

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K

Current report filing

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FILER

**SCHOOL SPECIALTY INC**

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Mailing Address

*P.O. BOX 1579  
APPLETON WI 54912-1579*

Business Address

*W6316 DESIGN DRIVE  
GREENVILLE WI 54942  
(920) 734-5712*

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 8-K**

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (date of earliest event reported): **January 28, 2013**

**SCHOOL SPECIALTY, INC.**

(Exact name of registrant as specified in its charter)

Wisconsin  
(State or other jurisdiction  
of incorporation)

000-24385  
(Commission  
File Number)

39-0971239  
(IRS Employer  
Identification No.)

W6316 Design Drive  
Greenville, Wisconsin 54942  
(Address of principal executive offices,  
including zip code)

Registrant's telephone number, including area code: (920) 734-5712

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Item 1.01. Entry into a Material Definitive Agreement.**

On January 28, 2013, School Specialty, Inc. (the “Company”) and certain of its wholly-owned subsidiaries (collectively with the Company, the “Debtors”) filed voluntary petitions (the “Chapter 11 Cases”) in the United States Bankruptcy Court for the District of Delaware (the “Bankruptcy Court”) seeking relief under the provisions of Chapter 11 of the United States Bankruptcy Code (the “Bankruptcy Code”).

The Debtors continue to operate their businesses in the ordinary course as “debtors-in-possession” under the jurisdiction of the Bankruptcy Court in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Bankruptcy Court.

In connection with filing the Chapter 11 Petitions, the Debtors filed motions seeking Bankruptcy Court approval of the following documents:

- (A) a Senior Secured Super Priority Debtor-in-Possession Credit Agreement (the “Bayside Credit Agreement”) by and among the Company, certain of its subsidiaries, Bayside Finance, LLC (“Bayside”) (as Administrative Agent and Collateral Agent), and the lenders party to the Bayside Credit Agreement (the “Bayside Lenders”);
- (B) a Debtor-in-Possession Credit Agreement (the “Asset-Based Credit Agreement”) by and among Wells Fargo Capital Finance, LLC (as Administrative Agent, Co-Collateral Agent, Co-Lead Arranger and Joint Book Runner) and GE Capital Markets, Inc. (as Co-Collateral Agent, Co-Lead Arranger and Joint Book Runner and Syndication Agent), General Electric Capital Corporation (as Syndication Agent), and the lenders that are party to the Asset-Based Credit Agreement (the “Asset-Based Lenders”) and the Company and certain of its subsidiaries; and
- (C) an Asset Purchase Agreement, dated as of January 28, 2013 by and among the Company, certain of its subsidiaries and Bayside School Specialty, LLC, a Delaware limited liability company and affiliate of Bayside (the “Asset Purchase Agreement”).

**Bayside Credit Agreement**

The Bayside Credit Agreement provides for a senior secured, super-priority revolving credit facility of up to \$50 million (the “Bayside Facility”), with an initial borrowing upon closing of \$15 million, and subsequent anticipated borrowings in later weeks based on certain availability limitations. In addition, upon entry of the final order of the Bankruptcy Court, all unpaid amounts in respect of loans under the Credit Agreement dated as of May 22, 2012, by and among the Company, certain subsidiaries of the Company, Bayside (as Administrative Agent and Collateral Agent), and the lenders under that agreement (the “Prepetition Term Loan Agreement”), including the Early Payment Fee (as defined in the Prepetition Term Loan Agreement), which is payable as a result of the acceleration of the Prepetition Term Loan Agreement, plus accrued and unpaid interest through that date, and any additional unpaid fees, costs and expenses, will be refinanced and converted into term loans under the Bayside Credit Agreement.

Borrowings by the Company under the Bayside Facility are subject to borrowing limitations based on the exhaustion of availability of credit under the ABL Facility (as defined below) and certain other conditions. The principal amounts outstanding under the Bayside Facility bears interest based on applicable LIBOR or base rates plus margins as set forth in the Bayside Credit Agreement. Upon the occurrence of an event of default in the Bayside Credit Agreement, an additional default interest rate of 3.0% per annum applies. The Bayside Credit Agreement also provides for certain additional fees payable to the agents and lenders.

Borrowings under the Bayside Credit Agreement are required to be used to pay (i) certain pre-petition expenses of the Debtors and other costs authorized by the Bankruptcy Court, (ii) obligations under the Bayside Credit Agreement and other loan documents, and (iii) post-petition operating expenses and to fund working capital of the Debtors and other agreed-upon costs and expenses of administration of the Chapter 11 Cases.

All borrowings under the Bayside Credit Agreement are required to be repaid on the earliest of (i) June 30, 2013, and (ii) the date of termination of the Bayside Credit Agreement, whether pursuant to the consummation of a sale of substantially all of the assets of the Debtors under section 363 of the Bankruptcy Code, or (iii) certain other termination events.

The Bayside Credit Agreement provides for certain customary events of default and affirmative and negative covenants, including affirmative covenants requiring the Company to provide financial information, appraisals, budgets and other information, and negative covenants restricting the ability of the Company and its subsidiaries to incur additional indebtedness, grant liens, make investments, make certain payments, sell assets, suspend business activities or take certain other actions.

The initial borrowing by the Company under the Bayside Credit Agreement is subject to the satisfaction of certain conditions precedent, including the execution of the ABL Facility described below, entry of satisfactory the “first day orders” by the Bankruptcy Court, delivery of executed definitive loan documents, absence of a material adverse effect and delivery of a budget approved by the agents under the Bayside Credit Agreement. In addition, subsequent borrowings under the Bayside Credit Agreement are subject to the satisfaction of certain customary conditions precedent set forth in the Bayside Credit Agreement.

Pursuant to a Security and Pledge Agreement, the Bayside 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 Bayside Lenders (the “Intercreditor Agreement”) the Bayside Lenders have a first priority security interest in all interests in real property, all intellectual property, all equipment and fixtures, and certain other assets of the Company and its subsidiaries, and have a second priority security interest in accounts, inventory and certain other 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.

## Asset-Based Credit Agreement

The Asset-Based Credit Agreement provides a revolving senior secured asset-based credit facility (the “ABL Facility”) in an aggregate principal amount of \$175 million. The amount of revolving loans made during any one week will be based on certain conditions, including the budget supplied by the Company. Outstanding amounts under the ABL Facility will bear interest at a rate per annum equal to either: (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 2.75%, or (2) a LIBOR rate plus 3.75%. The default interest rate will be three percentage points above the otherwise applicable 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.

The ABL Facility will mature on June 30, 2013. To the extent authorized by the financing orders, we are required to repay 100% of the existing secured obligations under the Credit Agreement dated as of May 22, 2012 (the “Existing ABL Credit Agreement”) by and among the Company, Wells Fargo Capital Finance, LLC (as Administrative Agent, Co-Collateral Agent, Co-Lead Arranger and Joint Book Runner) and GE Capital (as Co-Collateral Agent, Co-Lead Arranger and Joint Book Runner and Syndication Agent), and the lenders that are party to the Existing ABL Credit Agreement.

Pursuant to a Guaranty and 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 the Intercreditor Agreement, the Asset-Based Lenders have a first priority security interest in accounts, inventory and certain other assets of the Company and the guarantor subsidiaries, and a second priority security interest in certain other assets including real property and equipment, subordinate only to the first priority security interest of the lenders under the Bayside Credit Agreement in such other assets.

The Asset-Based Credit Agreement contains customary events of default and affirmative and negative covenants, including (but not limited to) affirmative covenants relating reporting, appointment of a chief restructuring officer, and bankruptcy transaction milestones, and negative covenants related to the financing order of the Bankruptcy Court, additional indebtedness, liens, assets, fundamental changes, and use of proceeds.

## Asset Purchase Agreement

The Asset Purchase Agreement provides for the purchase of substantially all of the assets and the assumption of certain of the liabilities of the Company by Bayside School Specialty, LLC (the “Purchaser”), an affiliate of Bayside Finance, LLC, pursuant to sections 105, 363 and 365 of the Bankruptcy Code. The purchase price under the Asset Purchase Agreement is \$95 million (which amount shall be payable in the form of a credit bid of an amount of the obligations then outstanding under the Bayside Credit Agreement and the Prepetition Term Loan Agreement), plus an amount in cash equal to the outstanding obligations under the Asset-Based

Credit Agreement (unless such obligations are otherwise assumed by the Purchaser pursuant to the terms of the Asset Purchase Agreement) and the assumption of certain assumed liabilities.

The Asset Purchase Agreement contains customary representations and warranties of the Debtors and the Purchaser, and certain pre-closing covenants including cooperation, access to records, notification of certain matters and conduct of business. The Asset Purchase Agreement is subject to customary conditions precedent to closing, including the approval by the Bankruptcy Court. The Asset Purchase Agreement also provides for a breakup fee of \$2.85 million, payable to the Purchaser upon certain termination events.

In connection with the Asset Purchase Agreement, the Debtors filed a motion, pursuant to sections 105(a), 363 and 365 of title 11 of the Bankruptcy Code, (a) to authorize an auction at which the Debtors will solicit the highest or best bid for the sale of substantially all of the Debtors' assets, (b) to approve the breakup fee payable to the Purchaser as set forth in the Asset Purchase Agreement, and (c) to take certain other actions.

Capitalized terms used but not defined in this Item 1.01 have the meanings ascribed to them in the respective agreement to which they relate. The foregoing descriptions of the Bayside Credit Agreement, the Asset-Based Credit Agreement, the Asset Purchase Agreement and other agreements described herein do not purport to be complete and are qualified in their entirety by the full text of such agreements.

On January 28, 2013, the Company issued a press release relating to the foregoing, a copy of which is attached as Exhibit 99.1 and is incorporated herein by reference.

**Item 1.03     Bankruptcy or Receivership.**

As described above in Item 1.01, on January 28, 2013, the Debtors filed the Chapter 11 Cases under the Bankruptcy Code in the Bankruptcy Court. The Debtors continue to operate their businesses in the ordinary course as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Bankruptcy Court.

The information provided in Item 1.01 of this Current Report on Form 8-K regarding the Bayside Credit Agreement, the Asset-Based Credit Agreement and the Asset Purchase Agreement is incorporated by reference into this Item 1.03.

**Item 2.03     Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.**

The information provided in Item 1.01 of this Current Report on Form 8-K regarding the Bayside Credit Agreement and the Asset-Based Credit Agreement is incorporated by reference into this Item 2.03.

**Item 9.01. Financial Statements and Exhibits.**

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press Release

## **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 hereunto duly authorized.

SCHOOL SPECIALTY, INC.

Dated: January 28, 2013

By: /s/ Michael Lavelle  
Michael Lavelle, President and Chief  
Executive Officer



## EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press Release



**FOR IMMEDIATE RELEASE**

Investor Contact:  
School Specialty, Inc.  
Elizabeth Higashi, CFA  
(920) 243-5392  
IR@schoolspecialty.com

W6316 Design Drive, Greenville, WI 54942  
P.O. Box 1579, Appleton, WI 54912-1579

Media Contacts:  
Kekst and Company  
Kimberly Kriger/Nathan Riggs  
(212) 521-4800

**SCHOOL SPECIALTY INITIATES FINANCIAL RESTRUCTURING AND ENTERS INTO  
AGREEMENT WITH PRIVATE INVESTMENT FIRM**

**Receives Commitment for \$50 Million in Additional Financing**

**Sale and Restructuring to Be Implemented Through Chapter 11 Process; Sale Subject to Court-Supervised Auction for Higher or Better Offers**

**School Specialty Operations Continue Without Interruption**

**GREENVILLE, Wis., January 28, 2013** - School Specialty, Inc. (NASDAQ: SCHS) (“the Company”) today announced that it has entered into an asset purchase agreement with an affiliate of Bayside Capital, Inc., under which School Specialty proposes to sell its assets as a going concern through a court-supervised sale process. To facilitate the sale transaction, School Specialty and certain of its subsidiaries today filed voluntary petitions for reorganization under Chapter 11 in the U.S. Bankruptcy Court for the District of Delaware and is pursuing the sale process under Section 363 of the Bankruptcy Code.

In connection with the filing, the Company has secured a new lending arrangement to be provided by School Specialty’s existing asset-based lenders and a commitment for \$50 million in additional capital in the form of debtor-in-possession financing from an affiliate of Bayside Capital. This financing is intended to provide School Specialty with ample liquidity to operate the business and meet its ongoing obligations to customers, business partners, suppliers and employees through completion of the sale process.

Today’s announcement will enable a sale of the business on an expedited basis to Bayside Capital or any higher or better bidder approved by the Court, and its emergence as owned by a financially stronger entity. The Company anticipates completing the sale process in approximately 60-90 days.

School Specialty’s President and CEO Michael P. Lavelle, said, “We are pleased to have reached these agreements with Bayside, and are confident School Specialty’s business has a bright future. We fully expect to continue normal business operations, providing quality, value-driven education products and excellent customer care and programs. Our customers remain a top priority and we plan to meet all our customer commitments and maintain customer policies and programs.

-More-

“We have made good progress in our turnaround strategy to strengthen School Specialty’s business by realigning the organization to deliver better value for our customers and improving the quality and efficiency of operations. In School Specialty, we have a company with excellent potential but with a burdensome amount of debt on our balance sheet. The actions we are announcing today allow us to strengthen our financial condition as we continue transforming School Specialty’s business for the future, including building our brands and product offerings and positioning our business for long-term success as the funding environment improves,” Lavelle concluded.

School Specialty’s Canadian subsidiaries are included in the proposed sale but are not part of the Chapter 11. The Chapter 11 filings are not expected to have any impact on the Company’s operations in Canada, which will continue in the ordinary course without interruption.

It is uncertain whether School Specialty shareholders will receive any distribution from proceeds of a sale and whether these securities will have any value following the Chapter 11 case.

Bayside Capital is an affiliate of H.I.G. Capital, a leading global private investment firm with more than \$10 billion of equity capital under management.

The Company’s financial advisor is Perella Weinberg Partners LP, its restructuring advisor is Alvarez & Marsal North America, LLC, and its restructuring counsel is Paul, Weiss, Rifkind, Wharton & Garrison LLP and Young Conaway Stargatt & Taylor, LLP. Bayside’s legal advisor is Akin Gump Strauss Hauer & Feld LLP.

Additional information about the restructuring is available on the Company’s website at [www.schoolspecialty.com](http://www.schoolspecialty.com). Claims information is available at [www.kccllc.net/schoolspecialty](http://www.kccllc.net/schoolspecialty) or by calling the School Specialty’s new Restructuring Information Center toll-free at (+1-877) 709-4758.

### **About School Specialty, Inc.**

School Specialty is a leading education company that provides innovative and proprietary products, programs and services to help educators engage and inspire students of all ages and abilities to learn. The company designs, develops, and provides preK-12 educators with the latest and very best curriculum, supplemental learning resources, and school supplies. Working in collaboration with educators, School Specialty reaches beyond the scope of textbooks to help teachers, guidance counselors and school administrators ensure that every student reaches his or her full potential. For more information about School Specialty, visit [www.schoolspecialty.com](http://www.schoolspecialty.com).

### **Cautionary Statement Concerning Forward-Looking Information**

Any statements made in this press release about future financial condition, results of operations, expectations, plans, or prospects, constitute forward-looking statements. Forward-looking statements also include those preceded or followed by the words “anticipates,” “believes,” “could,” “estimates,” “expects,” “intends,” “may,” “should,” “plans,” “targets” and/or similar expressions. These forward-looking statements are based on School Specialty’s current estimates and assumptions and, as such, involve uncertainty and risk. Forward-looking statements are not guarantees of future performance, and actual results may differ materially from those contemplated by the forward-looking statements because of a number of factors, including the factors described in Item 1A of School Specialty’s Annual Report on Form 10-K for the fiscal year ended April 28, 2012, which factors are incorporated herein by reference. Except to the extent required under the federal securities laws, School Specialty does not intend to update or revise the forward-looking statements.

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