UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 24, 2016

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM ________ TO ________

Commission File Number: 000-24385

SCHOOL SPECIALTY, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	**39-0971239**
(State or Other Jurisdiction of Incorporation)	**(IRS Employer Identification No.)**

W6316 Design Drive
Greenville, Wisconsin 54942
(Address of Principal Executive Offices)
(Zip Code)

(920) 734-5712
(Registrant's Telephone Number, including Area Code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☒ No ☐

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Class	Outstanding at November 1, 2016
Common Stock, $0.001 par value	1,000,004

SCHOOL SPECIALTY, INC.

INDEX TO FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 24, 2016

PART I—FINANCIAL INFORMATION

	Page Number
ITEM 1. CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS	
Condensed Consolidated Balance Sheets at September 24, 2016, December 26, 2015 and September 26, 2015	1
Condensed Consolidated Statements of Operations for the Three and Nine Month Periods Ended September 24, 2016 and September 26, 2015	2
Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Month Periods Ended September 24, 2016 and September 26, 2015	3
Condensed Consolidated Statements of Cash Flows for the Nine Month Periods Ended September 24, 2016 and September 26, 2015	4
Notes to Condensed Consolidated Financial Statements	5
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION	20
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	27
ITEM 4. CONTROLS AND PROCEDURES	27
PART II—OTHER INFORMATION	
ITEM 6. EXHIBITS	28

PART I – FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Unaudited Financial Statements

SCHOOL SPECIALTY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(In Thousands)

	September 24, 2016	December 26, 2015	September 26, 2015
ASSETS			
Current assets:			
Cash and cash equivalents	$ 7,349	$ 12,865	$ 11,777
Accounts receivable, less allowance for doubtful accounts of $1,605, $1,077, and $1,596, respectively	172,078	58,370	174,196
Inventories, net	84,848	76,199	89,003
Deferred catalog costs	2,563	6,527	1,598
Prepaid expenses and other current assets	13,238	13,111	14,920
Refundable income taxes	—	9	—
Total current assets	280,076	167,081	291,494
Property, plant and equipment, net	28,722	27,127	28,881
Goodwill	21,588	21,588	21,588
Intangible assets, net	35,950	38,652	39,553
Development costs and other	15,759	19,321	19,739
Deferred taxes long-term	5	5	4
Investment in unconsolidated affiliate	—	715	715
Total assets	$ 382,100	$ 274,489	$ 401,974
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Current maturities—long-term debt	$ 50,637	$ 1,821	$ 83,100
Accounts payable	43,970	20,076	33,814
Accrued compensation	13,266	10,488	12,947
Deferred revenue	3,547	2,705	4,070
Accrued income tax payable	3,471	—	1,030
Other accrued liabilities	18,801	14,794	18,200
Total current liabilities	133,692	49,884	153,161
Long-term debt—less current maturities	136,686	142,438	143,497
Other liabilities	95	561	1,087
Total liabilities	270,473	192,883	297,745
Commitments and contingencies—Note 17			
Stockholders' equity:			
Preferred stock, $0.001 par value per share, 500,000 shares authorized; none outstanding	—	—	—
Common stock, $0.001 par value per share, 2,000,000 shares authorized; 1,000,004 shares outstanding	1	1	1
Capital in excess of par value	120,405	119,240	118,980
Accumulated other comprehensive loss	(1,669)	(1,919)	(1,687)
Retained earnings (accumulated deficit)	(7,110)	(35,716)	(13,065)

Total stockholders’ equity	111,627	81,606	104,229
Total liabilities and stockholders’ equity	$ 382,100	$ 274,489	$ 401,974

See accompanying notes to condensed consolidated financial statements.

SCHOOL SPECIALTY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(In Thousands, Except Per Share Amounts)

	For the Three Months Ended		For the Nine Months Ended	
	September 24, 2016	September 26, 2015	September 24, 2016	September 26, 2015
Revenues	$ 301,569	$ 299,355	$ 541,152	$ 531,907
Cost of revenues	190,011	186,606	338,530	334,753
Gross profit	111,558	112,749	202,622	197,154
Selling, general and administrative expenses	64,454	65,629	164,977	170,933
Facility exit costs and restructuring	93	230	642	2,518
Impairment charge	—	—	—	2,713
Operating income	47,011	46,890	37,003	20,990
Other expense (income):				
Interest expense	4,488	5,107	13,333	14,409
Change in fair value of interest rate swap	(95)	(50)	(271)	(41)
(Gain) on sale of unconsolidated affiliate	(9,090)	—	(9,090)	—
Early termination of long-term indebtedness	—	200	—	200
Loss on early extinguishment of debt	—	877	—	877
Income before provision for income taxes	51,708	40,756	33,031	5,545
Provision for income taxes	8,813	1,861	4,425	2,459
Net income	$ 42,895	$ 38,895	$ 28,606	$ 3,086

See accompanying notes to condensed consolidated financial statements.

SCHOOL SPECIALTY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(In Thousands)

	For the Three Months Ended		For the Nine Months Ended	
	September 24, 2016	September 26, 2015	September 24, 2016	September 26, 2015
Net income	$ 42,895	$ 38,895	$ 28,606	$ 3,086
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(89)	(454)	250	(868)
Total comprehensive income	$ 42,806	$ 38,441	$ 28,856	$ 2,218

See accompanying notes to condensed consolidated financial statements.

SCHOOL SPECIALTY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In Thousands)

	For the Nine Months Ended	
	September 24, 2016	September 26, 2015
Cash flows from operating activities:		
Net income	$ 28,606	$ 3,086
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and intangible asset amortization expense	10,716	13,961
Amortization of development costs	5,029	10,027
Loss on disposal of property, equipment, other	—	774
Amortization of debt fees and other	1,550	1,393
Change in fair value of interest rate swap	(271)	(41)
Impairment charges	—	2,713
Unrealized foreign exchange (gain) loss	(1,005)	509
Early termination of long-term indebtedness	—	200
Gain on sale of unconsolidated affiliate	(9,090)	—
Loss on early extinguishment of debt	—	877
Share-based compensation expense	1,165	875
Deferred taxes	1	13
Non-cash interest expense	1,385	1,194
Changes in current assets and liabilities:		
Accounts receivable	(113,681)	(113,708)
Inventories	(8,646)	(13,585)
Deferred catalog costs	3,964	5,740
Prepaid expenses and other current assets	(118)	1,753
Accounts payable	24,216	13,395
Accrued liabilities	10,748	16,196
Net cash used in operating activities	(45,431)	(54,628)
Cash flows from investing activities:		
Additions to property, plant and equipment	(9,607)	(7,071)
Investment in product development costs	(1,949)	(4,142)
Proceeds from disposal of property, plant and equipment	—	1,616
Proceeds from sale of unconsolidated affiliate	9,805	—
Net cash used in investing activities	(1,751)	(9,597)
Cash flows from financing activities:		
Proceeds from bank borrowings	258,788	273,805
Repayment of bank borrowings	(218,024)	(208,199)
Refund of debt fees and other	—	49
Early termination of long-term indebtedness	—	(200)
Payment of debt fees and other	—	(216)
Net cash provided by financing activities	40,764	65,239
Effect of exchange rate changes on cash	902	(1,202)
Net decrease in cash and cash equivalents	(5,516)	(188)
Cash and cash equivalents, beginning of period	12,865	11,965
Cash and cash equivalents, end of period	$ 7,349	$ 11,777
Supplemental disclosures of cash flow information:		
Interest paid	$ 10,398	$ 11,822

Income taxes paid, net	$	1,293	$	1,454
Change in accounts payable for additions to property and equipment	$	—	$	(2,808)

SCHOOL SPECIALTY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share amounts)

NOTE 1 – BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (which are normal and recurring in nature unless otherwise noted) considered necessary for a fair presentation have been included. The balance sheet at December 26, 2015 has been derived from School Specialty, Inc.'s ("School Specialty" or the "Company") audited financial statements for the transition period ended December 26, 2015. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Transition Report on Form 10-K for the thirty-five weeks ended December 26, 2015.

During the period January 28, 2013 through June 11, 2013, School Specialty, Inc. and certain of its subsidiaries operated as debtors-in-possession under bankruptcy court jurisdiction (see Note 3). As discussed in Note 5 – Fresh Start Accounting, as of June 11, 2013 (the "Effective Date"), the Company adopted fresh start accounting in accordance with ASC 852. The adoption of fresh start accounting resulted in the Company becoming a new entity for financial reporting purposes.

The Company changed its fiscal year end from the last Saturday in April to the last Saturday in December. The Company has reported its financial results for the period of April 26, 2015 to December 26, 2015 (the "short year 2015") on a Transition Report on Form 10-K. As used in this Quarterly Report on Form 10-Q, "fiscal 2015" and "fiscal 2014" refer to the Company's twelve-months ended April 25, 2015 and April 26, 2014, respectively. The December 28, 2014 to March 28, 2015 period will be referred to as "first quarter 2015", the period from March 29, 2015 to June 27, 2015 will be referred to as "second quarter 2015" and the period from June 28, 2015 to September 26, 2015 will be referred to as "third quarter 2015" in this Quarterly Report on Form 10-Q. Collectively, the first, second and third quarters 2015 will be referred to as the "first nine months of 2015".

NOTE 2 – RECENT ACCOUNTING PRONOUNCEMENTS

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-15, "*Statement of Cash Flows.*" ASU No. 2016-15 is intended to reduce diversity in practice in the manner certain transactions are classified in the statement of cash flows. This guidance will be effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The Company is currently in the process of evaluating the impact of adoption of this ASU on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, "*Compensation-Stock Compensation.*" ASU No. 2016-09 is intended to simplify various aspects related to the manner in which share-based payments are accounted for and presented in the financial statements. This guidance will be effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. The Company is currently in the process of evaluating the impact of adoption of this ASU on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "*Leases."*ASU No. 2016-02 requires lessees to recognize the assets and liabilities arising from leases on the balance sheet. The new guidance requires that all leases create an asset and a liability for the lessee in accordance with FASB Concepts Statement No. 6, Elements of Financial Statements. This guidance will be effective for periods beginning on January 1, 2019. The Company

is currently in the process of evaluating the impact of adoption of this ASU on the Company's consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, "*Income Taxes—Balance Sheet Classification of Deferred Taxes.*"ASU No. 2015-17 simplifies the presentation of deferred taxes. The new guidance requires that deferred tax liabilities and assets be classified as noncurrent on the balance sheet, as opposed to being presented as current or non-current. This guidance will be effective for annual periods beginning after December 15, 2016. The adoption of this update is not expected to have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "*Revenue from Contracts with Customers.*" ASU No. 2014-09 provides guidance for revenue recognition. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under today's guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. This guidance will be effective for annual periods beginning after December 15, 2017. The Company is currently in the process of evaluating the impact of adoption of this ASU on the Company's consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements—Going Concern." ASU 2014-15 defines management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 is effective in the annual period ending after December 15, 2016. The adoption of this update is not expected to have a material impact on the Company's consolidated financial statements.

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE

In the first quarter of 2016, the Company adopted ASU No. 2015-03, "Interest – Imputation of Interest." ASU No. 2015-03 requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts. As a result of the adoption of this new accounting standard, Company has reclassified its unamortized debt issuance costs related to its Term Loan (see Note 13 – Debt) as a direct deduction to the carrying value of its debt. The impact of this accounting principle change on the previously issued financial statements is as follows:

	Reported as of December 26, 2015	Debt Issuance Costs	As Adjusted December 26, 2015
ASSETS			
Development costs and other	$ 23,911	$ (4,590)	$ 19,321
Total assets	279,079	(4,590)	274,489
LIABILITIES			
Long-term debt—less current maturities	$ 147,028	$ (4,590)	$ 142,438
Total liabilities	197,473	(4,590)	192,883
Total liabilities and stockholders' equity	$ 279,079	$ (4,590)	$ 274,489

Pursuant to ASU No. 2015-15 "Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements," debt issuance costs associated with revolving credit facilities are not affected by ASU No. 2015-03. As such, debt issuance costs related to the Company's ABL facility are classified as long-term assets within the "Development costs and other" line of the Condensed Balance Sheet, which is consistent with prior period reporting.

The change in accounting principle had no impact on the Company's Consolidated Statements of Operations, Consolidated Statements of Comprehensive Income or Consolidated Statements of Cash Flows.

NOTE 4 – BANKRUPTCY PROCEEDINGS

On January 28, 2013 (the "Petition Date"), School Specialty and certain of its subsidiaries (collectively, the "Debtors") filed voluntary petitions for relief under Chapter 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court").

On May 23, 2013, the Bankruptcy Court entered an order confirming the Debtors' Second Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code (the "Reorganization Plan"), and a corrected copy of such order was entered by the Bankruptcy Court on June 3, 2013. The Reorganization Plan became effective on June 11, 2013. Pursuant to the Reorganization Plan, on the Effective Date, the Company's existing credit agreements, outstanding convertible subordinated debentures, equity plans and certain other agreements were cancelled. In addition, all outstanding equity interests of the Company that were issued and outstanding prior to the Effective Date were cancelled on the Effective Date. Also on the Effective Date, in accordance with and as authorized by the Reorganization Plan, the Company reincorporated in Delaware and issued a total of 1,000,004 shares of Common Stock of the reorganized Company to holders of certain allowed claims against the Debtors in exchange for such claims.

For further details on the bankruptcy proceedings, see Note 3 of the Transition Report on Form 10-K for the thirty-five weeks ended December 26, 2015.

NOTE 5 – FRESH START ACCOUNTING

On the Effective Date, the Company adopted fresh start accounting and reporting in accordance with FASB ASC 852. The adoption of fresh start accounting resulted in the Company becoming a new entity for financial reporting purposes. Fresh start reporting generally requires resetting the historical net book value of assets and liabilities to fair value as of the Effective Date by allocating the entity's enterprise value as set forth in the Reorganization Plan to its assets and liabilities pursuant to accounting guidance related to business combinations. Accordingly, the financial statements on or prior to the Effective Date are not comparable with the financial statements for periods after such date. Any references to "Successor" or "Successor Company" show the financial position and results of operations of the reorganized Company subsequent to the bankruptcy emergence on June 11, 2013. References to "Predecessor" or "Predecessor Company" refer to the financial position and results of operations of the Company prior to the bankruptcy emergence.

For further details on fresh start accounting, see Note 4 of the Transition Report on Form 10-K for the thirty-five weeks ended December 26, 2015.

NOTE 6 – INCOME TAXES

The Company files income tax returns with the U.S., various U.S. states, and foreign jurisdictions. The most significant tax return the Company files is with the U.S. The Company's tax returns are no longer subject to examination by the U.S. for fiscal years before 2014. The Company has various state tax audits and appeals in process at any given time. It is not anticipated that any adjustments resulting from tax examinations or appeals would result in a material change to the Company's financial position or results of operations.

In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that either all, or some portion, of the deferred tax assets will not be realized. The realization is dependent upon the future generation of taxable income, reversal of deferred tax liabilities, tax planning strategies, and expiration of tax attribute carryovers. As a result, the Company had concluded that the realization of a majority of the deferred tax assets did not meet the more likely than not threshold, and recorded a tax valuation allowance. As of December 26, 2015, the Company continued to maintain a valuation allowance against substantially all of its net deferred tax assets as it has not generated taxable income during a twelve-month tax year since the emergence from bankruptcy. The Company is expecting to generate taxable income in fiscal 2016 resulting in the partial reversal of the valuation allowances, primarily through the utilization of net operating losses and the recognition of deferred tax assets associated with the disposal of its investment in an

unconsolidated affiliate. As of September 24, 2016, the Company had an immaterial amount of unremitted earnings from foreign investments.

For interim quarterly reporting purposes, the Company records income tax expense or benefit based on its forecasted annual effective tax rate. As the company typically reports losses in the first half of the fiscal year, the Company will record tax benefit and refundable income tax for those periods. During the second half of the fiscal year, the Company typically generates income and, accordingly, expects to record a tax provision for such period which may offset some or all of the tax benefit and refundable income tax recorded in the first half of the year.

The balance of the Company's liability for unrecognized income tax benefits, net of federal tax benefits, at September 24, 2016, December 26, 2015 and September 26, 2015, was $95, $482, and $517, respectively, all of which would have an impact on the effective tax rate if recognized. The Company does not expect any material changes in the amount of unrecognized tax benefits within the next twelve months. The Company classifies accrued interest and penalties related to unrecognized tax benefits as income tax expense in its condensed consolidated statements of operations. The amounts of accrued interest and penalties included in the liability for uncertain tax positions are not material.

NOTE 7 – STOCKHOLDERS' EQUITY

Changes in condensed consolidated stockholders' equity during the nine month periods ended September 24, 2016 and September 26, 2015, were as follows:

(in thousands)	Common Stock	Capital in Excess of Par Value	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, December 26, 2015	$ 1	$ 119,240	$ (35,716)	$ (1,919)	$ 81,606
Net income	—	—	28,606	—	28,606
Share-based compensation expense	—	1,165	—	—	1,165
Foreign currency translation adjustment	—	—	—	250	250
Balance, September 24, 2016	$ 1	$ 120,405	$ (7,110)	$ (1,669)	$ 111,627
Balance, December 27, 2014	$ 1	$ 119,532	$ (16,151)	$ (819)	$ 102,563
Net income	—	—	3,086	—	3,086
Share-based compensation expense	—	875	—	—	875
Foreign currency translation adjustment	—	—	—	(868)	(868)
Change in Fresh Start estimate	—	(1,427)	—	—	(1,427)
Balance, September 26, 2015	$ 1	$ 118,980	$ (13,065)	$ (1,687)	$ 104,229

In June 2014, the Company revised its fresh-start estimate for the amount of deferred cash payment obligations (see Note 13 – Debt). The change in estimate is related to an increased number of unsecured trade creditors which elected to provide the Company customary trade terms which entitled those creditors to a 45% recovery of their unsecured claim rather than a 20% recovery. This change in estimate resulted in a decrease of $2,992 to the Successor Company's equity and a corresponding increase in long-term debt. This change was incorrectly recorded in the financial statements as $1,565 in June 2014. In January 2015, the recorded amount was corrected to $2,992. Management has concluded that the misstatements of interim financial statements in the first nine months of 2015 were not material.

SCHOOL SPECIALTY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share amounts)

NOTE 8 – EARNINGS PER SHARE

Earnings Per Share

The following information presents the Company's computations of basic earnings per share ("basic EPS") and diluted earnings per share ("diluted EPS") for the periods presented in the condensed consolidated statements of operations:

	Income (loss) (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
Three months ended September 24, 2016:			
Basic EPS	$ 42,895	1,000	$ 42.90
Effect of dilutive stock options and RSUs	—	—	
Basic and diluted EPS	$ 42,895	1,000	$ 42.90
Three months ended September 26, 2015:			
Basic EPS	$ 38,895	1,000	$ 38.90
Effect of dilutive stock options and RSUs	—	—	
Basic and diluted EPS	$ 38,895	1,000	$ 38.90

	Income (loss) (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
Nine months ended September 24, 2016:			
Basic EPS	$ 28,606	1,000	$ 28.61
Effect of dilutive stock options and RSUs	—	—	
Basic and diluted EPS	$ 28,606	1,000	$ 28.61
Nine months ended September 26, 2015:			
Basic EPS	$ 3,086	1,000	$ 3.09
Effect of dilutive stock options and RSUs	—	—	
Basic and diluted EPS	$ 3,086	1,000	$ 3.09

The Company had 71 and 72 stock options outstanding for the three and nine month periods ended September 24, 2016, which were not included in the computation of diluted EPS because they were anti-dilutive. The Company had 73 stock options outstanding for the three and nine month periods ended September 26, 2015, which were not included in the computation of diluted EPS because they were anti-dilutive.

The Company granted 28 Restricted Stock Units ("RSUs") on March 23, 2016. As such, the daily weighed average RSUs outstanding were 28 and 19 for the three and nine month periods ended September 24, 2016, respectively, and zero for the three and nine month periods ended September 26, 2015. The outstanding RSUs were not included in the computation of diluted EPS because they were anti-dilutive.

SCHOOL SPECIALTY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share amounts)

NOTE 9 – SHARE-BASED COMPENSATION EXPENSE

Employee Stock Plans

Since fiscal 2014, the Company has had one share-based employee compensation plan: the School Specialty, Inc. 2014 Incentive Plan (the "2014 Plan"). The 2014 Plan was adopted by the Board of Directors on April 24, 2014 and approved on September 4, 2014 by the Company's stockholders. On April 24, 2014, School Specialty, Inc.'s CEO was awarded 33 stock options under the 2014 Plan. Other members of management were awarded 65 stock options during fiscal 2015, 25 of which were cancelled in fiscal 2015 subsequent to the award due to terminations of employment. September 4, 2014, the date on which the stockholders approved the 2014 Plan, was considered the grant date, or measurement date, for those awards issued prior to this date. As such, those awards made prior to September 4, 2014 were not considered outstanding and no expense associated with those awards was recognized prior to that date. There were 68 stock options awarded prior to the measurement date.

The 33 stock options that were awarded to the Company's CEO vest as to one-fourth of the options on the first four anniversaries of the date of the award. The options that were awarded to other members of management vest as to one-half of the options on the second anniversary of the date of the award and as to one-fourth of the options on each of the third and fourth anniversaries of the award date.

A summary of option transactions for the nine months ended September 24, 2016 and September 26, 2015 is as follows:

	Options Outstanding		Options Exercisable	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Balance at December 26, 2015	73	$ 130.00	8	$ 130.00
Granted	—			
Exercised	—			
Canceled	(2)	$ 130.00		
Balance, September 24, 2016	71	$ 130.00	21	$ 130.00
Balance at December 27, 2014	66	$ 130.00	—	$ —
Granted	7	$ 130.00		
Exercised	—			
Canceled	—			
Balance, September 26, 2015	73	$ 130.00	8	$ 130.00

On March 23, 2016, the Compensation Committee of the Board of Directors of the Company granted an aggregate of 28 RSUs under the Company's 2014 Plan to members of the Company's senior management. The restricted stock units are performance-based. A certain percentage of the RSUs will vest on the third anniversary of the date of grant, with such percentage based on the 15 day Volume Weighted Average Price ("VWAP") of the Company's common stock prior to the vesting date. The percentage of RSUs that will vest shall be determined as follows:

Vesting %	15 Day VWAP
0%	VWAP less than $108.00
20%	VWAP greater than or equal to $108.00, but less than $118.00
40%	VWAP greater than or equal to $118.00, but less than $128.00
60%	VWAP greater than or equal to $128.00, but less than $138.00

80%	VWAP greater than or equal to $138.00, but less than $148.00
100%	VWAP greater than or equal to $148.00

Any RSUs that vest will be settled in shares of Company common stock.

The following table presents the share-based compensation expense recognized for the three and nine month periods ended September 24, 2016 and September 26, 2015:

	For the Three Months Ended			
	September 24, 2016		September 26, 2015	
	Gross	Net of Tax	Gross	Net of Tax
Stock Options	$261	$ 230	$260	$ 260
Restricted Stock Units	189	166	—	—
Total stock-based compensation expense	$450		$260	

	For the Nine Months Ended			
	September 24, 2016		September 26, 2015	
	Gross	Net of Tax	Gross	Net of Tax
Stock Options	$ 782	$ 688	$875	$ 875
Restricted Stock Units	383	337	—	—
Total stock-based compensation expense	$1,165		$875	

The stock-based compensation expense is reflected in selling, general and administrative ("SG&A") expenses in the accompanying condensed consolidated statements of operations.

The total unrecognized share-based compensation expense as of September 24, 2016 and September 26, 2015 was as follows:

	September 24, 2016	September 26, 2015
Stock Options, net of estimated forfeitures	$ 1,945	$ 2,987
Restricted Stock Units	$ 1,886	$ —

On May 28, 2014, the Board granted 6 stock appreciation rights ("SARs") to each of the non-employee members of the Board under the 2014 Plan. On July 31, 2015, the Board granted 6 SARs to each of the two new non-employee members of the Board. Each SAR has a grant date value of $130 and will be settled in cash upon exercise. As such, the SARs are accounted for as liability awards. Since the Company's stock trading price was less than each SAR's exercise price as of the three and nine month periods ended September 24, 2016, no expense was recorded for the SARs. The SARs will vest as to one-half of the SARs on the second anniversary of the date of grant and as to one-fourth of the SARs on each of the third and fourth anniversaries of the date of grant. Total SARs that remain outstanding as of September 24, 2016 are 22.

NOTE 10 – GOODWILL AND OTHER INTANGIBLE ASSETS

The following tables present details of the Company's intangible assets, including the estimated useful lives, excluding goodwill:

September 24, 2016	Gross Value	Accumulated Amortization	Net Book Value
Amortizable intangible assets:			
Customer relationships (13 years)	$11,300	$ (2,897)	$ 8,403
Publishing rights (20 years)	4,000	(667)	3,333
Trademarks (20 years)	22,700	(3,783)	18,917
Developed technology (7 years)	6,600	(3,143)	3,457
Content (5 years)	4,400	(4,400)	—
Perpetual license agreements (5 years)	1,200	(800)	400
Favorable leasehold interests (10 years)	2,160	(720)	1,440
Total intangible assets	$52,360	$ (16,410)	$35,950

December 26, 2015	Gross Value	Accumulated Amortization	Net Book Value
Amortizable intangible assets:			
Customer relationships (13 years)	$11,300	$ (2,246)	$ 9,054
Publishing rights (20 years)	4,000	(517)	3,483
Trademarks (20 years)	22,700	(2,932)	19,768
Developed technology (7 years)	6,600	(2,436)	4,164
Content (5 years)	4,400	(4,400)	—
Perpetual license agreements (5 years)	1,200	(620)	580
Favorable leasehold interests (10 years)	2,160	(557)	1,603
Total intangible assets	$52,360	$ (13,708)	$38,652

September 26, 2015	Gross Value	Accumulated Amortization	Net Book Value
Amortizable intangible assets:			
Customer relationships (13 years)	$11,300	$ (2,028)	$ 9,272
Publishing rights (20 years)	4,000	(467)	3,533
Trademarks (20 years)	22,700	(2,648)	20,052
Developed technology (7 years)	6,600	(2,200)	4,400
Content (5 years)	4,400	(4,400)	—
Perpetual license agreements (5 years)	1,200	(560)	640
Favorable leasehold interests (10 years)	2,160	(504)	1,656
Total intangible assets	$52,360	$ (12,807)	$39,553

The gross values were determined by the valuation which was performed as part of the fresh start accounting. In addition to the intangible assets above, the Company recorded $21,588 of goodwill. In second quarter 2015, the Company recorded an impairment charge of $2,713 related to the Content intangible asset, which reduced the net book value of the intangible asset to zero as of the end of second quarter 2015. This impairment was related to the Company's decision to reduce future investments in digital content and digital delivery for its Agenda product category. No impairment was recorded for the nine months ended September 24, 2016.

Intangible asset amortization expenses were included in SG&A expense. Intangible asset amortization expense for the three months ended September 24, 2016 and September 26, 2015, was $901 and $902, respectively. Intangible asset amortization expense for the nine months ended September 24, 2016 and September 26, 2015, was $2,702 and $2,997, respectively.

Intangible asset amortization expense for each of the five succeeding fiscal years is estimated to be:

Fiscal 2016 (3 months remaining)	$ 901
Fiscal 2017	3,603
Fiscal 2018	3,463
Fiscal 2019	3,363
Fiscal 2020	2,813
Fiscal 2021	2,420

The table below shows the allocation to the segments of the recorded goodwill as of September 24, 2016.

	Distribution Segment	Curriculum Segment	Total
Fresh Start Valuation:			
Goodwill	$ 14,666	$ 6,922	$21,588
Balance at September 24, 2016	$ 14,666	$ 6,922	$21,588

NOTE 11 – INVESTMENT IN UNCONSOLIDATED AFFILIATE

The investment in unconsolidated affiliate consisted of the following:

	Percent Owned	September 24, 2016	December 26, 2015	September 26, 2015
Carson- Dellosa Publishing, LLC	35%	$ —	$ 715	$ 715

The Company's interest in Carson-Dellosa Publishing was accounted for under the cost method as the Company did not have significant influence over the investee.

On July 26, 2016, the Company sold its 35% interest in Carson Dellosa Publishing LLC for $9,839. The Company recorded a non-operating gain on disposal of $9,090. In accordance with the Term Loan Agreement, the Company used $8,053 of the net cash proceeds from this sale to paydown the Term Loan with the remaining net cash proceeds used to pay down the ABL.

NOTE 12 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	September 24, 2016	December 26, 2015	September 26, 2015
Projects in progress	$ 10,073	$ 3,981	4,073
Buildings and leasehold improvements	3,317	3,312	3,336
Furniture, fixtures and other	41,895	40,120	39,983
Machinery and warehouse equipment	12,859	11,501	11,520
Total property, plant and equipment	68,144	58,914	58,912
Less: Accumulated depreciation	(39,422)	(31,787)	(30,031)

Net property, plant and equipment	$ 28,722	$ 27,127	$ 28,881

Depreciation expense for the three months ended September 24, 2016 and September 26, 2015, was $1,893 and $3,292 respectively. Depreciation expense for the nine months ended September 24, 2016 and September 26, 2015, was $8,014 and $10,964 respectively

NOTE 13 – DEBT

Long-term debt consisted of the following:

	September 24, 2016	December 26, 2015	September 26, 2015
ABL Facility, maturing in 2019	$ 50,637	$ —	$ 83,100
Term Loan, maturing in 2019	122,226	132,100	132,100
Term Loan Original Issue Discount	(1,503)	(1,859)	(1,971)
Unamortized Term Loan Debt Issuance Costs	(3,724)	(4,590)	(4,899)
Deferred Cash Payment Obligations, maturing in 2019	19,687	18,608	18,267
Total debt	187,323	144,259	226,597
Less: Current maturities	(50,637)	(1,821)	(83,100)
Total long-term debt	$ 136,686	$ 142,438	$ 143,497

ABL Facility

On June 11, 2013, the Company entered into a Loan Agreement (the "Asset-Based Credit Agreement") by and among the Company, Bank of America, N.A., as Agent, SunTrust Bank, as Syndication Agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated and SunTrust Robinson Humphrey, Inc., as Joint Lead Arrangers and Bookrunners, and the Lenders that are party to the Asset-Based Credit Agreement (the "Asset-Based Lenders").

Under the Asset-Based Credit Agreement, the Asset-Based Lenders agreed to provide a revolving senior secured asset-based credit facility (the "ABL Facility") in an aggregate principal amount of $175,000. As of August 7, 2015, the aggregate commitments were permanently reduced, at the election of the Company, by $50,000, from $175,000 to $125,000.

Outstanding amounts under the ABL Facility will bear interest at a rate per annum equal to, at the Company's election: (1) a base rate (equal to the greatest of (*a*) the prime lending rate, (*b*) the federal funds rate plus 0.50%, and (*c*) the 30-day LIBOR rate plus 1.00% per annum) (the "Base Rate") plus an applicable margin (equal to a specified margin based on the interest rate elected by the Company, the fixed charge coverage ratio under the ABL Facility and the applicable point in the life of the ABL Facility) (the "Applicable Margin"), or (2) a LIBOR rate plus the Applicable Margin (the "LIBOR Rate"). Interest on loans under the ABL Facility bearing interest based upon the Base Rate will be due monthly in arrears, and interest on loans bearing interest based upon the LIBOR Rate will be due on the last day of each relevant interest period or, if sooner, on the respective dates that fall every three months after the beginning of such interest period.

In November 2014, the Company amended the ABL Facility. The main purpose for the amendment was to provide the Company additional flexibility in its execution of certain restructuring actions by increasing the cap on the amount that may be added back under the definition of earnings before interest, taxes, depreciation, and amortization ("EBITDA") for non-recurring, unusual or extraordinary charges, business optimization expenses or other restructuring charges or reserves and cash expenses relating to earn outs or similar obligations.

In September 2015, the Company amended the ABL Facility. The main purposes for the amendment were to reduce the Applicable Margin for base rate and LIBOR loans, reduce the unused line fee rate and extend the scheduled maturity date. As amended, the maturity date is extended to September 16, 2020, which shall automatically become March 12, 2019 unless the Company's term loan facility has been repaid, refinanced, redeemed, exchanged or amended prior to such date, in the case of any refinancing or amendment, to a date that is at least 90 days after the scheduled maturity date. In addition, the amendment provided for the withdrawal of Sun Trust Bank as a lender and the assumption of its commitments by the remaining lenders. As a result of this amendment, the Company recorded a loss on the early extinguishment of debt of $877, which represented the non-cash charge associated with the acceleration of a portion of the remaining unamortized debt issuance costs.

The effective interest rate under the ABL Facility for the three months ended September 24, 2016 was 3.73%, which includes interest on borrowings of $360, amortization of loan origination fees of $195 and commitment fees on unborrowed funds of $51. The effective interest rate under the ABL Facility for the nine months ended September 24, 2016 was 5.24%, which includes interest on borrowings of $594, amortization of loan origination fees of $584 and commitment fees on unborrowed funds of $244. As of September 24, 2016, the outstanding balance on the ABL Facility was $50,637.

The Company may prepay advances under the ABL Facility in whole or in part at any time without penalty or premium. The Company will be required to make specified prepayments upon the occurrence of certain events, including: (1) the amount outstanding on the ABL Facility exceeding the Borrowing Base (as determined in accordance with the terms of the ABL Facility), and (2) the Company's receipt of net cash proceeds of any sale or disposition of assets that are first priority collateral for the ABL Facility.

Pursuant to a Guaranty and Collateral Agreement dated as of June 11, 2013 (the "ABL Security Agreement"), the ABL Facility is secured by a first priority security interest in substantially all assets of the Company and the guarantor subsidiaries. Under an intercreditor agreement between the Asset-Based Lenders and the Term Loan Lenders, as defined and described below, the Asset-Based Lenders have a first priority security interest in substantially all working capital assets of the Company and the guarantor subsidiaries, and a second priority security interest in all other assets, subordinate only to the first priority security interest of the Term Loan Lenders in such other assets.

The Asset-Based Credit Agreement contains customary events of default and financial, affirmative and negative covenants, including but not limited to a springing financial covenant relating to the Company's fixed charge coverage ratio and restrictions on indebtedness, liens, investments, asset dispositions and dividends and other restricted payments.

Term Loan

Also on June 11, 2013, the Company entered into a Credit Agreement (the "Term Loan Credit Agreement") among the Company, Credit Suisse AG, as Administrative Agent and Collateral Agent, and the Lenders defined in the Term Loan Credit Agreement (the "Term Loan Lenders"). In November, 2014, the Company amended the Term Loan Credit Agreement. The main purpose for the amendment was to provide the Company additional flexibility in its execution of certain restructuring actions by increasing the cap on the amount that may be added back under the definition of consolidated EBITDA for non-recurring, unusual or extraordinary charges, business optimization expenses or other restructuring charges or reserves and cash expenses relating to earn outs or similar obligations.

Under the Term Loan Credit Agreement, the Term Loan Lenders agreed to make a term loan (the "Term Loan") to the Company in aggregate principal amount of $145,000, including an original issue discount of $2,900. The outstanding principal amount of the Term Loan will bear interest at a rate per annum equal to the applicable LIBOR rate (with a 1% floor) plus 8.50%, or the base rate plus a margin of 7.50%. Interest on loans under the Term Loan Credit Agreement bearing interest based upon the base rate will be due quarterly in arrears, and interest on loans bearing interest based upon the LIBOR Rate will be due on the last day of each relevant interest period or, if sooner, on the respective dates that fall every three months after the beginning of such interest period.

The effective interest rate under the term loan credit facility for the three months ended September 24, 2016 was 10.92%, which includes interest on borrowings of $3,014, amortization of loan origination fees of $328 and

original issue discount amortization of $121. The effective interest rate under the term loan credit facility for the nine months ended September 24, 2016 was 10.85%, which includes interest on borrowings of $9,312, amortization of loan origination fees of $966 and original issue discount amortization of $356. On September 21, 2015, the Company elected to make a $10,000 prepayment on the Term Loan. As a result of the prepayment, the Company incurred a $200 early prepayment fee. As of September 24, 2016, the outstanding balance on the Term Loan Credit Agreement was $122,226, net of the remaining unamortized original issue discount of $1,503. The original issue discount is being amortized as additional interest expense on a straight-line basis over the life of the Term Loan.

The Term Loan matures on June 11, 2019. The Term Loan Credit Agreement requires prepayments at specified levels upon the Company's receipt of net proceeds from certain events, including: (1) certain dispositions of property, divisions, business units or business lines; and (2) other issuances of debt other than Permitted Debt (as defined in the Term Loan Credit Agreement). The Term Loan Credit Agreement also requires prepayments at specified levels from the Company's excess cash flow. The Company is also permitted to voluntarily prepay the Term Loan in whole or in part. Any prepayments are to be made at par, plus an early payment fee calculated in accordance with the terms of the Term Loan Credit Agreement, as amended, if prepaid prior to October 31, 2016. The Company used $8,053 of proceeds from the third quarter fiscal 2016 sale of its interest in an unconsolidated affiliate to repay a portion of the Term Loan. This repayment did not trigger an early prepayment fee.

Pursuant to a Guarantee and Collateral Agreement dated as of June 11, 2013 (the "Term Loan Security Agreement"), the Term Loan is secured by a first priority security interest in substantially all assets of the Company and the guarantor subsidiaries. Under an intercreditor agreement between the Asset-Based Lenders and the Term Loan Lenders, the Term Loan Lenders have a second priority security interest in substantially all working capital assets of the Company and the subsidiary guarantors, subordinate only to the first priority security interest of the Asset-Based Lenders in such assets, and a first priority security interest in all other assets.

The Term Loan Credit Agreement contains customary events of default and financial, affirmative and negative covenants, including but not limited to quarterly financial covenants, relating to the Company's (1) minimum interest coverage ratio and (2) maximum net total leverage ratio and restrictions on indebtedness, liens, investments, asset dispositions and dividends and other restricted payments.

The Term Loan required the Company to enter into an interest rate hedge, within 90 days of the Effective Date and for a minimum of three years, in an amount equal to at least 50% of the aggregate principal amount outstanding under the Term Loan. The purpose of the interest rate hedge was to effectively subject a portion of the Term Loan to a fixed or maximum interest rate. As such, the Company entered into an interest rate swap agreement on August 27, 2013 that effectively fixed the interest payments on a portion of the Company's variable-rate debt. The swap, which terminated on September 11, 2016, effectively fixed the LIBOR-based interest rate on the debt in the amount of the notional amount of the swap at 9.985%. During the three months ended September 24, 2016, the fair value of the derivative increased by $95 and a gain of $95 was recognized. During the three months ended September 26, 2015, the fair value of the derivative increased by $50 and a gain of $50 was recognized. During the nine months ended September 24, 2016, the fair value of the derivative increased by $271 and a gain of $271 was recognized. During the nine months ended September 26, 2015, the fair value of the derivative increased by $41 and a gain of $41 was recognized. The gain or loss related to the derivative was recorded in "Change in fair value of interest rate swap" on the condensed consolidated statement of operations.

The Company did not enter into a subsequent interest rate swap after the termination of the above-mentioned interest rate swap.

The Company has estimated that the fair value of its Term Loan (valued under Level 3) as of September 24, 2016 approximated the carrying value of $122,226.

Deferred Cash Payment Obligations

In connection with the Reorganization Plan, general unsecured creditors are entitled to receive a deferred cash payment obligation of 20% of the allowed claim in full settlement of the allowed unsecured claims. Such

payment accrues quarterly paid-in-kind interest of 5% per annum beginning on the Effective Date. Trade unsecured creditors had the ability to make a trade election to provide agreed upon customary trade terms. If the election was made, those unsecured trade creditors received a deferred cash payment obligation of 45% of the allowed claim in full settlement of those claims. As of the Effective Date, the deferred payment obligations under the trade elections began to accrue quarterly paid-in-kind interest of 10% per annum. All deferred cash payment obligations, along with interest paid-in-kind, are payable in December 2019.

The Company's reconciliation of general unsecured claims was completed in fiscal 2015. As of September 24, 2016, the Company's deferred payment obligations were $19,687, of which $3,084 represents a 20% recovery for the general unsecured creditors and $12,095 represents a 45% recovery for those creditors who elected to provide the Company standard trade terms with the remaining $4,508 related to accrued paid-in-kind interest.

NOTE 14 – CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Changes in accumulated other comprehensive income (loss) during the three and nine month periods September 24, 2016 and September 26, 2015 were as follows:

	Foreign Currency Translation
Accumulated Other Comprehensive Income (Loss) at December 26, 2015	$ (1,919)
Other comprehensive income before reclassifications	215
Amounts reclassified from other comprehensive income	—
Accumulated Other Comprehensive Income (Loss) at March 26, 2016	$ (1,704)
Other comprehensive income before reclassifications	124
Amounts reclassified from other comprehensive income	—
Accumulated Other Comprehensive Income (Loss) at June 25, 2016	$ (1,580)
Other comprehensive loss before reclassifications	(89)
Amounts reclassified from other comprehensive income	—
Accumulated Other Comprehensive Income (Loss) at September 24, 2016	$ (1,669)

	Foreign Currency Translation
Accumulated Other Comprehensive Income (Loss) at December 27, 2014	$ (819)
Other comprehensive loss before reclassifications	(498)
Amounts reclassified from other comprehensive income	—
Accumulated Other Comprehensive Income (Loss) at March 28, 2015	$ (1,317)
Other comprehensive income before reclassifications	84
Amounts reclassified from other comprehensive income	—
Accumulated Other Comprehensive Income (Loss) at June 27, 2015	$ (1,233)
Other comprehensive loss before reclassifications	(454)
Amounts reclassified from other comprehensive income	—
Accumulated Other Comprehensive Income (Loss) at September 26, 2015	$ (1,687)

NOTE 15 – RESTRUCTURING

In the three and nine months ended September 24, 2016 and September 26, 2015, the Company recorded restructuring costs associated with the closure or disposal of distribution centers, lease termination costs and severance related to personnel reductions. The following is a reconciliation of accrued restructuring costs for the three and nine months ended September 24, 2016 and September 26, 2015:

	Distribution	Curriculum	Corporate	Total
Accrued Restructuring Costs at December 26, 2015	$ —	$ —	$ 375	$ 375
Amounts charged to expense	—	—	166	166
Payments	—	—	(288)	(288)
Accrued Restructuring Costs at March 26, 2016	$ —	$ —	$ 253	$ 253
Amounts charged to expense	—	—	383	383
Payments	—	—	(460)	(460)
Accrued Restructuring Costs at June 25, 2016	$ —	$ —	$ 176	$ 176
Amounts charged to expense	—	—	93	93
Payments	—	—	(177)	(177)
Accrued Restructuring Costs at September 24, 2016	$ —	$ —	$ 92	$ 92

	Distribution	Curriculum	Corporate	Total
Accrued Restructuring Costs at December 27, 2014	$ —	$ —	$ 1,618	$ 1,618
Amounts charged to expense	—	—	1,982	1,982
Payments	—	—	(1,787)	(1,787)
Accrued Restructuring Costs at March 28, 2015	$ —	$ —	$ 1,813	$ 1,813
Amounts charged to expense	—	—	—	—
Payments	—	—	(924)	(924)
Accrued Restructuring Costs at June 27, 2015	$ —	$ —	$ 889	$ 889
Amounts charged to expense			642	642
Payments			(928)	(928)
Accrued Restructuring Costs at September 26, 2015	$ —	$ —	$ 603	$ 603

The $93 and $642 charged for the three months ended September 24, 2016 and September 26, 2015 and the $642 and $2,624 for the nine months ended September 24, 2016 and September 26, 2015, were included in facility exit costs and restructuring in the Condensed Consolidated Statements of Operations.

NOTE 16 – SEGMENT INFORMATION

The Company determines its operating segments based on the information utilized by the chief operating decision maker, the Company's Chief Executive Officer, to allocate resources and assess performance. Based on

this information, the Company has determined that it operates in two operating segments, Distribution and Curriculum, which also constitute its reportable segments. The Company operates principally in the United States, with limited operations in Canada. The Distribution segment offers products primarily to the pre-kindergarten through twelfth grade ("preK-12") education market that include basic classroom supplies and office products, instructional teaching materials, indoor and outdoor furniture and equipment, physical education equipment, classroom technology, and planning and organizational products. The Curriculum segment is a publisher and distributor of proprietary and non-proprietary core, supplemental and intervention curriculum in the categories of science, math, reading and intervention in the preK-12 education market. The accounting policies of the segments are the same as those described in Summary of Significant Accounting Policies as included in the Company's Transition Report on Form 10-K for the short year ended December 26, 2015.

The Company measures profitability of its operating segments at a gross profit level. This measure of profitability for the segments is a change from prior periods which reported operating income or loss at the segment level. Since the majority of SG&A costs are managed centrally and allocation methodologies of these costs to the operating segments are arbitrary, the Company's chief operating decision maker does not review segment profitability using operating profit, only gross profit. Accordingly, the segment information reports gross profit at the segment level. All prior periods were recast to conform to this new measure of segment profitability.

SCHOOL SPECIALTY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share amounts)

	Three Months Ended September 24, 2016	Three Months Ended September 26, 2015	Nine Months Ended September 24, 2016	Nine Months Ended September 26, 2015
Revenues:				
Distribution	$ 256,695	$ 259,475	$ 453,675	$ 454,243
Curriculum	44,874	39,880	87,477	77,664
Total	$ 301,569	$ 299,355	$ 541,152	$ 531,907
Gross Profit:				
Distribution	$ 86,658	$ 90,339	$ 155,911	$ 159,778
Curriculum	24,900	22,410	46,711	37,376
Total	$ 111,558	$ 112,749	$ 202,622	$ 197,154
Operating income	47,011	46,890	37,003	20,990
Interest expense, net and Other	(4,697)	6,134	3,972	15,445
Income before provision for income taxes	$ 51,708	$ 40,756	$ 33,031	$ 5,545

	September 24, 2016	December 26, 2015	September 26, 2015
Identifiable assets:			
Distribution	$ 276,639	$ 173,838	$ 283,042
Curriculum	99,468	88,796	104,149
Corporate assets	5,993	11,855	14,783
Total	$ 382,100	$ 274,489	$ 401,974

	Three Months Ended September 24, 2016	Three Months Ended September 26, 2015	Nine Months Ended September 24, 2016	Nine Months Ended September 26, 2015
Depreciation and amortization of intangible assets and development costs:				
Distribution	$ 1,566	$ 3,266	$ 8,079	$ 12,734
Curriculum	3,181	3,332	7,666	11,254
Total	$ 4,747	$ 6,598	$ 15,745	$ 23,988
Expenditures for property, plant and equipment,intangible and other assets and development costs:				
Distribution	$ 1,826	$ 2,248	$ 8,312	$ 7,337
Curriculum	931	161	3,244	3,876
Total	$ 2,757	$ 2,409	$ 11,556	$ 11,213

NOTE 17 – COMMITMENTS AND CONTINGENCIES

Various claims and proceedings arising in the normal course of business are pending against the Company. The results of these matters are not expected to have a material effect on the Company's consolidated financial position, results of operations or cash flows.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operation

Quarterly Overview

School Specialty is a leading distributor of supplies, furniture, technology products, supplemental learning products ("instructional solutions") and curriculum solutions, primarily to the education marketplace. The Company provides educators with its own innovative and proprietary products and services, from basic school supplies to 21st century classroom designs to Science, Reading, Language and Math teaching materials, as well as planning and development tools. Through its nationwide distribution network, School Specialty also provides its customers with access to a broad spectrum of trusted, third-party brands across its business segments. This assortment strategy enables the Company to offer a broad range of products primarily serving the preK-12 education market at the state, district and school levels. The Company is expanding its presence outside the education market into channels such as partnerships with e-tailers and healthcare facilities.

The Company changed its fiscal year end from the last Saturday in April to the last Saturday in December. The Company has reported its financial results for the period of April 26, 2015 to December 26, 2015 (the "short year 2015") on a Transition Report on Form 10-K. As used in this Quarterly Report on Form 10-Q, "fiscal 2015" and "fiscal 2014" refer to the Company's twelve-months ended April 25, 2015 and April 26, 2014, respectively. The December 28, 2014 to March 28, 2015 period will be referred to as "first quarter 2015" and the period from March 29, 2015 to June 27, 2015 will be referred to as "second quarter 2015" and the period from June 28, 2015 to September 26, 2015 will be referred to as "third quarter 2015" in this Quarterly Report on Form 10-Q. Collectively, the first, second and third quarters 2015 will be referred to as the "first nine months of 2015".

Our goal is to grow profitably as a leading provider of supplies, products, services and curriculum to the education market. After five consecutive years of revenue declines, our revenues grew 2.4% in calendar 2015 versus calendar 2014. Revenue growth continued in the first nine months of fiscal 2016 with revenues increasing 1.7% compared to the first nine months of 2015. We believe we can continue to drive revenue growth in future years and balanced revenue growth across substantially all product categories is a core objective for the Company. We expect to achieve this goal over the long-term through an organic growth strategy based on leveraging our strong brand names and distribution capabilities and transforming the Company's sales and marketing to better leverage our deep category and market expertise. Our growth strategy focuses on both new customer acquisition and the retention and further penetration of existing customers while exploring new markets or revenue streams.

In addition to driving profitable growth, our organization is focused on improving the efficiency and effectiveness of our operating infrastructure and distribution network. Initiatives over the past several quarters have resulted in a lower cost structure while also improving service levels to customers. As a result, our SG&A expenses declined in both dollars and as a percent of revenue in 2015. This trend continued in the first nine months of fiscal 2016 (down $6.0 million, or 160 basis points). Our operating profit margins improved from 3.9% of revenue for the nine months ended September 26, 2015 to 6.8% for the nine months ended September 24, 2016. The cost efficiencies realized have allowed us to continue to invest in areas that will drive revenue growth or improve the effectiveness of our operations.

Our business and consequently our working capital needs are highly seasonal, with peak sales levels occurring from June through September. During this period, we receive, ship and bill the majority of our business so that schools and teachers receive their products by the start of each school year. Our inventory levels increase in April through June in anticipation of the peak shipping season. The majority of shipments are made between June and September and the majority of cash receipts are collected from September through December. We typically ship more than 50% of our revenue and earn more than 100% of our annual net income from June through September and operate at a net loss from October through May.

Results of Operations

Three Months Ended September 24, 2016 Compared to Three Months Ended September 26, 2015

Revenues

Revenue of $301.6 million for the three months ended September 24, 2016 increased by $2.2 million, or 0.7%, as compared to the three months ended September 26, 2015.

Distribution segment revenues of $256.7 million for the three months ended September 24, 2016 decreased by 1.1%, or $2.8 million compared to the three months ended September 26, 2015. As expected, revenues in the Agenda category decreased by $2.6 million in the current year's third quarter as we believe schools have de-emphasized paper-based planners and shifted purchases to lower-priced planners with less customized content. Revenues in our Supplies product category increased $1.3 million, or 1.1%, in the third quarter of 2016 as compared to the third quarter of 2015. An important contributor to our performance in the third quarter was the expanding relationship with our e-tail partners, as well as stability within our primary preK-12 education market. The revenues from the remaining product categories were relatively flat in the third quarter of fiscal 2016 as compared to the third quarter of 2015. While third quarter revenues in our Furniture category were essentially flat with the prior year's third quarter, strong order trends continued. These strong order trends have resulted in an increased open order position at the end of the third quarter of fiscal 2016 as compared to the end of the third quarter of 2015; as such, we expect growth in Furniture revenues in the fourth quarter.

Curriculum segment revenues of $44.9 million for the three months ended September 24, 2016 increased by 12.5%, or $5.0 million, from the three months ended September 26, 2015. This increase was primarily related to the Science category as widespread acceptance of FOSS products, which are aligned with Next Generation Science Standards, continued in the third quarter of fiscal 2016. The Reading category experienced a modest decline in the third quarter of $0.3 million, or 2.8%.

Gross Profit

Gross profit for the three months ended September 24, 2016 was $111.6 million, as compared to $112.7 million for the three months ended September 26, 2015. Gross margin for the three months ended September 24, 2016 was 37.0%, as compared to 37.7% for the three months ended September 26, 2015.

Distribution segment gross margin was 33.8% for the three months ended September 24, 2016, as compared to 34.8% for the three months ended September 26, 2015. The decrease in gross margin for the quarter was primarily related to an increase in basic Supplies orders placed through strategic purchasing co-operative agreements. These agreements typically price basic supplies at lower gross margins. A change in mix within the segment reduced gross margin by approximately 10 basis points.

Curriculum segment gross margin was 55.5% for the three months ended September 24, 2016, as compared to 56.2% for the three months ended September 26, 2015. Decreased product development amortization year-over-year resulted in approximately160 basis points of improvement in gross margin. A change in product mix, primarily driven by decreased Reading revenues, contributed the gross margin decline in the Curriculum segment.

Selling, General and Administrative Expenses

SG&A includes selling expenses, the most significant of which are wages and commissions; operations expenses, which includes customer service, warehouse and out-bound freight costs; catalog costs; general administrative overhead, which includes information systems, accounting, legal and human resources; and depreciation and intangible asset amortization expense.

SG&A decreased $1.2 million from $65.7 million for the three months ended September 26, 2015 to $64.5 million for the three months ended September 24, 2016. As a percent of revenue, SG&A decreased from 21.9% for the three months ended September 26, 2015 to 21.4% for the three months ended September 24, 2016.

Depreciation and amortization expense in SG&A was down approximately $1.4 million in the third quarter of fiscal 2016, as compared to the third quarter of 2015. Compensation and benefit costs in the third quarter of fiscal 2016 were down approximately $0.4 million as compared to the third quarter of 2015. These reductions to SG&A were partially offset by $0.6 million of additional performance-based incentive compensation expense in the current year's third quarter as compared to the third quarter of 2015. Marketing expense, which includes catalog amortization, was up $0.7 million during the first nine months of 2016 compared to the first nine months of 2015.

We recognized a net foreign currency loss in the third quarter of fiscal 2016 of $0.1 million due to the Canadian dollar weakening versus the U.S. dollar in the period; this compares to a net foreign currency loss of $0.4 million in the third quarter of 2015.

Facility exit costs and restructuring

During the three month period ended September 24, 2016 and September 26, 2015, the Company recorded $0.1 million and $0.2 million, respectively, of facility exit costs and restructuring charges, all of which related to severance.

Interest Expense

Interest expense decreased from $5.1 million for the three months ended September 26, 2015 to $4.8 million for the three months ended September 24, 2016. This decrease was related to the reduction in cash interest expense of $0.5 million due primarily to a $19.5 million lower average outstanding debt balance in the third quarter of 2016 as compared to the third quarter of 2015. Approximately $12.2 million of the reduction in the average outstanding debt balance was related to the Company's term loan debt. A $0.1 million reduction in unused ABL line fees also contributed to the decrease in cash interest expense. Non-cash interest and amortization of debt fees was flat at $1.0 million for the three months ended September 24, 2016 and September 26, 2015.

Loss on Early Extinguishment of Debt

In the third quarter of 2015, the Company recorded a non-cash charge of $0.9 million related to the acceleration of the remaining unamortized debt issuance costs associated with the second amendment of its ABL facility. No such charge was incurred in the third quarter of fiscal 2016.

Gain on Sale of Unconsolidated Affiliate

In the third quarter of fiscal 2016, the Company sold its 35% ownership interest in Carson Dellosa LLC for $9.8 million. The Company recorded a gain on the sale of $9.1 million.

Change in Fair Value of Interest Rate Swap

The Company had an interest rate swap agreement that effectively fixed the interest payments on a portion of the Company's variable-rate debt. The swap, which expired on September 11, 2016, effectively fixed the LIBOR-based interest rate on the portion of the debt equivalent to the notional amount of the swap at 9.985%. The notional amount of the swap was $72.5 million. In the third quarter of fiscal 2016, the fair value of the swap increased by $0.1 million and, accordingly, a non-cash gain of $0.1 million was recorded.

Provision for Income Taxes

The provision for income taxes was $8.8 million for the three months ended September 24, 2016, as compared to a provision for income taxes of $1.9 million for the three months ended September 26, 2015. The effective tax rate for the third quarter of fiscal 2016 of 17.2% was lower than the statutory tax rate due to the partial reversal of valuation allowances related to the Company's deferred tax assets.

Nine Months Ended September 24, 2016 Compared to Nine Months Ended September 26, 2015

Revenues

Revenue of $541.2 million for the nine months ended September 24, 2016 increased by $9.2 million, or 1.7%, as compared to the nine months ended September 26, 2015.

Distribution segment revenues of $453.7 million for the nine months ended September 24, 2016 decreased by $0.6 million or 0.1% from the nine months ended September 26, 2015. Revenues from our two largest product categories, Supplies and Furniture, increased by $2.6 million and $6.1 million, respectively, partially offsetting declines of $4.0 million and $4.2 million in our Agendas and AV Tech categories, respectively. The increased revenues in our

Furniture category was related to increased spending on new school construction and refurbishment projects, strong growth in our private label furniture lines, the introduction of new products and more effective sales and marketing efforts. Furniture order trends have continued to show strong growth while Supplies category order trends continue to show low single digit growth rates as compared to prior year. Revenues in the AV Tech category are down due to a decrease in demand for the Company's listening devices; in the prior year, the product category benefited from several large orders driven by common core assessments. The Agendas category has continued to decline as we believe schools have de-emphasized paper-based planners and shifted purchases to lower-priced planners with less customized content. While current year order trends for planners have been consistent with internal expectations, we expect the rate of decline for Agenda products to lessen as we more effectively address the market.

Curriculum segment revenues of $87.5 million for the nine months ended September 24, 2016 increased by 12.6%, or $9.8 million, from the nine months ended September 26, 2015. This increase was related to the Science category as revenue for the Reading category was relatively flat year-over-year. Strong acceptance of the FOSS curriculum, which is aligned with the Next Generation Science Standards, continued throughout the first nine months of fiscal 2016 and contributed to the revenue increase. Product enhancements in the Reading category, combined with structural changes to our Reading sales organization, are helping to stabilize the year-over-year revenue performance in the first nine months of fiscal 2016.

Gross Profit

Gross profit for the nine months ended September 24, 2016 was $202.6 million, as compared to $197.2 million for the nine months ended September 26, 2015. In the nine months ended September 24, 2016, increased revenues contributed $3.6 million of additional gross profit and lower product development amortization expense contributed $5.0 million of the increase. Gross margin for the nine months ended September 24, 2016 was 37.4%, as compared to 37.0% for the nine months ended September 26, 2015.

Distribution segment gross margin was 34.4% for the nine months ended September 24, 2016, as compared to 35.2% for the nine months ended September 26, 2015. Reduced product development amortization in nine months ended September 24, 2016 as compared to the nine months ended September 26, 2015 provided 30 basis points of gross margin improvement. A change in product mix within the segment, combined with a shift in mix towards vendor-direct shipments versus stock shipment, reduced gross margin in the segment by approximately 70 basis points. The remaining decrease in gross margin was related primarily to a combination of increased basic Supplies orders placed through strategic purchasing co-operative agreements and lower margins on certain furniture projects in the first nine months of fiscal 2016 as compared to the first nine months of 2015. Prior year Furniture gross margins benefited from a higher level of favorable cost variances recognized in the period.

Curriculum segment gross margin was 53.4% for the nine months ended September 24, 2016, as compared to 48.1% for the nine months ended September 26, 2015. Approximately 540 basis points of this increase was related to a decrease in product development amortization of $3.7 million in the first nine months of fiscal 2016 compared to the first nine months of 2015.

Selling, General and Administrative Expenses

SG&A decreased $6.0 million from $171.0 million for the nine months ended September 26, 2015 to $165.0 million for the nine months ended September 24, 2016. As a percent of revenue, SG&A decreased from 32.1% for the nine months ended September 26, 2015 to 30.5% for the nine months ended September 24, 2016.

The Company incurred $4.6 million of expenses associated with cost reduction and process improvement initiatives in the nine months ended September 26, 2015, as compared to $2.1 million in the nine months ended September 24, 2016. Compensation and benefit costs, excluding performance-based compensation, decreased $2.1 million due to lower staffing levels in the first nine months of fiscal 2016 as compared to the first nine

months of 2015. Performance-based incentive compensation expense was approximately $3.0 million in the first nine months of fiscal 2016 as compared to $1.3 million in the first nine months of 2015. Variable commission expense in the first nine months of fiscal 2016 was up $0.6 million as compared to the first nine months of 2015 due to the increased revenues. We recognized a net foreign currency gain in the first nine months of 2016 of $0.7 million due to the Canadian dollar strengthening versus the U.S. dollar in the period; this compares to a net foreign currency loss of $0.8 million in the nine months ended September 26, 2015.

Depreciation and amortization expense in SG&A was down approximately $3.2 million in the nine months ended September 24, 2016, as compared to the nine months ended September 26, 2015 due partially to the prior year write-off of the intangible asset associated with Agenda content.

Facility exit costs and restructuring

During the nine month period ended September 24, 2016, the Company recorded $0.6 million of facility exit costs and restructuring charges, which were all related to severance. During the nine months ended September 26, 2015, the Company recorded $2.5 million of facility exit costs and restructuring charges, of which $2.0 million related to severance.

Impairment Charges

The Company recorded an impairment charge of $2.7 million in the first nine months of 2015 related to the amortizable asset associated with the agenda product category's digital content and digital delivery development efforts. The Company is focused on the print-based agenda products and does not currently plan to continue to invest in the digital agenda product offerings.

Interest Expense

Interest expense decreased from $14.4 million for the nine months ended September 26, 2015 to $13.3 million for the nine months ended September 24, 2016. The decrease in interest expense was related to reduced cash interest expense of $1.2 million associated primarily with a $20.6 million lower average outstanding debt balances in the first nine months of the current year. Approximately $13.0 million of the reduction in the average outstanding debt balance was related to the Company's term loan debt. A $0.2 million reduction in unused ABL line fees also contributed to the decrease in cash interest expense. This decrease was partially offset by $0.1 million of additional non-cash interest expense and amortization of debt fees during the nine months ended September 24, 2016 as compared to the nine months ended September 26, 2015.

Loss on Early Extinguishment of Debt

In the third quarter of 2015, the Company recorded a non-cash charge of $0.9 million related to the acceleration of the remaining unamortized debt issuance costs associated with the second amendment of its ABL facility. No such charge has been incurred in fiscal 2016 to date.

Gain on Sale of Unconsolidated Affiliate

In the third quarter of fiscal 2016, the Company sold its 35% ownership interest in Carson Dellosa LLC for $9.8 million. The Company recorded a gain on the sale of $9.1 million.

Change in Fair Value of Interest Rate Swap

During the first nine months of fiscal 2016, the fair value of the interest rate swap increased by $0.3 million and, accordingly, a non-cash gain of $0.3 million was recorded. For the nine months ended September 26, 2015, the fair value of the swap increased by less than $0.1 million. As the interest rate swap expired in the third quarter of fiscal 2016, no additional income or loss will be realized during the remainder of fiscal 2016.

Provision for Income Taxes

The provision for income taxes was $4.4 million for the nine months ended September 24, 2016, as compared to a provision for income taxes of $2.5 million for the nine months ended September 26, 2015.

The effective tax rate for the nine months ended September 24, 2016 and the nine months ended September 26, 2015 was 13.6% and 17.9%, respectively. The effective tax rate for the nine months ended September 24, 2016 reflects the tax benefit related to the partial reversal of valuation allowances associated with certain of the Company's

deferred tax assets. The Company's current estimate of taxable income for fiscal 2016 would allow for the full utilization of both its federal tax net operating loss and its deferred tax asset associated with the unconsolidated affiliate. The tax provision recorded in the nine months ended September 24, 2016, along with the associated accrued income taxes reflected in the current liabilities of the Consolidated Balance Sheets, are expected to be substantially offset by tax benefits recognized against the net loss expected to be generated over the remainder of 2016. The tax expense for the nine months ended September 26, 2015 primarily related to foreign taxes and alternative minimum tax.

Liquidity and Capital Resources

At September 24, 2016, the Company had net working capital of $146.4 million, an increase of $8.1 million as compared to the nine months ended September 26, 2015. The Company's capitalization at September 24, 2016 was $299.0 million and consisted of total debt of $187.3 million and stockholders' equity of $111.6 million.

Net cash used in operating activities was $45.4 million and $54.6 million for the nine months ended September 24, 2016 and September 26, 2015, respectively. The decrease in cash used by operating activities was related to a year-over-year increase in the net income for 2016 and lower average net working capital levels in the first nine months of 2016 versus the first nine months of 2015. While net income increased by $25.5 million in the nine months ended September 24, 2016, as compared to the nine months ended September 26, 2015, $21.9 million of the increase was attributable to a reduction in non-cash items, most notably depreciation, amortization, gain on sale and impairment charge. A year-over-year increase in accounts payable of $10.8 million is primarily related to timing.

Net cash used in investing activities was $1.8 million and $9.6 million for the nine months ended September 24, 2016 and September 26, 2015, respectively. The year-over-year variance is primarily attributable to $9.8 million of proceeds received from the sale of our investment in an unconsolidated affiliate. For full year fiscal 2016, the Company expects cash used in investing activities related to property, plant, equipment, and product development to range from $16.0 million to $17.0 million as compared to a full year actual amount of $14.1 million in calendar 2015. The anticipated full year increase is related to the implementation of a new phone system, which will provide necessary functionality and feature enhancements to our call centers and other key business application tools to improve operating effectiveness. The implementation of the new phone system began during the nine months ended September 24, 2016.

Net cash provided by financing activities was $40.8 million and $65.2 million for the nine months ended September 24, 2016 and September 26, 2015, respectively. In both periods, the net cash from financing activities represents combined net borrowings from the ABL Facility, partially offset by paydowns of our Term Loan facilities. These net borrowings were used to fund the Company's cash used in operations and investing activities. Outstanding borrowings on the ABL Facility were $50.6 million as of September 24, 2016, while the excess availability on that date for the ABL Facility was $70.1 million. We expect the outstanding ABL borrowings of $50.6 million to be repaid with positive operating cash flows over the remainder of 2016. The Company's remaining gross Term Loan balance as of September 24, 2016 was $122.2 million.

The Company's ABL Facility and Term Loan contain customary events of default and financial, affirmative and negative covenants. The Company was in compliance with all such covenants during the three and nine month periods ended September 24, 2016. Based on current projections, the Company believes it will maintain compliance with these covenants throughout the next twelve months.

We believe that our cash flow from operations and borrowings available from our existing credit facility will be sufficient to meet our liquidity requirements for operations, including anticipated capital expenditures and our contractual obligations for the next twelve months.

Fluctuations in Quarterly Results of Operations

Our business is subject to seasonal influences. Our historical revenues and profitability have been dramatically higher in the periods from June through September, primarily due to increased shipments to customers coinciding with the start of each school year. Quarterly results also may be materially affected by variations in our costs for the products sold, the mix of products sold and general economic conditions. Therefore, results for any quarter are not indicative of the results that we may achieve for any subsequent fiscal quarter or for a full fiscal year.

Inflation

Inflation, particularly in areas such as wages, healthcare and energy costs, has had and is expected to have an effect on our results of operations and our internal and external sources of liquidity.

Forward-Looking Statements

Statements in this Quarterly Report on Form 10-Q that are not historical are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. The forward-looking statements include: (1) statements made under Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, including, without limitation, statements with respect to our internal growth plans, projected revenues and revenue growth, margin improvement, capital expenditures, adequacy of capital resources and ability to comply with financial covenants; and (2) statements included or incorporated by reference in our future filings with the Securities and Exchange Commission. Forward-looking statements also include statements regarding the intent, belief or current expectation of School Specialty or its officers. Forward-looking statements include statements preceded by, followed by or that include forward-looking terminology such as "may," "should," "believes," "expects," "anticipates," "estimates," "continues," "projects" or similar expressions.

All forward-looking statements included in this Quarterly Report are based on information available to us as of the date hereof. We do not undertake to update any forward-looking statements that may be made by us or on our behalf, in this Quarterly Report on Form 10-Q or otherwise. Our actual results may differ materially from those contained in the forward-looking statements identified above. Factors which may cause such a difference to occur include, but are not limited to, the risk factors set forth in Item 1A, "Risk Factors" of our Transition Report on Form 10-K for the thirty-five weeks ended December 26, 2015.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in qualitative and quantitative disclosures about market risk from what was reported in our Transition Report on Form 10-K for the thirty-five weeks ended December 26, 2015.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on an evaluation as of the end of the period covered by this quarterly report, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) were effective for the purposes set forth in the definition of the Exchange Act rules.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the fiscal quarter ended September 24, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 6. Exhibits

See the Exhibit Index, which is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	SCHOOL SPECIALTY, INC. (Registrant)
November 1, 2016 Date	/s/ Ryan M. Bohr Ryan M. Bohr Executive Vice President and Chief Financial Officer (Principal Financial Officer)
November 1, 2016 Date	/s/ Kevin L. Baehler Kevin L. Baehler Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)

EXHIBIT INDEX

Exhibit No.	Description
31.1	Certification pursuant to Section 302 of the Sarbanes Oxley Act of 2002, by Chief Executive Officer.
31.2	Certification pursuant to Section 302 of the Sarbanes Oxley Act of 2002, by Chief Financial Officer.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002, by Chief Executive Officer.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002, by Chief Financial Officer.
101	The following materials from School Specialty, Inc.'s. Quarterly Report on Form 10-Q for the quarter ended September 24, 2016 are filed herewith, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statement of Operations, (iii) the Condensed Consolidated Statement of Comprehensive Income, (iv) the Condensed Consolidated Statement of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements.