

UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:

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

Debtors.¹

Chapter 11

Case No. 13-10125 (KJC)

Jointly Administered

**DECLARATION OF THOMAS E. HILL IN SUPPORT OF THE DEBTORS' MOTION
FOR ENTRY OF A FINAL ORDER AUTHORIZING THE DEBTORS TO PAY
PREPETITION CLAIMS OF CERTAIN CRITICAL VENDORS, FOREIGN
SUPPLIERS, FREIGHT CARRIERS AND SECTION 503(B)(9) CLAIMANTS**

THOMAS E. HILL, pursuant to 28 U.S.C. §1746, declares:

1. I am the Chief Restructuring Officer ("CRO") of School Specialty, Inc., a corporation duly organized under the laws of the State of Wisconsin, that is the primary operating company of the above-captioned debtors and debtors-in-possession (collectively, with School Specialty, Inc., the "Company"). I have served in this capacity since January 2013. I am also a Managing Director of Alvarez & Marsal ("A&M"), a global professional services firm specializing in performance improvement and restructuring advisory services.

2. I submit this declaration (the "Declaration") in further support of the Debtors' motion [Dkt. No. 11] for entry of a final order authorizing the Debtors to pay prepetition claims of certain critical vendors and other claimants (the "Critical Vendor Motion").²

¹ The Debtors in these cases, along with the last four digits of each Debtor's federal tax identification number and state of incorporation, are: School Specialty, Inc. (Wisc.; 1239), Bird-In-Hand Woodworks, Inc. (N.J.; 8811), Califone International, Inc. (Del.; 3578), Childcraft Education Corp. (N.Y.; 9818), ClassroomDirect.com, LLC (Del.; 2425), Delta Education, LLC (Del.; 8764), Frey Scientific, Inc. (Del.; 3771), Premier Agendas, Inc. (Wash.; 1380), Sax Arts & Crafts, Inc. (Del.; 6436), and Sportime, LLC (Del.; 6939). The address of the Debtors' corporate headquarters is W6316 Design Drive, Greenville, Wisconsin 54942.

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



3. Through my role as CRO for the Debtors, I am familiar with the Debtors' financial affairs and business operations, among other things. I am also familiar with the Critical Vendor Motion. This Declaration is 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.

MY BACKGROUND AND QUALIFICATIONS

4. On January 7, 2013, I was retained as the Company's Chief Restructuring Officer, as a condition of certain forbearance agreements the Company had entered into with their prepetition secured lenders. Since that time, I, along with other members of A&M, have worked with the Company's senior management to, among other things, assist with various operational and other matters relating to the Chapter 11 Cases. In so doing, we have developed substantial knowledge regarding the Debtors' business, finances, debt structure, operations and systems, creditors and related matters that allows us to evaluate and assess the Company's needs as it continues to operate during these Chapter 11 Cases.

5. As a result of my understanding of the Debtors' financial history and business operations, as well as my training and experience in the reorganization of troubled companies, I am qualified to testify regarding the statements made herein.

6. As indicated above, I serve as a Managing Director of A&M. A&M is headquartered at 600 Madison Avenue, New York, New York 10022. In my capacity as a Managing Director of A&M, I have served as financial advisor and interim management for numerous clients in various types of distressed situations since 2002. Prior to my employment

with A&M, from 1983 through 2002, I held a number of positions at Big Five public accounting firms. As a public accounting partner, I assisted audit teams on many client assignments, including Tenneco, USG, Montgomery Ward and Motor Coach Industries.

7. Throughout my career, I have advised management teams, boards of directors, secured lenders and other creditor groups, ranging from financial adviser to interim management in several industry sectors. I specialize in analyzing, developing and implementing business plans to assist financially challenged companies. My diverse restructuring experience has included numerous advisory roles within automotive, distribution, manufacturing, publishing, retail, steel, service and other specialty industries. My past client list includes: Allied Products, Allis-Chalmers, AEI Resources, AM International, Collins & Aikman, DEC International, Geneva Steel, The Grabill Corporation, Graceway Pharmaceuticals, Greyhound, Horizon Natural Resources, Lason, Minneapolis Star Tribune, NS Group, Peter J. Schmidt, Stampede Meat, Tempel Steel, UPI, TWA and Walbro Corp. I have also served as financial advisor to Tribune Company, which recently emerged from four years in bankruptcy. Previously, I served as Chief Restructuring Officer and a member of the board of directors of SourceLink, Inc., a project for which we received the Turnaround of the Year Award from the Chicago Chapter of the TMA.

8. I earned a bachelor's degree in accounting from the University of Illinois. I am a Certified Public Accountant, and a member of the American Institute of Certified Public Accountants (AICPA), the Illinois CPA Society and the Association of Insolvency & Restructuring Advisors. I am also a member of the Turnaround Management Association (TMA) and have served on its national board.

THE DEBTORS' CRITICAL VENDORS

9. As explained in the Critical Vendor Motion, in connection with the filing of these Chapter 11 Cases, I, along with other members of A&M, worked with the Company's senior management to conduct a thorough analysis of the Company's vendors and service providers to determine how best to ameliorate the impact of the Chapter 11 Cases on the Company's business and supply chain. Specifically, the Company and A&M sought to identify those vendors who were most essential to the Company's ongoing business operations because they provide goods and services to the Company without which the Company could not operate in the ordinary course. As a result of this analysis, the Company and A&M identified four such categories of vendors: (a) certain Key Product Suppliers who are involved in the development of the Company's curriculum programs or who manufacture the Company's branded furniture and other products; (b) certain Foreign Suppliers; (c) certain Freight Carriers; and (d) suppliers holding Section 503(b)(9) Claims.

10. The Company and A&M determined that, given the types of goods and services these Critical Vendors provide to the Company (as described in the Critical Vendor Motion), the cessation of deliveries or services by these Critical Vendors would have an immediate adverse impact on the Company's businesses and cause irreparable harm. As such, in the Critical Vendor Motion, the Company sought authorization to pay, upon entry of a final order, (a) up to \$2.4 million in Key Product Claims, (b) up to \$3.7 million in Foreign Supplier Claims, (c) up to \$3.2 million in Freight Claims, and (d) up to \$5.2 million of Section 503(b)(9) Claims. Each of these amounts is included in the budget that I helped develop in connection with the Debtors' postpetition financing.

11. Based on my knowledge of the Company's operations and supply chain, and understanding of the Company's discussions and negotiations with its vendors and suppliers both prior to and since the Petition Date, I believe that entry of a final order authorizing the Company to pay these amounts to its Critical Vendors is essential to the Company's continued operations. As described by Mr. Gerald Hughes at the January 30, 2013 hearing and as explained below, these Critical Vendors provide essential goods and services that cannot easily be replaced and/or for which there is no substitute. Without these goods and services, the Company could not function in the ordinary course, and any disruption in the supply chain with respect to these vendors would have an immediate adverse effect on the Company's business.

12. Specifically, if any of the Key Product Suppliers refuse to continue to work with the Company during the Chapter 11 Cases, the Company will face significant problems satisfying its customers' needs in the particular areas of curriculum products and furniture – which are business lines that play an important role in setting the Company apart from its competitors. Moreover, in many instances, the Key Product Suppliers are sole sources suppliers who provide branded or otherwise unique goods for which there is no easily-available replacement or substitute.

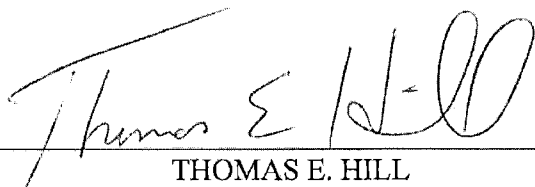
13. The Company's Foreign Vendors generate a significant portion of the Company's goods and, in respect of one of the Company's business lines, generate almost all of that business's products. These Foreign Vendors play a critical role in the Company's ability to offer the breadth and scope of products it does. Moreover, in my experience, Foreign Vendors are likely to insist on payment in full as a condition to providing goods to the Company on an ongoing basis, notwithstanding the commencement of the Chapter 11 Cases.

14. The Freight Carriers are similarly essential to the Company's business and supply chain. As a supply company, the Company simply cannot continue to operate without these Freight Carriers. I understand, however, that the two primary Freight Carriers have expressly conditioned their willingness to continue to ship goods for the Company on the payment of their prepetition claims.

15. Finally, certain of the Key Product Suppliers, Foreign Vendors and other suppliers and manufacturers likely have priority claims pursuant to section 503(b)(9) of the Bankruptcy Code that will need to be satisfied to confirm a chapter 11 plan. These parties are generally aware of their priority status, and so may refuse to provide goods to the Company on an ongoing basis unless they are assured that these claims will be timely paid. For this reason, in addition to the reasons set forth above, I believe that it is important that the Company have the ability to pay Section 503(b)(9) Claims during the Chapter 11 Cases.

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

Dated: Wilmington, Delaware
February 21, 2013


THOMAS E. HILL