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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 20549

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**FORM 10-Q**

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

FOR THE QUARTERLY PERIOD ENDED APRIL 1, 2017

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

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**SCHOOL SPECIALTY, INC.**

(Exact name of Registrant as specified in its charter)

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Delaware  
(State or Other Jurisdiction of  
Incorporation)

39-0971239  
(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, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" 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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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.

<u>Class</u>	<u>Outstanding at May 9, 2017</u>
Common Stock, \$0.001 par value	1,000,004

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**SCHOOL SPECIALTY, INC.**  
**INDEX TO FORM 10-Q**  
**FOR THE QUARTERLY PERIOD ENDED APRIL 1, 2017**

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## ITEM 1. Condensed Consolidated Unaudited Financial Statements

**SCHOOL SPECIALTY, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**  
(In Thousands, except share and per share amounts)

	<u>April 1, 2017</u>	<u>December 31, 2016</u>	<u>March 26, 2016</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 5,586	\$ 35,097	\$ 7,914
Accounts receivable, less allowance for doubtful accounts of \$1,073, \$1,159, and \$1,059, respectively	54,486	61,713	51,449
Inventories, net	98,146	73,649	92,401
Deferred catalog costs	8,950	5,235	9,379
Prepaid expenses and other current assets	11,923	11,976	12,706
Refundable income taxes	1,219	728	4,363
Total current assets	180,310	188,398	178,212
Property, plant and equipment, net	29,498	28,684	27,689
Goodwill	21,588	21,588	21,588
Intangible assets, net	34,148	35,049	37,751
Development costs and other	12,941	13,703	18,491
Deferred taxes long-term	187	185	5
Investment in unconsolidated affiliate	—	—	715
Total assets	<u>\$ 278,672</u>	<u>\$ 287,607</u>	<u>\$ 284,451</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities:			
Current maturities—long-term debt	\$ 8,753	\$ 5,493	\$ 11,600
Accounts payable	36,782	22,078	39,804
Accrued compensation	4,405	12,008	6,502
Deferred revenue	2,099	2,922	2,355
Other accrued liabilities	11,037	14,909	10,969
Total current liabilities	63,076	57,410	71,230
Long-term debt—less current maturities	133,460	131,994	143,211
Other liabilities	167	84	231
Total liabilities	196,703	189,488	214,672
Commitments and contingencies—Note 14			
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	121,435	120,855	119,501
Accumulated other comprehensive loss	(1,739)	(1,784)	(1,704)
Accumulated deficit	(37,728)	(20,953)	(48,019)
Total stockholders' equity	81,969	98,119	69,779
Total liabilities and stockholders' equity	<u>\$ 278,672</u>	<u>\$ 287,607</u>	<u>\$ 284,451</u>

See accompanying notes to condensed consolidated financial statements.

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

	<b>For the Three Months Ended</b>	
	<b>April 1, 2017</b>	<b>March 26, 2016</b>
Revenues	\$ 97,110	\$ 93,725
Cost of revenues	62,586	58,260
Gross profit	34,524	35,465
Selling, general and administrative expenses	47,468	47,311
Facility exit costs and restructuring	173	166
Operating loss	(13,117)	(12,012)
Other expense (income):		
Interest expense	4,050	4,390
Change in fair value of interest rate swap	—	(85)
Loss before benefit from income taxes	(17,167)	(16,317)
Benefit from income taxes	(392)	(4,014)
Net loss	<u>\$ (16,775)</u>	<u>\$ (12,303)</u>
Weighted average shares outstanding:		
Basic	1,000	1,000
Diluted	1,000	1,000
Net loss per Share:		
Basic	\$ (16.78)	\$ (12.30)
Diluted	\$ (16.78)	\$ (12.30)

See accompanying notes to condensed consolidated financial statements.

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

	<u>For the Three Months Ended</u>	
	<u>April 1, 2017</u>	<u>March 26, 2016</u>
Net loss	\$ (16,775)	\$ (12,303)
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	45	215
Total comprehensive loss	<u>\$ (16,730)</u>	<u>\$ (12,088)</u>

See accompanying notes to condensed consolidated financial statements.

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

	<b>For the Three Months Ended</b>	
	<b>April 1, 2017</b>	<b>March 26, 2016</b>
Cash flows from operating activities:		
Net loss	\$ (16,775)	\$ (12,303)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and intangible asset amortization expense	3,326	4,189
Amortization of development costs	1,111	1,381
Amortization of debt fees and other	536	510
Change in fair value of interest rate swap	—	(85)
Unrealized foreign exchange (gain) loss	18	(616)
Share-based compensation expense	580	261
Deferred taxes	(2)	1
Non-cash interest expense	468	457
Changes in current assets and liabilities:		
Accounts receivable	7,254	6,995
Inventories	(24,497)	(16,198)
Deferred catalog costs	(3,714)	(2,852)
Prepaid expenses and other current assets	(437)	(3,946)
Accounts payable	14,622	17,602
Accrued liabilities	(12,220)	(8,416)
Net cash used by operating activities	<u>(29,730)</u>	<u>(13,020)</u>
Cash flows from investing activities:		
Additions to property, plant and equipment	(3,241)	(1,722)
Investment in product development costs	(546)	(744)
Net cash used in investing activities	<u>(3,787)</u>	<u>(2,466)</u>
Cash flows from financing activities:		
Proceeds from bank borrowings	17,975	56,370
Repayment of bank borrowings	(14,057)	(46,591)
Net cash provided in financing activities	<u>3,918</u>	<u>9,779</u>
Effect of exchange rate changes on cash	88	756
Net decrease in cash and cash equivalents	(29,511)	(4,951)
Cash and cash equivalents, beginning of period	35,097	12,865
Cash and cash equivalents, end of period	<u>\$ 5,586</u>	<u>\$ 7,914</u>
Supplemental disclosures of cash flow information:		
Interest paid	\$ 3,046	\$ 3,421
Income taxes paid, net	\$ 36	\$ 638
Change in accounts payable for additions to property and equipment	\$ —	\$ 2,126

See accompanying notes to condensed consolidated financial statements.

**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 31, 2016 has been derived from School Specialty, Inc.’s (“School Specialty” or the “Company”) audited financial statements for the period ended December 31, 2016. For further information, refer to the consolidated financial statements and notes thereto included in the Company’s Form 10-K for the period ended December 31, 2016.

**NOTE 2 – RECENT ACCOUNTING PRONOUNCEMENTS**

In January 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2017-04, “*Intangibles—Goodwill and Other: Simplifying the Test for Goodwill Impairment.*” ASU 2017-04 eliminates the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge, instead, an impairment charge will be based on excess of the reporting unit’s carrying amount over its fair value. The Company has elected to early adopt ASU 2017-04 and the ASU will be applied prospectively to all future goodwill impairment tests performed on an interim or annual basis.

In August 2016, the FASB issued 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 for which share-based payments are accounted for and presented in the financial statements. This guidance is effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. The adoption of this update did not have a material impact 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 after December 15, 2018. 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 is effective for annual periods beginning after December 15, 2016. The adoption of this update did not 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 the Company in the first quarter of its fiscal year ending December 29, 2018.



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

The majority of our revenue transactions consist of one, distinct fixed-price performance obligation which is delivered to the customer at a single point in time, or over a subscription period for certain digital Curriculum segment products. The Company does continue to evaluate the impact this new standard may have on its project-related Furniture revenue, which can require services such as installation in addition to the delivery of product. This project-related Furniture revenue represents less than 10 percent of the Company's total consolidated revenues. As such, the Company does not anticipate that the implementation of this new standard will have a material impact on the Company's results of operations, financial position or cash flows. The new requirements may be implemented either retrospectively for all prior periods presented (i.e., the full retrospective approach), or retrospectively with a cumulative-effect adjustment at the date of initial application (i.e., the modified retrospective approach). The Company expects to adopt the standard under the modified retrospective approach upon its effective date with a cumulative-effect adjustment to opening retained earnings.

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 did not have a material impact on the Company's consolidated financial statements.

**NOTE 3 – 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 31, 2016, 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, partially due to the Company's recognition of net deferred tax assets in recent periods. As of December 31, 2016, the Company had a tax valuation allowance of \$18,671. As of April 1, 2017, there remained a valuation allowance against substantially all of the Company's deferred tax assets. As of April 1, 2017, the Company had an immaterial amount of unremitted earnings from foreign investments.

The balance of the Company's liability for unrecognized income tax benefits, net of federal tax benefits, at April 1, 2017, December 31, 2016, and March 26, 2016, was \$167, \$84, and \$100, 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 consolidated statements of operations. The amounts of accrued interest and penalties included in the liability for uncertain tax positions are not material.

**NOTE 4 – STOCKHOLDERS' EQUITY**

Changes in condensed consolidated stockholders' equity during the three months ended April 1, 2017 and March 26, 2016, were as follows:

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

<i>(in thousands)</i>	Common Stock	Capital in Excess of Par Value	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
<b>Balance, December 31, 2016</b>	\$ 1	\$ 120,855	\$ (20,953)	\$ (1,784)	\$ 98,119
Net loss	—	—	(16,775)	—	(16,775)
Share-based compensation expense	—	580	—	—	580
Foreign currency translation adjustment	—	—	—	45	45
<b>Balance, April 1, 2017</b>	<u>\$ 1</u>	<u>\$ 121,435</u>	<u>\$ (37,728)</u>	<u>\$ (1,739)</u>	<u>\$ 81,969</u>
<b>Balance, December 26, 2015</b>	\$ 1	\$ 119,240	\$ (35,716)	\$ (1,919)	\$ 81,606
Net loss	—	—	(12,303)	—	(12,303)
Share-based compensation expense	—	261	—	—	261
Foreign currency translation adjustment	—	—	—	215	215
<b>Balance, March 26, 2016</b>	<u>\$ 1</u>	<u>\$ 119,501</u>	<u>\$ (48,019)</u>	<u>\$ (1,704)</u>	<u>\$ 69,779</u>

**NOTE 5 – 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
<i>Three months ended April 1, 2017:</i>			
Basic EPS	\$ (16,775)	1,000	<u>\$ (16.78)</u>
Effect of dilutive stock options	—	—	
Basic and diluted EPS	<u>\$ (16,775)</u>	<u>1,000</u>	<u>\$ (16.78)</u>
<i>Three months ended March 26, 2016:</i>			
Basic EPS	\$ (12,303)	1,000	<u>\$ (12.30)</u>
Effect of dilutive stock options	—	—	
Basic and diluted EPS	<u>\$ (12,303)</u>	<u>1,000</u>	<u>\$ (12.30)</u>

The Company had stock options outstanding of 102 and 73 for the three months ended April 1, 2017 and March 26, 2016, respectively, which 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 6 – SHARE-BASED COMPENSATION EXPENSE**

**Employee Stock Plans**

As of April 1, 2017, the Company 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.

The Company made 33 stock option awards during the three month period ended April 1, 2017 to members of management including its CEO. The options awarded to the Company’s CEO will 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 the other members of management will 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.

The fair-value of the options granted in the three month period ended April 1, 2017 was \$70.57 per share. The fair value of the options is estimated on the measurement date using the Black-Scholes single option pricing model. The assumptions included a risk-free rate of 2.06%, expected volatility of 59% and an expected term of 6.3 years. There were zero stock options granted in the three month period ended March 26, 2016.

A summary of option transactions for the three months ended April 1, 2017 and March 26, 2016 were as follows:

	Options Outstanding		Options Exercisable	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Balance at December 31, 2016	71	\$ 130.00	32	\$ 130.00
Granted	33	130.00		
Exercised	—	—		
Canceled	(2)	130.00		
Balance at April 1, 2017	102	\$ 130.00	35	\$ 130.00
Balance at December 26, 2015	73	\$ 130.00	8	\$ 130.00
Granted	—	—		
Exercised	—	—		
Canceled	—	—		
Balance at March 26, 2016	73	\$ 130.00	8	\$ 130.00

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. Prior to the approval of the 2014 Plan at the Annual Meeting of Stockholders on September 4, 2014, the SARs were not considered outstanding, nor granted and therefore no expense was recognized prior to this date. On July 31, 2015, the Board granted 6 stock appreciation rights 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 April 1, 2017, 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 April 1, 2017 are 22.

On March 23, 2016, the Compensation Committee of the Board of Directors of the Company granted an aggregate of 28 Restricted Stock Units (“RSUs”) under the Company’s 2014 Plan to members of the Company’s senior management. The RSUs 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:

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

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. Due to the nature of the vesting conditions of the RSUs, a valuation methodology needed to incorporate potential equity value paths for the Company. As such, the fair value of the RSU grants was determined under a Monte Carlo approach with a simulation of the Company's stock price to a date that is 15 trading days prior to the vesting date. A large number of trials were run under the Monte Carlo approach to ensure an adequate sampling of different potential scenarios was achieved. The fair value of the RSUs granted on March 23, 2016 was \$80.88 per share.

The following table presents the share-based compensation expense recognized for fiscal 2017 and fiscal 2016:

	For the Three Months Ended			
	April 1, 2017		March 26, 2016	
	Gross	Net of Tax	Gross	Net of Tax
Stock Options	\$382	\$ 233	\$261	\$ 197
SARs	—	—	—	—
RSUs	198	121	—	—
Total stock-based compensation expense	<u>\$580</u>		<u>\$261</u>	

The stock-based compensation expense is reflected in selling, general and administrative ("SG&A") expenses in the accompanying consolidated statements of operations. The Company records actual forfeitures in the period the forfeiture occurs.

The total unrecognized share-based compensation expense as of April 1, 2017 and March 26, 2016 was as follows:

	April 1, 2017	March 26, 2016
Stock Options, net of actual forfeitures	\$ 3,645	\$ 2,465
RSUs	1,562	2,269

**NOTE 7 – GOODWILL AND OTHER INTANGIBLE ASSETS**

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

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

<b>April 1, 2017</b>	<b>Gross Value</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
<b>Amortizable intangible assets:</b>			
Customer relationships (13 years)	\$ 11,300	\$ (3,332)	\$ 7,968
Publishing rights (20 years)	4,000	(767)	3,233
Trademarks (20 years)	22,700	(4,351)	18,349
Developed technology (7 years)	6,600	(3,614)	2,986
Content (5 years)	4,400	(4,400)	—
Perpetual license agreements (5 years)	1,200	(920)	280
Favorable leasehold interests (10 years)	2,160	(828)	1,332
<b>Total intangible assets</b>	<b>\$ 52,360</b>	<b>\$ (18,212)</b>	<b>\$34,148</b>

<b>December 31, 2016</b>	<b>Gross Value</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
<b>Amortizable intangible assets:</b>			
Customer relationships (13 years)	\$ 11,300	\$ (3,115)	\$ 8,185
Publishing rights (20 years)	4,000	(717)	3,283
Trademarks (20 years)	22,700	(4,067)	18,633
Developed technology (7 years)	6,600	(3,379)	3,221
Content (5 years)	4,400	(4,400)	—
Perpetual license agreements (5 years)	1,200	(860)	340
Favorable leasehold interests (10 years)	2,160	(774)	1,386
<b>Total intangible assets</b>	<b>\$ 52,360</b>	<b>\$ (17,311)</b>	<b>\$35,049</b>

<b>March 26, 2016</b>	<b>Gross Value</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
<b>Amortizable intangible assets:</b>			
Customer relationships (13 years)	\$ 11,300	\$ (2,463)	\$ 8,837
Publishing rights (20 years)	4,000	(567)	3,433
Trademarks (20 years)	22,700	(3,216)	19,484
Developed technology (7 years)	6,600	(2,671)	3,929
Content (5 years)	4,400	(4,400)	—
Perpetual license agreements (5 years)	1,200	(680)	520
Favorable leasehold interests (10 years)	2,160	(612)	1,548
<b>Total intangible assets</b>	<b>\$ 52,360</b>	<b>\$ (14,609)</b>	<b>\$37,751</b>

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.

Intangible asset amortization expense was included in selling, general and administrative expense. Intangible asset amortization expense for the three months ended April 1, 2017 and March 26, 2016, was \$901 and \$901, respectively.

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

Fiscal 2017 (9 months remaining)	\$2,702
Fiscal 2018	3,463
Fiscal 2019	3,363
Fiscal 2020	2,813
Fiscal 2021	2,420
Fiscal 2022	2,420

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

The table below shows the allocation to the segments of the recorded goodwill as of April 1, 2017.

	<u>Distribution Segment</u>	<u>Curriculum Segment</u>	<u>Total</u>
Fresh Start Valuation:			
Goodwill	\$ 14,666	\$ 6,922	\$21,588
<b>Balance at April 1, 2017</b>	<u>\$ 14,666</u>	<u>\$ 6,922</u>	<u>\$21,588</u>

**NOTE 8 – INVESTMENT IN UNCONSOLIDATED AFFILIATE**

The Company's ownership interest in Carson-Dellosa Publishing had been 35% prior to July 26, 2016. 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.

The investment in unconsolidated affiliate consisted of the following:

	<u>April 1, 2017</u>	<u>December 31, 2016</u>	<u>March 26, 2016</u>
Carson- Dellosa Publishing, LLC	\$ —	\$ —	\$ 715

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 \$9,178. In accordance with the Term Loan Credit Agreement (as defined below), the Company used \$8,053 of the net cash proceeds from this sale to pay down the Term Loan (as defined below) with the remaining net cash proceeds used to pay down the ABL Facility.

**NOTE 9 – PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consist of the following:

	<u>April 1, 2017</u>	<u>December 31, 2016</u>	<u>March 26, 2016</u>
Projects in progress	\$ 7,831	\$ 4,707	\$ 6,950
Buildings and leasehold improvements	3,297	3,347	3,316
Furniture, fixtures and other	48,274	48,224	40,983
Machinery and warehouse equipment	13,317	13,296	11,526
Total property, plant and equipment	72,719	69,574	62,775
Less: Accumulated depreciation	(43,221)	(40,890)	(35,086)
Net property, plant and equipment	<u>\$ 29,498</u>	<u>\$ 28,684</u>	<u>\$ 27,689</u>

Depreciation expense for the three months ended April 1, 2017 and March 26, 2016 was \$2,425 and \$3,288, respectively.

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

**NOTE 10 – DEBT**

Long-term debt consisted of the following:

	<u>April 1, 2017</u>	<u>December 31, 2016</u>	<u>March 26, 2016</u>
ABL Facility, maturing in 2019	\$ 8,753	\$ —	\$ 11,600
Term Loan, maturing in 2019	117,391	122,226	130,279
Term Loan Original Issue Discount	(1,251)	(1,377)	(1,743)
Unamortized Term Loan Debt Issuance Costs	(3,047)	(3,388)	(4,274)
Deferred Cash Payment Obligations, maturing in 2019	<u>20,367</u>	<u>20,026</u>	<u>18,949</u>
Total debt	142,213	137,487	154,811
Less: Current maturities	<u>(8,753)</u>	<u>(5,493)</u>	<u>(11,600)</u>
Total long-term debt	<u>\$ 133,460</u>	<u>\$ 131,994</u>	<u>\$ 143,211</u>

*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.

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

The effective interest rate under the ABL Facility for the three months ended April 1, 2017 was 112.85%, which includes interest on borrowings of \$13, amortization of loan origination fees of \$195 and commitment fees on unborrowed funds of \$116. The rate for the three month period is more heavily influenced by the commitment fees and debt fee amortization due to the seasonally low outstanding balance on the ABL Facility in the first quarter. As of April 1, 2017, the outstanding balance on the ABL Facility was \$8,753.

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.

The ABL Facility was amended on April 7, 2017. See Note 15 – Subsequent Event.

*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 bore 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 were due quarterly in arrears, and interest on loans bearing interest based upon the LIBOR Rate were 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 April 1, 2017 was 10.95%, which includes interest on borrowings of \$2,916, amortization of loan origination fees of \$316 and original issue discount amortization of \$128. As of April 1, 2017, the outstanding balance on the Term Loan Credit Agreement was \$116,140, net of the unamortized original issue discount. The original issue discount is being amortized as additional interest expense on a straight-line basis over the life of the Term Loan.



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

The Term Loan was scheduled to mature on June 11, 2019. The Term Loan Credit Agreement required 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 required prepayments at specified levels from the Company's excess cash flow. The Company was also permitted to voluntarily prepay the Term Loan in whole or in part. Any prepayments were 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.

Pursuant to a Guarantee and Collateral Agreement dated as of June 11, 2013 (the "Term Loan Security Agreement"), the Term Loan was 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 had 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 contained 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 Company was in compliance with the financial covenants during the first quarter of 2017.

The Term Loan required the Company to enter into an interest rate hedge, within 90 days of the Effective Date, 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%. The Company did not enter into a subsequent interest rate swap after the termination of the above-mentioned interest rate swap. During the first quarter of 2016, the fair value of the derivative increased by \$85 and a gain of \$85 was recognized. The gain related to the derivative was recorded in "Change in fair value of interest rate swap" on the consolidated statement of operations.

Under this swap agreement, the Company paid the counterparty interest on the notional amount at a fixed rate per annum of 1.485% and the counterparty paid the Company interest on the notional amount at a variable rate per annum equal to the greater of 1-month LIBOR or 1.0%. The notional amounts did not represent amounts exchanged by the parties, and thus were not a measure of exposure of the Company.

The Company has estimated that the fair value of its Term Loan (valued under Level 3) as of April 1, 2017 approximated the carrying value of \$117,391.

The remaining principal amount of the Term Loan, plus accrued interest, was repaid in full on April 7, 2017, and the Term Loan Credit Agreement was terminated on April 7, 2017. See Note 15 – Subsequent Event.

*Deferred Cash Payment Obligations*

In connection with the Company's plan of reorganization under Chapter 11 of the Bankruptcy Code (see Note 4 in the Company's Form 10-K as of December 31, 2016), 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.

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

As of April 1, 2017, the Company's deferred payment obligations were \$20,367, of which \$3,082 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 \$5,190 related to accrued paid-in-kind interest.

**NOTE 11 – CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

Changes in accumulated other comprehensive loss during the three months April 1, 2017 and March 26, 2016 were as follows:

	<u>Foreign Currency Translation</u>
<b>Accumulated Other Comprehensive Income (Loss) at December 31, 2016</b>	<b>\$ (1,784)</b>
Other comprehensive income before reclassifications	45
Amounts reclassified from other comprehensive income	—
<b>Accumulated Other Comprehensive Income (Loss) at April 1, 2017</b>	<b><u>\$ (1,739)</u></b>
	<u>Foreign Currency Translation</u>
<b>Accumulated Other Comprehensive Income (Loss) at December 26, 2015</b>	<b>\$ (1,919)</b>
Other comprehensive income before reclassifications	215
Amounts reclassified from other comprehensive income	—
<b>Accumulated Other Comprehensive Income (Loss) at March 26, 2016</b>	<b><u>\$ (1,704)</u></b>

**NOTE 12 – RESTRUCTURING**

In the three months ended April 1, 2017 and March 26, 2016, the Company recorded restructuring costs associated with the closure or disposal of distribution centers, lease termination costs and severance related to headcount reductions. The following is a reconciliation of accrued restructuring costs for the three months ended April 1, 2017 March 26, 2016:

	<u>Distribution</u>	<u>Curriculum</u>	<u>Corporate</u>	<u>Total</u>
<b>Accrued Restructuring Costs at December 31, 2016</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 561</b>	<b>\$ 561</b>
Amounts charged to expense	—	—	173	173
Payments	—	—	(574)	(574)
<b>Accrued Restructuring Costs at April 1, 2017</b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 160</u></b>	<b><u>\$ 160</u></b>
	<u>Distribution</u>	<u>Curriculum</u>	<u>Corporate</u>	<u>Total</u>
<b>Accrued Restructuring Costs at December 26, 2015</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 375</b>	<b>\$ 375</b>
Amounts charged to expense	—	—	166	166
Payments	—	—	(288)	(288)
<b>Accrued Restructuring Costs at March 26, 2016</b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 253</u></b>	<b><u>\$ 253</u></b>

The \$173 and \$166 charged for the three months ended April 1, 2017 and March 26, 2016, were included in facility exit costs and restructuring in the Condensed Consolidated Statements of Operations.

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

**NOTE 13 – 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 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 Report on Form 10-K for the fiscal year ended December 31, 2016.

The Company measures profitability of its operating segments at a gross profit level. Since the majority of SG&A costs are managed centrally and allocation methodologies of these costs to the operating segments is 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.

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

	<u>Three Months Ended April 1, 2017</u>	<u>Three Months Ended March 26, 2016</u>
<b>Revenues:</b>		
Distribution	\$ 84,703	\$ 77,807
Curriculum	12,407	15,918
Total	<u>\$ 97,110</u>	<u>\$ 93,725</u>
<b>Gross Profit:</b>		
Distribution	\$ 28,834	\$ 27,492
Curriculum	5,690	7,973
Total	<u>\$ 34,524</u>	<u>\$ 35,465</u>
<b>Operating (loss) income and loss before taxes:</b>		
Operating (loss) income	(13,117)	(12,012)
Interest expense and reorganization items, net	4,050	4,305
Loss before benefit from income taxes	<u>\$ (17,167)</u>	<u>\$ (16,317)</u>

	<u>April 1, 2017</u>	<u>December 31, 2016</u>	<u>March 26, 2016</u>
<b>Identifiable assets:</b>			
Distribution	\$ 196,434	\$ 174,555	\$ 183,312
Curriculum	77,051	79,255	86,938
Corporate assets	5,187	33,797	14,201
Total	<u>\$ 278,672</u>	<u>\$ 287,607</u>	<u>\$ 284,451</u>

	<u>Three Months Ended April 1, 2017</u>	<u>Three Months Ended March 26, 2016</u>
<b>Depreciation and amortization of intangible assets and development costs:</b>		
Distribution	\$ 2,465	\$ 3,478
Curriculum	1,972	2,092
Total	<u>\$ 4,437</u>	<u>\$ 5,570</u>
<b>Expenditures for property, plant and equipment, intangible and other assets and development costs:</b>		
Distribution	\$ 2,825	\$ 1,453
Curriculum	962	1,013
Total	<u>\$ 3,787</u>	<u>\$ 2,466</u>

The following table shows the Company's revenues by each major product line within its two segments:

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

	<u>April 1, 2017</u>	<u>March 26, 2016</u>
Distribution revenues by product line:		
Supplies	\$ 49,496	\$ 44,842
Furniture	22,596	21,186
Instructional Solutions	7,698	6,672
AV Tech	4,784	4,681
Agendas	271	492
Freight Revenue	1,390	1,087
Customer Allowances / Discounts	<u>(1,532)</u>	<u>(1,152)</u>
Total Distribution Segment	\$ 84,703	\$ 77,807
Curriculum revenues by product line:		
Science	\$ 9,288	\$ 11,853
Reading	3,119	4,065
Total Curriculum Segment	<u>\$ 12,407</u>	<u>\$ 15,918</u>
Total revenues	<u>\$ 97,110</u>	<u>\$ 93,725</u>

The above table is an enhanced disclosure to provide additional details related to our revenues by segment. The total revenues by segment in this enhanced disclosure are consistent with amounts reported in prior filings.

**NOTE 14 – 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.

**NOTE 15 – SUBSEQUENT EVENT**

On April 7, 2017, the Company entered into a Loan Agreement (the "New Term Loan Agreement") among the Company, as borrower, certain of its subsidiaries, as guarantors, the financial parties party thereto, as lenders (the "New Term Loan Lenders") and TCW Asset Management Company LLC, as the agent.

Under the New Term Loan Agreement, the Term Loan Lenders agreed to make a term loan (the "New Term Loan") to the Company in aggregate principal amount of \$140 million. The initial draw on the New Term Loan at closing was \$110 million. These proceeds, along with proceeds received from a draw on the ABL Facility (as defined below), were used to repay the Company's previous term loan which had a remaining principal balance including accrued interest of \$118.2 million. The New Term Loan Agreement provides for a delayed draw feature that allows the Company to draw up to an additional \$30 million through April 7, 2019. The ability to access the delayed draw commitment is subject to maintaining compliance with certain terms and conditions. The proceeds from the delayed draw can be used to fund distributions, permitted acquisitions, and repayments of existing indebtedness. At the Company's option, the New Term Loan interest rate will be either the prime rate or the LIBOR rate, plus an applicable margin based on the Company's net senior leverage ratio. The Company may specify the interest rate period of one, three or six months for interest on loans under the New Term Loan Agreement bearing interest based on the LIBOR rate. Initially, the New Term Loan will bear interest at a rate of one month LIBOR plus 625 basis points for the 2017 fiscal year.

The New Term Loan matures on April 7, 2022. In addition to scheduled quarterly principal repayments, commencing June 30, 2017, the New Term Loan Agreement requires prepayments at specified levels upon the Company's receipt of net proceeds from certain events, including but not limited to certain asset dispositions, extraordinary receipts, and the issuance or sale of any indebtedness or equity interests (other than permitted

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issuances or sales). The New Term Loan Agreement also requires prepayments at specified levels from the Company's excess cash flow. The Company is also permitted to voluntarily prepay the New Term Loan in whole or in part. Voluntary prepayments made before April 7, 2018 will be subject to an early prepayment fee of 2%, while voluntary prepayment made on or after April 7, 2018, but before April 7, 2019, will be subject to a 1% early prepayment fee. Voluntary prepayments made on or after April 7, 2019 will not be subject to an early payment fee. All prepayments of the loans will be applied first to that portion of the loans comprised of prime rate loans and then to that portion of loans comprised of LIBOR rate loans. The New Term Loan Agreement contains customary events of default and financial, affirmative and negative covenants, including but not limited to quarterly financial covenants commencing with the fiscal quarter ending July 1, 2017 relating to the Company's fixed charge coverage ratio and net senior leverage ratio, and an annual limitation on capital expenditures and product development investments, collectively.

Pursuant to a Guarantee and Collateral Agreement dated as of April 7, 2017 (the "New Term Loan Security Agreement"), the New Term Loan is secured by a first priority security interest in substantially all assets of the Company and the subsidiary guarantors. Under an intercreditor agreement (the "New Intercreditor Agreement") between the New Term Loan Lenders and the ABL Lenders (as defined below), the New 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 ABL Lenders in such assets, and a first priority security interest in all other assets.

Also on April 7, 2017, the Company entered into the Third Amendment to its ABL Facility, among the Company, certain of its subsidiary borrowers, Bank of America, N.A. and Bank of Montreal as lenders (the "ABL Lenders"), and Bank of America, N.A., as agent for the ABL Lenders (the "ABL Amendment"). The ABL Amendment provided a new lower pricing tier of LIBOR plus 125 basis points, a seasonal increase in the borrowing base of 5.0% of eligible accounts receivable for the months of March through August, and the inclusion of certain inventory in the borrowing base, which previously had been excluded. Additionally, certain conforming changes were made in connection with the entry into the New Term Loan Agreement. The ABL Amendment extends the maturity of the ABL Facility, as amended, to April 7, 2022 ("ABL Termination Date"), provided that the ABL Termination Date will automatically become due February 7, 2022 unless the New Term Loan has been repaid, prepaid, refinanced, redeemed, exchanged, amended or otherwise deceased or discharged prior to such date.

Pursuant to an Amended and Restated Guarantee and Collateral Agreement dated as of April 7, 2017 (the "ABL Security Agreement"), the Loan Agreement is secured by a first priority security interest in substantially all assets of the Company and the subsidiary borrowers. Under the New Intercreditor Agreement, the ABL Lenders have a first priority security interest in substantially all working capital assets of the Company and the subsidiary borrowers, and a second priority security interest in all other assets, subordinate only to the first priority security interest of the New Term Loan Lenders in such other assets.

Total fees incurred with respect to the New Term Loan and ABL Amendment were approximately \$4 million, collectively.

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### 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 21<sup>st</sup> 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, retailers and healthcare facilities.

Our goal is to grow profitably as a leading provider of supplies, products, services and curriculum for the education market and select other markets. We have experienced two consecutive years of overall revenue growth. Our revenue growth in fiscal 2016 was balanced in that five of our seven product categories had growth over the fifty-two week year ended December 26, 2015. We expect to continue 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 a team-based selling approach with a balance of new customer acquisition and customer retention, and exploring new markets or revenue streams. New revenue streams may include opportunities in areas that could expand our addressable market, such as distribution to non-education customers, expansion into new product categories, continued growth in our e-tail and retailer partnerships, and potentially, abroad in select international markets. In addition, the Company is committed to continuing to invest in its internal product development efforts in order to expand curriculum-based product offerings.

While remaining focused on lowering costs through consolidation and process improvements, the Company is equally focused on revenue growth and gross margin management. The Company believes the following initiatives will contribute to continued revenue growth, while effectively managing gross margin and operating costs:

- Successful execution of a new team sell model;
- Establish momentum with the "21st Century Safe School" concept;
- Improve the effectiveness of margin management;
- Development of effective strategies to manage margin in competitive bidding scenarios;
- Increase product category specific sales and support expertise;
- Execute on key platform investments to both drive efficiency and improve customer experiences.

Our business and working capital needs are highly seasonal, and we operate with an objective that schools and teachers receive their products by the start of the school year. As such, our peak sales levels occur from June through September. We expect to ship approximately 50% of our revenue and earn more than 100% of our annual net income from June through September of our fiscal year and operate at a net loss from January through May, and October through December. In anticipation of the peak shipping season, our inventory levels increase during the months of April through June. Our working capital historically peaks in August or September mainly due to the higher levels of accounts receivable related to our peak revenue months. Historically accounts receivable collections are strong in the months of September through December as over 100% of our annual operating cash flow is generated in those months.

#### **Results of Operations**

##### Costs of Revenues and Selling, General and Administrative Expenses

The following table illustrates the primary costs classified in Cost of Revenues and Selling, General and Administrative Expenses:

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<u>Cost of Revenues</u>	<u>Selling, General and Administrative Expenses</u>
<ul style="list-style-type: none"><li>• Direct costs of merchandise sold, net of vendor rebates other than the reimbursement of specific, incremental and identifiable costs and, net of early payment discounts.</li><li>• Amortization of product development costs</li><li>• Freight expenses associated with moving merchandise from our vendors to fulfillment centers or from our vendors directly to our customers.</li></ul>	<ul style="list-style-type: none"><li>• Compensation and benefit costs for all selling (including commissions), marketing, customer care and fulfillment center operations (which include the pick, pack and shipping functions), and other general administrative functions such as finance, human resources and information technology.</li><li>• Occupancy and operating costs for our fulfillment centers and office operations.</li><li>• Freight expenses associated with moving our merchandise from our fulfillment centers to our customers</li><li>• Catalog expenses, offset by vendor payments or reimbursement of specific, incremental and identifiable costs.</li></ul>

The classification of these expenses varies across the distribution industry. As a result, the Company's gross margin may not be comparable to other retailers or distributors.

### *Three Months Ended April 1, 2017 Compared to Three Months Ended March 26, 2016*

#### Revenues

Revenue of \$97.1 million for the three months ended April 1, 2017 increased by \$3.4 million, or 3.6%, as compared to the three months ended March 26, 2016.

Distribution segment revenues of \$84.7 million for the three months ended April 1, 2017 increased by 8.9%, or \$6.9 million, from the three months ended March 26, 2016. The increase is primarily related to a one-week calendar shift in fiscal 2017. Revenues from our two largest product categories, Supplies and Furniture, increased by \$4.7 million and \$1.4 million, respectively, in the current quarter. Revenues from our Instructional Solutions product category increased by \$1.0 million.

Curriculum segment revenues of \$12.4 million for the three months ended April 1, 2017 decreased by 22.1%, or \$3.5 million, from the three months ended March 26, 2016. Curriculum segment revenues for the first quarter were not materially impacted by the one-week calendar shift in 2017 as this business is less transactional as compared to our Distribution segment. Rather, the timing of large orders can have a more significant impact on quarterly comparisons. Revenues in our Science category declined \$2.6 million, or 21.6% as the prior year quarter included revenue from certain state adoptions which, as expected, did not repeat in fiscal 2017. While our FOSS science curriculum continues to be well-positioned and is widely-accepted as it is aligned with Next Generation Science Standards, we expect a decrease in full year fiscal 2017 Science revenues due solely to fewer state science adoptions occurring in 2017. Revenues for the Reading category were down \$0.7 million in the first quarter. New product offerings, coupled with improved selling strategies implemented over the past two quarters, are expected to drive revenue growth in the Reading product category for the full year.

#### Gross Profit

Gross profit for the three months ended April 1, 2017 was \$34.5 million, as compared to \$35.5 million for the three months ended March 26, 2016. In the first quarter of fiscal 2017, a lower gross margin rate as compared to the first quarter of 2016 resulted in a \$2.8 million reduction in gross margin. Gross margin for the three months ended April 1, 2017 was 35.6%, as compared to 37.8% for the three months ended March 26, 2016. A shift in product mix between the segments contributed to 70 basis points of the decline in gross margin, with the remainder related to gross margin declines in each reporting segment as detailed below. The higher gross margin Curriculum business represented 13.0% of total revenues in the first quarter of fiscal 2017 as compared to 17.0% of total revenues in the first quarter of 2016. Increased revenues contributed \$1.6 million of additional gross profit and lower product development amortization expense contributed \$0.2 million of the increase.

Distribution segment gross margin was 34.0% for the three months ended April 1, 2017, as compared to 35.3% for the three months ended March 26, 2016. The decrease in gross margin was related to a combination of lower favorable Project Furniture cost variances in the quarter as compared to prior year, lower Supplies category gross margins driven by strategic agreement pricing and certain large paper orders, and increased channel partner rebates commensurate with our growth in revenues with e-tail partners.



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Curriculum segment gross margin was 45.9% for the three months ended April 1, 2017, as compared to 50.1% for the three months ended March 26, 2016. Product development costs spread over a lower revenue base resulted in 40 basis points of the gross margin decline. A shift in product mix within the segment, particularly lower revenues associated with content-related Science curriculum offerings, contributed to a majority of the remaining gross margin decline.

### 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 increased \$0.2 million in the first quarter of fiscal 2017, from \$47.3 million for the three months ended March 26, 2016 to \$47.5 million for the three months ended April 1, 2017. Transportation costs increased by \$0.5 million during the three months ended April 1, 2017 as compared to the three months ended March 26, 2016. This increase was related primarily to the incremental volume in the Distribution segment. Stock-based compensation expense increased by \$0.3 million in the first quarter of 2017 as compared to the first quarter of 2016 due to a combination of stock option awards made in March 2017 and the award of restricted stock units in March 2016. Marketing and catalog costs increased by \$0.3 million in the first quarter of 2017, which was related primarily to changes in the timing of marketing campaigns as compared to last year's first quarter. The SG&A costs in the first quarter of the prior year included a \$0.6 million foreign exchange gain related to a strengthening Canadian dollar versus the U.S. dollar in that period. In the first quarter of the current year, the Company realized a nominal foreign exchange loss of less than \$0.1 million. These increases in SG&A were partially offset by a combination of \$0.2 million of lower compensation and benefit costs due to reductions in average staffing levels, \$0.4 million lower commission costs and \$0.9 million in lower depreciation and amortization expense.

As a percent of revenue, SG&A decreased from 50.5% for the three months ended March 26, 2016 to 48.9% for the three months ended April 1, 2017.

### Facility exit costs and restructuring

For both three month periods ended April 1, 2017 and March 26, 2016, the Company recorded \$0.2 million of facility exit costs and restructuring charges, which were entirely related to severance.

### Interest Expense

Interest expense decreased from \$4.4 million for the three months ended March 26, 2016 to \$4.1 million for the three months ended April 1, 2017. This \$0.3 million decline is related to reduced cash interest due to lower outstanding average loan balances, particularly the average term loan balance. Non-cash interest and amortization of debt fees were flat year-over-year.

### 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 terminated as of September 11, 2016. The Company did not enter into a subsequent interest rate swap after the termination of the above-mentioned interest rate swap. Thus, the Company did not have any gain or loss during the three month period ended April 1, 2017. During the three month period ended March 26, 2016, the fair value of the derivative increased by \$0.1 million and, accordingly, a non-cash gain of \$0.1 million was recorded.

### Provision for (Benefit from) Income Taxes

The benefit from income taxes was \$0.4 million for the three months ended April 1, 2017, as compared to \$4.0 million for the three months ended March 26, 2016.

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The effective income tax rate for the three months ended April 1, 2017 and the three months ended March 26, 2016 was 2.2% and 24.6%, respectively. The effective income tax rate for the three months ended April 1, 2017 represents the Company's current estimate of the fiscal 2017 full year effective tax rate. The tax benefit recorded in the three months ended April 1, 2017 is expected to be entirely offset by tax provisions recognized against the net income expected to be generated over the remainder of 2017.

### **Liquidity and Capital Resources**

At April 1, 2017, the Company had net working capital of \$117.2 million, an increase of \$10.2 million as compared to the three months ended March 26, 2016. The Company's capitalization at April 1, 2017 was \$224.2 million and consisted of total debt of \$142.2 million and stockholders' equity of \$82.0 million.

Net cash used by operating activities was \$29.7 million and \$13.0 million for the three months ended April 1, 2017 and March 26, 2016, respectively. The increase in cash used by operating activities related primarily to working capital changes. Inventory balances increased by \$25.5 million in the first quarter of fiscal 2017 as compared to an increase of \$16.2 million in the first quarter of fiscal 2016. The increase in inventory levels is related to the timing of inventory receipts in anticipation of the upcoming back-to-school season occurring earlier in fiscal 2017 versus fiscal 2016 and a higher level of inventory associated with Furniture projects in process. Despite the earlier inventory build, we expect peak and year end inventory levels to be consistent with fiscal 2016 levels. Approximately \$3.4 million of the variance in cash used by operating activities was due to the payment of one incremental bi-weekly payroll in the first quarter of 2017 as compared to the first quarter of fiscal 2016. However, for full year 2017, the number of regular bi-weekly payrolls will be consistent with the number in fiscal 2017.

Net cash used in investing activities was \$3.8 million in the first quarter of fiscal 2017 as compared to \$2.5 million in the first quarter of fiscal 2016. The Company expects net cash used in investing activities to increase by approximately \$5.0 million for the full year fiscal 2017 as compared to full year fiscal 2016 due to investments in the Company's ecommerce platform, telephone system upgrades, and product management systems. The completion of these projects is expected to result in improvements to the Company's platforms and processes, lower both ongoing operating costs and future investments in systems, and enable revenue growth.

Net cash provided from financing activities was \$3.9 million in fiscal 2017 versus \$9.8 million in fiscal 2016. In both periods the net cash provided from financing activities represents net draws from the ABL Facility, which combined with beginning of period cash balances, were used to fund operating and investing cash outflows, as well as Term Loan repayments. Outstanding borrowings on the ABL Facility were \$8.8 million as of April 1, 2017, while the excess availability on that date for the ABL Facility was \$49.7 million. The Company made regularly scheduled payments of principal on its Term Loan in the amount of \$4.8 million during the first quarter of fiscal 2017.

On April 7, 2017, subsequent to quarter end, the Company entered into a New Term Loan Agreement with an aggregate principal amount of \$140 million. The initial draw on the New Term Loan at closing was \$110 million. These proceeds, along with proceeds received from a draw on the Company's ABL Facility, were used to repay the Term Loan, which had a remaining principal balance plus accrued interest of \$118.2 million. The New Term Loan Agreement provides for a delayed draw feature that allows the Company to draw up to an additional \$30 million through April 7, 2019. The ability to access the delayed draw commitment is subject to maintaining compliance with certain terms and conditions. The proceeds from the delayed draw can be used to fund distributions, permitted acquisitions, and repayments of existing indebtedness. Also, on April 7, 2017, the Company amended its ABL Facility. The amendment provided a new lower pricing tier of LIBOR plus 125 basis points, a seasonal increase in the borrowing base of 5.0% of eligible accounts receivable for the months of March through August, and the inclusion of certain inventory in the borrowing base, which previously had been excluded.

The Company's ABL Facility, as amended, and New Term Loan, as described above, contain customary events of default and financial, affirmative negative covenants. Based on current projections, the Company believes it will maintain compliance with these covenants throughout the next twelve months.

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We believe that our cash flow from operations, borrowings available from our existing credit facility and other sources of capital 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 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 Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

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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 on Form 10-K for the fiscal year ended December 31, 2016.

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 April 1, 2017 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.

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**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)

May 9, 2017  
Date

/s/ Ryan M. Bohr  
Ryan M. Bohr  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

May 9, 2017  
Date

/s/ Kevin L. Baehler  
Kevin L. Baehler  
Senior Vice President and Chief Accounting Officer  
(Principal Accounting Officer)

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**EXHIBIT INDEX**

<u>Exhibit No.</u>	<u>Description</u>
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 March 26, 2016 are filed herewith, formatted in XBRL (Extensive 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.

## CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES OXLEY ACT OF 2002

I, Joseph M. Yorio, certify that:

1. I have reviewed this quarterly report on Form 10-Q of School Specialty, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2017

/s/ Joseph M. Yorio

Joseph M. Yorio  
President and Chief Executive Officer



## CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES OXLEY ACT OF 2002

I, Ryan M. Bohr, certify that:

1. I have reviewed this quarterly report on Form 10-Q of School Specialty, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2017

/s/ Ryan M. Bohr  
Ryan M. Bohr  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION  
906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Joseph M. Yorio, President and Chief Executive Officer of School Specialty, Inc., certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the knowledge of the undersigned:

1. The Quarterly Report on Form 10-Q for the three months ended April 1, 2017 (the "Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations on School Specialty, Inc.

Date: May 9, 2017

/s/ Joseph M. Yorio  
Joseph M. Yorio  
President and Chief Executive Officer

This certification accompanies this Quarterly Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed as filed by School Specialty, Inc. for purposes of Securities Exchange Act of 1934.

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION  
906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Ryan M, Bohr, Executive Vice President and Chief Financial Officer of School Specialty, Inc., certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the knowledge of the undersigned:

1. The Quarterly Report on Form 10-Q for the three months ended April 1, 2017 (the "Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations on School Specialty, Inc.

Date: May 9, 2017

/s/ Ryan M. Bohr  
Ryan M. Bohr  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

This certification accompanies this Quarterly Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed as filed by School Specialty, Inc. for purposes of Securities Exchange Act of 1934.

