitment Amount: As set forth on Annex A

Notice Address: 460 Park Ave, 13th Floor,
New York, NY 10022

Email:

rgeffner@dgcapitalmgmt.com

jburgida@dgcapitalmgmt.com

Telephone: 646-942-5700

Fax: 212-202-4639

Attention: Robyn Geffner and
Jacob Burgida

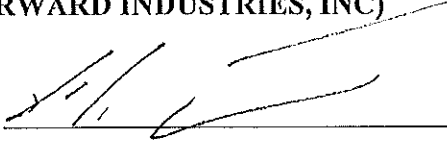
With a copy to:

Fax:

Attention:

LAGRANGE CAPITAL ADMINISTRATION, LLC (AS INVESTMENT
MANAGER FOR: LAGRANGE CAPITAL PARTNERS, LP, LAGRANGE
CAPITAL PARTNERS OFFSHORE FUND, LTD, LAGRANGE
CONCENTRATED FUND, LP, LAGRANGE CAPITAL MANAGEMENT, LLC
AND FORWARD INDUSTRIES, INC)

By:



Name: Frank L. Johnson
Title: Managing Member

DIP Commitment Amount: As set forth on Annex A

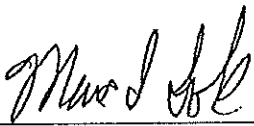
Notice Address: 570 Lexington Avenue, 27th FL
New York, NY 10022

Email: gjohnson@lagrangecapital.com
Telephone: 212-993-7057
Fax: 212-993-7056
Attention: Grange Johnson

With a copy to:

Fax:
Attention:

**HUDSON BAY DISTRESSED MASTER FUND
LLC.**

By: 

Name: Marc Sole
Title: Authorized Signatory

DIP Commitment Amount: As set forth on Annex A

Notice Address:

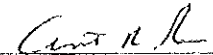
Email: msole@hudsonbaycapital.com
Telephone: 646-825-2164
Fax: 212-571-1325
Attention: Marc Sole

With a copy to:

Fax:
Attention:

J. GOLDMAN MASTER FUND, L.P.

**BY: J. GOLDMAN & CO. LP, as investment
advisor**

By: 

Name: Albert R. Scerbo

Title: CFO

DIP Commitment Amount: As set forth on Annex A

Notice Address:

J. Goldman & Co LP
510 Madison Avenue – 26th Floor
New York, NY 10022

Fax: 212.262.9551
Attention: Albert Scerbo

With a copy to:

J. Goldman & Co LP
510 Madison Avenue – 26th Floor
New York, NY 10022

Fax: 212.262.9552
Attention: Madhu Satyanarayana

R2 INVESTMENTS, LDC

By: Amalgamated Gadget, L.P. as its Investment Manager

By: Scepter Holdings, Inc., its General Partner

By: _____

Name: Noel Nesser

Title: CFO

DIP Commitment Amount: As set forth on Annex A

Notice Address:

301 Commerce Street, Suite 3200

Fort Worth, Texas 76102

Email: nnesser@acmewidget.com

Telephone: (817) 332-9500

Fax: (817) 332-9606

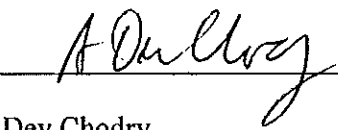
Attention: Amalgamated Gadget, L.P. as its Investment Manager

With a copy to:

Fax:

Attention:

SCOGGIN INTERNATIONAL FUND, LTD.

By: 
Name: Dev Chodry
Title: Authorized Signatory

DIP Commitment Amount: As set forth on Annex A

Notice Address:

Email: dtaub@scogcap.com
Telephone: 212-829-2055
Fax: 212-355-7480
Attention: Dan Taub

With a copy to:

Fax:
Attention:

SCOGGIN CAPITAL MANAGEMENT II LLC.

By: A. Dev Chodry

Name: Dev Chodry
Title: Authorized Signatory

DIP Commitment Amount: As set forth on Annex A

Notice Address:

Email: dtaub@scogcap.com
Telephone: 212-829-2055
Fax: 212-355-7480
Attention: Dan Taub

With a copy to:

Fax:
Attention:

SCOGGIN WORLDWIDE FUND, LTD.

By: A. Dev Chodry

Name: Dev Chodry
Title: Managing Member

DIP Commitment Amount: As set forth on Annex A

Notice Address:

Email: dtaub@scogcap.com
Telephone: 212-829-2055
Fax: 212-355-7480
Attention: Dan Taub

With a copy to:

Fax:
Attention:

STEEL EXCEL INC.

By: _____

Name: Jack Howard

Title: Vice Chairman

DIP Commitment Amount: As set forth on Annex A

Notice Address:

590 Madison Avenue
Floor 32
New York, NY 10022

Email: jack@steelpartners.com
Telephone: 212-520-2308
Fax: 212-520-2309
Attention: Jack Howard

With a copy to:

590 Madison Avenue
Floor 32
New York, NY 10022

Fax: 212-520-2235
Attention: Leonard McGill

Wolverine Flagship Fund Trading Limited

By: _____

Name: Ken Nadel

Title: Director

DIP Commitment Amount: As set forth on Annex A

Notice Address:

175 W. Jackson Blvd. Suite 200
Chicago, IL 60604

Email: knadel@wolvefunds.com

Telephone: (312) 884-3880

Fax: (312) 884-3350

Attention: Ken Nadel

With a copy to:


Dominic Data
ddata@wolvefunds.com

Bruce Mygatt
bmygatt@wolvefunds.com

Fax:

Attention:

ZAZOVE ASSOCIATES LLC *

By: 

Name: Steven M. Kleiman

Title: Chief Operating Officer

* Investment advisor with discretionary authority

DIP Commitment Amount: As set forth on Annex A

Notice Address: 1033 Skokie Blvd., Northbrook, IL 60062

Email: skleiman@zazove.com

Telephone: 847.239.7100

Fax: 847.239.7101

Attention: Steven Kleiman

With a copy to:

Justin Lu

jlu@zazove.com

Fax:

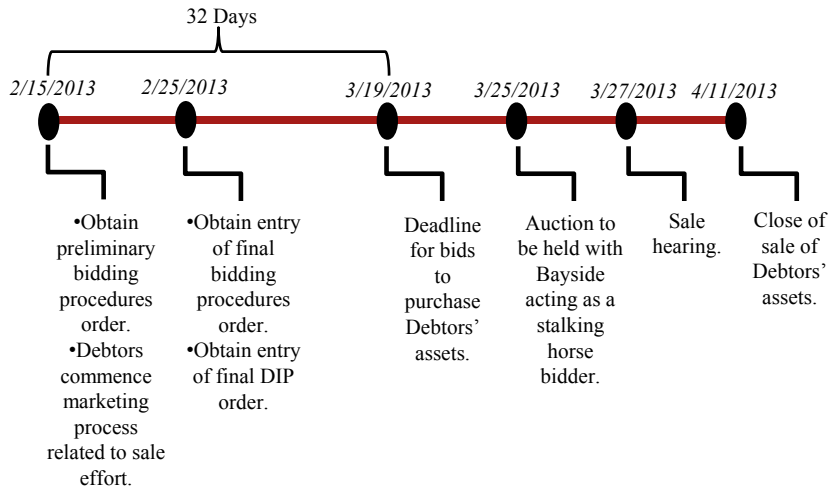
Attention:

Comparison of the General Economic Terms of the Bayside DIP Facility and the Ad Hoc DIP Commitment

	Bayside DIP Facility	Ad Hoc DIP Commitment
Amount	<ul style="list-style-type: none"> ➤ \$50 million. 	<ul style="list-style-type: none"> ➤ \$145 million. <ul style="list-style-type: none"> • \$50 million for working capital, less any amounts used to refinance the outstanding Bayside DIP Obligations. • \$67 million to refinance the Prepetition Bayside Obligations. • \$25 million to fund an Escrow Account for potential payment of the Make-Whole Payment and Default Interest.
Priority	<ul style="list-style-type: none"> ➤ Senior secured super-priority claim with same relative priority as prepetition term loan. <ul style="list-style-type: none"> • Bayside DIP Liens are junior to the ABL DIP Liens with respect to the ABL Priority Collateral (as defined in the Existing DIP Intercreditor Agreement). • ABL DIP Liens are junior to the Bayside DIP Liens with respect to the Term Loan Priority Collateral (as defined in the Existing DIP Intercreditor Agreement). 	<ul style="list-style-type: none"> ➤ Secured by Collateral substantially similar to the Collateral for the Bayside DIP Credit Facility.
Interest Rate	<ul style="list-style-type: none"> ➤ Non-Default Rate: L + 1400bps (LIBOR Floor: 150bps). ➤ Default Rate: +300bps. 	<ul style="list-style-type: none"> ➤ Non-Default Rate: L + 1000bps (LIBOR Floor: 150bps). ➤ Default Rate: +200bps.
Fees	<ul style="list-style-type: none"> ➤ Commitment Fee: \$1 million. ➤ Closing Fee: \$500k. ➤ Unused Line Fee: 1.00%. ➤ Administrative Agency Fee: \$150k. 	<ul style="list-style-type: none"> ➤ Commitment Fee: 2.00%. ➤ Administrative Agency Fee: \$50k.

TIMELINE OF EVENTS FOR BAYSIDE DIP FACILITY VS. AD HOC DIP COMMITMENT

Bayside Timeline



Ad Hoc Committee Timeline

