

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

Re: Docket Nos. 600, 837, 862 & 864

NOTICE OF FILING OF REVISED EXHIBITS TO DISCLOSURE STATEMENT

PLEASE TAKE NOTICE that, on March 19, 2013, the above-captioned debtors and debtors-in-possession (collectively, the “Debtors”), filed the *Debtors’ Joint Plan Under Chapter 11 of the Bankruptcy Code* [Docket No. 599] and the *Disclosure Statement for the Debtors’ Joint Plan Under Chapter 11 of the Bankruptcy Code* [Docket No. 600].

PLEASE TAKE FURTHER NOTICE that, on April 19, 2013, the Debtors filed the *Notice of Filing of Exhibits to Disclosure Statement* [Docket No. 837] (the “Notice of Exhibits”) which included Exhibits B and C to the Disclosure Statement that were not previously filed.

PLEASE TAKE FURTHER NOTICE that, on April 23, 2013, the Debtors filed the *Debtors’ Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code* [Docket No. 862] (the “Plan”) and the *Disclosure Statement for the Debtors’ Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code* [Docket No. 864] (the “Disclosure Statement”).

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.



PLEASE TAKE FURTHER NOTICE that, subsequent to the filing of the Notice of Exhibits, the Debtors made further revisions to Exhibits B and C. Thus, attached hereto are blacklined versions of Exhibits B and C to the Disclosure Statement reflecting revisions made since the filing of the Notice of Exhibits.

Dated: April 23, 2013
Wilmington, Delaware

YOUNG CONAWAY STARGATT & TAYLOR, LLP

/s/ Maris J. Kandestin

Pauline K. Morgan (No. 3650)
Maris J. Kandestin (No. 5294)
Morgan L. Seward (No. 5388)
Rodney Square
1000 North King Street
Wilmington, Delaware 19801
Telephone: (302) 571-6600
Facsimile: (302) 571-1253

- and -

PAUL, WEISS, RIFKIND, WHARTON & GARRISON LLP

Alan W. Kornberg
Jeffrey D. Saferstein
Lauren Shumejda
Ann K. Young
1285 Avenue of the Americas
New York, New York 10019
Telephone: (212) 373-3000
Facsimile: (212) 757-3990

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

EXHIBIT B

Blackline Financial Projections

Financial Projections

The Debtors' management team ("Management") prepared Financial Projections for the fiscal years 2014 through 2017 (the "Projection Period"). The Financial Projections were prepared by Management and are based on a number of assumptions made by Management with respect to the future performance of the Reorganized Debtors' operations. Although Management has prepared the Financial Projections in good faith and believes the assumptions to be reasonable, it is important to note that the Debtors can provide no assurance that such assumptions will be realized.

As described in detail in the Disclosure Statement, a variety of risk factors could affect the Reorganized Debtors' financial results and must be considered. Accordingly the Financial Projections should be reviewed in conjunction with a review of the risk factors set forth in the Disclosure Statement and the assumptions described herein, including all relevant qualifications and footnotes.

1. General

- a. Methodology – Each business segment (Educational Resources ("ER") and Accelerated Learning Group ("ALG")) was analyzed with a bottoms-up approach. Key management personnel from each business lines and across various functions provided input. The Financial Projections incorporate Management's assumptions and initiatives, including the impact of the Debtors' operating restructuring initiatives.
- b. Plan Consummation – The operating assumptions assume that the Plan will be confirmed and consummated by May 4th 2013.
- c. Macroeconomic and Industry Environment – The Financial Projections and related volume and pricing assumptions are based on both input from senior management and certain industry reports prepared by various third parties and assume the K-12 education market conditions stabilize over the coming years.
- d. Operating Conditions – The Financial Projections assume gradual reversion to operating conditions upon emergence that would be normal for a healthy, well-capitalized company. Specifically, the Financial Projections assume re-establishment of trade terms and certain vendor discounts.

2. Projected Statements of Operations

- a. During the projection period, consolidated sales are estimated to grow from \$645.0 million in fiscal 2014 to \$735.0 million in fiscal 2017. The projections include an expected one-time increase in sales in fiscal 2015 related to the state of Texas science curriculum adoption.
- b. Cost of Sales – Gross margin as a percentage of sales is estimated to remain consistent with recent trends growing from 39.1% in fiscal 2014 to 40.0% in fiscal 2017.
- c. Selling, General, and Administrative Expenses – Selling, General and Administrative ("SG&A") expenses are projected to decrease each year from fiscal 2014 to 2017 as sales volumes return to historical levels with a recovery in the K-12 education market and as Management implements an operational turnaround that is expected to reduce SG&A expenses over the projection period. SG&A expenses include operational expenses (including logistics expenses); sales, marketing and catalog expenses; business technology and telephony expenses; depreciation and amortization and other administrative expenses. Total SG&A expenses as a percentage of revenues are projected to decline from 37.7% in fiscal 2014 to 36.7% in fiscal 2017. The projected SG&A expenses include a number of savings opportunities including elimination of public company costs (\$1.8 million of savings in fiscal 2014 increasing to \$2.6 million

annually beginning in fiscal 2015), rationalization of distribution centers (\$1.0 million of savings in fiscal 2014 increasing to \$2.0 million annually beginning in fiscal 2015), other facilities and real estate actions (\$0.5 million in fiscal 2014 increasing to \$1.0 million annually beginning in fiscal 2015), business process outsourcing (\$2.0 million in fiscal 2016 increasing to \$3.0 million annually beginning in fiscal 2017), catalog and SKU rationalization (\$2.0 million annually beginning in fiscal 2014) and rationalization of share services (\$1.0 million in fiscal 2014 increasing to \$2.0 million annually beginning in fiscal 2015). The projected savings do not include the cost of implementation. The operational turnaround includes plans for optimization of the Debtors' sales organization, which will include increased selling costs of \$1.0 million in fiscal 2015 and \$3.0 million beginning in fiscal 2016).

- d. EBITDA – Pretax earnings before interest, taxes, depreciation, and amortization (“EBITDA”) is expected to grow from \$44.0 million in fiscal 2014 to \$63.5 million in fiscal 2017 as the K-12 education market recovers and Management implements the operational turnaround.
- e. Interest Expense – In May fiscal 2014 (May of 2013), interest payments for the first two weeks of the month are based on the estimated expense incurred on the projected DIP facility balance. From the second half of May through the balance of the Projection Period, interest payments are based on a combination of expected expenses incurred from an exit financing facility (consisting of an ABL revolving credit facility and a term loan).
- f. Income Taxes – The Financial Projections do not assume any income taxes. Analysis by the Debtor and its advisors regarding tax impacts of the reorganization has not yet been completed. Based on the preliminary work, Management expects Reorganized School Specialty to be a tax payer upon emergence. The Debtors' tax professionals believe that certain tax attributes may not be preserved.

3. Projected Balance Sheets and Statements of Cash Flow

- a. The Debtors' projected Consolidated Balance Sheets set forth the projected consolidated financial position of the Debtors, after giving effect to the Plan. The projected Consolidated Balance Sheets were developed using February fiscal 2013 unaudited actual results as a starting point and are adjusted on a go-forward basis based on projected results of operations and cash flows over the Projection Period. These Financial Projections were not prepared with a view toward compliance with published guidelines of the Securities and Exchange Commission or guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information. The projected Consolidated Balance Sheets do not reflect the impact of “fresh start” accounting, which could result in a material change to the projected values of assets and liabilities. The projected Consolidated Balance Sheets contain certain pro forma adjustments as a result of the Plan consummation. They also include the debt and other obligations that will continue to remain outstanding and will be paid in the ordinary course of operations. The projected cash balances reflect the effects of anticipated changes in working capital related items. On the Effective Date, actual cash may vary from cash reflected in the projected Consolidated Balance Sheets because of variances in the Financial Projections and potential changes in cash needs to consummate the Plan.
- b. The working capital accounts (accounts receivable, accounts payable and inventories) in the Financial Projections are based on long-term historical turnover ratios of the Debtors. The projections assume resumption of all trade credit during fiscal 2014.

PROJECTED INCOME STATEMENT

(US\$ in millions)	FYE April 30,			
	2014E	2015E	2016E	2017E
Revenue	\$645	\$690	\$705	\$735
Less: Cost of Sales	393	415	423	441
Gross Profit	\$252	\$275	\$282	\$294
% Margin	39.1%	39.9%	40.0%	40.0%
Selling, General & Administrative Expenses				
Operating Expenses	\$58	\$64	\$66	\$70
Sales, Marketing & Catalog	118	125	126	130
Business Technology / Telephone	19	20	20	20
Admin, Support & Other	23	26	28	28
D&A	26	23	23	22
Total Selling, General & Administrative Expenses	\$243	\$258	\$262	\$270
Adjusted EBIT ⁽¹⁾	\$9	\$17	\$20	\$25
Plus: Total D&A	35	36	38	39
Adjusted EBITDA ⁽¹⁾	\$44	\$53	\$58	\$64
% Margin	6.8%	7.7%	8.2%	8.6%

Notes:

(1) Excludes one time items, restructuring and reorganization expenses

PROJECTED BALANCE SHEET ⁽¹⁾

(US\$ in millions)	FYE April 30,			
	2014E	2015E	2016E	2017E
ASSETS				
Cash	\$3	\$3	\$3	\$3
Restricted Cash	4	4	4	4
Accounts Receivable, Net	58	64	68	71
Inventories	97	104	110	116
Deferred Catalog Cost	11	12	13	13
Prepaid Expenses And Other	10	11	12	12
Refundable Income And Deferred Tax	10	10	10	10
Total Current Assets	\$193	\$207	\$219	\$229
PP&E, Net	\$38	\$36	\$34	\$30
Intangible Assets, Net	100	90	81	73
Development Costs And Other	39	41	41	36
Minority Interest	11	13	15	18
Amortizable Financing Fees	6	5	3	2
Total Assets	\$387	\$392	\$393	\$386
LIABILITIES & SHAREHOLDER'S EQUITY				
Current Maturities Long-Term Debt	\$0	\$0	\$0	\$0
Accounts Payable	31	38	40	42
Accrued Compensation	4	4	4	4
Deferred Revenue	3	3	3	3
Other Accrued Liabilities	18	19	20	21
Total Current Liabilities	\$56	\$64	\$68	\$71
ABL Revolver	\$14.5	\$15.7	\$19.3	\$13.1
Term Loan	81.5	66.5	47.2	23.4
Capital Lease	11.9	11.9	11.9	11.9
10% PIK GUC Notes	8.4	9.3	10.2	11.3
5% PIK GUC Notes	7.9	8.4	8.8	9.2
Total Long-Term Debt ⁽²⁾	\$124	\$112	\$97	\$69
Total Liabilities	\$180	\$176	\$165	\$140
Total Shareholders' Equity	\$207	\$216	\$228	\$247
Total Liabilities And Shareholders' Equity	\$387	\$392	\$393	\$386

Notes:

(1) Does not reflect fresh start accounting. Reflects equityization of convertible notes and a portion of the Ad Hoc DIP

(2) Assumes new ABL revolving credit facility and illustrative \$100.0 million new term loan at emergence. Includes trade and non-trade PIK notes

PROJECTED CASH FLOW STATEMENT

US\$ in millions)	FYE April 30,			
	2014E	2015E	2016E	2017E
Net Income	(\$26)	\$9	\$12	\$19
Plus: Depreciation	17	15	15	14
Plus: Amortization	18	21	23	25
PIK Interest	1	1	1	2
Other Amortization	0	0	0	0
Amortization of Debt Fees	1	1	1	1
Deferred Taxes And Other Liabilities	(0)	0	0	0
Minority Interest Loss (Net)	(2)	(2)	(2)	(2)
Changes in Working Capital				
Accounts Receivable	5	(5)	(4)	(3)
Restricted Cash (LCs and Canada)	0	0	0	0
Inventories	(4)	(7)	(6)	(5)
Deferred Catalog Cost	1	(1)	(1)	(1)
Prepaid Expenses And Other	16	(1)	(1)	(1)
Accounts Payable	16	7	2	2
Other Accrued Assets and Liabilities	3	2	1	1
Total Changes in Working Capital	\$36	(\$6)	(\$8)	(\$7)
Cash Flow from Operations	\$45	\$39	\$43	\$52
Less: Capital Expenditures	(\$9)	(\$12)	(\$13)	(\$10)
Less: Product Development Spend	(10)	(13)	(14)	(11)
Cash Flow from Investing Activities	(\$19)	(\$25)	(\$27)	(\$21)
Debt Repayment and Other Reorganization Items	(\$24)	(\$14)	(\$16)	(\$30)
Cash Flow from Financing Activities	(\$24)	(\$14)	(\$16)	(\$30)
Change in Cash	\$2	\$0	\$0	\$0
Beginning Cash	\$1	\$5	\$3	\$3
Plus: Change in Cash	2	0	0	0
Ending Cash	\$3	\$5	\$3	\$3

EXHIBIT C

Blackline Liquidation Analysis

LIQUIDATION ANALYSIS

Introduction

Often called the “best interests” test, section 1129(a)(7) of the Bankruptcy Code requires that the Bankruptcy Court find, as a condition to confirmation of the Plan, that each holder of a Claim or Interest in each Impaired Class: (i) has accepted the Plan; or (ii) will receive or retain under the Plan property of a value, as of the Effective Date, that is not less than the amount that such Person would receive if the Debtors were liquidated under chapter 7 of the Bankruptcy Code. To make these findings, the Bankruptcy Court must: (1) estimate the cash proceeds (the “Liquidation Proceeds”) that a chapter 7 trustee would generate if each Debtor’s Chapter 11 Case were converted to a chapter 7 case on the Effective Date and the assets of such Debtor’s estate were liquidated; (2) determine the distribution (the “Liquidation Distribution”) that each non-accepting holder of a Claim or Interest would receive from the Liquidation Proceeds under the priority scheme dictated in chapter 7; and (3) compare each holder’s Liquidation Distribution to the distribution under the Plan (“Plan Distribution”) that such Holder would receive if the Plan were confirmed and consummated.

Accordingly, asset values discussed herein may be different than amounts referred to in the Plan. The Liquidation Analysis is based upon certain assumptions discussed herein and in the Disclosure Statement.

Significant Assumptions

Hypothetical recoveries to creditors and equity holders of the Debtors in chapter 7 were determined through multiple steps, as set forth below. The basis of the Liquidation Analysis is the Debtors’ projected cash balance and assets as of May 31, 2013 (the “Conversion Date”) and the net costs to execute the administration of the wind-down of the estate. The analysis assumes that the Debtors would commence chapter 7 liquidation on or about the Conversion Date under the supervision of a court appointed chapter 7 trustee. The Liquidation Analysis reflects the wind-down and liquidation of substantially all of the Debtors’ remaining assets; and the distribution of available proceeds to holders of Allowed Claims during the “Wind-Down Period.”

The Liquidation Analysis assumes that all Debtors will be deemed to be consolidated.

The statements in the Liquidation Analysis, including estimates of Allowed Claims, were prepared solely to assist the Bankruptcy Court in making the findings required under section 1129(a)(7) and they may not be used or relied upon for any other purpose.

THE DEBTORS BELIEVE THAT ANY ANALYSIS OF A HYPOTHETICAL LIQUIDATION IS NECESSARILY SPECULATIVE. THERE ARE A NUMBER OF ESTIMATES AND ASSUMPTIONS UNDERLYING THE LIQUIDATION ANALYSIS THAT ARE INHERENTLY SUBJECT TO SIGNIFICANT UNCERTAINTIES AND CONTINGENCIES BEYOND THE CONTROL OF THE DEBTORS OR A CHAPTER 7 TRUSTEE. NEITHER THE

LIQUIDATION ANALYSIS, NOR THE FINANCIAL INFORMATION ON WHICH IT IS BASED, HAS BEEN EXAMINED OR REVIEWED BY INDEPENDENT ACCOUNTANTS IN ACCORDANCE WITH STANDARDS PROMULGATED BY THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS. THERE CAN BE NO ASSURANCE THAT ACTUAL RESULTS WILL NOT VARY MATERIALLY FROM THE HYPOTHETICAL RESULTS PRESENTED IN THE LIQUIDATION ANALYSIS.

Summary Notes to Liquidation Analysis

1. *Dependence on assumptions.* The Liquidation Analysis depends on estimates and assumptions. The Liquidation Analysis is based on a number of estimates and assumptions that, although developed and considered reasonable by the management and the advisors of the Debtors, are inherently subject to significant economic, business, regulatory and competitive uncertainties and contingencies beyond the control of the Debtors or their management. The Liquidation Analysis is also based on the Debtors' best judgment of how numerous decisions in the liquidation process would be resolved. Accordingly, there can be no assurance that the values reflected in this Liquidation Analysis would be realized if the Debtors were, in fact, to undergo such a liquidation and actual results could vary materially and adversely from those contained herein.
2. *Additional unsecured claims.* The cessation of business in a liquidation is likely to trigger certain claims that otherwise would not exist under a Plan absent a liquidation. Examples of these kinds of claims include various potential employee claims (for such items as severance), executory contracts, and unexpired lease rejection damages. Some of these claims could be significant and will be entitled to priority in payment over general unsecured claims. Those priority claims would be paid in full from the liquidation proceeds before the balance would be made available to pay general unsecured claims or to make any distribution in respect of equity interests.
3. *Preference or fraudulent transfers.* No recovery or related litigation costs have been attributed to any potential avoidance actions under the Bankruptcy Code, including potential preference or fraudulent transfer actions due to, among other issues, uncertainty and anticipated disputes about these matters.
4. *Dependence on a forecasted balance sheet.* This Liquidation Analysis contains numerous estimates that are still under review and it remains subject to further legal and accounting analysis.

5. *Chapter 7 liquidation costs and length of liquidation process.* The Debtors have assumed that the initial phase of a liquidation would involve minimal operations. Subsequently, a limited group of personnel would be retained in order to pursue orderly sales of substantially all of the remaining assets, collect receivables, arrange distributions, and otherwise administer and close the estates. Thus, this Liquidation Analysis assumes the liquidation would be completed within 6 months. In an actual liquidation the wind down process and time period(s) could vary thereby impacting recoveries. For example, the potential for priority, contingent and other claims, litigation, rejection costs, and the final determination of allowed claims could substantially impact both the timing and amount of the distribution of the asset proceeds to the creditors. Accordingly, there can be no assurance that the values reflected in this Liquidation Analysis would be realized if the Debtors were, in fact, to undergo such a liquidation.

Pursuant to section 726 of the Bankruptcy Code, the allowed administrative expenses incurred by Chapter 7 Trustee, including, but not limited to, expenses affiliated with selling the Debtor's assets, will be entitled to payment in full prior to any distribution to Chapter 11 administrative and other priority claims. The estimate used in the Liquidation Analysis for these expenses includes estimates for certain legal, accounting, and other professionals. The chapter 7 trustee fees are calculated based upon the statutory scale set forth in section 326(a) of the Bankruptcy Code, which provides for fees equal to 25% of the first \$5,000 of distributions; 10% of the next \$45,000 of distributions; 5% of the next \$950,000 of distributions; and 3% of distributions in excess of \$1,000,000.

6. *Claims Estimates.* Claims are estimated based upon claims filed and scheduled as of April 1, 2013.
7. *Distribution of Net Proceeds.* Costs of liquidation, including the fees and expenses incurred by the liquidating trustee and other administrative expenses incurred in connection with liquidation which would be paid in full from the liquidation proceeds before the balance of those proceeds will be made available to pay post-petition secured debt claims, administrative claim amounts, priority tax claims, pre-bankruptcy secured debt claims, pre-bankruptcy secured other secured claims and unsecured claims. Under the absolute priority rule, no junior creditor would receive any distribution until all senior creditors are paid in full, and no equity holder would receive any distribution until all creditors are paid in full. The assumed distributions to creditors as reflected in the liquidation analysis are estimated in accordance with the absolute priority rule.

8. *Priority Collateral.* Pursuant to Lender Interim and Final DIP orders, Ad Hoc Lenders maintain a senior lien on all Term Loan Priority Collateral, and the ABL DIP Lenders a junior lien on all Term Loan Priority Collateral until April 15, 2013, at which point the ABL DIP Lenders maintain a senior lien on Term Loan Priority Collateral to the extent of their claim amount arising after April 15, 2013. ABL DIP Lenders maintain a senior lien on all ABL Priority Collateral (accounts receivable and inventory), and the Ad Hoc Lenders a junior lien on all ABL Priority Collateral. The analysis assumes recoveries related to Accounts Receivables and Inventory net of their pro-rata portion of Wind Down Costs and Liquidating Trustee Cost are first applied to ABL DIP secured claim and any remaining value would flow to the Ad Hoc term lenders.

1. ***Conclusion:*** The Debtors have determined, as summarized in the following analysis, that confirmation of the plan of reorganization will provide all creditors and equity holders with a recovery (if any) that is not less than what they would otherwise receive pursuant to a liquidation of the Debtors under chapter 7 of the Bankruptcy Code.

The following Liquidation Analysis should be reviewed with the accompanying notes.

(\$ in 000s)

	Notes	May-13 Projected Book Value	Potential Recovery Under Chapter 7 Conversion					
			Low		Mid		High	
			(\$)	(%)	(\$)	(%)	(\$)	(%)
Restricted Cash	(a)	\$ 25,892	\$ -	0%	\$ -	0%	\$ -	0%
Accounts Receivable	(b)	65,917	42,846	65%	47,790	73%	52,734	80%
Inventory	(c)	102,400	48,840	48%	59,080	57%	68,872	67%
Prepaid Expense & Other	(d)	48,453	20,975	43%	23,375	48%	25,775	53%
Property, Plant & Equipment	(e)	45,217	4,522	10%	9,043	20%	13,565	30%
Intangible Assets	(f)	108,627	5,013	5%	10,863	10%	16,294	15%
Other Long-Term Assets	(g)	38,236	1,912	5%	3,824	10%	5,735	15%
Minority Interest	(h)	8,368	418	5%	2,929	35%	5,439	65%
Gross Liquidation Proceeds		\$ 443,109	\$ 124,526	28%	\$ 156,903	35%	\$ 188,414	43%
Less: Net Wind Down Cost (excl. Liquidating Trustee)	(i)		(3,518)	1%	(3,712)	1%	(3,901)	1%
Less: Liquidating Trustee Chapter 7 Trustee Costs	(j)		(3,759)	1%	(4,730)	1%	(5,676)	1%
Net Estimated Liquidation Proceeds			\$ 117,249	26%	\$ 148,461	34%	\$ 178,837	40%

	Notes	Est. Claim Amount	Net Distribution		Net Distribution		Net Distribution	
			Amount	%	Amount	%	Amount	%
PRELIMINARY¹								
Estimated Claims:								
Unclassified: ABL DIP Secured	(k)	\$ 72,300	\$ 72,300	100%	\$ 72,300	100%	\$ 72,300	100%
Unclassified: Ad Hoc DIP Secured	(l)	155,000	24,129	16%	59,751	39%	94,537	61%
Unclassified: Professional Fee Carve Out	(m)	12,000	12,000	100%	12,000	100%	12,000	100%
Unclassified: Administrative Claims	(n)	34,512	-	0%	-	0%	-	0%
Unclassified: Priority Tax Claims	(o)	8,954	8,820	99%	4,410	49%	-	0%
Class 1: Other Priority Claims	(p)	44	-	0%	-	0%	-	0%
Class 2: Prepetition ABL Claims	(q)	-	-	0%	-	0%	-	0%
Class 3: Prepetition Term Loan Claims	(r)	-	-	0%	-	0%	-	0%
Class 4: Other Secured Claims	(s)	3,147	-	0%	-	0%	-	0%
Class 5: General Unsecured Claims	(t)	20,943	-	0%	-	0%	-	0%
Class 6: Trade Unsecured Claims	(u)	35,556	-	0%	-	0%	-	0%
Class 7: Noteholder Unsecured Claims	(v)	170,754	-	0%	-	0%	-	0%
Class 8: Convenience Class Claims	(w)	1,546	-	0%	-	0%	-	0%
Class 9: Equity Interests	(x)	-	-	0%	-	0%	-	0%
Subtotal		\$ 514,756	\$ 117,249	23%	\$ 148,461	29%	\$ 178,837	35%
Net Estimated Liquidation Proceeds Remaining			\$ -	0%	\$ -	0%	\$ -	0%

1 - Due to certain pending bar dates and claim reconciliation process, the information in this table is preliminary estimates.

Detailed Assumptions

Asset Recovery Estimates

Asset recovery estimates presented in this liquidation analysis are based on the Company's projected Debtor balance sheet for May 31, 2013:

- (a) Cash and Cash Equivalents: The Liquidation Analysis assumes that operations during the liquidation period would not generate additional cash available for distribution. Cash on the balance sheet relates to restricted cash to collateralize Letter of Credit and. The Liquidation Analysis assumes no cash recovery to the Ad Hoc DIP Lenders in respect of the \$25 million Make Whole escrow amount. The liquidation analysis assumes no cash recovery, consistent with the Court's April 22, 2013 decision. To the extent that decision is successfully appealed and all or a portion of the \$25 million Make Whole escrow amount is recouped by the Ad Hoc DIP Lenders, the balance would directly reduce the Ad Hoc DIP claim balance. A recovery of the full \$25 million Make Whole amount would increase the Ad Hoc DIP recovery from 61% to 77% in the high scenario and would have no effect on any other classes of claims.

Asset Recoveries - Cash						
May 2013 - Projected Book Value						
(\$ in 000s)						
Projection	Estimated Recovery					
	Low		Mid ¹		High	
	(\$)	(%)	(\$)	(%)	(\$)	(%)
Restricted Cash	\$ 25,892	\$ - 0%	\$ - 0%	\$ - 0%	\$ - 0%	\$ - 0%

¹The Mid projected recovery represents the mid-point of the high and low estimated recoveries.

- (b) Accounts Receivable: Accounts receivable primarily consist of trade receivables. It is assumed that a Chapter 7 trustee would retain certain existing staff of the Debtors to lead an aggressive collection effort for outstanding Accounts Receivable of the Debtors. School Specialty's accounts receivable have historically exhibited low loss rates. Company management believes that in the case of liquidation, School Specialty would be able to collect 65% - 80% of outstanding receivables. Recovery percentages were discounted to reflect non delivery and damaged goods.

Asset Recoveries - Accounts Receivable						
May 2013 - Projected Book Value						
(\$ in 000s)						
Projection	Estimated Recovery					
	Low		Mid ¹		High	
	(\$)	(%)	(\$)	(%)	(\$)	(%)
Accounts Receivable	\$ 65,917	\$ 42,846 65%	\$ 47,790 73%	\$ 52,734 80%		

¹The Mid projected recovery represents the mid-point of the high and low estimated recoveries.

- (c) Inventory: Inventory primarily consists of consumable stock goods that maintain a low level of obsolescence. Additionally, inventory includes raw materials, work-in-process, billable projects, and finished goods. It is assumed that raw materials and work-in-process are consumed during the liquidation period. Company management believes that in the case of liquidation, total inventory is assumed to have a recovery rate of 48%-67%. The Company's independent borrowing base appraisal assumes inventory recovery is 93% of book value and slow moving inventory is typically 27% of book value. These values were discounted by 15% in the high scenario to reflect what is included in the Company's borrowing base.

Asset Recoveries - Inventory						
May 2013 - Projected Book Value						
(\$ in 000s)						
Projection	Estimated Recovery					
	Low		Mid ¹		High	
	(\$)	(%)	(\$)	(%)	(\$)	(%)
Inventory	\$ 81,400	\$ 47,790 59%	\$ 55,930 69%	\$ 64,070 79%		
Slow Moving Inventory	21,000	1,050 5%	3,150 15%	4,802 23%		
Total Inventory	\$ 102,400	\$ 48,840 48%	\$ 59,080 57%	\$ 68,872 67%		

¹The Mid projected recovery represents the mid-point of the high and low estimated recoveries.

- (d) Prepaid Expense & Other: Amount represents estimated prepaid inventory, prepaid expenses/other, current year tax refunds, and deferred catalog costs. Prepaid Other amounts relate to licensing fees on maintenance contracts, deposits and vendor rebates. Company

management believes that in the case of liquidation, prepaid recovery rate would be between 43% - 53%. The refundable income/deferred tax recovery is assumed to be off set against the Priority Tax claims as follows: 100% in the low scenario, 50% in the mid scenario and 0% in the high scenario. See Summary of Claims for additional detail.

Asset Recoveries - Prepaid Expense & Other May 2013 - Projected Book Value								
(\$ in 000s)			Estimated Recovery					
			Low		Mid ¹		High	
Projection			(\$)	(%)	(\$)	(%)	(\$)	(%)
Prepaid Inventory	\$	19,000	\$ 11,155	59%	\$ 13,055	69%	\$ 14,955	79%
Prepaid Expenses And Other		10,000	1,000	10%	1,500	15%	2,000	20%
Refundable Income/Deferred Tax		9,800	8,820	90%	8,820	90%	8,820	90%
Deferred Catalog Cost		9,653	-	0%	-	0%	-	0%
Prepaid Expense & Other	\$	48,453	\$ 20,975	43%	\$ 23,375	48%	\$ 25,775	53%

¹The Mid projected recovery represents the mid-point of the high and low estimated recoveries.

- (e) Property, Plant & Equipment: Primarily consists of capitalized software for the Company's ERP system. Additionally includes data equipment, printing equipment, and furniture. The Company owns one distribution center in Salina, Kansas with a book value of ~\$2.0M. Company management believes that in the case of liquidation, Property, Plant & Equipment is assumed to have a recovery rate of 10% to 30%.

Asset Recoveries - Property, Plant & Equipment May 2013 - Projected Book Value								
(\$ in 000s)			Estimated Recovery					
			Low		Mid ¹		High	
Projection			(\$)	(%)	(\$)	(%)	(\$)	(%)
Property, Plant & Equipment	\$	45,217	\$ 4,522	10%	\$ 9,043	20%	\$ 13,565	30%

¹The Mid projected recovery represents the mid-point of the high and low estimated recoveries.

- (f) Intangible Assets: Primarily includes amounts capitalized for trademarks, licensing agreement, and publishing rights. Company management believes that certain strong brand names may have some value in a liquidation scenario. Intangible assets are assumed to have between 5% - 15% recovery.

Asset Recoveries - Intangibles May 2013 - Projected Book Value								
(\$ in 000s)			Estimated Recovery					
			Low		Mid ¹		High	
Projection			(\$)	(%)	(\$)	(%)	(\$)	(%)
Intangibles	\$	108,627	\$ 5,013	5%	\$ 10,863	10%	\$ 16,294	15%

¹The Mid projected recovery represents the mid-point of the high and low estimated recoveries.

- (g) Other Long-Term Assets: Includes capitalized debt cost and capital development spend for new education programs. Possible value may exist in the Company's capital development

and their right to sell equipment related to the ~~Foss~~FOSS program. Therefore, Company management believes that other long-term assets are assumed to have between a 5% - 15% recovery.

Asset Recoveries - Other Long-Term Assets							
May 2013 - Projected Book Value							
(\$ in 000s)		Estimated Recovery					
	Projection	Low		Mid ¹		High	
		(\$)	(%)	(\$)	(%)	(\$)	(%)
Other Long-Term Assets	\$ 38,236	\$ 1,912	5%	\$ 3,824	10%	\$ 5,735	15%

¹The Mid projected recovery represents the mid-point of the high and low estimated recoveries.

- (h) Minority interest: Represents 35% minority interest in Carson-Dellosa Publishing LLC. Per the last audited valuation the minority stake is valued at ~\$10.0M. Due to joint venture relationship this value will be difficult to achieve. Therefore Company management believes recovery to be between 5% and 65%.

Asset Recoveries - Minority Interest							
May 2013 - Projected Book Value							
(\$ in 000s)		Estimated Recovery					
	Projection	Low		Mid ¹		High	
		(\$)	(%)	(\$)	(%)	(\$)	(%)
Minority Interest	\$ 8,368	\$ 418	5%	\$ 2,929	35%	\$ 5,439	65%

¹The Mid projected recovery represents the mid-point of the high and low estimated recoveries.

Liquidation Expenses

- (i) Wind-down Costs: Includes general and administrative expenses including payroll/general administrative expenses of ~\$1.0 million and professional fees of \$1.3 million to wind down the estate. Additionally the wind down costs assumes a 20% contingency for all liquidation costs that were not included in the budget. Company management has estimated that the wind-down costs associated with Chapter 7 liquidation to approximate \$3.6 million to over \$4.0 million.
- (j) Liquidating Trustee Chapter 7 Trustee Costs: Amount represents the preliminary estimated Liquidation Trustee and chapter 7 trustee costs. The chapter 7 trustee fees are calculated based upon the statutory scale set forth in section 326(a) of the Bankruptcy Code, which provides for fees equal to 25% of the first \$5,000 of distributions; 10% of the next \$45,000 of distributions; 5% of the next \$950,000 of distributions; and 3% of distributions in excess of \$1,000,000. The fees for the chapter 7 trustee are higher than those of the Liquidation Trustee because the chapter 7 trustee likely will have no historic knowledge of the Debtors and will need time to familiarize him or herself with the books and records, filed claims, and other matters.

Claims

Summary of Claims								
(\$ in 000s)								
	Claim Estimates ¹		Estimated Recovery					
			Low		Mid		High	
			(\$)	(%)	(\$)	(%)	(\$)	(%)
ABL DIP Financing	(k)	\$ 72,300	\$ 72,300	100%	\$ 72,300	100%	\$ 72,300	100%
Ad Hoc DIP Financing	(l)	155,000	24,129	16%	59,751	39%	94,537	61%
Professional Fee Curve Out	(m)	12,000	12,000	100%	12,000	100%	12,000	100%
Administrative Claims	(n)							
503 (b)9 Claims		7,948	-	0%	-	0%	-	0%
Severance		13,364	-	0%	-	0%	-	0%
Unpaid Post-Petition AP		13,200	-	0%	-	0%	-	0%
Total		34,512	-	0%	-	0%	-	0%
Priority Tax Claims	(o)	8,954	8,820	99%	4,410	49%	-	0%
Other Priority Claims	(p)	44	-	0%	-	0%	-	0%
Prepetition ABL Claims	(q)	-	-	0%	-	0%	-	0%
Prepetition Term Loan Claims	(r)	-	-	0%	-	0%	-	0%
Other Secured Claims	(s)	3,147	-	0%	-	0%	-	0%
General Unsecured Claims	(v)	20,943	-	0%	-	0%	-	0%
Trade Unsecured Claims	(u)	35,556	-	0%	-	0%	-	0%
Noteholder Unsecured Claims	(t)	170,754	-	0%	-	0%	-	0%
Convenience Class Claims	(w)	1,546	-	0%	-	0%	-	0%
Equity Interests	(x)	\$ -	\$ -	0%	\$ -	0%	\$ -	0%

1 - Due to certain pending bar dates and claim reconciliation process, the information in this table is preliminary estimates.

- (k) ABL DIP Unclassified Claims: Amount represents estimated ABL DIP loan drawn at the Conversion Date. The ABL maximum draw amount is \$72.3 million. As of the week ending April 13th the ABL Loan balance was \$41.8 million. The increase in the ABL DIP balance between April 13 and the Conversion Date is primarily due to seasonal inventory purchases.
- (l) AD Hoc DIP Unclassified Claims: Amount represents estimated Ad Hoc term DIP loan drawn at the Conversion Date. The Ad Hoc Term delayed draw term loan is expected to be fully drawn at \$155.0 million. To the extent a portion of the \$25 million Make Whole escrow amount is recouped, the balance would directly reduce the Adhoc DIP claim balance. If all \$25 million is recouped the Adhoc recovery would be ~77% in the high scenario.

- (m) Professional Fee Carve Out: Amount represents unpaid professional fees at the Conversion Date. Pursuant to DIP Orders unpaid professional fees that are not related to success fees are carved out of recoveries to the Ad Hoc Lenders.
- (n) Administrative Claims: Administrative expenses primarily include preliminary estimates for allowed 503(b)(9) claims, post-petition accounts payable as of the Conversion Date and severance which is based on 2 months' salary for SSI's ~1,650 employees. The chapter 7 liquidation analysis assume administrative expenses of approximately \$34.7 million. Such amount is an estimate and the actual administrative expenses could be either higher or lower than this estimate. The Administrative Bar Date has not run as of the date hereof. Note that in the event of a reorganization the administrative claim balance is expected to be lower.
- (o) Priority Tax Claims: Primarily reflects preliminary estimated unpaid tax claims as of the Conversion Date. The Governmental Unit Bar Date applicable to prepetition tax Claims has not run as of the date hereof. Such amount is an estimate and the actual claims could be either higher or lower than this estimate. Recovery amounts for the scenarios are as follows: 100% for the low scenario, 50% for the mid scenario and 0% for the high scenario
- (p) Other Priority Claims: Includes Priority accounts payable and employee claims related to severance. Such amount is an estimate and the actual claims could be either higher or lower than this estimate.
- (q) Prepetition ABL Claims: Amounts due and owing under the Prepetition ABL Facility was \$43.3M as of the filing date. Based on cash collection sweeps through March 2013, this amount has been fully repaid. Therefore, no pre-petition ABL claim exists.
- (r) Prepetition Term Loan Claims: Includes any unpaid/unsettled claim amounts due to Bayside Capital. Analysis assumes Bayside pre-petition amounts were satisfied in full at the Ad Hoc DIP closing. Such amount is an estimate and the actual claims could be either higher or lower than this estimate.
- (s) Other Secured Claims: Includes non-lender claimants with a perfected lien including property tax claims and insurance claims. Such amount is an estimate and the actual claims could be either higher or lower than this estimate.
- (t) General Unsecured Claims: Includes any General Unsecured Claims against the Debtors over three thousand dollars (\$3,000).
- (u) Trade Unsecured Claims: Includes Claims of any entity that provided goods and/or services to the Debtors in the ordinary course of business prior to the Petition Date that is over three thousand dollars (\$3,000).

(v) ~~(t)~~ Noteholder Unsecured Notes Claims: Includes unsecured notes of \$170.8 million.

(w) ~~(u)~~ General Unsecured Convenience Class Claims: Includes any general-unsecured non-equity claims against the Debtors General Unsecured Claim or Trade Unsecured Claim which has an Allowed Claim amount of three thousand dollars (\$3,000) or less.

(x) ~~(v)~~ Equity Interests: Includes claims related to equity interest in SSI.

Note:

The Net Distributable Value shown for Classified Claims may be less than estimated as a result of additional amounts for higher priority claims, including Priority Tax Claims subject to the later Governmental Unit Bar Date, Administrative Claims subject to the Administrative Claims Bar Date, and ~~post-petition~~ post-petition Claims for taxes that are not subject to any Bar Date.

Estimated Classified Claims do not include unliquidated claims or rejection damage claims yet to be filed. Therefore, the total Estimated Classified Claims are subject to change.

Except as otherwise provided in the Plan, the Debtors reserve the right to object to the amount and classification, and to amend or modify the treatment, of any Claim or Interest.