

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

Hearing Date: May 20, 2013 at 1:30 p.m. (ET)

Objection Deadline: May 13, 2013 at 4:00 p.m. (ET)

Re: Docket Nos. 12, 86, 88 & 247

**DEBTORS' MOTION FOR AN ORDER (I) AUTHORIZING DEBTORS TO
AMEND THEIR ABL DIP FACILITY AND (II) GRANTING RELATED RELIEF**

The above-captioned debtors and debtors-in-possession (each a "Debtor" and collectively, the "Debtors") hereby file this motion (the "Motion"), pursuant to sections 105(a), 363(b), and 364 of title 11 of the United States Code, 11 U.S.C. §§ 101 *et seq.* (the "Bankruptcy Code"), Rules 2002 and 4001 of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules") and Rule 2002-1 of the Local Rules of Practice and Procedure of the United States Bankruptcy Court for the District of Delaware (the "Local Rules"), for entry of an order, substantially in the form attached hereto as Exhibit A (the "Proposed Order"), (i) authorizing the Debtors to enter into and execute Amendment No. 3 to the ABL DIP Facility (as defined below) and to perform all of their obligations thereunder, and (ii) providing that all references in the Final ABL DIP Order and ABL DIP Credit Agreement shall be deemed to include Amendment No. 3.² In support of this Motion, the Debtors respectfully state as follows:

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 The Debtors incorporate by reference (i) 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)*,



JURISDICTION

1. The United States Bankruptcy Court for the District of Delaware (the “Court”) has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334 and the Amended Standing Order of Reference from the United States District Court for the District of Delaware dated as of February 29, 2012. This matter is a core proceeding within the meaning of 28 U.S.C. § 157(b)(2).

2. Venue is proper pursuant to 28 U.S.C. §§ 1408 and 1409.

3. The statutory bases for the relief requested herein are sections 105(a), 363(b), and 364 of the Bankruptcy Code, Bankruptcy Rules 2002 and 4001, and Rule 2002-1 of the Local Rules.

RELIEF REQUESTED

4. By this Motion and for the reasons set forth below, pursuant to sections 105(a), 363(b), and 364 of the Bankruptcy Code and Bankruptcy Rules 2002 and 4001 the Debtors respectfully request the Court approve an order (i) authorizing the Debtors to enter into and execute the proposed Amendment No. 3 to the Debtor-in-Possession Credit Agreement attached hereto as Exhibit B (the “Amendment No. 3”), including the payment of certain fees and expenses requested by the ABL DIP Lenders in connection with their grant of such amendment, including an amendment fee of \$100,000 (the “Amendment Fee”) and perform all of their obligations thereunder and (ii) providing that all references in the Final ABL DIP Order and ABL DIP Credit Agreement shall be deemed to include Amendment No. 3.

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 Ad Hoc 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 Obligations 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”). Capitalized terms used but not defined herein shall have the meanings ascribed to them in the DIP Motion.

RELEVANT BACKGROUND

A. General Background

5. On January 28, 2013, each of the Debtors filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code thereby commencing the instant cases (the “Chapter 11 Cases”). The Debtors continue to manage and operate their businesses as debtors-in-possession pursuant to sections 1107 and 1108 of the Bankruptcy Code. These Chapter 11 Cases are being jointly administered for procedural purposes only.

6. On February 5, 2013, the United States Trustee for the District of Delaware (the “U.S. Trustee”) appointed an official committee of unsecured creditors [D.I. 110] (the “Initial Creditors’ Committee”). On February 27, 2013, the U.S. Trustee reconstituted the Initial Creditors’ Committee [D.I. 330] (the “Creditors’ Committee”). No trustee or examiner has been appointed in the Chapter 11 Cases.

B. Need to Amend DIP Facilities

7. On February 26, 2013, the Court approved the Final ABL DIP Order³ which also authorized the Debtors to enter into Amendment No. 1 to the ABL DIP Facility, whereupon the ABL DIP Lenders’ agreement to provide the ABL DIP Facility based on certain covenants promised by the Debtors. In consideration for the commitments of the ABL DIP Lenders under the ABL DIP Facility, the Debtors agreed to certain deadlines in connection with the entry of Court orders approving the Debtors’ disclosure statement, obtaining commitment letters for exit financing, and confirmation of a plan of reorganization by May 17, 2012 (the “Confirmation”).

³ *Final Order (I) Authorizing Debtors to (A) Obtain Postpetition Financing Pursuant to 11 U.S.C. §§105, 361, 362, 364(c)(1), 364(c)(3), 364(d)(1), 364(e) and 507, (B) Utilize Cash Collateral Pursuant to 11 U.S.C. §363, (C) Grant Priming Lien and Superpriority Claims to the DIP Lenders, (D) Provide Adequate Protection to Prepetition Secured Parties Pursuant to 11 U.S.C. §§361, 362, 363 and 364, and (E) Use Cash Collateral and Proceeds of the ABL DIP Facility to Repay Obligations Arising under the Prepetition ABL Credit Agreement and (II) Granting Related Relief (the “Final ABL DIP Order”).* The Final ABL DIP Order approved what the Debtors refer to as the “ABL DIP Facility”.

Milestone").⁴ The Debtors' failure to comply with any of such milestones would constitute an event of default under the ABL DIP Facility that would, among other things, prohibit additional advances under the ABL DIP Facility unless such defaults were waived or milestones amended with the written consent of the requisite ABL DIP Lenders, ABL DIP Agent and Co-Collateral Agents (as defined in the ABL DIP Credit Agreement) under the ABL DIP Facility.

8. On April 12, 2013, in accordance with paragraph 6(c)(2)(ii) of the Final ABL DIP Order, the parties entered into Amendment No. 2, a non-material amendment of the ABL DIP Agreement, to revise certain milestones so that the Debtors would have until April 23, 2013 to obtain Court approval of a disclosure statement and until April 26, 2013 to commence solicitation of votes in connection with the Debtors' proposed plan of reorganization (the "Disclosure Statement Milestones").⁵

9. On March 19, 2013, the Debtors filed their motion seeking approval of their proposed disclosure statement [D.I. 601], and on April 24, 2013, the Court entered an order [D.I. 902] (the "Disclosure Statement Order"), conditionally approving the *Disclosure Statement for the Debtors' Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code* (the "Disclosure Statement"). Among other things, the Disclosure Statement Order scheduled the hearing to consider confirmation of the *Debtors' Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code* (the "Plan") for May 20, 2013 at 1:30 p.m. (ET) (the "Confirmation Hearing").

10. Due to the Debtors' failure to satisfy the Disclosure Statement Milestones, including by their failure to obtain the Disclosure Statement Order by the agreed upon date and

⁴ See Schedule 5.16 of the ABL DIP Credit Agreement.

⁵ A copy of Amendment No. 2 to the ABL DIP Credit Agreement is attached hereto as Exhibit C. A blackline of Amendment No. 3 compared against Amendment No. 2 is attached hereto as Exhibit D.

their prospective failure to meet the required date for performance of the Confirmation Milestone, the Debtors requested that the Lenders under the ABL DIP Facility agree to amend such required dates as of April 23, 2013 so that no event of default would occur under the ABL DIP Facility and the Debtors would be able to continue to obtain revolving loans to operate in the ordinary course of business pending confirmation of the Plan.

11. Accordingly, the parties negotiated the Amendment No. 3 in good faith and at arm's-length whereby the ABL DIP Lenders have agreed to amend the Disclosure Statement Milestone and amend the Confirmation Milestone so that the Debtors are not required to obtain an order confirming the Plan until May 21, 2013. In exchange for the amendment of the Disclosure Statement Milestones and the Confirmation Milestone, the ABL DIP Lenders required certain conditions, including payment of the \$100,000 Amendment Fee payable on June 1, 2013 only in the event that the ABL DIP Obligations are not paid in full in cash on or before May 31, 2013 in accordance with the existing terms of the ABL DIP Facility. *See* Amendment No. 3, Section 6.1.

12. While the Debtors do not believe that Amendment No. 3 is material such that it requires an order of the Court in accordance with paragraph 6(c)(2)(ii) of the Final ABL DIP Order, out of an abundance of caution and because the ABL DIP Lenders have requested that the Debtors file a motion and obtain Court order approving Amendment No. 3, the Debtors have filed this Motion.

BASIS FOR RELIEF REQUESTED

13. As set forth in the DIP Motion, section 364 of the Bankruptcy Code authorizes a debtor to incur post-petition debt, and the basis for the Debtors' entering into the ABL DIP Facility was detailed in the ABL DIP Motion.

14. The circumstances of these Chapter 11 Cases discussed above necessitate entering into Amendment No. 3 pursuant to section 364(c) of the Bankruptcy Code, and entry into the Ad Hoc DIP Facility reflects the sound exercise of the Debtors' business judgment.

15. In addition, section 363(b)(1) of the Bankruptcy Code provides that a debtor, "after notice and a hearing, may use, sell or lease, other than in the ordinary course of business, property of the estate." 11 U.S.C. § 363(b)(1). Courts in this circuit interpreting section 363(b) of the Bankruptcy Code have generally approved the use, sale, or lease of estate property out of the ordinary course of business where there exists a sound business justification for the proposed transaction. *See, e.g., Myers v. Martin (In re Martin)*, 91 F.3d 389, 395 (3d Cir. 1996) (noting that courts generally defer to a trustee's judgment concerning use of property under section 363(b) when there is a legitimate business justification); *In re Del. & Hudson Ry. Co.*, 124 B.R. 169, 176 (D. Del. 1991) (noting that the Third Circuit has adopted the "sound business purpose" test for the use of property under section 363). To determine whether the business judgment test is met, the court "is required to examine whether a reasonable business person would make a similar decision under similar circumstances." *In re AbitibiBowater Inc.*, 418 B.R. 815, 831 (Bankr. D. Del. 2009).

16. Once a debtor articulates a valid business justification, it is presumed that "in making a business decision the directors of a corporation acted on an informed basis, in good faith and in the honest belief that the action was in the best interests of the company." *In re Integrated Res., Inc.*, 147 B.R. 650, 656 (S.D.N.Y. 1992) (quoting *Smith v. Van Gorkom*, 488 A.2d 858, 872 (Del. 1985)). The business judgment rule shields a debtor's management from judicial second-guessing, and mandates that a court approve a debtor's business decision unless that decision is a product of bad faith or gross abuse of discretion. *See Lubrizol Enters., Inc. v. Richmond Metal Finishers, Inc.*, 756 F.2d 1043, 1047 (4th Cir. 1985) (applying the business

judgment rule in evaluating debtor's decision to reject an executory contract), cert. denied, 475 U.S. 1057 (1986); see also Bridgeport Holdings Inc. Liquidating Trust v. Boyer (In re Bridgeport Holdings, Inc.), 388 B.R. 548, 567 (Bankr. D. Del. 2008). Thus, if a debtor's decisions satisfy the business judgment rule, then the transaction in question should be approved under section 363(b) of the Bankruptcy Code.

17. Courts routinely authorize debtors to enter into amendment financing fees, as this Court did previously in these Chapter 11 Cases in connection with approval of Amendment No. 1 attached to the Final ABL DIP Order.⁶ See, e.g., In re Allied Systems Holdings, Inc., Case No. 12-11564 (CSS) (Bankr. D. Del. Feb. 4, 2013); In re Vertis Holdings, Inc., Case No. 12-12821 (CSS) (Bankr. D. Del. Dec. 28, 2012); In re A123 Systems, Inc., Case No. 12-12859 (KJC) (Bankr. D. Del. Dec. 27, 2012) (extension of maturity date); In re SP Newsprint Holdings LLC, Case No. 11-13649 (CSS) (Bankr. D. Del. July 27, 2012); In re Indianapolis Downs, LLC, Case No. 11-11046 (BLS) (Bankr. D. Del. Mar. 23, 2012).

18. Further, Bankruptcy Code section 105(a) also authorizes this Court to grant the relief requested herein. Section 105(a) vests in this Court the power to "issue any order, process, or judgment that is necessary or appropriate to carry out the provisions of this title." 11 U.S.C. §105(a).

A. Entry into the Proposed Amendment No. 3 Is a Sound Exercise of the Debtors' Business Judgment.

19. The Debtors respectfully submit that the relief requested in this Motion is justified. The authority requested herein is necessary for the Debtors to have continued and uninterrupted access to the liquidity needed to operate their businesses going forward, so that

⁶ See Amendment No. 1, Section 3 (c). Amendment No. 1 approved, among other things, the satisfaction of certain key milestones in order to repay the ABL DIP Facility in full in cash on or before May 31, 2013 and the payment of the ABL DIP Lenders of an additional fee of \$450,000.

they may confirm and consummate the Plan. Absent the relief sought herein, the Debtors will be unable to have access to much needed liquidity because of the default resulting from the Debtors breach and prospective breach of their plan covenants under the ABL DIP Facility, including their failure to satisfy the Confirmation Milestone on or before May 17, 2013. Thus, Amendment No. 3 will facilitate the Debtors' ability to continue to operate and confirmation of the Plan. Accordingly, the Debtors believe that the relief requested herein is an appropriate exercise of their business judgment and is in the best interests of their estates.

B. The Amendment Fee is Reasonable and Appropriate Under the Circumstances

20. The relief requested by this Motion is reasonable and appropriate under the circumstances. As noted above, the parties negotiated the terms of the Amendment No. 3, including the Amendment Fee set forth in Section 6.1 of Amendment No. 3 at arm's-length and in good faith. The Amendment Fee will appropriately compensate the ABL DIP Lenders for their agreement to extend the Confirmation Milestone to accommodate the schedule of the Confirmation Hearing. Importantly, the Amendment Fee is only payable on June 1, 2013 and will be waived if the ABL DIP Obligations have been paid in full on or before May 31, 2013 if the Debtors are able to close on exit financing and thus, repay the obligations owed to the ABL DIP Lenders pursuant to the existing terms of the the Final ABL DIP Order.

21. At this stage of the Chapter 11 Cases, the Debtors believe that the benefits to the Debtors, their estates and creditors in entering into Amendment No. 3, by permitting the Debtors to continue to access the ABL DIP Facility and survive uninterrupted until the Confirmation Hearing, outweigh the corresponding costs associated with the Amendment No. 3. Accordingly, the Debtors respectfully submit that justification exists for this Court to grant the relief requested by this Motion.

NOTICE

22. Notice of this Motion will be provided to: (i) the U.S. Trustee; (ii) counsel to the agent under the Debtors' ABL Facility; (iii) counsel to the agent under the Debtors' Prepetition Term Loan Agreement (as defined in the Final ABL DIP Order); (iv) counsel to the agent for the Ad Hoc DIP Facility; (v) the indenture trustee for the Debtors' convertible debentures; (vi) counsel to the Creditors' Committee; and (viii) all parties that have filed a notice of appearance in these Chapter 11 Cases pursuant to Bankruptcy Rule 2002. In light of the nature of the relief requested herein, the Debtors submit that no other or further notice is necessary.

CONCLUSION

23. The Debtors' entry into the Amendment No. 3 is an appropriate and reasonable step to ensure the success of these Chapter 11 Cases, including confirmation of the Plan and the Debtors' ultimate emergence from bankruptcy. As set forth above, the Debtors believe that the relief sought herein is reasonable and appropriate under the circumstances. For these reasons the Debtors have determined, in the exercise of their sound business judgment, entry into the Amendment No. 3 and payment of the Amendment Fee is in the best interests of the estates and should be approved.

WHEREFORE, the Debtors respectfully request that this Court enter the Proposed Order and grant such other and further relief as is just and proper.

Dated: April 29, 2013
Wilmington, Delaware

YOUNG CONAWAY STARGATT & TAYLOR, LLP

/s/ Maris J. Kandestin

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Debtors-in-Possession*

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

Hearing Date: May 20, 2013 at 1:30 p.m. (ET)

Objection Deadline: May 13, 2013 at 4:00 p.m. (ET)

Re: Docket Nos. 12, 86, 88 & 247

NOTICE OF MOTION

TO: (I) THE U.S. TRUSTEE; (II) COUNSEL TO THE AGENT UNDER THE DEBTORS' ABL FACILITY; (III) COUNSEL TO THE AGENT UNDER THE DEBTORS' PREPETITION TERM LOAN AGREEMENT (AS DEFINED IN THE FINAL ABL DIP ORDER); (IV) COUNSEL TO THE AGENT FOR THE AD HOC DIP FACILITY; (V) THE INDENTURE TRUSTEE FOR THE DEBTORS' CONVERTIBLE DEBENTURES; (VI) COUNSEL TO THE OFFICIAL COMMITTEE; AND (VIII) ALL PARTIES THAT HAVE FILED A NOTICE OF APPEARANCE IN THESE CHAPTER 11 CASES PURSUANT TO BANKRUPTCY RULE 2002

PLEASE TAKE NOTICE that the debtors and debtors-in-possession in the above-captioned cases (collectively, the "Debtors") have filed the attached **Debtors' Motion for an Order (I) Authorizing Debtors to Amend Their ABL DIP Facility and (II) Granting Related Relief** (the "Motion") with the United States Bankruptcy Court for the District of Delaware (the "Court").

PLEASE TAKE FURTHER NOTICE that responses to the Motion, if any, are required to be filed on or before **May 13, 2013 at 4:00 p.m. (ET)** (the "Objection Deadline") with the United States Bankruptcy Court, 824 Market Street, 3rd Floor, Wilmington, Delaware 19801. At the same time, you must also serve a copy of the response upon the Debtors' undersigned counsel so as to be received on or before the Objection Deadline.

PLEASE TAKE FURTHER NOTICE THAT A HEARING ON THE MOTION WILL BE HELD ON **MAY 20, 2013 AT 1:30 P.M. (ET)**, BEFORE THE HONORABLE KEVIN J. CAREY AT THE UNITED STATES BANKRUPTCY COURT FOR THE

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.

DISTRICT OF DELAWARE, 824 NORTH MARKET STREET, 5TH FLOOR, COURTROOM #5, WILMINGTON, DELAWARE 19801.

PLEASE TAKE FURTHER NOTICE THAT IF YOU FAIL TO RESPOND IN ACCORDANCE WITH THIS NOTICE, THE COURT MAY GRANT THE RELIEF REQUESTED BY THE MOTION WITHOUT FURTHER NOTICE OR HEARING.

Dated: April 29, 2013
Wilmington, Delaware

YOUNG CONAWAY STARGATT & TAYLOR, LLP

/s/ Maris J. Kandestin

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EXHIBIT A

Proposed Order

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. 12, 86, 88, 247 & ____

**ORDER (I) AUTHORIZING DEBTORS TO AMEND THEIR
ABL DIP FACILITY AND (II) GRANTING RELATED RELIEF**

This matter came before the Court on the motion (“Motion”)² of the Debtors, requesting that this Court enter an order (a) authorizing Debtors to amend their ABL DIP Facility and (b) granting relating relief an order (i) authorizing the Debtors to enter into and execute the proposed Amendment No. 3 to the ABL DIP Facility, including the payment of certain fees and expenses requested by the ABL DIP Lenders in connection with their grant of such amendment, including an amendment fee of \$100,000 (the “Amendment Fee”) and perform all of their obligations thereunder and (ii) providing that all references in the Final ABL DIP Order and ABL DIP Credit Agreement shall be deemed to include Amendment No. 3; and the Court having considered the Motion and the record in these cases; and it appearing that this Court has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334 and the *Amended Standing Order of Reference from the United States District Court for the District of Delaware* dated as of February 29, 2012; and it appearing that this proceeding is a core proceeding pursuant to 28 U.S.C. § 157(b)(2); and it appearing that venue of this proceeding and this Motion is proper in this District pursuant to

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 All capitalized terms not defined herein shall have the meaning ascribed to them in the Motion.

28 U.S.C. §§ 1408 and 1409; and due and proper notice of the Motion having been given; and after due deliberation and it appearing that sufficient cause exists for granting the requested relief and that the relief requested is in the best interest of the Debtors, their estates, and their creditors;

IT IS HEREBY ORDERED THAT:

1. The terms of that certain Amendment No. 3 to Debtor-in-Possession Credit Agreement, dated as of April 23, 2013 (attached hereto as Exhibit 1, the “Amendment No. 3”), including, without limitation, payment of the Amendment Fee referenced in Section 6.1 therein, are hereby approved and the Debtors are authorized to perform each of their obligations under Amendment No. 3.

2. All references in the Final DIP Financing Order to the ABL DIP Credit Agreement will be deemed to mean, the ABL DIP Credit Agreement (as amended by that certain Amendment No. 1 to Debtor-in-Possession Credit Agreement, dated as of February 27, 2013, that certain Amendment No. 2 to Debtor-in-Possession Credit Agreement, dated as of April 12, 2013 and Amendment No. 3, and as the same may heretofore been or may hereafter be further amended, modified, supplemented, extended renewed, restated or replaced in accordance with the terms of the Final ABL DIP Order).

3. Except as expressly set forth herein, the terms, provisions and conditions of, and relief granted by, the Final ABL DIP Order are not altered and remain in full force and effect.

4. The terms of this Order were negotiated in good faith and at arms’ length.

5. The terms and conditions of this Order shall be effective immediately and enforceable upon its entry.

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

Dated: Wilmington, Delaware
May ____, 2013

THE HONORABLE KEVIN J. CAREY
UNITED STATES BANKRUPTCY JUDGE

Exhibit 1

Amendment No. 3

**AMENDMENT NO. 3 TO
DEBTOR-IN-POSSESSION CREDIT AGREEMENT**

This AMENDMENT NO. 3 TO DEBTOR-IN-POSSESSION CREDIT AGREEMENT (this "Amendment") is entered into as of April 23, 2013, by and among WELLS FARGO CAPITAL FINANCE, LLC, a Delaware limited liability company, as administrative agent for the Lenders (in such capacity, together with its successors and assigns in such capacity, "Agent"), SCHOOL SPECIALTY, INC., a Wisconsin corporation ("Parent"), CLASSROOMDIRECT.COM, LLC, a Delaware limited liability company ("ClassroomDirect"), SPORTIME, LLC, a Delaware limited liability company ("Sportime"), DELTA EDUCATION, LLC, a Delaware limited liability company ("Delta Education"), PREMIER AGENDAS, INC., a Washington corporation ("Premier Agendas"), CHILDCRAFT EDUCATION CORP., a New York corporation ("Childcraft"), BIRD-IN-HAND WOODWORKS, INC., a New Jersey corporation ("Bird-In-Hand"), and CALIFONE INTERNATIONAL, INC., a Delaware corporation ("Califone"; Parent, ClassroomDirect, Sportime, Delta Education, Premier Agendas, Childcraft, Bird-In-Hand and Califone are collectively "Borrowers" and each a "Borrower").

RECITALS:

WHEREAS, on January 28, 2013 (the "Filing Date"), Borrowers and Guarantors (other than Select Agendas, Corp.) filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code (as hereinafter defined) in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court");

WHEREAS, Agent and Borrowers have entered into certain financing arrangements pursuant to that certain Debtor-in-Possession Credit Agreement, dated as of January 31, 2013 by and among Borrowers, the financial institutions from time to time party thereto (collectively, the "Lenders" and each a "Lender") and Agent (as amended by that certain Amendment No. 1 to Debtor-in-Possession Credit Agreement, dated as of February 27, 2013 and that certain Amendment No. 2 to Debtor-in-Possession Credit Agreement, dated as of April 12, 2013, and as further amended hereby, and as the same may have heretofore been or may hereafter be further amended, modified, supplemented, extended, renewed, restated or replaced (the "Credit Agreement"));

WHEREAS, Borrowers have entered into that certain Senior Secured Super Priority Debtor-in-Possession Credit Agreement, dated as of February 27, 2013 (as amended by that certain Amendment No. 1 to Senior Secured Super Priority Debtor-in-Possession Credit Agreement, dated as of April 11, 2013, and that certain Amendment No. 2 to Senior Secured Super Priority Debtor-in-Possession Credit Agreement, dated as of April 23, 2013 (the "Bondholder Amendment") among Borrowers, Select Agendas, Corp., Frey Scientific, Inc., Sax Arts & Crafts, Inc., U.S. Bank National Association, and the lenders from time to time party thereto; and

WHEREAS, Borrower has requested that Agent and Lenders agree to amend the Credit Agreement in certain respects as more fully described herein, and Agent and Lenders are willing to do so on the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing, and the respective agreements, warranties and covenants contained herein, the parties hereto agree as follows:

SECTION 1. DEFINITIONS

1.1. **Interpretation.** All capitalized terms used herein (including the recitals hereto) shall have the respective meanings ascribed thereto in the Credit Agreement unless otherwise defined herein.

SECTION 2. ACKNOWLEDGMENTS

2.1. **Binding Effect of Documents.** Each Borrower hereby acknowledges, confirms and agrees that: (a) each of the Credit Agreement, Existing Loan Agreement, the Loan Documents and Existing Loan Documents to which it is a party has been duly executed and delivered to Agent by such Borrower, and each is and shall remain in full force and effect as of the date hereof except as modified pursuant hereto, (b) the agreements and obligations of such Borrower contained in such documents and in this Agreement constitute the legal, valid and binding Obligations of such Borrower, enforceable against it in accordance with their respective terms, and such Borrower has no valid defense to the enforcement of such Obligations, and (c) Agent and Lenders are and shall be entitled to the rights, remedies and benefits provided for under the Credit Agreement, the Existing Loan Agreement, the Loan Documents and the Existing Loan Documents and applicable law.

SECTION 3. AMENDMENTS

In reliance upon the representations and warranties of the Loan Parties set forth in Section 4 below and subject to the conditions to effectiveness set forth in Section 5 below, effective as of the date hereof, the Credit Agreement is hereby amended as follows:

(a) Schedule 5.16 to the Credit Agreement is hereby amended and replaced with Exhibit A to this Agreement.

SECTION 4. REPRESENTATIONS AND WARRANTIES

Each Borrower hereby represents, warrants and covenants as follows:

4.1. **Representations in the Credit Agreement and the Loan Documents.** The representations and warranties set forth in the Credit Agreement, as amended hereby, and in the other Loan Documents, as amended to date, are true and correct in all material respects as of the date hereof, with the same effect as though made on the date hereof (except to the extent such representations and warranties (i) expressly refer to an earlier date, in which case they are true and correct in all material respects as of such earlier date, and (ii) are already qualified by materiality, material adverse effect, or words of like effect, in which case such representations and warranties shall be true in all respects).

4.2. **Binding Effect of Documents.** This Agreement has been duly authorized, executed and delivered to Agent and Lenders by each Borrower, is enforceable in accordance with its terms and is in full force and effect.

4.3. **No Conflict.** The execution, delivery and performance of this Agreement by each Borrower will not violate any requirement of law or contractual obligation of any Borrower and will not result in, or require, the creation or imposition of any Lien on any of their respective properties or revenues.

4.4. **Defaults.** No Default or Event of Default has occurred and is continuing.

SECTION 5. CONDITIONS TO EFFECTIVENESS

The effectiveness of this Agreement is subject to the consummation of each of the following conditions, each in form and substance satisfactory to Agent:

(a) an original of this Agreement, duly authorized, executed and delivered by each Borrower;

(b) an original of the Consent and Reaffirmation as attached at Exhibit B, duly authorized, executed and delivered by each Guarantor;

(c) Borrowers' filing of motion (at Agent's request) and subsequent entry of an order of the Bankruptcy Court, each in form and substance reasonably satisfactory to Agent, authorizing this Agreement and the Consent and Reaffirmation to be executed by and binding upon Borrowers and each Guarantor, which condition may be waived by Agent in its sole discretion;

(d) Borrowers shall have paid all Lender Group Expenses incurred in connection with the transactions evidenced by this Agreement, the Credit Agreement, the Existing Loan Agreement, the other Loan Documents and the Existing Loan Documents;

(e) Borrowers shall provide to Agent's financial advisor and counsel (subject to the condition of no further distribution beyond professionals) copies of each final proposal letter received by Borrowers to date from any potential exit lender to whom they have been given expense deposits in connection with the proposed chapter 11 exit financing, redacted for names and other confidential information;

(f) Agent shall have received a fully executed copy of the Bondholder Amendment making a corresponding change to Schedule 5.18 of the Bondholder DIP Credit Agreement.

SECTION 6. MISCELLANEOUS

6.1. **Amendment Fee.** In consideration for the amendments to the Credit Agreement set forth herein, Borrowers shall pay to Agent, for the ratable benefit of each Lender, an amendment fee of \$100,000, which fee will be deemed to be fully earned on the date hereof and due and payable on June 1, 2013; *provided, however*, that such amendment fee shall be

automatically waived and deemed neither earned nor payable if the Existing Obligations and Obligations have been Paid in Full on or before May 31, 2013.

6.2. **Continuing Effect of Credit Agreement.** Except as modified pursuant hereto, no other changes or modifications to the Credit Agreement and the Loan Documents are intended or implied by this Agreement and in all other respects the Credit Agreement and the Loan Documents hereby are ratified, restated and confirmed by all parties hereto as of the effective date hereof. To the extent of conflict between the terms of this Agreement, the Credit Agreement and the Loan Documents, the terms of this Agreement shall govern and control. The Credit Agreement and this Agreement shall be read and construed as one agreement.

6.3. **Exit Financing.** Borrowers shall promptly provide to Agent's financial advisor and counsel (subject to the condition of no further distribution beyond professionals) copies of the following documents, redacted for names and other confidential information except as set forth below: (i) each final proposal letters received by Borrowers on or after the date hereof from any potential exit lender to whom they have been given expense deposits in connection with the proposed chapter 11 exit financing, (ii) on and after May 3, 2013, the then current draft of commitment letters received by Borrowers from such lenders, including the total amount of the facilities, the borrowing base, the advance rate formulae (if any) and any conditions to closing, and (iii) after May 3, 2013, all amendments and modifications to such proposed commitment letters.

6.4. **Costs and Expenses.** Each Borrower absolutely and unconditionally agrees to pay to Agent, on demand by Agent at any time, whether or not all or any of the transactions contemplated by this Agreement are consummated: all fees and disbursements of any counsel to Agent in connection with the preparation, negotiation, execution or delivery of this Agreement and any agreements contemplated hereby and expenses which shall at any time be incurred or sustained by Agent, any Lender, any participant of any Lender or any of their respective directors, officers, employees or agents as a consequence of or in any way in connection with the preparation, negotiation, execution, or delivery of this Agreement and any agreements contemplated hereby, in each case to the extent such expenses constitute Lender Group Expenses required to be paid under the Credit Agreement.

6.5. **Further Assurances.** At Borrowers' expense, the parties hereto shall execute and deliver such additional documents and take such further action as may be necessary or desirable to effectuate the provisions and purposes of this Agreement.

6.6. **Successors and Assigns.** This Agreement shall be binding upon and inure to the benefit of each of the parties hereto and their respective successors and assigns.

6.7. **Survival of Representations, Warranties and Covenants.** All representations, warranties, covenants and releases of each Borrower made in this Agreement or any other document furnished in connection with this Agreement shall survive the execution and delivery of this Agreement, and no investigation by Agent or any Lender, or any closing, shall affect the representations and warranties or the right of Agent and Lenders to rely upon them.

6.8. **Severability.** Any provision of this Agreement held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Agreement.

6.9. **Reviewed by Attorneys.** Each Borrower represents and warrants to Agent and Lenders that it (a) understands fully the terms of this Agreement and the consequences of the execution and delivery of this Agreement, (b) has been afforded an opportunity to discuss this Agreement with, and have this Agreement reviewed by, such attorneys and other persons as such Borrower may wish, and (c) has entered into this Agreement and executed and delivered all documents in connection herewith of its own free will and accord and without threat, duress or other coercion of any kind by any Person. The parties hereto acknowledge and agree that neither this Agreement nor the other documents executed pursuant hereto shall be construed more favorably in favor of one than the other based upon which party drafted the same, it being acknowledged that all parties hereto contributed substantially to the negotiation and preparation of this Agreement and the other documents executed pursuant hereto or in connection herewith.

6.10. **Disgorgement.** If Agent or any Lender is, for any reason, compelled by a court or other tribunal of competent jurisdiction to surrender or disgorge any payment, interest or other consideration described hereunder to any person because the same is determined to be void or voidable as a preference, fraudulent conveyance, impermissible set-off or for any other reason, such indebtedness or part thereof intended to be satisfied by virtue of such payment, interest or other consideration shall be revived and continue as if such payment, interest or other consideration had not been received by Agent or such Lender, and the Borrowers shall be liable to, and shall indemnify, defend and hold Agent or such Lender harmless for, the amount of such payment or interest surrendered or disgorged. The provisions of this Section 6.10 shall survive execution and delivery of this Agreement and the documents, agreements and instruments to be executed or delivered herewith.

6.11. **Relationship.** Each Borrower agrees that the relationship between Agent and such Borrower and between each Lender and Borrower is that of creditor and debtor and not that of partners or joint venturers. This Agreement does not constitute a partnership agreement, or any other association between Agent and any Borrower or between any Lender and any Borrower. Each Borrower acknowledges that Agent and each Lender has acted at all times only as a creditor to such Borrower within the normal and usual scope of the activities normally undertaken by a creditor and in no event has Agent or any Lender attempted to exercise any control over such Borrower or its business or affairs. Each Borrower further acknowledges that Agent and each Lender has not taken or failed to take any action under or in connection with its respective rights under the Credit Agreement and the Loan Documents that in any way or to any extent has interfered with or adversely affects such Borrower's ownership of Collateral.

6.12. **Governing Law.** THIS AGREEMENT SHALL BE A CONTRACT MADE UNDER AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED ENTIRELY WITHIN SUCH STATE, WITHOUT REGARD TO CONFLICT OF LAW PRINCIPLES.

6.13. **Reference to Credit Agreement.** Each reference in the Credit Agreement to "this Agreement," "hereunder," "hereof," "herein" or words of like import, and each reference in the

Credit Agreement or in any other Loan Documents, or other agreements, documents or other instruments executed and delivered pursuant to the Credit Agreement, shall mean and be a reference to the Credit Agreement as amended by this Agreement.


6.14. **Counterparts.** This Agreement may be executed in any number of counterparts, and by the parties hereto on the same or separate counterparts, and each such counterpart, when executed and delivered, shall be deemed to be an original, but all such counterparts shall together constitute but one and the same Agreement. Execution and delivery of an executed counterpart of this Agreement by facsimile, "pdf" or other electronic transmission shall be equally effective as the delivery of a manually executed original of this Agreement.

[signatures on following page]

IN WITNESS WHEREOF, this Agreement is executed and delivered as of the date first above written.

BORROWERS:


SCHOOL SPECIALTY, INC., a Wisconsin corporation

By: 
Name: Michael P. Lavelle
Title: President & Chief Executive Officer

CLASSROOMDIRECT.COM, LLC, a Delaware limited liability company

By: 
Name: Michael P. Lavelle
Title: President

SPORTIME, LLC, a Delaware limited liability company

By: 
Name: Michael P. Lavelle
Title: President

DELTA EDUCATION, LLC, a Delaware limited liability company

By: 
Name: Michael P. Lavelle
Title: President

PREMIER AGENDAS, INC., a Washington corporation

By: Michael P. Lavelle
Name: Michael P. Lavelle
Title: Executive Vice President

CHILDCRAFT EDUCATION CORP., a New York corporation

By: Michael P. Lavelle
Name: Michael P. Lavelle
Title: President

BIRD-IN-HAND WOODWORKS, INC., a New Jersey corporation

By: Michael P. Lavelle
Name: Michael P. Lavelle
Title: President


CALIFONE INTERNATIONAL, INC., a Delaware corporation

By: Michael P. Lavelle
Name: Michael P. Lavelle
Title: Executive Vice President

WELLS FARGO CAPITAL FINANCE, LLC, a
Delaware limited liability company, as Agent, as Co-
Collateral Agent, and as a Lender

By: *Laura Nickas*
Name: LAURA NICKAS
Its Authorized Signatory

**GENERAL ELECTRIC CAPITAL
CORPORATION**, a Delaware corporation, as a Co-
Collateral Agent, and as a Lender

By: 
Name: Kai Sorensen
Its Authorized Signatory

BANK OF MONTREAL, as a Lender

By: Stéphane J. St-Onge
Name: Stéphane J. St-Onge
Its Authorized Signatory

CIT FINANCE LLC,, as a Lender

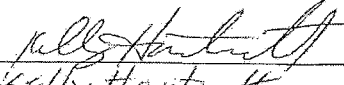
By: 
Name: Kelly Hartneff
Its Authorized Signatory

EXHIBIT A
to
AMENDMENT NO. 3 TO
DEBTOR-IN-POSSESSION CREDIT AGREEMENT

SCHEDULE 5.16

Milestones

1. [Intentionally omitted.]
2. [Intentionally omitted.]
3. [Intentionally omitted.]
4. On or before March 19, 2013 (or such later date as Agent, Co-Collateral Agents and the Required Lenders shall agree), (i) the Bankruptcy Court shall have entered a final order establishing procedures with respect to the marketing and sale of the assets of debtors in the Bankruptcy Cases (the "Debtors"), which order shall be in form and substance (and any modification thereto) reasonably acceptable to Agent and Co-Collateral Agents, and (ii) the Debtors shall have filed 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"), in each case, in form and substance (and any modification thereto) reasonably acceptable to Agent, Co-Collateral Agents and the Required Lenders.
5. On or before April 25, 2013 (or such later date as Agent, Co-Collateral Agents and the Required Lenders shall agree), obtain entry of an order of the Bankruptcy Court granting the Disclosure Statement Motion, which order (and any modifications thereto) shall be in form and substance reasonably acceptable to Agent, Co-Collateral Agents and the Required Lenders.
6. On or before April 29, 2013 (or such later date as Agent and Co-Collateral Agents shall agree in its sole discretion), the debtors in the Bankruptcy Cases shall have commenced the solicitation of votes in connection with the Plan pursuant to sections 1125 and 1126 of the Bankruptcy Code.
7. On or before May 6, 2013, (i) Agent shall have received the executed Exit Financing Commitment Letter(s) and such Exit Financing Commitment Letter(s) shall remain unmodified and in full force and effect and (ii) Agent shall have received a written agreement binding upon each of the lenders under the Bondholder DIP Credit Agreement pursuant to which such lenders agree to accept equity in the reorganized Debtors (and have agreed to the amount and terms of such equity) in partial satisfaction of an agreed upon amount of obligations under the Bondholder DIP Credit Agreement, in form and substance reasonably acceptable to Agent and Co-Collateral Agents.
8. [Intentionally omitted.].

9. On or before May 21, 2013 (or such later date as Lenders shall agree), the Bankruptcy Court shall have entered the order confirming the Plan pursuant to section 1129 of the Bankruptcy Code (assuming the Plan has obtained the requisite votes), which order (and any modification thereto) shall be in form and substance reasonably acceptable to Lenders.
10. On or before May 31, 2013, (i) the sale of the Loan Parties' assets shall have closed (assuming that an Auction has been held and a winning bidder and backup bidder, if any, have been selected) and the Existing Obligations and Obligations shall have been Paid in Full, or (ii) the effective date of the plan shall have occurred and the Existing Obligations and Obligations shall have been Paid in Full.

For purposes of Milestones 4, 5, and 9, any Plan, Disclosure Statement Motion, order approving the Disclosure Statement Motion, or order confirming the Plan that (i) does not provide that the Obligations and Existing Secured Obligations shall be Paid in Full on or before the May 31, 2013 or (ii) modifies or impairs any of the Lenders' rights under the Financing Order, including the extent, validity and priority of Liens, shall be deemed not reasonable.


EXHIBIT B
to
AMENDMENT NO. 3 TO
DEBTOR-IN-POSSESSION CREDIT AGREEMENT

CONSENT AND REAFFIRMATION

Each of the undersigned (each a "Guarantor") hereby (i) acknowledges receipt of a copy of the foregoing Amendment No. 3 to Debtor-in-Possession Credit Agreement (the "Agreement"; capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in that certain Debtor-in-Possession Credit Agreement dated as of January 31, 2013 (as amended by that certain Amendment No. 1 to Debtor-in-Possession Credit Agreement, dated as of February 27, 2013, and that certain Amendment No. 2 to Debtor-in-Possession Credit Agreement, dated as of April 12, 2013, and as further amended, supplemented, extended, renewed, restated or otherwise modified from time to time) among Agent, Borrowers and the Lenders from time to time party thereto; (ii) consents to Borrowers' execution and delivery of the Agreement; (iii) agrees to be bound by the Agreement; (iv) affirms that nothing contained in the Agreement, except as specifically stated therein, shall modify in any respect whatsoever any Loan Document to which it is a party; and (v) reaffirms its obligations under (a) the Guaranty and Security Agreement and (b) each of the other Loan Documents to which it is a party (as modified by the Agreement, collectively, the "Reaffirmed Loan Documents") and confirms that such obligations are unconditional and not subject to any defense, setoff, counterclaim or other adverse claim. Although each Guarantor has been informed of the matters set forth herein and has acknowledged and agreed to same, each Guarantor understands that neither Agent nor any Lender has any obligation to inform any Guarantor of such matters in the future or to seek any Guarantor's acknowledgment or agreement to future amendments, waivers or consents, and nothing herein shall create such a duty.

The undersigned further agree that after giving effect to the Agreement, each Reaffirmed Loan Document shall remain in full force and effect.

FREY SCIENTIFIC, INC.

By: 
Name: Michael P. Lavelle
Title: President

SAX ARTS & CRAFTS, INC.

By: Michael P. Lavelle
Name: Michael P. Lavelle
Title: President

SELECT AGENDAS, CORP.

By: Michael P. Lavelle
Name: Michael P. Lavelle
Title: President

EXHIBIT B

Amendment No. 3

**AMENDMENT NO. 3 TO
DEBTOR-IN-POSSESSION CREDIT AGREEMENT**

This AMENDMENT NO. 3 TO DEBTOR-IN-POSSESSION CREDIT AGREEMENT (this "Amendment") is entered into as of April 23, 2013, by and among WELLS FARGO CAPITAL FINANCE, LLC, a Delaware limited liability company, as administrative agent for the Lenders (in such capacity, together with its successors and assigns in such capacity, "Agent"), SCHOOL SPECIALTY, INC., a Wisconsin corporation ("Parent"), CLASSROOMDIRECT.COM, LLC, a Delaware limited liability company ("ClassroomDirect"), SPORTIME, LLC, a Delaware limited liability company ("Sportime"), DELTA EDUCATION, LLC, a Delaware limited liability company ("Delta Education"), PREMIER AGENDAS, INC., a Washington corporation ("Premier Agendas"), CHILDCRAFT EDUCATION CORP., a New York corporation ("Childcraft"), BIRD-IN-HAND WOODWORKS, INC., a New Jersey corporation ("Bird-In-Hand"), and CALIFONE INTERNATIONAL, INC., a Delaware corporation ("Califone"; Parent, ClassroomDirect, Sportime, Delta Education, Premier Agendas, Childcraft, Bird-In-Hand and Califone are collectively "Borrowers" and each a "Borrower").

RECITALS:

WHEREAS, on January 28, 2013 (the "Filing Date"), Borrowers and Guarantors (other than Select Agendas, Corp.) filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code (as hereinafter defined) in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court");

WHEREAS, Agent and Borrowers have entered into certain financing arrangements pursuant to that certain Debtor-in-Possession Credit Agreement, dated as of January 31, 2013 by and among Borrowers, the financial institutions from time to time party thereto (collectively, the "Lenders" and each a "Lender") and Agent (as amended by that certain Amendment No. 1 to Debtor-in-Possession Credit Agreement, dated as of February 27, 2013 and that certain Amendment No. 2 to Debtor-in-Possession Credit Agreement, dated as of April 12, 2013, and as further amended hereby, and as the same may have heretofore been or may hereafter be further amended, modified, supplemented, extended, renewed, restated or replaced (the "Credit Agreement"));

WHEREAS, Borrowers have entered into that certain Senior Secured Super Priority Debtor-in-Possession Credit Agreement, dated as of February 27, 2013 (as amended by that certain Amendment No. 1 to Senior Secured Super Priority Debtor-in-Possession Credit Agreement, dated as of April 11, 2013, and that certain Amendment No. 2 to Senior Secured Super Priority Debtor-in-Possession Credit Agreement, dated as of April 23, 2013 (the "Bondholder Amendment") among Borrowers, Select Agendas, Corp., Frey Scientific, Inc., Sax Arts & Crafts, Inc., U.S. Bank National Association, and the lenders from time to time party thereto; and

WHEREAS, Borrower has requested that Agent and Lenders agree to amend the Credit Agreement in certain respects as more fully described herein, and Agent and Lenders are willing to do so on the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing, and the respective agreements, warranties and covenants contained herein, the parties hereto agree as follows:

SECTION 1. DEFINITIONS

1.1. **Interpretation.** All capitalized terms used herein (including the recitals hereto) shall have the respective meanings ascribed thereto in the Credit Agreement unless otherwise defined herein.

SECTION 2. ACKNOWLEDGMENTS

2.1. **Binding Effect of Documents.** Each Borrower hereby acknowledges, confirms and agrees that: (a) each of the Credit Agreement, Existing Loan Agreement, the Loan Documents and Existing Loan Documents to which it is a party has been duly executed and delivered to Agent by such Borrower, and each is and shall remain in full force and effect as of the date hereof except as modified pursuant hereto, (b) the agreements and obligations of such Borrower contained in such documents and in this Agreement constitute the legal, valid and binding Obligations of such Borrower, enforceable against it in accordance with their respective terms, and such Borrower has no valid defense to the enforcement of such Obligations, and (c) Agent and Lenders are and shall be entitled to the rights, remedies and benefits provided for under the Credit Agreement, the Existing Loan Agreement, the Loan Documents and the Existing Loan Documents and applicable law.

SECTION 3. AMENDMENTS

In reliance upon the representations and warranties of the Loan Parties set forth in Section 4 below and subject to the conditions to effectiveness set forth in Section 5 below, effective as of the date hereof, the Credit Agreement is hereby amended as follows:

(a) Schedule 5.16 to the Credit Agreement is hereby amended and replaced with Exhibit A to this Agreement.

SECTION 4. REPRESENTATIONS AND WARRANTIES

Each Borrower hereby represents, warrants and covenants as follows:

4.1. **Representations in the Credit Agreement and the Loan Documents.** The representations and warranties set forth in the Credit Agreement, as amended hereby, and in the other Loan Documents, as amended to date, are true and correct in all material respects as of the date hereof, with the same effect as though made on the date hereof (except to the extent such representations and warranties (i) expressly refer to an earlier date, in which case they are true and correct in all material respects as of such earlier date, and (ii) are already qualified by materiality, material adverse effect, or words of like effect, in which case such representations and warranties shall be true in all respects).

4.2. **Binding Effect of Documents.** This Agreement has been duly authorized, executed and delivered to Agent and Lenders by each Borrower, is enforceable in accordance with its terms and is in full force and effect.

4.3. **No Conflict.** The execution, delivery and performance of this Agreement by each Borrower will not violate any requirement of law or contractual obligation of any Borrower and will not result in, or require, the creation or imposition of any Lien on any of their respective properties or revenues.

4.4. **Defaults.** No Default or Event of Default has occurred and is continuing.

SECTION 5. CONDITIONS TO EFFECTIVENESS

The effectiveness of this Agreement is subject to the consummation of each of the following conditions, each in form and substance satisfactory to Agent:

(a) an original of this Agreement, duly authorized, executed and delivered by each Borrower;

(b) an original of the Consent and Reaffirmation as attached at Exhibit B, duly authorized, executed and delivered by each Guarantor;

(c) Borrowers' filing of motion (at Agent's request) and subsequent entry of an order of the Bankruptcy Court, each in form and substance reasonably satisfactory to Agent, authorizing this Agreement and the Consent and Reaffirmation to be executed by and binding upon Borrowers and each Guarantor, which condition may be waived by Agent in its sole discretion;

(d) Borrowers shall have paid all Lender Group Expenses incurred in connection with the transactions evidenced by this Agreement, the Credit Agreement, the Existing Loan Agreement, the other Loan Documents and the Existing Loan Documents;

(e) Borrowers shall provide to Agent's financial advisor and counsel (subject to the condition of no further distribution beyond professionals) copies of each final proposal letter received by Borrowers to date from any potential exit lender to whom they have been given expense deposits in connection with the proposed chapter 11 exit financing, redacted for names and other confidential information;

(f) Agent shall have received a fully executed copy of the Bondholder Amendment making a corresponding change to Schedule 5.18 of the Bondholder DIP Credit Agreement.

SECTION 6. MISCELLANEOUS

6.1. **Amendment Fee.** In consideration for the amendments to the Credit Agreement set forth herein, Borrowers shall pay to Agent, for the ratable benefit of each Lender, an amendment fee of \$100,000, which fee will be deemed to be fully earned on the date hereof and due and payable on June 1, 2013; *provided, however*, that such amendment fee shall be

automatically waived and deemed neither earned nor payable if the Existing Obligations and Obligations have been Paid in Full on or before May 31, 2013.

6.2. **Continuing Effect of Credit Agreement.** Except as modified pursuant hereto, no other changes or modifications to the Credit Agreement and the Loan Documents are intended or implied by this Agreement and in all other respects the Credit Agreement and the Loan Documents hereby are ratified, restated and confirmed by all parties hereto as of the effective date hereof. To the extent of conflict between the terms of this Agreement, the Credit Agreement and the Loan Documents, the terms of this Agreement shall govern and control. The Credit Agreement and this Agreement shall be read and construed as one agreement.

6.3. **Exit Financing.** Borrowers shall promptly provide to Agent's financial advisor and counsel (subject to the condition of no further distribution beyond professionals) copies of the following documents, redacted for names and other confidential information except as set forth below: (i) each final proposal letters received by Borrowers on or after the date hereof from any potential exit lender to whom they have been given expense deposits in connection with the proposed chapter 11 exit financing, (ii) on and after May 3, 2013, the then current draft of commitment letters received by Borrowers from such lenders, including the total amount of the facilities, the borrowing base, the advance rate formulae (if any) and any conditions to closing, and (iii) after May 3, 2013, all amendments and modifications to such proposed commitment letters.

6.4. **Costs and Expenses.** Each Borrower absolutely and unconditionally agrees to pay to Agent, on demand by Agent at any time, whether or not all or any of the transactions contemplated by this Agreement are consummated: all fees and disbursements of any counsel to Agent in connection with the preparation, negotiation, execution or delivery of this Agreement and any agreements contemplated hereby and expenses which shall at any time be incurred or sustained by Agent, any Lender, any participant of any Lender or any of their respective directors, officers, employees or agents as a consequence of or in any way in connection with the preparation, negotiation, execution, or delivery of this Agreement and any agreements contemplated hereby, in each case to the extent such expenses constitute Lender Group Expenses required to be paid under the Credit Agreement.

6.5. **Further Assurances.** At Borrowers' expense, the parties hereto shall execute and deliver such additional documents and take such further action as may be necessary or desirable to effectuate the provisions and purposes of this Agreement.

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6.7. **Survival of Representations, Warranties and Covenants.** All representations, warranties, covenants and releases of each Borrower made in this Agreement or any other document furnished in connection with this Agreement shall survive the execution and delivery of this Agreement, and no investigation by Agent or any Lender, or any closing, shall affect the representations and warranties or the right of Agent and Lenders to rely upon them.

6.8. **Severability.** Any provision of this Agreement held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Agreement.

6.9. **Reviewed by Attorneys.** Each Borrower represents and warrants to Agent and Lenders that it (a) understands fully the terms of this Agreement and the consequences of the execution and delivery of this Agreement, (b) has been afforded an opportunity to discuss this Agreement with, and have this Agreement reviewed by, such attorneys and other persons as such Borrower may wish, and (c) has entered into this Agreement and executed and delivered all documents in connection herewith of its own free will and accord and without threat, duress or other coercion of any kind by any Person. The parties hereto acknowledge and agree that neither this Agreement nor the other documents executed pursuant hereto shall be construed more favorably in favor of one than the other based upon which party drafted the same, it being acknowledged that all parties hereto contributed substantially to the negotiation and preparation of this Agreement and the other documents executed pursuant hereto or in connection herewith.

6.10. **Disgorgement.** If Agent or any Lender is, for any reason, compelled by a court or other tribunal of competent jurisdiction to surrender or disgorge any payment, interest or other consideration described hereunder to any person because the same is determined to be void or voidable as a preference, fraudulent conveyance, impermissible set-off or for any other reason, such indebtedness or part thereof intended to be satisfied by virtue of such payment, interest or other consideration shall be revived and continue as if such payment, interest or other consideration had not been received by Agent or such Lender, and the Borrowers shall be liable to, and shall indemnify, defend and hold Agent or such Lender harmless for, the amount of such payment or interest surrendered or disgorged. The provisions of this Section 6.10 shall survive execution and delivery of this Agreement and the documents, agreements and instruments to be executed or delivered herewith.

6.11. **Relationship.** Each Borrower agrees that the relationship between Agent and such Borrower and between each Lender and Borrower is that of creditor and debtor and not that of partners or joint venturers. This Agreement does not constitute a partnership agreement, or any other association between Agent and any Borrower or between any Lender and any Borrower. Each Borrower acknowledges that Agent and each Lender has acted at all times only as a creditor to such Borrower within the normal and usual scope of the activities normally undertaken by a creditor and in no event has Agent or any Lender attempted to exercise any control over such Borrower or its business or affairs. Each Borrower further acknowledges that Agent and each Lender has not taken or failed to take any action under or in connection with its respective rights under the Credit Agreement and the Loan Documents that in any way or to any extent has interfered with or adversely affects such Borrower's ownership of Collateral.

6.12. **Governing Law.** THIS AGREEMENT SHALL BE A CONTRACT MADE UNDER AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED ENTIRELY WITHIN SUCH STATE, WITHOUT REGARD TO CONFLICT OF LAW PRINCIPLES.

6.13. **Reference to Credit Agreement.** Each reference in the Credit Agreement to "this Agreement," "hereunder," "hereof," "herein" or words of like import, and each reference in the

Credit Agreement or in any other Loan Documents, or other agreements, documents or other instruments executed and delivered pursuant to the Credit Agreement, shall mean and be a reference to the Credit Agreement as amended by this Agreement.


6.14. **Counterparts.** This Agreement may be executed in any number of counterparts, and by the parties hereto on the same or separate counterparts, and each such counterpart, when executed and delivered, shall be deemed to be an original, but all such counterparts shall together constitute but one and the same Agreement. Execution and delivery of an executed counterpart of this Agreement by facsimile, "pdf" or other electronic transmission shall be equally effective as the delivery of a manually executed original of this Agreement.

[signatures on following page]

IN WITNESS WHEREOF, this Agreement is executed and delivered as of the date first above written.

BORROWERS:


SCHOOL SPECIALTY, INC., a Wisconsin corporation

By: 
Name: Michael P. Lavelle
Title: President & Chief Executive Officer

CLASSROOMDIRECT.COM, LLC, a Delaware limited liability company

By: 
Name: Michael P. Lavelle
Title: President


SPORTIME, LLC, a Delaware limited liability company

By: 
Name: Michael P. Lavelle
Title: President

DELTA EDUCATION, LLC, a Delaware limited liability company

By: 
Name: Michael P. Lavelle
Title: President


PREMIER AGENDAS, INC., a Washington corporation

By: 
Name: Michael P. Lavelle
Title: Executive Vice President


CHILDCRAFT EDUCATION CORP., a New York corporation

By: 
Name: Michael P. Lavelle
Title: President

BIRD-IN-HAND WOODWORKS, INC., a New Jersey corporation

By: 
Name: Michael P. Lavelle
Title: President


CALIFONE INTERNATIONAL, INC., a Delaware corporation

By: 
Name: Michael P. Lavelle
Title: Executive Vice President

WELLS FARGO CAPITAL FINANCE, LLC, a
Delaware limited liability company, as Agent, as Co-
Collateral Agent, and as a Lender

By: *Laura Nickas*
Name: LAURA NICKAS
Its Authorized Signatory

**GENERAL ELECTRIC CAPITAL
CORPORATION**, a Delaware corporation, as a Co-
Collateral Agent, and as a Lender

By: 
Name: Kai Sorensen
Its Authorized Signatory

BANK OF MONTREAL, as a Lender

By: Stephanie J. Slaven
Name: Stephanie J. Slaven
Its Authorized Signatory

CIT FINANCE LLC,, as a Lender

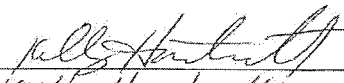
By: 
Name: Kelly Hartnett
Its Authorized Signatory

EXHIBIT A
to
AMENDMENT NO. 3 TO
DEBTOR-IN-POSSESSION CREDIT AGREEMENT

SCHEDULE 5.16

Milestones

1. [Intentionally omitted.]
2. [Intentionally omitted.]
3. [Intentionally omitted.]
4. On or before March 19, 2013 (or such later date as Agent, Co-Collateral Agents and the Required Lenders shall agree), (i) the Bankruptcy Court shall have entered a final order establishing procedures with respect to the marketing and sale of the assets of debtors in the Bankruptcy Cases (the "Debtors"), which order shall be in form and substance (and any modification thereto) reasonably acceptable to Agent and Co-Collateral Agents, and (ii) the Debtors shall have filed 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"), in each case, in form and substance (and any modification thereto) reasonably acceptable to Agent, Co-Collateral Agents and the Required Lenders.
5. On or before April 25, 2013 (or such later date as Agent, Co-Collateral Agents and the Required Lenders shall agree), obtain entry of an order of the Bankruptcy Court granting the Disclosure Statement Motion, which order (and any modifications thereto) shall be in form and substance reasonably acceptable to Agent, Co-Collateral Agents and the Required Lenders.
6. On or before April 29, 2013 (or such later date as Agent and Co-Collateral Agents shall agree in its sole discretion), the debtors in the Bankruptcy Cases shall have commenced the solicitation of votes in connection with the Plan pursuant to sections 1125 and 1126 of the Bankruptcy Code.
7. On or before May 6, 2013, (i) Agent shall have received the executed Exit Financing Commitment Letter(s) and such Exit Financing Commitment Letter(s) shall remain unmodified and in full force and effect and (ii) Agent shall have received a written agreement binding upon each of the lenders under the Bondholder DIP Credit Agreement pursuant to which such lenders agree to accept equity in the reorganized Debtors (and have agreed to the amount and terms of such equity) in partial satisfaction of an agreed upon amount of obligations under the Bondholder DIP Credit Agreement, in form and substance reasonably acceptable to Agent and Co-Collateral Agents.
8. [Intentionally omitted.].

9. On or before May 21, 2013 (or such later date as Lenders shall agree), the Bankruptcy Court shall have entered the order confirming the Plan pursuant to section 1129 of the Bankruptcy Code (assuming the Plan has obtained the requisite votes), which order (and any modification thereto) shall be in form and substance reasonably acceptable to Lenders.
10. On or before May 31, 2013, (i) the sale of the Loan Parties' assets shall have closed (assuming that an Auction has been held and a winning bidder and backup bidder, if any, have been selected) and the Existing Obligations and Obligations shall have been Paid in Full, or (ii) the effective date of the plan shall have occurred and the Existing Obligations and Obligations shall have been Paid in Full.

For purposes of Milestones 4, 5, and 9, any Plan, Disclosure Statement Motion, order approving the Disclosure Statement Motion, or order confirming the Plan that (i) does not provide that the Obligations and Existing Secured Obligations shall be Paid in Full on or before the May 31, 2013 or (ii) modifies or impairs any of the Lenders' rights under the Financing Order, including the extent, validity and priority of Liens, shall be deemed not reasonable.


EXHIBIT B
to
AMENDMENT NO. 3 TO
DEBTOR-IN-POSSESSION CREDIT AGREEMENT

CONSENT AND REAFFIRMATION


Each of the undersigned (each a "Guarantor") hereby (i) acknowledges receipt of a copy of the foregoing Amendment No. 3 to Debtor-in-Possession Credit Agreement (the "Agreement"; capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in that certain Debtor-in-Possession Credit Agreement dated as of January 31, 2013 (as amended by that certain Amendment No. 1 to Debtor-in-Possession Credit Agreement, dated as of February 27, 2013, and that certain Amendment No. 2 to Debtor-in-Possession Credit Agreement, dated as of April 12, 2013, and as further amended, supplemented, extended, renewed, restated or otherwise modified from time to time) among Agent, Borrowers and the Lenders from time to time party thereto; (ii) consents to Borrowers' execution and delivery of the Agreement; (iii) agrees to be bound by the Agreement; (iv) affirms that nothing contained in the Agreement, except as specifically stated therein, shall modify in any respect whatsoever any Loan Document to which it is a party; and (v) reaffirms its obligations under (a) the Guaranty and Security Agreement and (b) each of the other Loan Documents to which it is a party (as modified by the Agreement, collectively, the "Reaffirmed Loan Documents") and confirms that such obligations are unconditional and not subject to any defense, setoff, counterclaim or other adverse claim. Although each Guarantor has been informed of the matters set forth herein and has acknowledged and agreed to same, each Guarantor understands that neither Agent nor any Lender has any obligation to inform any Guarantor of such matters in the future or to seek any Guarantor's acknowledgment or agreement to future amendments, waivers or consents, and nothing herein shall create such a duty.

The undersigned further agree that after giving effect to the Agreement, each Reaffirmed Loan Document shall remain in full force and effect.

FREY SCIENTIFIC, INC.

By: 
Name: Michael P. Lavelle
Title: President

SAX ARTS & CRAFTS, INC.

By: 
Name: Michael P. Lavelle
Title: President

SELECT AGENDAS, CORP.


By: 
Name: Michael P. Lavelle
Title: President

EXHIBIT C

Amendment No. 2

**AMENDMENT NO. 2 TO
DEBTOR-IN-POSSESSION CREDIT AGREEMENT**

This AMENDMENT NO. 2 TO DEBTOR-IN-POSSESSION CREDIT AGREEMENT (this "Amendment") is entered into as of April 12, 2013, by and among WELLS FARGO CAPITAL FINANCE, LLC, a Delaware limited liability company, as administrative agent for the Lenders (in such capacity, together with its successors and assigns in such capacity, "Agent"), SCHOOL SPECIALTY, INC., a Wisconsin corporation ("Parent"), CLASSROOMDIRECT.COM, LLC, a Delaware limited liability company ("ClassroomDirect"), SPORTIME, LLC, a Delaware limited liability company ("Sportime"), DELTA EDUCATION, LLC, a Delaware limited liability company ("Delta Education"), PREMIER AGENDAS, INC., a Washington corporation ("Premier Agendas"), CHILDCRAFT EDUCATION CORP., a New York corporation ("Childcraft"), BIRD-IN-HAND WOODWORKS, INC., a New Jersey corporation ("Bird-In-Hand"), and CALIFONE INTERNATIONAL, INC., a Delaware corporation ("Califone"; Parent, ClassroomDirect, Sportime, Delta Education, Premier Agendas, Childcraft, Bird-In-Hand and Califone are collectively "Borrowers" and each a "Borrower").

RECITALS:

WHEREAS, on January 28, 2013 (the "Filing Date"), Borrowers and Guarantors (other than Select Agendas, Corp.) filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code (as hereinafter defined) in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court");

WHEREAS, Agent and Borrowers have entered into certain financing arrangements pursuant to that certain Debtor-in-Possession Credit Agreement, dated as of January 31, 2013 by and among Borrowers, the financial institutions from time to time party thereto (collectively, the "Lenders" and each a "Lender") and Agent (as amended by that certain Amendment No. 1 to Debtor-in-Possession Credit Agreement, dated as of February 27, 2013 and as further amended hereby, and as the same may have heretofore been or may hereafter be further amended, modified, supplemented, extended, renewed, restated or replaced (the "Credit Agreement"));

WHEREAS, Borrowers have entered into that certain Senior Secured Super Priority Debtor-in-Possession Credit Agreement, dated as of February 27, 2013 (as amended by that certain Amendment No. 1 to Senior Secured Super Priority Debtor-in-Possession Credit Agreement, dated as of April 11, 2013, the "Bondholder Amendment") among Borrowers, Select Agendas, Corp., Frey Scientific, Inc., Sax Arts & Crafts, Inc., U.S. Bank National Association, and the lenders from time to time party thereto; and

WHEREAS, Borrower has requested that Agent and Lenders agree to amend the Credit Agreement in certain respects as more fully described herein, and Agent and Lenders are willing to do so on the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing, and the respective agreements, warranties and covenants contained herein, the parties hereto agree as follows:

SECTION 1. DEFINITIONS

1.1. **Interpretation.** All capitalized terms used herein (including the recitals hereto) shall have the respective meanings ascribed thereto in the Credit Agreement unless otherwise defined herein.

SECTION 2. ACKNOWLEDGMENTS

2.1. **Binding Effect of Documents.** Each Borrower hereby acknowledges, confirms and agrees that: (a) each of the Credit Agreement, Existing Loan Agreement, the Loan Documents and Existing Loan Documents to which it is a party has been duly executed and delivered to Agent by such Borrower, and each is and shall remain in full force and effect as of the date hereof except as modified pursuant hereto, (b) the agreements and obligations of such Borrower contained in such documents and in this Agreement constitute the legal, valid and binding Obligations of such Borrower, enforceable against it in accordance with their respective terms, and such Borrower has no valid defense to the enforcement of such Obligations, and (c) Agent and Lenders are and shall be entitled to the rights, remedies and benefits provided for under the Credit Agreement, the Existing Loan Agreement, the Loan Documents and the Existing Loan Documents and applicable law.

SECTION 3. AMENDMENTS

In reliance upon the representations and warranties of the Loan Parties set forth in Section 4 below and subject to the conditions to effectiveness set forth in Section 5 below, effective as of the date hereof, the Credit Agreement is hereby amended as follows:

(a) Exhibit B-3 to the Credit Agreement is hereby supplemented by Exhibit A to this Agreement and has been consented to by each Lender, as contemplated by the definition of "Budget" in Schedule 1.1 of the Credit Agreement.

(b) Schedule 5.16 to the Credit Agreement is hereby amended and replaced with Exhibit B to this Agreement.

SECTION 4. REPRESENTATIONS AND WARRANTIES

Each Borrower hereby represents, warrants and covenants as follows:

4.1. **Representations in the Credit Agreement and the Loan Documents.** The representations and warranties set forth in the Credit Agreement, as amended hereby, and in the other Loan Documents, as amended to date, are true and correct in all material respects as of the date hereof, with the same effect as though made on the date hereof (except to the extent such representations and warranties (i) expressly refer to an earlier date, in which case they are true and correct in all material respects as of such earlier date, and (ii) are already qualified by materiality, material adverse effect, or words of like effect, in which case such representations and warranties shall be true in all respects).

4.2. **Binding Effect of Documents.** This Agreement has been duly authorized, executed and delivered to Agent and Lenders by each Borrower, is enforceable in accordance with its terms and is in full force and effect.

4.3. **No Conflict.** The execution, delivery and performance of this Agreement by each Borrower will not violate any requirement of law or contractual obligation of any Borrower and will not result in, or require, the creation or imposition of any Lien on any of their respective properties or revenues.

4.4. **Defaults.** No Default or Event of Default has occurred and is continuing.

SECTION 5. CONDITIONS TO EFFECTIVENESS

The effectiveness of this Agreement is subject to the prior or concurrent consummation of each of the following conditions, each in form and substance satisfactory to Agent:

(a) an original of this Agreement, duly authorized, executed and delivered by each Borrower;

(b) an original of the Consent and Reaffirmation as attached at Exhibit C, duly authorized, executed and delivered by each Guarantor;

(c) Borrowers shall have paid all Lender Group Expenses incurred in connection with the transactions evidenced by this Agreement, the Credit Agreement, the Existing Loan Agreement, the other Loan Documents and the Existing Loan Documents; and

(d) Agent shall have received a fully executed copy of the Bondholder Amendment making a corresponding change to Schedule 5.18 of the Bondholder DIP Credit Agreement.

SECTION 6. MISCELLANEOUS

6.1. **Continuing Effect of Credit Agreement.** Except as modified pursuant hereto, no other changes or modifications to the Credit Agreement and the Loan Documents are intended or implied by this Agreement and in all other respects the Credit Agreement and the Loan Documents hereby are ratified, restated and confirmed by all parties hereto as of the effective date hereof. To the extent of conflict between the terms of this Agreement, the Credit Agreement and the Loan Documents, the terms of this Agreement shall govern and control. The Credit Agreement and this Agreement shall be read and construed as one agreement.

6.2. **Costs and Expenses.** Each Borrower absolutely and unconditionally agrees to pay to Agent, on demand by Agent at any time, whether or not all or any of the transactions contemplated by this Agreement are consummated: all fees and disbursements of any counsel to Agent in connection with the preparation, negotiation, execution or delivery of this Agreement and any agreements contemplated hereby and expenses which shall at any time be incurred or sustained by Agent, any Lender, any participant of any Lender or any of their respective directors, officers, employees or agents as a consequence of or in any way in connection with the preparation, negotiation, execution, or delivery of this Agreement and any agreements contemplated hereby, in

each case to the extent such expenses constitute Lender Group Expenses required to be paid under the Credit Agreement.

6.3. **Further Assurances.** At Borrowers' expense, the parties hereto shall execute and deliver such additional documents and take such further action as may be necessary or desirable to effectuate the provisions and purposes of this Agreement.

6.4. **Successors and Assigns.** This Agreement shall be binding upon and inure to the benefit of each of the parties hereto and their respective successors and assigns.

6.5. **Survival of Representations, Warranties and Covenants.** All representations, warranties, covenants and releases of each Borrower made in this Agreement or any other document furnished in connection with this Agreement shall survive the execution and delivery of this Agreement, and no investigation by Agent or any Lender, or any closing, shall affect the representations and warranties or the right of Agent and Lenders to rely upon them.

6.6. **Severability.** Any provision of this Agreement held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Agreement.

6.7. **Reviewed by Attorneys.** Each Borrower represents and warrants to Agent and Lenders that it (a) understands fully the terms of this Agreement and the consequences of the execution and delivery of this Agreement, (b) has been afforded an opportunity to discuss this Agreement with, and have this Agreement reviewed by, such attorneys and other persons as such Borrower may wish, and (c) has entered into this Agreement and executed and delivered all documents in connection herewith of its own free will and accord and without threat, duress or other coercion of any kind by any Person. The parties hereto acknowledge and agree that neither this Agreement nor the other documents executed pursuant hereto shall be construed more favorably in favor of one than the other based upon which party drafted the same, it being acknowledged that all parties hereto contributed substantially to the negotiation and preparation of this Agreement and the other documents executed pursuant hereto or in connection herewith.

6.8. **Disgorgement.** If Agent or any Lender is, for any reason, compelled by a court or other tribunal of competent jurisdiction to surrender or disgorge any payment, interest or other consideration described hereunder to any person because the same is determined to be void or voidable as a preference, fraudulent conveyance, impermissible set-off or for any other reason, such indebtedness or part thereof intended to be satisfied by virtue of such payment, interest or other consideration shall be revived and continue as if such payment, interest or other consideration had not been received by Agent or such Lender, and the Borrowers shall be liable to, and shall indemnify, defend and hold Agent or such Lender harmless for, the amount of such payment or interest surrendered or disgorged. The provisions of this Section 6.8 shall survive execution and delivery of this Agreement and the documents, agreements and instruments to be executed or delivered herewith.

6.9. **Relationship.** Each Borrower agrees that the relationship between Agent and such Borrower and between each Lender and Borrower is that of creditor and debtor and not that of partners or joint venturers. This Agreement does not constitute a partnership agreement, or any

other association between Agent and any Borrower or between any Lender and any Borrower. Each Borrower acknowledges that Agent and each Lender has acted at all times only as a creditor to such Borrower within the normal and usual scope of the activities normally undertaken by a creditor and in no event has Agent or any Lender attempted to exercise any control over such Borrower or its business or affairs. Each Borrower further acknowledges that Agent and each Lender has not taken or failed to take any action under or in connection with its respective rights under the Credit Agreement and the Loan Documents that in any way or to any extent has interfered with or adversely affects such Borrower's ownership of Collateral.

6.10. Governing Law. THIS AGREEMENT SHALL BE A CONTRACT MADE UNDER AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED ENTIRELY WITHIN SUCH STATE, WITHOUT REGARD TO CONFLICT OF LAW PRINCIPLES.

6.11. Reference to Credit Agreement. Each reference in the Credit Agreement to "this Agreement," "hereunder," "hereof," "herein" or words of like import, and each reference in the Credit Agreement or in any other Loan Documents, or other agreements, documents or other instruments executed and delivered pursuant to the Credit Agreement, shall mean and be a reference to the Credit Agreement as amended by this Agreement.


6.12. Counterparts. This Agreement may be executed in any number of counterparts, and by the parties hereto on the same or separate counterparts, and each such counterpart, when executed and delivered, shall be deemed to be an original, but all such counterparts shall together constitute but one and the same Agreement. Execution and delivery of an executed counterpart of this Agreement by facsimile, "pdf" or other electronic transmission shall be equally effective as the delivery of a manually executed original of this Agreement.

[signatures on following page]


IN WITNESS WHEREOF, this Agreement is executed and delivered as of the date first above written.

BORROWERS:


SCHOOL SPECIALTY, INC., a Wisconsin corporation

By: 
Name: Mike P Lavelle
Title: CEO & President


CLASSROOMDIRECT.COM, LLC, a Delaware limited liability company

By: 
Name: Michael P Lavelle
Title: CEO & President


SPORTIME, LLC, a Delaware limited liability company

By: 
Name: Michael P Lavelle
Title: CEO & President


DELTA EDUCATION, LLC, a Delaware limited liability company

By: 
Name: Michael P Lavelle
Title: CEO & President


PREMIER AGENDAS, INC., a Washington corporation

By: 
Name: Michael P Lavelle
Title: CEO & President

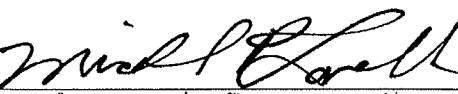
CHILDCRAFT EDUCATION CORP., a New York corporation

By: 
Name: Michael P Lavelle
Title: CEO & President

BIRD-IN-HAND WOODWORKS, INC., a New Jersey corporation

By: 
Name: Michael P Lavelle
Title: CEO & President


CALIFONE INTERNATIONAL, INC., a Delaware corporation

By: 
Name: Michael P Lavelle
Title: CEO & President

WELLS FARGO CAPITAL FINANCE, LLC, a
Delaware limited liability company, as Agent, as Co-
Collateral Agent, and as a Lender

By: Laura Nickas
Name: LAURA NICKAS
Its Authorized Signatory

**GENERAL ELECTRIC CAPITAL
CORPORATION**, a Delaware corporation, as a Co-
Collateral Agent, and as a Lender

By: 
Name: Kai Sorensen
Its Authorized Signatory

BANK OF MONTREAL, as a Lender

By: 

Name: Josh Hovermale
Its Authorized Signatory

CIT FINANCE LLC,, as a Lender

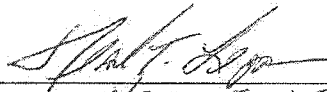
By: 
Name: NEAL T. LEGAN
Its Authorized Signatory

EXHIBIT A
to
AMENDMENT NO. 2 TO
DEBTOR-IN-POSSESSION CREDIT AGREEMENT

EXHIBIT B-3

Budget Supplement

Note

As among the DIP Collateral (as defined below), the Professionals' Carve-Out, if and to the extent invoked pursuant to this Interim Order, shall be allocated one-half against and funded from the ABL Priority Collateral and one-half against and funded from the Term Loan Priority Collateral, other than the Professionals' Carve-Out for amounts anticipated to be incurred on or after the earlier of the Required Prepayment Date (as defined in the ABL DIP Credit Agreement) and April 30, 2013 (including any success fee), which amounts shall be funded exclusively from the Term Loan Priority Collateral or the Ad Hoc DIP Credit Agreement. The delayed closing fee for the Ad Hoc DIP Facility requires a 1% delayed closing fee which we have paid out of cash flow in the final week. This budget assumes the Debtors will use exit financing to pay \$15.4M of professional fees and the \$3.0M KEEF.

EXHIBIT B
to
AMENDMENT NO. 2 TO
DEBTOR-IN-POSSESSION CREDIT AGREEMENT

SCHEDULE 5.16

Milestones

1. [Intentionally omitted.]
2. [Intentionally omitted.]
3. [Intentionally omitted.]
4. On or before March 19, 2013 (or such later date as Agent, Co-Collateral Agents and the Required Lenders shall agree), (i) the Bankruptcy Court shall have entered a final order establishing procedures with respect to the marketing and sale of the assets of debtors in the Bankruptcy Cases (the "Debtors"), which order shall be in form and substance (and any modification thereto) reasonably acceptable to Agent and Co-Collateral Agents, and (ii) the Debtors shall have filed 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"), in each case, in form and substance (and any modification thereto) reasonably acceptable to Agent, Co-Collateral Agents and the Required Lenders.
5. On or before April 23, 2013 (or such later date as Agent, Co-Collateral Agents and the Required Lenders shall agree), obtain entry of an order of the Bankruptcy Court granting the Disclosure Statement Motion, which order (and any modifications thereto) shall be in form and substance reasonably acceptable to Agent, Co-Collateral Agents and the Required Lenders.
6. On or before April 26, 2013 (or such later date as Agent and Co-Collateral Agents shall agree in its sole discretion), the debtors in the Bankruptcy Cases shall have commenced the solicitation of votes in connection with the Plan pursuant to sections 1125 and 1126 of the Bankruptcy Code.
7. On or before May 6, 2013, Agent shall have received the executed Exit Financing Commitment Letter(s) and such Exit Financing Commitment Letter(s) shall remain unmodified and in full force and effect.
8. On or before May 8, 2013, assuming sufficient interest to purchase the Debtors' assets has been expressed in the Debtors' reasonable business judgment, an auction shall have been conducted to determine the highest and/or best bid for the Debtors' assets (the "Auction") auction, unless Agent shall have received the executed Exit Financing Commitment Letter(s) on or before May 6, 2013.

9. On or before May 17, 2013 (or such later date as Lenders shall agree), the Bankruptcy Court shall have entered (i) a final order approving the sale of the Debtors' assets to the winning bidder at the Auction (assuming that an Auction has been held and a winning bidder and backup bidder, if any have been selected) (the "Sale Order"), which order (and any modification thereto) shall be in form and substance reasonably acceptable to Lenders, or (ii) the order confirming the Plan pursuant to section 1129 of the Bankruptcy Code (assuming the Plan has obtained the requisite votes), which order (and any modification thereto) shall be in form and substance reasonably acceptable to Lenders.
10. On or before May 31, 2013, (i) the sale of the Loan Parties' assets shall have closed (assuming that an Auction has been held and a winning bidder and backup bidder, if any, have been selected) and the Existing Obligations and Obligations shall have been Paid in Full, or (ii) the effective date of the plan shall have occurred and the Existing Obligations and Obligations shall have been Paid in Full.

For purposes of Milestones 4, 5, and 9, any Plan, Disclosure Statement Motion, order approving the Disclosure Statement Motion, order confirming the Plan or Sale Order that (i) does not provide that the Obligations and Existing Secured Obligations shall be Paid in Full on or before the May 31, 2013 or (ii) modifies or impairs any of the Lenders' rights under the Financing Order, including the extent, validity and priority of Liens, shall be deemed not reasonable.

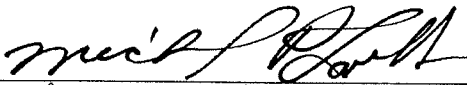
EXHIBIT C
to
AMENDMENT NO. 2 TO
DEBTOR-IN-POSSESSION CREDIT AGREEMENT

CONSENT AND REAFFIRMATION


Each of the undersigned (each a "Guarantor") hereby (i) acknowledges receipt of a copy of the foregoing Amendment No. 2 to Debtor-in-Possession Credit Agreement (the "Agreement"; capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in that certain Debtor-in-Possession Credit Agreement dated as of January 31, 2013 (as amended by that certain Amendment No. 1 to Debtor-in-Possession Credit Agreement, dated as of February 27, 2013, and as further amended, supplemented, extended, renewed, restated or otherwise modified from time to time) among Agent, Borrowers and the Lenders from time to time party thereto; (ii) consents to Borrowers' execution and delivery of the Agreement; (iii) agrees to be bound by the Agreement; (iv) affirms that nothing contained in the Agreement, except as specifically stated therein, shall modify in any respect whatsoever any Loan Document to which it is a party; and (v) reaffirms its obligations under (a) the Guaranty and Security Agreement and (b) each of the other Loan Documents to which it is a party (as modified by the Agreement, collectively, the "Reaffirmed Loan Documents") and confirms that such obligations are unconditional and not subject to any defense, setoff, counterclaim or other adverse claim. Although each Guarantor has been informed of the matters set forth herein and has acknowledged and agreed to same, each Guarantor understands that neither Agent nor any Lender has any obligation to inform any Guarantor of such matters in the future or to seek any Guarantor's acknowledgment or agreement to future amendments, waivers or consents, and nothing herein shall create such a duty.

The undersigned further agree that after giving effect to the Agreement, each Reaffirmed Loan Document shall remain in full force and effect.

FREY SCIENTIFIC, INC.

By: 
Name: Michael P LaVelle
Title: CEO & President

SAX ARTS & CRAFTS, INC.

By: 
Name: Michael P LaVelle
Title: CEO & President

SELECT AGENDAS, CORP.

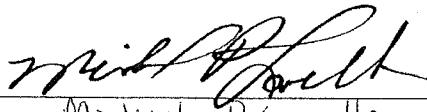
By: 
Name: Michael P. Lavelle
Title: CEO & President

EXHIBIT D

Blackline of Amendment No. 3 Against Amendment No. 2

**AMENDMENT NO. ~~42~~3 TO
DEBTOR-IN-POSSESSION CREDIT AGREEMENT**

This AMENDMENT NO. ~~42~~3 TO DEBTOR-IN-POSSESSION CREDIT AGREEMENT (this "Amendment") is entered into as of April ~~42~~23, 2013, by and among WELLS FARGO CAPITAL FINANCE, LLC, a Delaware limited liability company, as administrative agent for the Lenders (in such capacity, together with its successors and assigns in such capacity, "Agent"), SCHOOL SPECIALTY, INC., a Wisconsin corporation ("Parent"), CLASSROOMDIRECT.COM, LLC, a Delaware limited liability company ("ClassroomDirect"), SPORTIME, LLC, a Delaware limited liability company ("Sportime"), DELTA EDUCATION, LLC, a Delaware limited liability company ("Delta Education"), PREMIER AGENDAS, INC., a Washington corporation ("Premier Agendas"), CHILDCRAFT EDUCATION CORP., a New York corporation ("Childcraft"), BIRD-IN-HAND WOODWORKS, INC., a New Jersey corporation ("Bird-In-Hand"), and CALIFONE INTERNATIONAL, INC., a Delaware corporation ("Califone"; Parent, ClassroomDirect, Sportime, Delta Education, Premier Agendas, Childcraft, Bird-In-Hand and Califone are collectively "Borrowers" and each a "Borrower").

RECITALS:

WHEREAS, on January 28, 2013 (the "Filing Date"), Borrowers and Guarantors (other than Select Agendas, Corp.) filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code (as hereinafter defined) in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court");

WHEREAS, Agent and Borrowers have entered into certain financing arrangements pursuant to that certain Debtor-in-Possession Credit Agreement, dated as of January 31, 2013 by and among Borrowers, the financial institutions from time to time party thereto (collectively, the "Lenders" and each a "Lender") and Agent (as amended by that certain Amendment No. 1 to Debtor-in-Possession Credit Agreement, dated as of February 27, 2013 and that certain Amendment No. 2 to Debtor-in-Possession Credit Agreement, dated as of April 12, 2013, and as further amended hereby, and as the same may have heretofore been or may hereafter be further amended, modified, supplemented, extended, renewed, restated or replaced (the "Credit Agreement"));

WHEREAS, Borrowers have entered into that certain Senior Secured Super Priority Debtor-in-Possession Credit Agreement, dated as of February 27, 2013 (as amended by that certain Amendment No. 1 to Senior Secured Super Priority Debtor-in-Possession Credit Agreement, dated as of April 11, 2013, and that certain Amendment No. 2 to Senior Secured Super Priority Debtor-in-Possession Credit Agreement, dated as of April 23, 2013 (the "Bondholder Amendment")) among Borrowers, Select Agendas, Corp., Frey Scientific, Inc., Sax Arts & Crafts, Inc., U.S. Bank National Association, and the lenders from time to time party thereto; and

WHEREAS, Borrower has requested that Agent and Lenders agree to amend the Credit Agreement in certain respects as more fully described herein, and Agent and Lenders are willing to do so on the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing, and the respective agreements, warranties and covenants contained herein, the parties hereto agree as follows:

SECTION 1. DEFINITIONS

1.1. **Interpretation.** All capitalized terms used herein (including the recitals hereto) shall have the respective meanings ascribed thereto in the Credit Agreement unless otherwise defined herein.

SECTION 2. ACKNOWLEDGMENTS

2.1. **Binding Effect of Documents.** Each Borrower hereby acknowledges, confirms and agrees that: (a) each of the Credit Agreement, Existing Loan Agreement, the Loan Documents and Existing Loan Documents to which it is a party has been duly executed and delivered to Agent by such Borrower, and each is and shall remain in full force and effect as of the date hereof except as modified pursuant hereto, (b) the agreements and obligations of such Borrower contained in such documents and in this Agreement constitute the legal, valid and binding Obligations of such Borrower, enforceable against it in accordance with their respective terms, and such Borrower has no valid defense to the enforcement of such Obligations, and (c) Agent and Lenders are and shall be entitled to the rights, remedies and benefits provided for under the Credit Agreement, the Existing Loan Agreement, the Loan Documents and the Existing Loan Documents and applicable law.

SECTION 3. AMENDMENTS

In reliance upon the representations and warranties of the Loan Parties set forth in Section 4 below and subject to the conditions to effectiveness set forth in Section 5 below, effective as of the date hereof, the Credit Agreement is hereby amended as follows:

~~(a) <Exhibit B-3> to the Credit Agreement <is hereby supplemented by Exhibit A to this Agreement and has been consented to by> each Lender, <as contemplated by the definition of "Budget" in Schedule 1.1 of the Credit Agreement.>~~

(a) ~~(b)~~ Schedule 5.16 to the Credit Agreement is hereby amended and replaced with Exhibit A to this Agreement.

SECTION 4. REPRESENTATIONS AND WARRANTIES

Each Borrower hereby represents, warrants and covenants as follows:

4.1. **Representations in the Credit Agreement and the Loan Documents.** The representations and warranties set forth in the Credit Agreement, as amended hereby, and in the other Loan Documents, as amended to date, are true and correct in all material respects as of the

date hereof, with the same effect as though made on the date hereof (except to the extent such representations and warranties (i) expressly refer to an earlier date, in which case they are true and correct in all material respects as of such earlier date, and (ii) are already qualified by materiality, material adverse effect, or words of like effect, in which case such representations and warranties shall be true in all respects).

4.2. **Binding Effect of Documents.** This Agreement has been duly authorized, executed and delivered to Agent and Lenders by each Borrower, is enforceable in accordance with its terms and is in full force and effect.

4.3. **No Conflict.** The execution, delivery and performance of this Agreement by each Borrower will not violate any requirement of law or contractual obligation of any Borrower and will not result in, or require, the creation or imposition of any Lien on any of their respective properties or revenues.

4.4. **Defaults.** No Default or Event of Default has occurred and is continuing.

SECTION 5. CONDITIONS TO EFFECTIVENESS

The effectiveness of this Agreement is subject to the ~~<prior or concurrent~~ >consummation of each of the following conditions, each in form and substance satisfactory to Agent:

(a) an original of this Agreement, duly authorized, executed and delivered by each Borrower;

(b) an original of the Consent and Reaffirmation as attached at Exhibit <C>B, duly authorized, executed and delivered by each Guarantor;

(c) Borrowers' filing of motion (at Agent's request) and subsequent entry of an order of the Bankruptcy Court, each in form and substance reasonably satisfactory to Agent, authorizing this Agreement and the Consent and Reaffirmation to be executed by and binding upon Borrowers and each Guarantor, which condition may be waived by Agent in its sole discretion;

(d) (e)-Borrowers shall have paid all Lender Group Expenses incurred in connection with the transactions evidenced by this Agreement, the Credit Agreement, the Existing Loan Agreement, the other Loan Documents and the Existing Loan Documents; <and>

(e) Borrowers shall provide to Agent's financial advisor and counsel (subject to the condition of no further distribution beyond professionals) copies of each final proposal letter received by Borrowers to date from any potential exit lender to whom they have been given expense deposits in connection with the proposed chapter 11 exit financing, redacted for names and other confidential information;

(f) (d)-Agent shall have received a fully executed copy of the Bondholder Amendment making a corresponding change to Schedule 5.18 of the Bondholder DIP Credit Agreement.

SECTION 6. MISCELLANEOUS

6.1. **Amendment Fee.** In consideration for the amendments to the Credit Agreement set forth herein, Borrowers shall pay to Agent, for the ratable benefit of each Lender, an amendment fee of \$100,000, which fee will be deemed to be fully earned on the date hereof and due and payable on June 1, 2013; *provided, however*, that such amendment fee shall be automatically waived and deemed neither earned nor payable if the Existing Obligations and Obligations have been Paid in Full on or before May 31, 2013.

6.2. ~~6.1.~~ **Continuing Effect of Credit Agreement.** Except as modified pursuant hereto, no other changes or modifications to the Credit Agreement and the Loan Documents are intended or implied by this Agreement and in all other respects the Credit Agreement and the Loan Documents hereby are ratified, restated and confirmed by all parties hereto as of the effective date hereof. To the extent of conflict between the terms of this Agreement, the Credit Agreement and the Loan Documents, the terms of this Agreement shall govern and control. The Credit Agreement and this Agreement shall be read and construed as one agreement.

6.3. **Exit Financing.** Borrowers shall promptly provide to Agent's financial advisor and counsel (subject to the condition of no further distribution beyond professionals) copies of the following documents, redacted for names and other confidential information except as set forth below: (i) each final proposal letters received by Borrowers on or after the date hereof from any potential exit lender to whom they have been given expense deposits in connection with the proposed chapter 11 exit financing, (ii) on and after May 3, 2013, the then current draft of commitment letters received by Borrowers from such lenders, including the total amount of the facilities, the borrowing base, the advance rate formulae (if any) and any conditions to closing, and (iii) after May 3, 2013, all amendments and modifications to such proposed commitment letters.

6.4. ~~6.2.~~ **Costs and Expenses.** Each Borrower absolutely and unconditionally agrees to pay to Agent, on demand by Agent at any time, whether or not all or any of the transactions contemplated by this Agreement are consummated: all fees and disbursements of any counsel to Agent in connection with the preparation, negotiation, execution or delivery of this Agreement and any agreements contemplated hereby and expenses which shall at any time be incurred or sustained by Agent, any Lender, any participant of any Lender or any of their respective directors, officers, employees or agents as a consequence of or in any way in connection with the preparation, negotiation, execution, or delivery of this Agreement and any agreements contemplated hereby, in each case to the extent such expenses constitute Lender Group Expenses required to be paid under the Credit Agreement.

6.5. ~~6.3.~~ **Further Assurances.** At Borrowers' expense, the parties hereto shall execute and deliver such additional documents and take such further action as may be necessary or desirable to effectuate the provisions and purposes of this Agreement.

6.6. ~~6.4.~~ **Successors and Assigns.** This Agreement shall be binding upon and inure to the benefit of each of the parties hereto and their respective successors and assigns.

6.7. ~~6.5.~~ **Survival of Representations, Warranties and Covenants.** All representations, warranties, covenants and releases of each Borrower made in this Agreement or

any other document furnished in connection with this Agreement shall survive the execution and delivery of this Agreement, and no investigation by Agent or any Lender, or any closing, shall affect the representations and warranties or the right of Agent and Lenders to rely upon them.

6.8. ~~6.6.~~ **Severability.** Any provision of this Agreement held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Agreement.

6.9. ~~6.7.~~ **Reviewed by Attorneys.** Each Borrower represents and warrants to Agent and Lenders that it (a) understands fully the terms of this Agreement and the consequences of the execution and delivery of this Agreement, (b) has been afforded an opportunity to discuss this Agreement with, and have this Agreement reviewed by, such attorneys and other persons as such Borrower may wish, and (c) has entered into this Agreement and executed and delivered all documents in connection herewith of its own free will and accord and without threat, duress or other coercion of any kind by any Person. The parties hereto acknowledge and agree that neither this Agreement nor the other documents executed pursuant hereto shall be construed more favorably in favor of one than the other based upon which party drafted the same, it being acknowledged that all parties hereto contributed substantially to the negotiation and preparation of this Agreement and the other documents executed pursuant hereto or in connection herewith.

6.10. ~~6.8.~~ **Disgorgement.** If Agent or any Lender is, for any reason, compelled by a court or other tribunal of competent jurisdiction to surrender or disgorge any payment, interest or other consideration described hereunder to any person because the same is determined to be void or voidable as a preference, fraudulent conveyance, impermissible set-off or for any other reason, such indebtedness or part thereof intended to be satisfied by virtue of such payment, interest or other consideration shall be revived and continue as if such payment, interest or other consideration had not been received by Agent or such Lender, and the Borrowers shall be liable to, and shall indemnify, defend and hold Agent or such Lender harmless for, the amount of such payment or interest surrendered or disgorged. The provisions of this Section ~~<6.8>~~6.10 shall survive execution and delivery of this Agreement and the documents, agreements and instruments to be executed or delivered herewith.

6.11. ~~6.9.~~ **Relationship.** Each Borrower agrees that the relationship between Agent and such Borrower and between each Lender and Borrower is that of creditor and debtor and not that of partners or joint venturers. This Agreement does not constitute a partnership agreement, or any other association between Agent and any Borrower or between any Lender and any Borrower. Each Borrower acknowledges that Agent and each Lender has acted at all times only as a creditor to such Borrower within the normal and usual scope of the activities normally undertaken by a creditor and in no event has Agent or any Lender attempted to exercise any control over such Borrower or its business or affairs. Each Borrower further acknowledges that Agent and each Lender has not taken or failed to take any action under or in connection with its respective rights under the Credit Agreement and the Loan Documents that in any way or to any extent has interfered with or adversely affects such Borrower's ownership of Collateral.

6.12. ~~6.10.~~ **Governing Law.** THIS AGREEMENT SHALL BE A CONTRACT MADE UNDER AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEW YORK

APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED ENTIRELY WITHIN SUCH STATE, WITHOUT REGARD TO CONFLICT OF LAW PRINCIPLES.

6.13. ~~6.11.~~ **Reference to Credit Agreement.** Each reference in the Credit Agreement to "this Agreement," "hereunder," "hereof," "herein" or words of like import, and each reference in the Credit Agreement or in any other Loan Documents, or other agreements, documents or other instruments executed and delivered pursuant to the Credit Agreement, shall mean and be a reference to the Credit Agreement as amended by this Agreement.

6.14. ~~6.12.~~ **Counterparts.** This Agreement may be executed in any number of counterparts, and by the parties hereto on the same or separate counterparts, and each such counterpart, when executed and delivered, shall be deemed to be an original, but all such counterparts shall together constitute but one and the same Agreement. Execution and delivery of an executed counterpart of this Agreement by facsimile, "pdf" or other electronic transmission shall be equally effective as the delivery of a manually executed original of this Agreement.

[signatures on following page]

IN WITNESS WHEREOF, this Agreement is executed and delivered as of the date first above written.

BORROWERS:

SCHOOL SPECIALTY, INC., a Wisconsin corporation

By: _____
Name: _____
Title: _____

CLASSROOMDIRECT.COM, LLC, a Delaware limited liability company

By: _____
Name: _____
Title: _____

SPORTIME, LLC, a Delaware limited liability company

By: _____
Name: _____
Title: _____

DELTA EDUCATION, LLC, a Delaware limited liability company

By: _____
Name: _____
Title: _____

PREMIER AGENDAS, INC., a Washington
corporation

By: _____
Name: _____
Title: _____

CHILDCRAFT EDUCATION CORP., a New York
corporation

By: _____
Name: _____
Title: _____

BIRD-IN-HAND WOODWORKS, INC., a New
Jersey corporation

By: _____
Name: _____
Title: _____

CALIFONE INTERNATIONAL, INC., a Delaware
corporation

By: _____
Name: _____
Title: _____

WELLS FARGO CAPITAL FINANCE, LLC, a
Delaware limited liability company, as Agent, as Co-
Collateral Agent, and as a Lender

By: _____
Name: _____
Its Authorized Signatory

**GENERAL ELECTRIC CAPITAL
CORPORATION**, a Delaware corporation, as a Co-
Collateral Agent, and as a Lender

By: _____
Name: _____
Its Authorized Signatory

BANK OF MONTREAL, as a Lender

By: _____
Name: _____
Its Authorized Signatory

CIT FINANCE LLC, as a Lender

By: _____

Name: _____
Its Authorized Signatory

EXHIBIT A
to
AMENDMENT NO. ~~2~~3 TO
DEBTOR-IN-POSSESSION CREDIT AGREEMENT

~~EXHIBIT B-3~~
~~Budget Supplement~~

~~<EXHIBIT B>~~
~~<to>~~
~~<AMENDMENT NO. 2 TO>~~
~~<DEBTOR IN POSSESSION CREDIT AGREEMENT>~~
SCHEDULE 5.16

Milestones

1. ~~[Intentionally omitted.]~~
2. ~~[Intentionally omitted.]~~
3. ~~[Intentionally omitted.]~~
4. On or before March 19, 2013 (or such later date as Agent, Co-Collateral Agents and the Required Lenders shall agree), (i) the Bankruptcy Court shall have entered a final order establishing procedures with respect to the marketing and sale of the assets of debtors in the Bankruptcy Cases (the "Debtors"), which order shall be in form and substance (and any modification thereto) reasonably acceptable to Agent and Co-Collateral Agents, and (ii) the Debtors shall have filed 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"), in each case, in form and substance (and any modification thereto) reasonably acceptable to Agent, Co-Collateral Agents and the Required Lenders.
5. On or before April ~~<23>~~25, 2013 (or such later date as Agent, Co-Collateral Agents and the Required Lenders shall agree), obtain entry of an order of the Bankruptcy Court granting the Disclosure Statement Motion, which order (and any modifications thereto) shall be in form and substance reasonably acceptable to Agent, Co-Collateral Agents and the Required Lenders.
6. On or before April ~~<26>~~29, 2013 (or such later date as Agent and Co-Collateral Agents shall agree in its sole discretion), the debtors in the Bankruptcy Cases shall have commenced the solicitation of votes in connection with the Plan pursuant to sections 1125 and 1126 of the Bankruptcy Code.
7. On or before May 6, 2013, (i) Agent shall have received the executed Exit Financing Commitment Letter(s) and such Exit Financing Commitment Letter(s) shall remain unmodified and in full force and effect and (ii) Agent shall have received a written agreement binding upon each of the lenders under the Bondholder DIP Credit Agreement pursuant to which such lenders agree to accept equity in the reorganized Debtors (and have agreed to the amount and terms of such equity) in partial satisfaction of an agreed upon amount of obligations under the Bondholder DIP Credit Agreement, in form and substance reasonably acceptable to Agent and Co-Collateral Agents.
8. ~~<On or before May 8, 2013, assuming sufficient interest to purchase the Debtors' assets has been expressed in the Debtors' reasonable business judgment, an auction shall have been conducted to determine the highest and/or best bid for the Debtors' assets (the "Auction") auction, unless Agent shall have received the executed Exit Financing Commitment Letter(s) on or before May 6, 2013>~~[Intentionally omitted.]

9. On or before May ~~17~~21, 2013 (or such later date as Lenders shall agree), the Bankruptcy Court shall have entered ~~<(i) a final order approving the sale of the Debtors' assets to the winning bidder at the Auction (assuming that an Auction has been held and a winning bidder and backup bidder, if any have been selected) (the "Sale Order"), which order (and any modification thereto) shall be >~~in form and substance reasonably acceptable to ~~Lenders, or (ii)~~the order confirming the Plan pursuant to section 1129 of the Bankruptcy Code (assuming the Plan has obtained the requisite votes), which order (and any modification thereto) shall be in form and substance reasonably acceptable to Lenders.
10. On or before May 31, 2013, (i) the sale of the Loan Parties' assets shall have closed (assuming that an Auction has been held and a winning bidder and backup bidder, if any, have been selected) and the Existing Obligations and Obligations shall have been Paid in Full, or (ii) the effective date of the plan shall have occurred and the Existing Obligations and Obligations shall have been Paid in Full.

For purposes of Milestones 4, 5, and 9, any Plan, Disclosure Statement Motion, order approving the Disclosure Statement Motion, or order confirming the Plan ~~<or Sale Order>~~that (i) does not provide that the Obligations and Existing Secured Obligations shall be Paid in Full on or before the May 31, 2013 or (ii) modifies or impairs any of the Lenders' rights under the Financing Order, including the extent, validity and priority of Liens, shall be deemed not reasonable.

EXHIBIT ~~C~~ B
to
AMENDMENT NO. ~~2~~ 3 TO
DEBTOR-IN-POSSESSION CREDIT AGREEMENT

CONSENT AND REAFFIRMATION

Each of the undersigned (each a "Guarantor") hereby (i) acknowledges receipt of a copy of the foregoing Amendment No. ~~2~~ 3 to Debtor-in-Possession Credit Agreement (the "Agreement"; capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in that certain Debtor-in-Possession Credit Agreement dated as of January 31, 2013 (as amended by that certain Amendment No. 1 to Debtor-in-Possession Credit Agreement, dated as of February 27, 2013, and that certain Amendment No. 2 to Debtor-in-Possession Credit Agreement, dated as of April 12, 2013, and as further amended, supplemented, extended, renewed, restated or otherwise modified from time to time) among Agent, Borrowers and the Lenders from time to time party thereto; (ii) consents to Borrowers' execution and delivery of the Agreement; (iii) agrees to be bound by the Agreement; (iv) affirms that nothing contained in the Agreement, except as specifically stated therein, shall modify in any respect whatsoever any Loan Document to which it is a party; and (v) reaffirms its obligations under (a) the Guaranty and Security Agreement and (b) each of the other Loan Documents to which it is a party (as modified by the Agreement, collectively, the "Reaffirmed Loan Documents") and confirms that such obligations are unconditional and not subject to any defense, setoff, counterclaim or other adverse claim. Although each Guarantor has been informed of the matters set forth herein and has acknowledged and agreed to same, each Guarantor understands that neither Agent nor any Lender has any obligation to inform any Guarantor of such matters in the future or to seek any Guarantor's acknowledgment or agreement to future amendments, waivers or consents, and nothing herein shall create such a duty.

The undersigned further agree that after giving effect to the Agreement, each Reaffirmed Loan Document shall remain in full force and effect.

FREY SCIENTIFIC, INC.

By: _____
Name: _____
Title: _____

SAX ARTS & CRAFTS, INC.

By: _____
Name: _____
Title: _____

SELECT AGENDAS, CORP.

By: _____
Name: _____
Title: _____

Summary Report: Litéra® Change-Pro TDC 7.0.0.360 Document Comparison done on 4/26/2013 4:24:50 PM	
Style Name: Gk with Colors and Bars	
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<u>Move To</u>	3
<u>Table Insert</u>	0
Table Delete	0
Embedded Graphics (Visio, ChemDraw, Images etc.)	0
Embedded Excel	0
Format Changes	0
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