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## Section 1: 424B3 (424B3)

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Filed Pursuant to Rule 424(b)(3)  
Registration No. 333-225511

SUPPLEMENT NO. 1, DATED AUGUST 9, 2018  
(to Proxy Statement/Prospectus-Information Statement dated August 8, 2018)



This Supplement No. 1, dated August 9, 2018 (this “Supplement”), updates and supplements the proxy statement/prospectus-information statement dated August 8, 2018 (the “Proxy Statement/Prospectus-Information Statement”). Essendant Inc. (“Essendant”) filed the Proxy Statement/Prospectus-Information Statement with the Securities and Exchange Commission as part of a registration statement on Form S-4 (Registration No. 333-225511).

The purpose of this Supplement is to update and supplement the information in the Proxy Statement/Prospectus-Information Statement with information contained in Essendant’s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 9, 2018 (the “Quarterly Report”). The Quarterly Report is attached to, and forms a part of, this Supplement.

This Supplement should be read in conjunction with the Proxy Statement/Prospectus-Information Statement, which is being delivered with this Supplement. The information in the Quarterly Report modifies and supersedes, in part, the information in the Proxy Statement/Prospectus-Information Statement, including the annexes thereto. Any information in the Proxy Statement/Prospectus-Information Statement, including the annexes thereto, that is modified or superseded by the information in the Quarterly Report shall not be deemed to constitute a part of the Proxy Statement/Prospectus-Information Statement except as modified or superseded by this Prospectus Supplement. If there is any inconsistency between any information in the Proxy Statement/Prospectus-Information Statement and this Supplement, you should rely on the information in this Supplement.

This Supplement is not complete without, and may not be delivered or utilized except in connection with, the Proxy Statement/Prospectus-Information Statement, including any supplements and amendments thereto.

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**You should read carefully and in their entirety this Supplement and the Proxy Statement/Prospectus-Information Statement and all accompanying annexes and exhibits. You should review and consider carefully the matters discussed under the heading “Risk Factors” beginning on page 47 of the Proxy Statement/Prospectus-Information Statement.**

**THE ESSENDANT BOARD OF DIRECTORS HAS UNANIMOUSLY APPROVED THE MERGER AGREEMENT, THE MERGER AND THE SHARE ISSUANCE (EACH AS DEFINED IN THE PROXY STATEMENT/PROSPECTUS-INFORMATION STATEMENT) AND UNANIMOUSLY RECOMMENDS THAT ESSENDANT STOCKHOLDERS VOTE “FOR” EACH PROPOSAL DESCRIBED IN THE PROXY STATEMENT/PROSPECTUS-INFORMATION STATEMENT.**

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Neither the U.S. Securities and Exchange Commission nor any state securities regulator has approved or disapproved the transactions described in the Proxy Statement/Prospectus-Information Statement or this Supplement, including the Merger and the Share Issuance, or determined if the Proxy Statement/Prospectus-Information Statement or this Supplement is accurate or adequate. Any representation to the contrary is a criminal offense.

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended June 30, 2018

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: 001-38499

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**ESSENDANT INC.**

(Exact Name of Registrant as Specified in its Charter)

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**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**36-3141189**  
(I.R.S. Employer  
Identification No.)

**One Parkway North Boulevard  
Suite 100  
Deerfield, Illinois 60015-2559  
(847) 627-7000**

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

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Indicate by check mark whether 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 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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 and 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, a 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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 7(a)(2)(B) of the Securities Act.

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

On August 3, 2018, the registrant had outstanding 37,709,883 shares of common stock, par value \$0.10 per share.

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ESSENDANT INC.  
FORM 10-Q  
For the Quarterly Period Ended June 30, 2018

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## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS.

ESSENDANT INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(in thousands, except share data)

	<u>(Unaudited)</u> As of June 30, 2018	<u>(Audited)</u> As of December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 31,751	\$ 28,802
Accounts receivable, less allowance for doubtful accounts of \$16,677 in 2018 and \$17,102 in 2017	640,134	619,200
Inventories	742,886	821,683
Other current assets	63,903	43,044
Total current assets	1,478,674	1,512,729
Property, plant and equipment, net	129,927	132,793
Intangible assets, net	68,547	73,441
Goodwill	13,065	13,153
Other long-term assets	73,061	42,134
Total assets	<u>\$ 1,763,274</u>	<u>\$ 1,774,250</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 526,263	\$ 500,883
Accrued liabilities	195,342	189,916
Current maturities of long-term debt	6,072	6,079
Total current liabilities	727,677	696,878
Deferred income taxes	1,175	1,192
Long-term debt	518,660	492,044
Other long-term liabilities	76,525	89,222
Total liabilities	1,324,037	1,279,336
Stockholders' equity:		
Common stock, \$0.10 par value; authorized—100,000,000 shares, issued—74,435,628 shares in 2018 and 2017	7,444	7,444
Additional paid-in capital	415,449	412,987
Treasury stock, at cost – 36,725,594 shares in 2018 and 36,811,366 shares in 2017	(1,091,993)	(1,093,813)
Retained earnings	1,156,910	1,219,309
Accumulated other comprehensive loss	(48,573)	(51,013)
Total stockholders' equity	439,237	494,914
Total liabilities and stockholders' equity	<u>\$ 1,763,274</u>	<u>\$ 1,774,250</u>

See notes to condensed consolidated financial statements.

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**ESSENDANT INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except per share data)  
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017* Revised	2018	2017* Revised
Net sales	\$1,254,222	\$1,260,656	\$2,494,378	\$2,530,038
Cost of goods sold	1,081,016	1,083,092	2,199,996	2,166,807
Gross profit	173,206	177,564	294,382	363,231
Operating expenses:				
Warehousing, marketing and administrative expenses	156,574	160,972	322,119	333,270
Restructuring charges	8,019	—	22,080	—
Impairment of goodwill	—	—	—	198,828
Operating (loss) income	8,613	16,592	(49,817)	(168,867)
Interest and other expense, net	8,850	7,022	17,072	14,485
(Loss) income before income taxes	(237)	9,570	(66,889)	(183,352)
Income tax (benefit) expense	(140)	4,474	(15,352)	146
Net (loss) income	\$ (97)	\$ 5,096	\$ (51,537)	\$ (183,498)
Net (loss) income per share—basic:	\$ (0.00)	\$ 0.14	\$ (1.40)	\$ (5.01)
Average number of common shares outstanding—basic	36,925	36,673	36,895	36,659
Net (loss) income per share—diluted:	\$ (0.00)	\$ 0.14	\$ (1.40)	\$ (5.01)
Average number of common shares outstanding—diluted	36,925	36,873	36,895	36,659
Dividends declared per share	\$ 0.14	\$ 0.14	\$ 0.28	\$ 0.28

\* Revised for the impact of the adoption of a new pension accounting pronouncement (see Note 9 – “Pension and Post-Retirement Benefit Plans”) for further detail.

See notes to condensed consolidated financial statements.

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**ESSENDANT INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
(in thousands)  
(Unaudited)

	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Net (loss) income	\$ (97)	\$ 5,096	\$ (51,537)	\$ (183,498)
Other comprehensive (loss) income, net of tax				
Translation adjustments	(697)	1,092	(1,625)	1,477
Minimum pension liability adjustments	1,045	704	2,089	1,408
Cash flow hedge adjustments	485	(36)	1,976	32
Total other comprehensive income, net of tax	833	1,760	2,440	2,917
Comprehensive income (loss)	<u>\$ 736</u>	<u>\$ 6,856</u>	<u>\$ (49,097)</u>	<u>\$ (180,581)</u>

See notes to condensed consolidated financial statements.

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**ESSENDANT INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)  
(Unaudited)

	<b>For the Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>Cash Flows From Operating Activities:</b>		
Net loss	\$ (51,537)	\$ (183,498)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	21,389	21,534
Share-based compensation	4,441	4,038
Gain on the disposition of property, plant and equipment	(771)	(656)
Amortization of capitalized financing costs	713	804
Deferred income taxes	(9,352)	(270)
Change in contingent consideration	(700)	—
Impairment of goodwill	—	198,828
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable, net	(21,385)	14,434
Decrease in inventory	78,385	76,757
Increase in other assets	(22,108)	(1,178)
Increase in accounts payable	25,189	24,133
Increase (decrease) in accrued liabilities	9,368	(19,603)
Decrease in other liabilities	(9,955)	(9,512)
Net cash provided by operating activities	23,678	125,811
<b>Cash Flows From Investing Activities:</b>		
Capital expenditures	(16,026)	(13,677)
Proceeds from the disposition of property, plant and equipment	296	—
Investment in independent reseller channel	(19,000)	—
Net cash used in investing activities	(34,730)	(13,677)
<b>Cash Flows From Financing Activities:</b>		
Net borrowing under revolving credit facility	28,867	31,375
Borrowings under Term Loan	—	77,600
Repayments under Term Loan	(3,036)	(1,518)
Contingent consideration	(967)	—
Net repayments under Securitization Program	—	(200,000)
Net disbursements from share-based compensation arrangements	(238)	(600)
Payment of cash dividends	(10,425)	(10,339)
Payment of debt issuance costs	—	(6,277)
Net cash provided by (used in) financing activities	14,201	(109,759)
Effect of exchange rate changes on cash and cash equivalents	(200)	185
Net change in cash and cash equivalents	2,949	2,560
Cash and cash equivalents, beginning of period	28,802	21,329
Cash and cash equivalents, end of period	<u>\$ 31,751</u>	<u>\$ 23,889</u>
<b>Other Cash Flow Information:</b>		
Income tax payments, net	\$ 843	\$ 19,058
Interest paid	14,537	11,809

See notes to condensed consolidated financial statements.

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**ESSENDANT INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. Basis of Presentation**

The accompanying Condensed Consolidated Financial Statements represent Essendant Inc. (“ESND”) with its wholly owned subsidiary Essendant Co. (“ECO”), and ECO’s subsidiaries (collectively, “Essendant” or the “Company”). The Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States and include the accounts of ESND and its subsidiaries. All intercompany transactions and balances have been eliminated. The Company operates in a single reportable segment as a leading national distributor of workplace items.

The accompanying Condensed Consolidated Financial Statements are unaudited. The Condensed Consolidated Balance Sheet as of December 31, 2017, was derived from the December 31, 2017 audited financial statements. The Condensed Consolidated Financial Statements have been prepared in accordance with the rules and regulations of the United States Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements, prepared in accordance with accounting principles generally accepted in the United States, have been condensed or omitted pursuant to such rules and regulations. Accordingly, the reader of this Quarterly Report on Form 10-Q should refer to the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 (the “2017 Form 10-K”) for further information.

In the opinion of management, the accompanying unaudited Condensed Consolidated Financial Statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position of Essendant at June 30, 2018 and the results of operations for the three and six months ended June 30, 2018 and 2017, and cash flows for the six months ended June 30, 2018 and 2017. The results of operations for the three and six months ended June 30, 2018 should not necessarily be taken as indicative of the results of operations that may be expected for the entire year.

**Pending Accounting Pronouncements**

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), that requires lessees to recognize right-of-use assets and lease liabilities for all leases other than those that meet the definition of short-term leases. For short-term leases, lessees may elect an accounting policy by class of underlying asset under which these assets and liabilities are not recognized and lease payments are generally recognized over the lease term on a straight-line basis. This standard will be effective for annual periods beginning after December 15, 2018, including interim periods within that reporting period, and early application is permitted. The Company is currently evaluating the new guidance to determine the impact it will have on its consolidated financial statements and disclosures, but expects the impact to the Company’s consolidated balance sheet to be significant. The Company is in the process of analyzing existing leases and processes to support additional disclosures under the standard.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. This update provides guidance concerning the financial reporting of hedging relationships to better portray the economic results of an entity’s risk management activities in its financial statements and expands the ability to apply hedge accounting to financial and nonfinancial risk components. Additionally, the standard eliminates the need to separately measure and report hedge ineffectiveness and generally requires the entire change in fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The amendments in the standard are effective for annual periods beginning after December 15, 2018, including interim periods within that reporting period with early adoption permitted. The Company is currently evaluating the new guidance to determine the impact it will have on its consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The standard addresses the “stranded” tax effects resulting from the 2017 Tax Act in accumulated other comprehensive income. The effect of changes in tax laws or rates included in income from continuing operations are unaffected. The standard is effective for annual periods beginning after December 15, 2018, including interim periods within that reporting period with early adoption permitted. Disclosures are required in the period of adoption. The Company is currently evaluating the new guidance to determine the impact it will have on its consolidated financial statements.

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In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments. This standard replaces the incurred loss methodology previously employed to measure credit losses for most financial assets and requires the use of a forward-looking expected loss model. Current accounting delays the recognition of credit losses until it is probable a loss has been incurred, while the update will require financial assets to be measured at amortized costs less a reserve and equal to the net amount expected to be collected. This standard will be effective for annual periods beginning after December 15, 2019, including interim periods within that reporting period, and early application is permitted. The Company is currently evaluating the new guidance to determine the impact it will have on its consolidated financial statements

### **Inventory**

Approximately 98.2% and 98.0% of total inventory as of June 30, 2018 and December 31, 2017, respectively, has been valued under the Last-In-First-Out (“LIFO”) method. An actual valuation of inventory under the LIFO method can be made only at the end of each fiscal year based on the inventory levels and costs at that time. Interim LIFO calculations are based on management’s estimates of expected year-end inventory levels and costs, and are subject to the final year-end LIFO inventory valuation. Inventory valued under the LIFO accounting method is recorded at the lower of cost or market. If the Company had valued its entire inventory under the lower of First-In-First-Out (“FIFO”) cost or market, inventory values would have been \$168.7 million and \$159.3 million higher than reported as of June 30, 2018, and December 31, 2017, respectively.

For the six months ended June 30, 2018, LIFO liquidations resulted in LIFO income of \$2.5 million, which was more than offset by LIFO expenses in the three and six months ended June 30, 2018 of \$1.4 million and \$11.9 million related to current inflation, for an overall net increase in cost of sales of \$1.4 million and \$9.4 million, respectively. LIFO liquidations occur when there are decrements of LIFO inventory quantities carried at lower costs in prior years as compared with the cost of current year purchases.

### **2. Revenue Recognition**

On January 1, 2018, the Company adopted Topic 606 applying the modified retrospective transition method to all contracts that were not completed as of January 1, 2018. Results for reporting periods beginning after December 31, 2017 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for the prior period. The Company recorded a net reduction to beginning retained earnings of \$0.4 million as of January 1, 2018 due to the cumulative impact of adopting Topic 606. The impact to revenues for the three and six-month periods ended June 30, 2018 was immaterial as a result of adopting Topic 606.

### *Nature of Goods and Services*

The following is a description of principal activities from which the Company generates its revenue. Revenues are recognized when control of the promised goods are transferred to or services are performed for customers, in an amount that reflects the consideration that the Company expects to receive in exchange for those goods or services.

### *Merchandise Sales*

The Company principally generates revenue from selling workplace products to reseller customers under a contract or by purchase order. The Company’s product offerings may be divided into the following primary categories: (1) janitorial, foodservice and breakroom supplies, including janitorial and sanitation supplies, breakroom items, foodservice consumables, safety and security items and paper and packaging supplies; (2) technology products, including computer accessories and computer hardware items such as printers and other peripherals, imaging supplies and data storage; (3) traditional office products, including writing instruments, business machines, filing and record storage products, presentation products, shipping and mailing supplies, calendars and general office accessories; (4) industrial supplies, including various industrial MRO (maintenance, repair and operations) items, hand and power tools, safety and security supplies, janitorial equipment, oilfield and welding supplies; (5) cut sheet paper products, including copy paper with a wide assortment of styles and types; (6) automotive products, including a broad portfolio of automotive aftermarket tools and equipment; and (7) office furniture, including desks, filing and storage solutions, seating and systems furniture, along with a variety of specialized products for niche markets such as education, government, healthcare and professional services.

Control of goods usually transfers to the customer when those goods are shipped. For certain customers, control of goods transfers when those goods are delivered. Merchandise sales are billed daily or monthly. The amount of revenue recognized for merchandise sales is adjusted for expected returns, which are estimated based on historical product return trends and the gross margin associated with those returns; cash discounts, which are estimated based on customer purchases and discount terms and historical payments; and rebates, which are estimated based on sales volume to customers and customer rebate terms. The Company presents this revenue in net sales.

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### *Other Revenues*

The remainder of the Company's consolidated net sales were generated by advertising, fulfillment and other services. Advertising revenue is generated from the sale of catalogs and other advertising materials to customers over time. The Company also offers fulfillment services including fulfillment of product orders on behalf of the customer and call center support. The Company acts as an agent of the customer and therefore recognizes revenue on a net basis. The Company presents other revenues in net sales.

### *Contracts with Customers*

#### *Disaggregation of Revenues*

In accordance with authoritative Generally Accepted Accounting Principles ("GAAP"), the following table disaggregates revenue from contracts with customers into product categories. The Company has determined that disaggregating revenue into these categories provides appropriate disclosure and achieves associated objectives to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Company generated 98% of net sales from its operations in the United States in the three and six months ended June 30, 2018 and 2017. As noted in the Company's 2017 Form 10-K the Company has one reportable segment.

The disaggregated revenue for the three and six months ended June 30, 2018, and 2017 are as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
<b>Product categories:</b>				
Janitorial, foodservice and breakroom supplies (JanSan products)	\$ 346,305	\$ 349,700	\$ 674,809	\$ 695,127
Technology products	298,801	309,689	613,621	626,900
Traditional office products	176,617	186,708	355,568	384,740
Industrial supplies	163,031	146,104	318,241	293,303
Cut sheet paper products	116,020	109,631	235,587	215,795
Automotive products	85,389	82,143	166,381	160,949
Office furniture	62,997	69,939	121,798	142,027
Other revenues	5,062	6,742	8,373	11,198
Total revenue	<u>\$ 1,254,222</u>	<u>\$ 1,260,656</u>	<u>\$ 2,494,378</u>	<u>\$ 2,530,038</u>

Cost of sales for the three months ended June 30, 2018 and 2017 totaled \$1.1 billion and \$1.1 billion, while cost of sales for the six months ended June 30, 2018 and 2017, totaled \$2.2 billion and \$2.2 billion, respectively.

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### *Accounts Receivable and Customer Rebates*

The Company enters into contracts to sell goods to resellers with credit terms that vary based on the risk of the customer, the volume of transactions and the nature of contractual terms. These credit terms may allow the customer to make payment in arrears, which are adjusted for significant financing components when recorded as an account receivable. The Company also provides certain contract rebates, upfront marketing arrangements, acquisition assistance and other rebates which are intended to incentivize customers to engage in long-term purchase arrangements with the Company. These are either prepaid at contract inception and amortized over the term of the contract or accrued over the contract term. Prepaid customer rebates are included as a component of either “Other current assets” or “Other assets” in the Condensed Consolidated Balance Sheets, while accrued customer rebates are included as a component of “Accrued liabilities” in the Condensed Consolidated Balance Sheets, refer to Note 11 – “Other Assets and Liabilities.”

Prepaid customer rebates at June 30, 2018 consisted of amounts to be amortized as a reduction of revenues in the future as follows:

<b>Year</b>	
2018	\$20,756
2019	11,628
2020	7,638
2021	5,286
2022	3,344
Thereafter	5,143
<b>Total prepaid customer rebates</b>	<b>\$53,795</b>

### *Transaction Price Allocated to Remaining Performance Obligations*

As of June 30, 2018, no revenue is expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period. This disclosure does not include revenue related to performance obligations that are part of a contract whose original expected duration is one year or less.

### *Performance Obligations*

At the inception of each contract, the Company assesses the goods and services promised in its contracts and identifies each distinct performance obligations. To identify the performance obligations, the Company considers all goods or services promised regardless of whether they are explicitly stated or implied within the contract or by standard business practices. The Company determined that net merchandise sales to resellers and end-consumers represent performance obligations. This includes the packing and shipping of product through either delivery to the reseller or direct delivery to the end-consumer.

Shipping and handling activities performed before the customer obtains control of the goods are not considered promised services under customer contracts and therefore are not distinct performance obligations. The Company has chosen to make an accounting policy election to account for shipping and handling activities that occur after the customer obtains control of the goods as a fulfillment activity, and therefore accrues the expense of shipping and handling in cost of goods sold when merchandise is shipped. Shipping and handling costs billed to customers are part of the contract consideration and recognized at the time control of the promised goods has transferred to the customer. Control of goods generally transfers to the customer when those goods are shipped (FOB-shipping point).

### *When Performance Obligations Are Satisfied*

For performance obligations related to sales, revenue is recognized when control is transferred. Determining when control transfers requires judgments that affect the timing of revenue recognized. Generally, revenue is recognized at a point in time when shipment occurs from the Company’s warehousing facilities. At this time, the customer is able to direct the use of the product and obtains substantially all of the benefits and risks from the product or service. The Company has a present right to payment at that time, the customer has legal title to the product, and the Company has transferred physical possession.

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### *Significant Payment Terms*

Payment terms for net merchandise sales, fulfillment and other services are dependent on the agreed upon contractual repayment terms of the customer. Typically, these vary dependent on the size of the customer and its risk profile to the Company. Some customers receive discounts based on the contractual terms wherein early payment reduces the net payment amount. Conversely, for some customers the Company provides enhanced payment terms which can extend up to and in excess of one year from invoicing. In some instances, these enhanced terms represent a significant financing component with an assumption of implicit interest. These amounts were immaterial in the period of adoption.

Given the Company's reliance on customer rebates and discounts of the selling price of net sales, the Company notes that many of the contracts contain variable consideration payable to the customer that is recognized when the underlying revenue associated with the rebate and discount is recognized. Customer rebates and discounts include volume components, growth components, conversions, promotions, discount programs, and other programs. Estimates for customer rebates and discounts are based on both historical and estimated sales volume and other drivers as dictated by the contract. Changes in estimates of sales volume, product mix, customer mix or sales patterns, or actual results that vary from such estimates may impact future results.

### *Returns and Refunds*

In the normal course of business, the Company accepts product returns based on certain contractual terms, typically for product expiration dating or damage. The Company estimates reserves for returns and the related refunds to customers based on historical experience of similar products and customers, as applicable. Reserves for returned merchandise are included as a component of "Other current assets" in the Condensed Consolidated Balance Sheets, while refund liabilities are included as a component of "Accrued liabilities."

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### ***Practical Expedient Usage and Accounting Policy Elections***

The Company has determined to utilize the modified retrospective approach which requires cumulative effect adjustment to the opening balance of retained earnings in the current year. This opening adjustment is determined based on the impact of the new revenue standard's application on contracts that were not completed as of January 1, 2018, the date of initial application of the standard. This election had an immaterial impact on the Company's financial statements.

The Company applies the practical expedient in Accounting Standard Codification ("ASC") 606-10-65-1(f)(4) and does not retrospectively restate contracts for contract modifications that occurred before the beginning of the earliest reporting period presented. Instead, the Company has aggregated the effect of all modifications that occurred before the earliest reporting period presented. The effect of applying this practical expedient was immaterial.

For the Company's contracts that have an original duration of one year or less, the Company uses the practical expedient in ASC 606-10-32-18 applicable to such contracts and does not consider the time value of money in relation to significant financing components. The effect of applying this practical expedient was immaterial.

Per ASC 606-10-25-18B, the Company has elected to account for shipping and handling activities that occur after the customer has obtained control as a fulfillment activity instead of a performance obligation. Furthermore, shipping and handling activities performed before transfer of control of the product also do not constitute a separate and distinct performance obligation.

The Company has elected to exclude from the transaction price those amounts which relate to sales and other taxes that are assessed by governmental authorities and that are imposed on and concurrent with a specific revenue-producing transaction and collected by the Company from a customer.

The Company applies the practical expedient in ASC 606-10-50-14 and is not required to determine the amount of the transaction price allocated to the remaining performance obligations that have original expected durations of one year or less. The effect of applying this practical expedient was immaterial as the Company has no remaining performance obligations associated with merchandise sales as of December 31, 2017.

Applying the practical expedient in ASC 340-40-25-4, the Company recognizes the incremental costs of obtaining contracts as an expense when incurred if the amortization period would have been one year or less. These costs are included in "Warehouse, marketing and administrative expenses." The effect of applying this practical expedient was immaterial.

### **3. Share-Based Compensation**

During the three months ended June 30, 2018, the Company granted 45,280 RSUs and no shares of restricted stock or performance-based units, compared to 68 RSUs and 15,577 shares of restricted stock in the same period of 2017. No performance-based units were granted in the three months ended June 30, 2018 or 2017.

During the six months ended June 30, 2018, the Company granted 107,296 shares of restricted stock, 45,280 RSUs and 634,778 performance-based units, compared to 58,962 shares of restricted stock and 221,365 RSUs in the same period of 2017. No performance units were granted in the six months ended June 30, 2017.

### **4. Severance and Restructuring Charges**

In 2015, the Company commenced two restructuring actions that included workforce reductions, facility closures and actions to reduce costs through management delayering in order to achieve broader functional alignment of the organization ("2015 restructuring action"). The charges associated with this action were included in "Warehousing, marketing and administrative expenses." This action was substantially completed in 2016.

In the first quarter of 2018, the Company launched a restructuring program ("2018 restructuring action") that will span to mid-2020. It includes facility consolidations totaling an anticipated \$23 million to \$28 million and workforce reductions totaling an anticipated \$7 million to \$12 million, or in aggregate an estimated cash cost of \$30 million to \$40 million over the restructuring period. These amounts are included in restructuring charges in the Condensed Consolidated Statement of Operations in the three and six months ended June 30, 2018.

Product assortment refinement charges have also been incurred and are reflected as additional cost of goods sold in the three and six months ended June 30, 2018. The reduction in product assortment charges in the three months ended June 30, 2018 was due to better recovery rates than previously estimated.

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The expenses, cash flows, and liabilities associated with the 2015 and 2018 restructuring actions described above are noted in the following table (in thousands):

	Expense		Cash flow		Liabilities	
	For the three months ended	For the six months ended	For the six months ended	For the six months ended	As of	As of
	June 30, 2018	June 30, 2018	June 30, 2018	June 30, 2017	June 30, 2018	December 31, 2017
<b>2018 Actions:</b>						
Product assortment refinement	\$ (8,554)	\$ 34,269	—	—	—	—
Workforce reduction	(152)	11,436	2,592	—	8,844	—
Facility closure	8,171	11,183	7,235	—	3,770	\$ —
<b>Total</b>	<b>\$ 8,019</b>	<b>\$ 22,619</b>	<b>\$ 9,827</b>	<b>\$ —</b>	<b>\$ 12,614</b>	<b>\$ —</b>
<b>Fourth Quarter 2015 Actions:</b>						
Workforce reduction	\$ (13)	\$ (553)	\$ 103	\$ 316	\$ 261	\$ 917
<b>First Quarter 2015 Actions:</b>						
Workforce reduction	\$ —	\$ —	\$ —	\$ 94	\$ 664	\$ 664
<b>Total</b>	<b>\$ (548)</b>	<b>\$ 56,335</b>	<b>\$ 9,930</b>	<b>\$ 410</b>	<b>\$ 13,539</b>	<b>\$ 1,581</b>

## 5. Goodwill and Intangible Assets

Due to changes in management structure to allow for sales and operational efficiency, a new Canadian operating segment was created in the first quarter of 2018. This segment includes operations previously included in the Industrial and Automotive segments. The Canadian operating segment does not meet the materiality thresholds for reporting of individual segments and is combined with the other operating segments into one reportable segment. The Company has determined that each of the Company's goodwill reporting units comprise an operating segment. At June 30, 2018, goodwill balances of the reporting units were \$11.1 million at Industrial and \$2.0 million at Canada.

Acquired intangible assets are initially recorded at their fair market values determined based on quoted market prices in active markets, if available, or recognized valuation models. The Company's intangible assets have finite useful lives and are amortized on a straight-line basis over their useful lives.

The following table summarizes the intangible assets of the Company by major class of intangible asset and the cost, accumulated amortization, net carrying amount, and weighted average life, if applicable (in thousands):

	June 30, 2018				December 31, 2017			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life (years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life (years)
<u>Intangible assets subject to amortization</u>								
Customer relationships and other intangibles	\$ 137,672	\$ (76,333)	\$ 61,339	16	\$ 138,110	\$ (72,192)	\$ 65,918	16
Non-compete agreements	4,652	(4,260)	392	4	4,659	(4,260)	399	4
Trademarks	13,725	(6,909)	6,816	14	13,766	(6,642)	7,124	14
<b>Total</b>	<b>\$ 156,049</b>	<b>\$ (87,502)</b>	<b>\$ 68,547</b>		<b>\$ 156,535</b>	<b>\$ (83,094)</b>	<b>\$ 73,441</b>	

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The following table summarizes the amortization expense to be incurred in 2018 through 2022 on intangible assets (in thousands):

<u>Year</u>	<u>Amount</u>
2018	\$ 8,063
2019	6,937
2020	6,934
2021	6,934
2022	6,880

## 6. Accumulated Other Comprehensive Loss

The change in Accumulated Other Comprehensive Loss (“AOCI”) by component, net of tax, for the six-month period ended June 30, 2018 was as follows (in thousands):

	<u>Foreign Currency Translation</u>	<u>Cash Flow Hedges</u>	<u>Defined Benefit Pension Plans</u>	<u>Total</u>
AOCI, balance as of December 31, 2017	\$ (5,933)	\$ (206)	\$ (44,874)	\$(51,013)
Other comprehensive income (loss) before reclassifications	(1,625)	1,746	—	121
Amounts reclassified from AOCI	—	230	2,089	2,319
Net other comprehensive income	(1,625)	1,976	2,089	2,440
AOCI, balance as of June 30, 2018	<u>\$ (7,558)</u>	<u>\$ 1,770</u>	<u>\$ (42,785)</u>	<u>\$(48,573)</u>

The following table details the amounts reclassified out of AOCI into the income statement during the three and six months ended June 30, 2018 (in thousands):

	<u>Amount Reclassified From AOCI</u>		
	<u>For the Three Months Ended June 30, 2018</u>	<u>For the Six Months Ended June 30, 2018</u>	
<b>Details About AOCI Components</b>			
<b>Realized and unrealized gains (losses) on cash flow hedges</b>			
Gain on interest rate swap, before tax	\$ 115	\$ 309	Interest and other expense, net
	(30)	(79)	Tax provision
	<u>\$ 85</u>	<u>\$ 230</u>	Net of tax
<b>Defined benefit pension plan items</b>			
Amortization of prior service cost and unrecognized loss	\$ 1,405	\$ 2,810	Interest and other expense, net
	(361)	(721)	Tax provision
	<u>1,044</u>	<u>2,089</u>	Net of tax
Total reclassifications for the period, net of tax	<u>\$ 1,129</u>	<u>\$ 2,319</u>	

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### 7. Earnings Per Share

Basic earnings per share (“EPS”) is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that could occur if dilutive securities were exercised into common stock. Stock options, restricted stock, performance unit awards, restricted stock units and deferred stock units are considered dilutive securities. For the three and six months ended June 30, 2018, 0.1 million shares and in the three and six months ended June 30, 2017, 0.2 million shares of such securities, respectively, were outstanding but were not included in the computation of diluted earnings per share because the effect would be antidilutive. The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data):

	For the Three Months Ended		For the Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2018	2017	2018	2017
<b>Numerator:</b>				
Net (loss) Income	\$ (97)	\$ 5,096	\$(51,537)	\$(183,498)
<b>Denominator:</b>				
Denominator for basic earnings per share—weighted average shares	36,925	36,673	36,895	36,659
Effect of dilutive securities:				
Employee stock options and restricted stock	—	200	—	—
Denominator for diluted earnings per share—Adjusted weighted average shares and the effect of dilutive securities	<u>36,925</u>	<u>36,873</u>	<u>36,895</u>	<u>36,659</u>
Net loss per share:				
Net loss per share—basic	\$ (0.00)	\$ 0.14	\$ (1.40)	\$ (5.01)
Net loss per share—diluted <sup>(1)</sup>	\$ (0.00)	\$ 0.14	\$ (1.40)	\$ (5.01)

- (1) As a result of the net loss in the three and six months ended June 30, 2018, and the six months ended June 30, 2017, the effect of potentially dilutive securities would have been anti-dilutive and have been omitted from the calculation of diluted earnings per share.

### 8. Debt

Debt consisted of the following amounts (in millions):

	As of	As of
	June 30, 2018	December 31, 2017
2017 Credit Agreement	\$ 6.1	\$ 6.1
Current maturities of long term debt	\$ 6.1	\$ 6.1
Term Loan	\$ 63.9	\$ 67.0
Revolving Credit Facility	211.6	181.3
FILO Facility	98.6	100.0
2013 Note Purchase Agreement	150.0	150.0
Total long-term debt	\$ 524.1	\$ 498.3
Transaction Costs	\$ (5.5)	\$ (6.3)
Total Debt	<u>\$ 524.7</u>	<u>\$ 498.1</u>

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### 9. Pension and Post-Retirement Benefit Plans

The Company maintains pension plans covering union and certain non-union employees. For more information on the Company's retirement plans, see Note 13 – "Pension Plans and Defined Contribution Plan" to the Company's Consolidated Financial Statements in the 2017 Form 10-K.

In accordance with the adoption of ASU 2017-07, the Company has retrospectively revised the presentation of the non-service components of periodic pension cost to "Interest and other expense, net" in the condensed consolidated statement of operations, while service cost remains in "Warehouse, marketing and administrative expense." A summary of the effect for periods presented was as follows (in thousands):

	Three months ended June 30, 2017			Six months ended June 30, 2017		
	As reported	As revised	Effect of change	As reported	As revised	Effect of change
Condensed consolidated statement of loss						
Warehousing, marketing and administrative expenses	\$ 161,695	\$160,972	\$ (723)	\$ 334,717	\$ 333,270	\$(1,447)
Operating income (loss)	15,869	16,592	723	(170,314)	(168,867)	1,447
Interest and other expense, net	6,299	7,022	723	13,038	14,485	1,447
Income (loss) before income taxes	9,570	9,570	—	(183,352)	(183,352)	—

A summary of net periodic pension cost related to the Company's pension plans for the three and six months ended June 30, 2018 and 2017 was as follows (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Service cost—benefit earned during the period	\$ 444	\$ 321	\$ 888	\$ 642
Interest cost on projected benefit obligation	1,769	1,862	3,538	3,724
Expected return on plan assets	(2,266)	(2,272)	(4,532)	(4,544)
Amortization of prior service cost	101	72	202	144
Amortization of actuarial loss	1,304	1,062	2,608	2,124
Total non-service cost	\$ 908	\$ 723	\$ 1,816	\$ 1,447
Net periodic pension cost	\$ 1,352	\$ 1,045	\$ 2,704	\$ 2,090

The Company made cash contributions of \$10.0 million in January 2018 and April 2017, respectively, to its pension plans. Additional contributions, if any, for the remainder of 2018 have not yet been determined. As of June 30, 2018 and December 31, 2017, respectively, the Company had accrued \$33.2 million and \$43.3 million of pension liability within "Other long-term liabilities" on the Condensed Consolidated Balance Sheets.

### Defined Contribution Plans

The Company has defined contribution plans covering certain salaried associates, non-union hourly paid associates and certain union associates (the "Plans"). The Plans permit associates to defer a portion of their pre-tax and after-tax salary as contributions to the Plans. The Plans also provide for Company-funded discretionary contributions as well as matching associates' salary deferral contributions, at the discretion of the Board of Directors. The Company recorded expenses of \$1.8 million, for the Company match of employee contributions to the Plans for the three months ended June 30, 2018 compared to \$1.9 million in the corresponding period in 2017 and \$3.7 million for the six months ended June 30, 2018 and 2017, respectively.

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### 10. Fair Value Measurements

The Company measures certain financial assets and liabilities, including foreign exchange hedges and interest rate swaps, at fair value on a recurring basis, based on significant other observable inputs. The fair value of the foreign exchange hedges and the interest rate swaps is determined by using quoted market forward rates (level 2 inputs) and reflects the present value of the amount the Company would pay for contracts involving the same notional amount and maturity date.

Accounting guidance on fair value establishes a hierarchy for those instruments measured at fair value which distinguishes between assumptions based on market data (observable inputs) and the Company's own assumptions (unobservable inputs). The hierarchy consists of three levels:

- Level 1—Quoted market prices in active markets for identical assets or liabilities;
- Level 2—Inputs other than Level 1 inputs that are either directly or indirectly observable; and
- Level 3—Unobservable inputs developed using estimates and assumptions developed by the Company which reflect those that a market participant would use.

Determining which category an asset or liability falls within the hierarchy requires significant judgment. The Company evaluates its hierarchy disclosures each reporting period.

The following table summarizes the financial instruments measured at fair value in the accompanying Condensed Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017 (in thousands):

	<b>Fair Value Measurements</b>			
		Quoted Market Prices in Active Markets for Identical Assets or Liabilities	Significant Other Observable Inputs	Significant Unobservable Inputs
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Interest rate swap &amp; foreign exchange hedges:</b>				
<b>Assets</b>				
- as of June 30, 2018	\$2,089	\$ —	\$ 2,089	\$ —
- as of December 31, 2017	\$ 29	\$ —	\$ 29	\$ —
<b>Liabilities</b>				
- as of December 31, 2017	\$ 638	\$ —	\$ 638	\$ —

The carrying amount of accounts receivable at June 30, 2018, approximates fair value because of the short-term nature of this item. As of June 30, 2018, no assets or liabilities are measured at fair value on a nonrecurring basis.

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### **11. Other Assets and Liabilities**

Receivables related to supplier allowances totaling \$84.3 million and \$90.8 million were included in “Accounts receivable” in the Condensed Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017, respectively.

Current and non-current prepaid customer rebates, net of allowances, were \$53.8 million and \$40.7 million as of June 30, 2018, and December 31, 2017, respectively, and are included as a component of “Other current assets” and “Other long-term assets”.

Accrued customer rebates of \$43.6 million and \$49.2 million as of June 30, 2018 and December 31, 2017, respectively, were included in “Accrued liabilities” in the Condensed Consolidated Balance Sheets.

### **12. Income Taxes**

The Company’s tax provision for interim periods is determined using an estimate of its annual effective tax rate, adjusted for discrete items.

For the three and six months ended June 30, 2018, the Company recorded an income tax benefit of \$0.1 million on pre-tax loss of (\$0.2) million for an effective tax rate of 59.2% and income tax benefit of \$15.4 million on pre-tax loss of (\$66.9) million for an effective tax rate of 23.0%, respectively. For the three and six months ended June 30, 2017, the Company recorded income tax expense of \$4.5 million on pre-tax income of \$9.6 million, for an effective tax rate of 46.8% and income tax expense of \$0.1 million on pre-tax loss of \$(183.4) million for an effective tax rate of (0.1)%, respectively.

The Company’s U.S. federal statutory rate is 21.0%. The most significant factor impacting the effective tax rate for the three and six months ended June 30, 2018 and the three months ended June 30, 2017, was the discrete impact of equity compensation. The most significant factor impacting the effective tax rate for the six months ended June 30, 2017 was the discrete impact of the goodwill impairment charges.

The effective tax rate for the three and six months ended June 30, 2018, also reflects the reduced federal corporate income tax rate as a result of the enactment of the Tax Cuts and Jobs Act (the “Tax Act”) in December 2017. The Company continues to analyze the aspects of the Tax Act which could potentially affect the provisional estimates that were recorded in the year ended December 31, 2017.

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### **13. Legal Matters**

The Company has been named as a defendant in two lawsuits alleging that the Company sent unsolicited fax advertisements to the named plaintiffs, as well as other persons and entities, in violation of the Telephone Consumer Protection Act of 1991, as amended by the Junk Fax Prevention Act of 2005 (“TCPA”). One lawsuit was initially filed in the United States District Court for the Central District of California on May 1, 2015, and subsequently refiled in the United States District Court for the Northern District of Illinois (the “ND IL”). The other lawsuit was filed in the ND IL on January 14, 2016. The two lawsuits were consolidated for discovery and pre-trial proceedings, and assigned to the same judge. Plaintiffs in both lawsuits seek certification of a class of plaintiffs comprised of persons and entities who allegedly received fax advertisements from the Company. Under the TCPA, recipients of unsolicited fax advertisements can seek damages of \$500 per fax for inadvertent violations and up to \$1,500 per fax for knowing and willful violations. Other reported TCPA lawsuits have resulted in a broad range of outcomes, with each case being dependent on its own unique set of facts and circumstances. In each lawsuit, the Company has vigorously contested class certification and denied that any violations occurred. On November 3, 2017, the ND IL granted a motion by the Company to deny class certification. The effect of the ruling prevents the formation of a class and limits the two plaintiffs to their individual claims. On November 17, 2017, plaintiffs filed a Petition for Permission to Appeal under Rule 23(f) of the Federal Rules of Civil Procedure (the “Petition”) with the United States Court of Appeals for the 7<sup>th</sup> Circuit (the “7<sup>th</sup> Circuit”). The 7<sup>th</sup> Circuit granted the Petition, and following briefing, the 7<sup>th</sup> Circuit heard oral argument on the appeal on April 10, 2018. The lawsuits are stayed until the 7<sup>th</sup> Circuit rules on the appeal.

Litigation of this kind is likely to lead to settlement negotiations, including negotiations prompted by pre-trial civil court procedures. Regardless of whether the lawsuits are resolved at trial or through settlement, the Company believes that a loss associated with resolution of the pending claims is probable. In 2016, the Company recorded a \$4.0 million, pre-tax reserve within “Warehousing, marketing and administrative expenses” in the Condensed Consolidated Statement of Operations. During the three months ended March 31, 2017, the Company recorded an additional \$6.0 million, pre-tax reserve to reflect events concerning mediation activities and settlement negotiations between the Company and the plaintiffs. At June 30, 2018, the total reserve remains \$10.0 million. The Company continues to evaluate its defenses based on its internal review and investigation of prior events, new information and future circumstances. Final disposition of the lawsuits, whether through settlement or through trial, may result in a loss materially in excess of the aggregate recorded amount. However, a range of reasonably possible excess losses is not estimable at this time.

In 2017, the Company was named in a class action lawsuit filed by a former employee in the Los Angeles Superior Court. During the second quarter of 2017, the Company reached an agreement on the general terms of a settlement to resolve this litigation. The parties have finalized a settlement agreement, which is subject to court approval. On May 10, 2018, the court granted the parties’ Motion for Preliminary Approval of the settlement agreement. Notice to the class was issued on May 31, 2018. In consideration of the settlement, in the second quarter of 2017, the Company recorded a \$3.0 million pre-tax reserve within “Warehousing, marketing and administrative expenses” in the Condensed Consolidated Statement of Operations. A hearing on final approval of the settlement agreement is scheduled for September 28, 2018.

The Company is also involved in other legal proceedings arising in the ordinary course of, or incidental to its business. The Company has established reserves, which are not material, for potential losses that are probable and reasonably estimable that may result from those proceedings. In many cases, however, it is difficult to determine whether a loss is probable or even possible or to estimate the amount or range of potential loss, particularly where proceedings may be in relatively early stages or where plaintiffs are seeking substantial or indeterminate damages. Matters frequently need to be more developed before a loss or range of loss can reasonably be estimated. The Company believes that such ordinary course legal proceedings will be resolved with no material adverse effect upon its financial condition, results of operations or cash flows.

### **14. Independent reseller channel investments**

The Company invested \$19 million during the second quarter in the independent reseller channel as part of its strategy to accelerate sales performance in key channels. The Company recognizes its share of the earnings and losses of its investees in “Interest and other expense, net” in the Condensed Consolidated Statement of Operations and includes the investments in “Other assets” in the Condensed Consolidated Balance Sheet. The carrying value of the investments will be subsequently adjusted to reflect the Company’s share of earnings and losses, other-than-temporary impairments and changes in capital of the investees.

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### **15. Pending Transaction Activity**

On April 12, 2018, the Company announced it entered into a definitive agreement with Genuine Parts Company (“GPC”) pursuant to which the Company will combine with GPC’s S.P. Richards Company business (collectively, the “SPR Business”) in a business combination transaction, pursuant to the Agreement and Plan of Merger (as amended, the “Merger Agreement”) dated as of April 12, 2018, by and among GPC, Rhino SpinCo, Inc., a Delaware corporation and wholly owned subsidiary of GPC (“SpinCo”), ESND and Elephant Merger Sub Corp., a Delaware corporation and wholly owned subsidiary of ESND (“Merger Sub”). In connection with the Merger Agreement, GPC and SpinCo entered into a Separation Agreement dated as of April 12, 2018 (the “Separation Agreement”), pursuant to which the Business will be separated from GPC. Additionally, Essendant filed its proxy statement/prospectus-information statement on Form S-4 with the Securities and Exchange Commission (“SEC”) on June 8, 2018. The Company subsequently filed amended proxy statement/prospectus-information statements on Form S-4 with the SEC on July 20, 2018, August 1, 2018 and August 7, 2018. The SEC declared the Form S-4 effective on August 7, 2018.

In the transactions contemplated by the Merger Agreement and the Separation Agreement, (i) GPC will transfer certain of its wholly owned subsidiaries that are engaged in the Business to SpinCo, (ii) GPC will distribute SpinCo’s stock to GPC’s stockholders by way of a pro rata dividend (the “Distribution”), and (iii) Merger Sub will merge with and into SpinCo, with SpinCo as the surviving corporation (the “Merger”) and a wholly owned subsidiary of ESND. Upon consummation of the transactions contemplated by the Merger Agreement and the Separation Agreement, GPC shareholders will receive approximately 40.2 million shares of ESND common stock, which will represent approximately 51% of the outstanding shares of ESND common stock. ESND’s existing stockholders will continue to hold the remaining approximately 49% of the outstanding shares of ESND common stock.

Prior to the Distribution, SpinCo will enter into a credit facility for up to \$400 million (the “SpinCo Credit Facility”). Immediately thereafter, GPC will transfer certain wholly owned subsidiaries to SpinCo and SpinCo will draw against the SpinCo Credit Facility in an amount sufficient to make payments in connection with an internal reorganization of the SPR Business, as described further in the Separation Agreement, of approximately \$347 million, subject to adjustment based on SpinCo’s and ESND’s net debt and SpinCo’s net working capital at the time of the Distribution and certain other adjustments (the “Internal Reorganization Cash Payments”). SpinCo has entered into commitment letters with certain financial institutions to provide for the SpinCo Debt.

The transaction, which has been unanimously approved by the Boards of ESND and GPC, is expected to be tax free to the companies’ respective shareholders.

Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the “HSR Act”), and related HSR Act rules, the Merger may not be completed until the parties have filed notification and report forms with the U.S. Federal Trade Commission (“FTC”) and observed a specified statutory waiting period. The parties made their respective filings with the FTC under the HSR Act on May 2, 2018. On June 1, 2018, the FTC extended the waiting period by requesting additional information from the parties (a “Second Request”). The effect of the Second Request is to extend the waiting period imposed by the HSR Act until 11:59 p.m. (Eastern Time in the U.S.) on the 30th day after certification of substantial compliance by the parties with such request unless that period is extended voluntarily by the parties or terminated sooner by the FTC.

The issuance of shares by ESND in connection with the transaction requires approval by ESND’s stockholders and is subject to customary closing conditions, including the HSR Act waiting period. The transaction is expected to close before the end of 2018. If the Merger Agreement is terminated under certain circumstances, ESND may be required to pay GPC a termination fee of \$12 million or may under other circumstances be required to reimburse GPC up to \$3 million for certain expenses in connection with the merger.

The Company expects to incur significant integration and transaction costs in connection with the transactions during the remainder of 2018.

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### **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act. Forward-looking statements often contain words such as "expects," "anticipates," "estimates," "intends," "plans," "believes," "seeks," "will," "is likely to," "scheduled," "positioned to," "continue," "forecast," "predicting," "projection," "potential" or similar expressions. Forward-looking statements include references to goals, plans, strategies, objectives, projected costs or savings, anticipated future performance, results or events and other statements that are not strictly historical in nature. These forward-looking statements are based on management's current expectations, forecasts and assumptions. This means they involve a number of risks and uncertainties that could cause actual results to differ materially from those expressed or implied here. These risks and uncertainties include, without limitation, those set forth in Item 1A. "Risk Factors" in the Company's Annual Report on Form 10-K for the year-ended December 31, 2017 (the "2017 Form 10-K").

Readers should not place undue reliance on forward-looking statements contained in this Quarterly Report on Form 10-Q. The forward-looking information herein is given as of this date only, and the Company undertakes no obligation to revise or update it.

#### **Company Overview**

Essendant Inc. is a leading national distributor of workplace items, with 2017 net sales of \$5.0 billion. The Company provides access to a broad assortment of over 170,000 items including janitorial, foodservice and breakroom supplies (JanSan), technology products, traditional office products, industrial supplies, cut sheet paper products, automotive products and office furniture. Essendant serves a diverse group of approximately 29,000 reseller customers. They include resellers in the independent reseller channel, including: office and workplace, facilities and maintenance, technology, military, automotive aftermarket, healthcare, other vertical suppliers and industrial resellers; the national reseller channel; and the e-commerce channel.

The Company is focused on three strategic drivers:

#### 1) Improve efficiency across the distribution network and reduce the cost base

- Redesign inbound freight logistics through inbound freight consolidation centers in select locations that will reduce costs across the supply chain and improve distribution center efficiency
- Optimize the distribution network footprint with sales volumes to streamline costs while maintaining high service levels
- Reduce operating expenses by implementing targeted cost improvements

#### 2) Accelerate sales performance in key channels

- Partner with independent resellers who are well positioned to grow
- Align resources around channels and independent resellers that provide growth opportunities, including JanSan distributors, vertical markets, industrial, e-commerce and automotive

#### 3) Advance supplier partnerships that leverage Essendant's network and capabilities

- Collaborate with suppliers to develop successful market strategies utilizing Essendant's nationwide distribution network, drop-ship capabilities, and next-day delivery proposition
- Deepen insights by leveraging advanced digital analytics
- Continue to refine the Company's product assortment and evolve the preferred supplier program

#### **Key Trends and Recent Results**

Net sales declined by 0.5% in the second quarter of 2018 and by 1.4% in the first six months of 2018 compared to the second quarter and year to date period of 2017, respectively, due to declines in the national reseller channel. Profitability in the quarter and year to date periods have been adversely impacted by higher freight costs, sales mix and lower supplier allowances.

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### Actions impacting comparability of results (the “Actions”)

#### 2018 Actions

- Restructuring plan (credits)/charges of (\$0.5) million and \$56.3 million in the three and six months ended June 30, 2018, respectively, which includes product assortment refinements, facility consolidation and workforce reductions, incurred to advance the Company’s strategic drivers by reducing its cost base, aligning organizational infrastructure and leadership with the Company’s growth channels to drive sales, and providing capacity to invest in products with preferred suppliers and in growth categories. Product assortment refinements represent charges incurred to write-down inventory the Company has chosen to discontinue to the expected realizable value. The Company expects the restructuring program and other initiatives to reduce costs and reach run-rate annual savings of more than \$50 million by 2020, with more than half achieved in 2018. Refer to Note 4 – “Severance and Restructuring Charges” for further details.
- Transformational expenses associated with the implementation of strategic drivers to improve the value of the business in the three and six months ended June 30, 2018, totaled \$9.9 million and \$14.1 million, respectively. These expenses, which result from the changing strategies of the Company, included potential merger, acquisition and equity investment transaction fees, consulting fees and other activities for which the Company has had significant investment.

#### 2017 Actions

- Goodwill impairment charge in the six months ended June 30, 2017 of \$198.8 million as a result of sustained share price declines.
- An accrual related to ongoing TCPA litigation and the settlement of an employee-related matter in the three and six months ended June 30, 2017 of \$3.0 million and \$9.0 million, respectively. Refer to Note 13 – “Legal Matters” for further details.
- Transformational expenses in the three and six months ended June 30, 2017, totaled \$5.4 million and \$8.4 million, respectively.

### Second Quarter Results

- Loss per share for the second quarter of 2018 was \$(0.00) compared to net income per share of \$0.14 in the prior year quarter, including the impacts of the Actions discussed above. Adjusted diluted earnings per share were \$0.16 in the quarter, compared to \$0.28 in the prior year quarter. Included within Adjusted operating expenses in the current quarter was a \$5.1 million, or \$0.09 per share, reduction in a receivables reserve for one customer. Refer to the Adjusted Gross Profit, Adjusted Operating Expenses, Adjusted Operating Income, Adjusted Net Income, Adjusted Earnings Per Share, Adjusted EBITDA and Free Cash Flow table (the “Non-GAAP table”) included later in this section for more detail.
- Second quarter net sales decreased 0.5% or \$6.4 million from the prior year quarter to \$1.3 billion.
- Gross margin as a percentage of net sales in the second quarter of 2018 was 13.8% versus 14.1% in the prior year quarter. Gross margin for the second quarter of 2018 was \$173.2 million, compared to \$177.6 million in the second quarter of 2017, including the impact of the Actions discussed above. Adjusted gross margin was \$164.7 million or 13.1% of net sales, compared to \$177.6 million or 14.1% in the prior year quarter.
- Operating expenses in the second quarter of 2018 were \$164.6 million or 13.1% of net sales, compared with \$161.0 million or 12.8% of net sales in the prior year quarter, including impacts of the Actions. Adjusted operating expenses in the second quarter of 2018 were \$146.7 million or 11.7% of net sales compared to \$152.5 million or 12.1% of net sales in the prior year quarter. Included within Adjusted operating expenses in the current quarter was the reversal of a \$5.1 million, or \$0.09 per share, reduction in a receivables reserve for one customer.
- Operating income for the quarter ended June 30, 2018 was \$8.6 million or 0.7% of net sales, compared to operating income of \$16.6 million or 1.3% of net sales in the prior year quarter, including impacts of the Actions discussed above. Excluding the Actions, adjusted operating income in the second quarter of 2018 was \$17.9 million or 1.4% of net sales, compared to \$25.0 million or 2.0% of net sales in the second quarter of 2017.
- Cash flow for the first six months of 2018 was \$2.9 million. Operating cash flow in the first six months included \$4.5 million in transaction costs related to the S.P. Richards merger. Investing cash flow reflects \$19 million of investment in the independent reseller channel during the second quarter. Free cash flow totaled \$37.2 million in the second quarter of 2018 and \$7.9 million in the first six months of 2018.

For a further discussion of selected trends, events or uncertainties the Company believes may have a significant impact on its future performance, readers should refer to “Key Trends and Recent Results” under Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the 2017 Form 10-K.

### **Critical Accounting Policies, Judgments and Estimates**

In the second quarter of 2018, there were no significant changes to the Company’s critical accounting policies, judgments or estimates from those disclosed in the 2017 Form 10-K other than those noted below.

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### *Revenue Recognition*

During the quarter ended March 31, 2018, the Company adopted the provisions of ASC 606. Refer to Note 2 – “Revenue Recognition” for a description of the immaterial impact of the adoption on the Company’s financial statements and accounting policies.

### *Pension and Post-retirement Benefit Plans*

During the quarter ended March 31, 2018, the Company adopted the provisions of ASU 2017-07. Refer to Note 9 – “Pension and Post-Retirement Benefit Plans” for a description of the impact of adoption on the Company’s financial statements and accounting policies.

## **Results of Operations—Three Months Ended June 30, 2018 Compared with the Three Months Ended June 30, 2017**

The following table presents the Condensed Consolidated Statements of Operations results (in thousands):

	<b>For the Three Months Ended June 30,</b>			
	<b>2018</b>		<b>2017 <sup>(1) (2)</sup></b>	
	<b>Amount</b>	<b>% of Net sales</b>	<b>Amount</b>	<b>% of Net sales</b>
Net sales:				
Janitorial, foodservice and breakroom supplies (JanSan products)	\$ 346,305	27.6%	\$ 349,700	27.7%
Technology products	298,801	23.8%	309,689	24.6%
Traditional office products	176,617	14.1%	186,708	14.8%
Industrial supplies	163,031	13.0%	146,104	11.6%
Cut sheet paper products	116,020	9.3%	109,631	8.7%
Automotive products	85,389	6.8%	82,143	6.5%
Office furniture	62,997	5.0%	69,939	5.5%
Other revenues	5,062	0.4%	6,742	0.6%
Total net sales	1,254,222	100.0%	1,260,656	100.0%
Cost of goods sold	1,081,016	86.2%	1,083,092	85.9%
Total gross profit	\$ 173,206	13.8%	\$ 177,564	14.1%
Operating expenses:				
Warehousing, marketing and administrative expenses	156,574	12.5%	160,972	12.8%
Restructuring charges	8,019	0.6%	—	0.0%
Total operating expenses	\$ 164,593	13.1%	\$ 160,972	12.8%
Total operating (loss) income	8,613	0.7%	16,592	1.3%
Interest and other expense, net	8,850	0.7%	7,022	0.5%
Loss (income) before income taxes	(237)	(0.0%)	9,570	0.8%
Income tax (benefit) expense	(140)	(0.0%)	4,474	0.4%
Net (loss) income	\$ (97)	(0.0%)	\$ 5,096	0.4%

- (1) Certain prior period amounts have been reclassified to conform to the current presentation. Such changes include reclassification of specific products to different product categories and the allocation of freight revenue to product categories in accordance with the adoption of ASC 606 (see Note 2 – “Revenue Recognition”). These changes did not impact the Condensed Consolidated Statements of Operations. All percentage presentations described below are based on the reclassified amounts.
- (2) Revised for the adoption of ASU 2017-07 (see Note 9 – “Pension and Post-Retirement Benefit Plans”).

**Net Sales.** Net sales for the quarter ended June 30, 2018 were \$1.3 billion, a 0.5% decrease compared to the quarter ended June 30, 2017. Net sales by key product category for the quarters included the following:

JanSan product sales decreased \$(3.4) million or 1.0% in the second quarter of 2018 compared to the second quarter of 2017. Sales decreased due to declines in the national reseller channel of \$12.0 million and e-commerce declines of \$1.8 million, partially offset by increased independent reseller channel sales of \$10.4 million. As a percentage of total sales, JanSan represented 27.6% in the second quarter of 2018, a decrease from the prior year quarter percentage of total sales of 27.7%.

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Technology product (primarily ink and toner) sales decreased \$(10.9) million or 3.5% from the second quarter of 2017. Sales in this category decreased primarily as a result of declines in the national retail channel of \$16.0 million and e-commerce channel of \$0.6 million, partially offset by increased independent reseller channel sales of \$5.7 million. As a percentage of total sales, technology products represented 23.8% in the second quarter of 2018, a decrease from the prior year quarter percentage of total sales of 24.6%.

Traditional office product sales decreased \$(10.1) million or 5.4% in the second quarter of 2018 compared to the second quarter of 2017. Sales in this category decreased due to reductions in the national reseller channel of \$8.0 million, e-commerce declines of \$2.7 million, partially offset by independent reseller channel increases of \$0.6 million. As a percentage of total sales, traditional office products represented 14.1% in the second quarter of 2018, a decrease from the prior year quarter percentage of total sales of 14.8%.

Industrial supplies sales increased \$16.9 million or 11.6% in the second quarter of 2018 compared to the second quarter of 2017. This increase was driven by growth in the retail channel of \$10.4 million, the general industrial channel of \$5.2 million and the international channel of \$1.3 million. As a percentage of total sales, industrial supplies represented 13.0% in the second quarter of 2018, an increase from the prior year quarter percentage of total sales of 11.6%.

Cut sheet paper product sales increased \$6.5 million or 5.8% in the second quarter of 2018 compared to the second quarter of 2017. The increase in this category was primarily driven by increased independent reseller channel sales of \$5.0 million and e-commerce sales growth of \$1.9 million, partially offset by national reseller channel sales declines of \$0.6 million. As a percentage of total sales, cut sheet paper represented 9.3% in the second quarter of 2018, which increased from the prior year quarter percentage of total sales of 8.7%.

Automotive product sales increased \$3.2 million or 4.0% in the second quarter of 2018 compared to the second quarter of 2017. The increase in this category was primarily driven by strength in the auto parts channel. As a percentage of total sales, automotive products represented 6.8% in the second quarter of 2018, which increased from the prior year quarter percentage of total sales of 6.5%.

Office furniture sales decreased \$(6.9) million or 9.9% in the second quarter of 2018 compared to the second quarter of 2017. This decrease was primarily the result of declines in sales to the national reseller channel of \$7.9 million and e-commerce declines of \$0.3 million, partially offset by independent reseller channel sales increases of \$1.2 million. As a percentage of total sales, office furniture represented 5.0% in the second quarter of 2018, which decreased from the prior year quarter percentage of total sales of 5.5%.

**Gross Profit and Gross Margin Rate.** Gross profit for the second quarter of 2018 was \$173.2 million, compared to \$177.6 million in the second quarter of 2017. Gross profit as a percentage of net sales (the gross margin rate) of 13.8% decreased 28 basis points (bps) from the prior-year quarter gross margin rate of 14.1% primarily due to increased freight expenses (59 bps) and lower product margin (18 bps) resulting from lower supplier allowances and sales mix, partially offset by a reduction in the reserve established in the first quarter of 2018 related to refining the Company's product assortment (68 bps) due to better recovery rates than previously estimated. Adjusted gross profit was \$164.7 million, or 13.1%, a decrease of (\$12.9) million or (96 bps) from the prior year quarter principally due to increased freight expenses and lower product margin resulting from lower supplier allowances and sales mix.

**Operating Expenses.** Operating expenses for the second quarter of 2018 were \$164.6 million or 13.1% of net sales, compared to \$161.0 million or 12.8% of net sales in the prior year. The \$3.6 million increase was primarily driven by restructuring expenses of \$8.0 million and increased transformational costs of \$4.4 million compared to the prior quarter, partially offset by a \$5.1 million reduction in a receivables reserve for one customer and a comparative decline of \$3.0 million from 2017 litigation accruals as compared to the prior year quarter. Adjusted operating expenses were \$146.7 million, a decrease of \$5.8 million from the prior year quarter due to the receivables reserve reduction.

**Interest and Other Expense, net.** Interest and Other expense, net for the second quarter of 2018 was \$8.9 million compared to \$7.0 million in the second quarter of 2017. This increase was primarily driven by higher interest rates as compared to the prior year quarter.

**Income Taxes.** Income tax benefit was \$0.1 million for the second quarter of 2018, compared to expense of \$4.5 million for the same period in 2017. The Company's effective tax rate was 59.2% for the current-year quarter compared to 46.8% for the same period in 2017. The effective income tax rate in 2018 was most impacted by the pre-tax loss being offset by non-deductible or permanent items in the quarter while the most significant factor impacting the effective tax rate for the three months ended June 30, 2017 was the impact of the adoption of new accounting guidance related to the tax effects of share-based compensation.

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**Net Loss.** Net loss for the second quarter of 2018 was \$(0.1) million or \$(0.00) per share, compared to net income of \$5.1 million or \$0.14 per share in the prior year quarter. Adjusted net income was \$6.1 million, or \$0.16 per diluted share, compared with adjusted net income of \$10.3 million or \$0.28 per diluted share for the prior year quarter. Included within Adjusted operating expenses in the current quarter was the reversal of a \$5.1 million, or \$0.09 per share, reduction in a receivables reserve for one customer.

### Results of Operations—Six Months Ended June 30, 2018 Compared with the Six Months Ended June 30, 2017

The following table presents the Condensed Consolidated Statements of Operations results (in thousands):

	For the Six Months Ended June 30,			
	2018		2017 <sup>(1) (2)</sup>	
	Amount	% of Revenue	Amount	% of Revenue
<b>Net sales:</b>				
Janitorial, foodservice and breakroom supplies (JanSan products)	\$ 674,809	27.1%	\$ 695,127	27.5%
Technology products	613,621	24.6%	626,900	24.8%
Traditional office products	355,568	14.3%	384,740	15.2%
Industrial supplies	318,241	12.8%	293,303	11.6%
Cut sheet paper products	235,587	9.4%	215,795	8.5%
Automotive products	166,381	6.7%	160,949	6.4%
Office furniture	121,798	4.9%	142,027	5.6%
Other revenues	8,373	0.2%	11,198	0.4%
Total net sales	2,494,378	100.0%	2,530,038	100.0%
Cost of goods sold	2,199,996	88.2%	2,166,807	85.6%
Total gross profit	\$ 294,382	11.8%	\$ 363,231	14.4%
<b>Operating expenses:</b>				
Warehousing, marketing and administrative expenses	322,119	12.9%	333,270	13.2%
Restructuring charges	22,080	0.9%	—	0.0%
Impairment of goodwill	—	0.0%	198,828	7.9%
Total operating expenses	\$ 344,199	13.8%	\$ 532,098	21.1%
Total operating loss	(49,817)	(2.0%)	(168,867)	-6.7%
Interest and other expense, net	17,072	0.7%	14,485	0.5%
Loss before income taxes	(66,889)	(2.7%)	(183,352)	-7.2%
Income tax (benefit) expense	(15,352)	(0.6%)	146	0.1%
Net loss	\$ (51,537)	(2.1%)	\$ (183,498)	-7.3%

- (1) Certain prior period amounts have been reclassified to conform to the current presentation. Such changes include reclassification of specific products to different product categories and the allocation of freight revenue to product categories in accordance with the adoption of ASC 606 (see Note 2 – “Revenue Recognition”). These changes did not impact the Condensed Consolidated Statements of Operations. All percentage presentations described below are based on the reclassified amounts.
- (2) Revised for the adoption of ASU 2017-07 (see Note 9 – “Pension and Post-Retirement Benefit Plans”).

**Net Sales.** Net sales for the six-month period ended June 30, 2018 were \$2.5 billion, a 1.4% decrease from \$2.5 billion in sales during the six-month period ended June 30, 2017. Net sales by key product category for the period included the following:

JanSan product sales decreased \$20.3 million or 2.9% in the first six months of 2018 compared to the first six months of 2017. Sales decreased due to declines in the national reseller channel of \$33.9 million and e-commerce declines of \$2.0 million, partially offset by increased independent reseller channel sales of \$15.4 million. As a percentage of total sales, JanSan represented 27.1% in the first six months of 2018, a decrease from the prior year percentage of total sales of 27.5%.

Technology product (primarily ink and toner) sales decreased \$13.3 million or 2.1% from the first six months of 2017. Sales in this category decreased primarily as a result of declines in the national retail channel of \$34.8 million and e-commerce channel of \$0.7 million, partially offset by increased independent reseller channel sales of \$22.2 million. As a percentage of total sales, technology products represented 24.6% in the first six months of 2018, an increase from the prior year percentage of total sales of 24.8%.

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Traditional office product sales decreased \$29.2 million or 7.6% in the first six months of 2018 compared to the same period in 2017. Sales in this category decreased due to reductions in the national reseller channel of \$19.2 million, e-commerce declines of \$6.2 million and independent reseller channel declines of \$3.8 million. As a percentage of total sales, traditional office products represented 14.3% in the first six months of 2018, a decrease from the prior year percentage of total sales of 15.2%.

Industrial supplies sales increased \$24.9 million or 8.5% in the first six months of 2018 compared to the first six months of 2017. This increase was driven by growth in the retail channel of \$13.6 million, general industrial channel of \$8.0 million and the international channel of \$3.4 million. As a percentage of total sales, industrial supplies represented 12.8% in the first six months of 2018, an increase from the prior year percentage of total sales of 11.6%.

Cut sheet paper product sales increased \$19.8 million or 9.2% in the first six months of 2018 compared to the same period in 2017. The increase in this category was primarily driven by increased independent reseller channel sales of \$17.5 million and e-commerce sales growth of \$3.6 million, partially offset by national reseller channel sales declines of \$1.3 million. As a percentage of total sales, cut sheet paper represented 9.4% in the first six months of 2017, which increased from the prior year percentage of total sales of 8.5%.

Automotive product sales increased \$5.4 million or 3.4% in the first six months of 2018 compared to the first six months of 2017. The increase in this category was driven by strength in the mobile dealer channel, auto parts channel and International channel. As a percentage of total sales, automotive products represented 6.7% in the first six months of 2018, which increased from the prior year percentage of total sales of 6.4%.

Office furniture sales decreased \$20.2 million or 14.2% in the first six months of 2018 compared to the same period in 2017. This decrease was primarily the result of declines in sales to the national reseller channel of \$16.3 million, the independent reseller channel of \$2.1 million and e-commerce declines of \$1.8 million. As a percentage of total sales, office furniture represented 4.9% in the first six months of 2018, which decreased from the prior year percentage of total sales of 5.6%.

**Gross Profit and Gross Margin Rate.** Gross profit for the first six months of 2018 was \$294.4 million, compared to \$363.2 million in the same period in 2017. Gross profit as a percentage of net sales (the gross margin rate) of 11.8% decreased 256 bps from the prior-year period gross margin rate of 14.4% primarily due to the reserve related to refining the Company's product assortment (139 bps), decline in product margin (67 bps) due to lower sales and lower supplier allowances resulting from inventory purchase mix and timing, and increased freight costs (40 bps). Adjusted gross profit was \$328.7 million, or 13.2%, a decrease of \$34.6 million or 118 bps from the prior year period principally due to product margin due to lower sales and lower supplier allowances resulting from inventory purchase mix and timing and increased freight costs.

**Operating Expenses.** Operating expenses for the first six months of 2018 were \$344.2 million or 13.8% of net sales, compared to \$532.1 million or 21.1% of net sales in the prior year. The \$187.9 million decrease was primarily driven by prior year goodwill impairment of \$198.8 million, prior year litigation reserves of \$9.0 million and a 2018 reduction of \$5.1 million in a receivables reserve for one customer, partially offset by 2018 restructuring expenses of \$22.6 million and increased transformational costs of \$5.7 million. Adjusted operating expenses were \$308.1 million, a decrease of \$7.7 million from the prior year period primarily due to the receivables reserve reduction.

**Interest and Other Expense, net.** Interest and Other expense, net for the first six months of 2018 was \$17.1 million compared to \$14.5 million in the same period in 2017. This increase was primarily driven by higher interest rates as compared to the prior year.

**Income Taxes.** Income tax benefit was \$15.4 million for the first six months of 2018, compared to \$0.1 million of expense for the same period in 2017. The Company's effective tax rate was 23.0% for the current-year period compared to (0.1)% for the same period in 2017. The effective income tax rate in 2018 was most impacted by the pre-tax loss being offset by non-deductible or permanent items in the quarter while the most significant factor impacting the effective tax rate for the six months ended June 30, 2017 was the discrete impact of the goodwill impairment charge in the period.

**Net Loss.** Net loss for the first six months of 2018 was \$(51.5) million or \$(1.40) per share, compared to net loss of \$(183.5) million or \$(5.01) per share in the prior year period. Adjusted net income was \$1.8 million, or \$0.05 per diluted share, compared with adjusted net income of \$19.5 million or \$0.53 per diluted share for the prior year period. Included within Adjusted operating expenses in the current quarter was a \$5.1 million, or \$0.07, per share, reduction in a receivables reserve for one customer.

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### **Cash Flows**

Cash flows for the Company for the six-month periods ended June 30, 2018 and 2017 are summarized below (in thousands):

	<u>Six months ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Net cash provided by operating activities	\$ 23,678	\$ 125,811
Net cash used in investing activities	(34,730)	(13,677)
Net cash provided by (used in) financing activities	14,201	(109,759)

#### *Operating Activities*

For the six-month period ended June 30, 2018, net cash from operating activities was principally the result of decreased inventory, due to product assortment refinement charges, increased accounts payable and increased accrued liabilities, partially offset by the net loss, increased accounts receivable and increases in other assets.

#### *Investing Activities*

Investing cash outflows were primarily driven by investment of \$19.0 million in the independent reseller channel in the six-month period ended June 30, 2018, refer to Note 14 – “Independent reseller channel investments.” Gross capital spending for the six-month period ended June 30, 2018 and 2017 was \$16.0 million and \$13.7 million, respectively, which was used for various investments in fleet equipment, information technology systems, technology hardware, and distribution center equipment including facility projects.

#### *Financing Activities*

The Company’s cash flow from financing activities is largely dependent on levels of borrowing under the Company’s credit agreement and quarterly dividend payments.

In May 2018, the Board of Directors approved a dividend of \$0.14 that was paid on July 13, 2018 to shareholders of record as of June 15, 2018.

In July 2018, the Board of Directors approved a dividend of \$0.14 to be paid on October 15, 2018 to shareholders of record as of September 14, 2018.

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### Liquidity and Capital Resources

Essendant's growth has historically been funded by a combination of cash provided by operating activities and debt financing. The Company believes that its cash from operations and collections of receivables, coupled with its sources of borrowings and available cash on hand, are sufficient to fund its currently anticipated requirements. These requirements include payments of interest and dividends, scheduled debt repayments, capital expenditures, working capital needs, the funding of pension plans, and funding for additional share repurchases and acquisitions, if any. The Company believes that its sources of borrowings are sound and that the strength of its balance sheet affords the financial flexibility to respond to both internal growth opportunities and those available through acquisitions.

Availability of financing as of June 30, 2018, is summarized below (in millions):

	Aggregated Committed Principal	Borrowing Base Limitation	Total Utilization	Net Availability
<b>2017 Credit Agreement</b>				
Term Loan	\$ 70.0	\$ 70.0	\$ 70.0	\$ —
Revolving Credit Facility <sup>(1)</sup>	1,000.0	849.2	388.6	460.6
First-in-Last-Out ("FILO")	100.0	100.0	98.6	1.4
<b>Total all Funding Sources</b>	<b>\$ 1,170.0</b>	<b>\$ 1,019.2</b>	<b>\$ 557.2</b>	<b>\$ 462.0</b>

- (1) The Fifth Amended and Restated Revolving Credit Agreement, dated as of February 22, 2017, between ESND, ECO, ECO's material United States subsidiaries, JPMorgan Chase Bank, and certain lenders (as amended, the "2017 Credit Agreement") provides for the issuance of letters of credit up to \$50.0 million, plus up to \$165.0 million to be used as collateral for obligations under the Note Purchase Agreement, dated as of November 25, 2013, pursuant to which ECO issued \$150 million of senior secured notes due January 15, 2021 (as amended, the "2013 Note Purchase Agreement"). Letters of credit totaling \$177.0 million were utilized as of June 30, 2018.

The Company's total debt and debt-to-total capitalization ratio consisted of the following amounts (in millions):

	As of June 30, 2018	As of December 31, 2017
<b>2017 Credit Agreement</b>		
Term Loan	\$ 70.0	\$ 73.1
Revolving Credit Facility	211.6	181.3
FILO Facility	98.6	100.0
<b>2013 Note Purchase Agreement</b>	<b>150.0</b>	<b>150.0</b>
Debt	530.2	504.4
Stockholders' equity	439.2	494.9
Total capitalization	\$ 969.4	\$ 999.3
Debt-to-total capitalization ratio	54.7%	50.5%

Refer to Note 11 – "Debt," in the 2017 Form 10-K for further descriptions of the provisions of the Company's financing facilities.

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### **Adjusted Gross Profit, Adjusted Operating Expenses, Adjusted Operating Income, Adjusted Net Income, Adjusted Diluted Earnings Per Share, Adjusted EBITDA and Free Cash Flow (the “Non-GAAP table”)**

The Non-GAAP table below presents Adjusted Gross Profit, Adjusted Operating Expenses, Adjusted Operating Income, Adjusted Net Income, Adjusted Diluted Earnings per Share, Adjusted EBITDA and Free Cash Flow for the three and six months ended June 30, 2018 and 2017 (in thousands, except per share data). These non-GAAP measures exclude certain non-recurring items and exclude other items that do not reflect the Company’s ongoing operations and are included to provide investors with useful information about the financial performance of our business. The presented non-GAAP financial measures should not be considered in isolation or as substitutes for the comparable GAAP financial measures. The non-GAAP financial measures do not reflect all of the amounts associated with our results of operations as determined in accordance with GAAP, and these non-GAAP financial measures should only be used to evaluate our results of operations in conjunction with the corresponding GAAP financial measures.

In order to calculate the non-GAAP measures, management excludes the following items to the extent they occur in the reporting period, to facilitate the comparison of current and prior year results and ongoing operations, as management believes these items do not reflect the underlying cost structure of our business. These items can vary significantly in amount and frequency.

- *Restructuring charges.* Workforce reduction and facility closure charges such as employee termination costs, facility closure and consolidation costs, and other costs directly associated with shifting business strategies or business conditions that are part of a restructuring program.

Restructuring actions were taken in the three and six months ended June 30, 2018 and included product assortment refinements and workforce reductions and facility consolidation (refer to Note 4 – “Severance and Restructuring Charges”).

- *Gain or loss on sale of assets or businesses.* Sales of assets, such as buildings or equipment, and businesses can cause gains or losses. These transactions occur as the Company is repositioning its business and reviewing its cost structure.
- *Severance costs for operating leadership.* Employee termination costs related to members of the Company’s operating leadership team are excluded as they are based upon individual agreements.
- *Asset impairments.* Changes in strategy or macroeconomic events may cause asset impairments.

In the six months ended June 30, 2017, the Company recorded goodwill impairment which resulted from declines in sales, earnings and market capitalization (refer to Note 5 – “Goodwill and Intangible Assets”).

- *Other actions.* Actions, which may be non-recurring events, that result from the changing strategies and needs of the Company and do not reflect the underlying expense of the on-going business.

In the three and six months ended June 30, 2018, these were charges related to transformational expenses, including potential merger, acquisition and equity investment transactions, and a gain reflecting receipt of payment on notes receivable reserved in 2015. In the three and six months ended June 30, 2017, other actions included litigation (refer to Note 13 – “Legal Matters”) and transformational expenses.

**Adjusted Gross Profit, adjusted operating expenses and adjusted operating income.** Adjusted gross profit, adjusted operating expenses and adjusted operating income provide management and our investors with an understanding of the results from the primary operations of our business by excluding the effects of items described above that do not reflect the ordinary expenses and earnings of our operations. Adjusted gross profit, adjusted operating expenses and adjusted operating income are used to evaluate our period-over-period operating performance as they are more comparable measures of our continuing business. These measures may be useful to an investor in evaluating the underlying operating performance of our business.

**Adjusted net income and adjusted diluted earnings per share.** Adjusted net income and adjusted diluted earnings per share provide a more comparable view of our Company’s underlying performance and trends than the comparable GAAP measures. Net (loss) income and diluted (loss) earnings per share are adjusted for the effect of items described above that do not reflect the ordinary earnings of our operations.

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**Adjusted earnings before interest, taxes, depreciation and amortization (EBITDA).** Adjusted EBITDA is helpful in evaluating our operating performance and is used by management for various purposes, including as a measure of performance and as a basis for strategic planning and forecasting. Net (loss) income is adjusted for the effect of interest and other expenses, net, taxes, depreciation and amortization and stock-based compensation expense. Management believes that adjusted EBITDA is also commonly used by investors to evaluate operating performance between competitors because it helps reduce variability caused by differences in capital structures, income taxes, stock-based compensation accounting policies, and depreciation and amortization policies.

**Free cash flow.** Free cash flow is useful to management and our investors as it is a measure of the Company's liquidity. It provides a more complete understanding of factors and trends affecting our cash flows than the comparable GAAP measure. Net cash provided by operating activities and net cash used in investing activities are aggregated and adjusted to exclude acquisitions and equity investments, net of cash acquired and divestitures.

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	<b>For the Three Months Ended June 30,</b>	
	<b>2018</b>	<b>2017 <sup>(2)</sup></b>
Gross profit	\$ 173,206	\$ 177,564
Restructuring charges—product assortment refinements	(8,554)	—
Adjusted gross profit	<u>\$ 164,652</u>	<u>\$ 177,564</u>
Operating expenses	\$ 164,593	\$ 160,972
Restructuring charges (Note 4)	(8,019)	—
Transformational expenses	(9,854)	(5,444)
Litigation reserve (Note 13)	—	(3,000)
Adjusted operating expenses	<u>\$ 146,720</u>	<u>\$ 152,528</u>
Operating income	\$ 8,613	\$ 16,592
Gross profit and operating expense adjustments noted above	9,319	8,444
Adjusted operating income	<u>\$ 17,932</u>	<u>\$ 25,036</u>
Net (loss) income	\$ (97)	\$ 5,096
Gross profit and operating expense adjustments noted above	9,319	8,444
Non-GAAP tax provision on adjustments		
Product assortment refinements	2,870	—
Restructuring charges (Note 4)	(2,690)	—
Transformational expenses	(3,306)	(2,085)
Litigation reserve (Note 13)	—	(1,164)
Income tax provision on adjusted net loss	(3,126)	(3,249)
Adjusted net income	<u>\$ 6,095</u>	<u>\$ 10,291</u>
Diluted (loss) income per share <sup>(1)</sup>	\$ —	\$ 0.14
Gross profit and operating expense adjustments noted above	0.25	0.23
Non-GAAP tax provision on adjustments	(0.09)	(0.09)
Adjusted diluted earnings per share	<u>\$ 0.16</u>	<u>\$ 0.28</u>
Net (loss) income	\$ (97)	\$ 5,096
Income tax (benefit) expense	(140)	4,474
Interest and other expense, net	8,850	7,022
Depreciation and amortization	10,591	10,569
Equity compensation expense	2,411	1,570
Gross profit and operating expense adjustments noted above	9,319	8,444
Adjusted earnings before interest, taxes, depreciation and amortization (EBITDA)	<u>\$ 30,934</u>	<u>\$ 37,174</u>
Net cash provided by operating activities	\$ 45,103	\$ 72,786
Net cash used in investing activities	\$ (26,938)	\$ (5,365)
Add: Investment in independent reseller channel (Note 14) <sup>(3)</sup>	19,000	—
Free cash flow	<u>\$ 37,165</u>	<u>\$ 67,421</u>

- (1) Per share amounts for the three months ended June 30, 2018 under GAAP reflect basic earnings per share due to the net loss. The adjusted diluted earnings per share is based on diluted shares outstanding.
- (2) Revised for the impact of the adoption of a new pension accounting pronouncement.
- (3) The Company invested \$19 million during the second quarter in the independent reseller channel as part of its strategic driver to accelerate sales performance in key channels. The Company's share of earnings and losses of the Company's investees is reflected in the Condensed Consolidated Statement of Operations and investments are included in the Condensed Consolidated Balance Sheet.

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	<b>For the Six Months Ended June 30,</b>	
	<b>2018</b>	<b>2017 <sup>(2)</sup></b>
Gross profit	\$ 294,382	\$ 363,231
Restructuring charges—product assortment refinements	34,269	—
Adjusted gross profit	<u>\$ 328,651</u>	<u>\$ 363,231</u>
Operating expenses	\$ 344,199	\$ 532,098
Restructuring charges (Note 4)	(22,080)	—
Transformational expenses	(14,084)	(8,395)
Payment on notes receivable	110	—
Impairment of goodwill (Note 5)	—	(198,828)
Litigation reserve (Note 12)	—	(9,000)
Adjusted operating expenses	<u>\$ 308,145</u>	<u>\$ 315,875</u>
Operating loss	\$ (49,817)	\$ (168,867)
Gross profit and operating expense adjustments noted above	70,323	216,223
Adjusted operating income	<u>\$ 20,506</u>	<u>\$ 47,356</u>
Net loss	\$ (51,537)	\$ (183,498)
Gross profit and operating expense adjustments noted above	70,323	216,223
Non-GAAP tax provision on adjustments		
Product assortment refinements	(6,864)	—
Restructuring charges (Note 4)	(5,886)	—
Transformational expenses	(4,267)	(3,203)
Payment on notes receivable	25	—
Impairment of goodwill (Note 5)	—	(6,559)
Litigation reserve (Note 13)	—	(3,488)
Income tax provision on adjusted net loss	(16,992)	(13,250)
Adjusted net income	<u>\$ 1,794</u>	<u>\$ 19,475</u>
Diluted loss per share <sup>(1)</sup>	\$ (1.38)	\$ (4.97)
Gross profit and operating expense adjustments noted above	1.88	5.86
Non-GAAP tax provision on adjustments	(0.45)	(0.36)
Adjusted diluted (loss) earnings per share	<u>\$ 0.05</u>	<u>\$ 0.53</u>
Net loss	\$ (51,537)	\$ (183,498)
Income tax (benefit) expense	(15,352)	146
Interest and other expense, net	17,072	14,485
Depreciation and amortization	21,389	21,534
Equity compensation expense	4,441	4,038
Gross profit and operating expense adjustments noted above	70,323	216,223
Adjusted earnings before interest, taxes, depreciation and amortization (EBITDA)	<u>\$ 46,336</u>	<u>\$ 72,928</u>
Net cash provided by operating activities	\$ 23,678	\$ 125,811
Net cash used in investing activities	\$ (34,730)	\$ (13,677)
Add: Investment in independent reseller channel (Note 14) <sup>(3)</sup>	19,000	—
Free cash flow	<u>\$ 7,948</u>	<u>\$ 112,134</u>

- (1) Diluted loss per share for the six months ended June 30, 2018 and 2017 under GAAP reflect basic earnings per share due to the net loss. The adjusted diluted earnings per share is based on diluted shares outstanding.
- (2) Revised for the impact of the adoption of a new pension accounting pronouncement.
- (3) The Company invested \$19 million during the second quarter in the independent reseller channel as part of its strategic driver to accelerate sales performance in key channels. The Company's share of earnings and losses of the Company's investees is reflected in the Condensed Consolidated Statement of Operations and investments are included in the Condensed Consolidated Balance Sheet.

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### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

The Company is subject to market risk associated principally with changes in interest rates and foreign currency exchange rates. There were no material changes to the Company's exposures to market risk during the quarter ended June 30, 2018, from those disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

### **ITEM 4. CONTROLS AND PROCEDURES.**

#### *Evaluation of Disclosure Controls and Procedures*

We maintain disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon this evaluation, the principal executive officer and the principal financial officer concluded that our disclosure controls and procedures are effective in providing reasonable assurance that material information required to be disclosed in our reports filed with or submitted to the Securities and Exchange Commission under the Securities Exchange Act is made known to management, including the principal executive officer and the principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

#### *Changes in Internal Control over Financial Reporting*

During the quarter ended June 30, 2018, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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### PART II – OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS.

For information regarding legal proceedings, see Note 13 – “Legal Matters.”

#### ITEM 1A. RISK FACTORS.

For information regarding risk factors, see “Risk Factors” in Item 1A of Part I of the 2017 Form 10-K. There have been no material changes to the risk factors described in such Form 10-K, except for the following.

#### **RISKS RELATED TO ESSENDANT’S PLANNED MERGER WITH GPC’S SPR BUSINESS**

On April 12, 2018, Essendant announced it entered into a definitive agreement with Genuine Parts Company (“GPC”) pursuant to which Essendant will combine with GPC’s Business Products Group (collectively, the “SPR Business”) in a business combination transaction, pursuant to the Agreement and Plan of Merger (as amended, the “Merger Agreement”) dated as of April 12, 2018, by and among GPC, Rhino SpinCo, Inc., a Delaware corporation and wholly owned subsidiary of GPC (“SpinCo”), ESND and Elephant Merger Sub Corp., a Delaware corporation and wholly owned subsidiary of ESND (“Merger Sub”). In connection with the Merger Agreement, GPC and SpinCo entered into a Separation Agreement dated as of April 12, 2018 (the “Separation Agreement”), pursuant to which the SPR Business will be separated from GPC. In the transactions contemplated by the Merger Agreement and the Separation Agreement, (i) GPC will transfer certain of its wholly owned subsidiaries that are engaged in the SPR Business to SpinCo, (ii) GPC will distribute SpinCo’s stock to GPC’s stockholders by way of a pro rata dividend (the “Distribution”), and (iii) Merger Sub will merge with and into SpinCo, with SpinCo as the surviving corporation (the “Merger” and, together with the Distribution, the “Transactions”) and a wholly owned subsidiary of ESND.

We have identified the following additional risks related to the Transactions:

#### ***Essendant may not realize the anticipated cost synergies and growth opportunities from the Transactions.***

Essendant expects that it will realize cost synergies, growth opportunities and other financial and operating benefits as a result of the Transactions. Essendant’s success in realizing these benefits, and the timing of their realization, depends on the successful integration of the business operations of the SPR Business with Essendant. Even if Essendant is able to integrate the SPR Business successfully, Essendant cannot predict with certainty if or when these cost synergies, growth opportunities and benefits will occur, or the extent to which they will actually be achieved. For example, the benefits from the Transactions may be offset by costs incurred in integrating the companies. Realization of any benefits and synergies could be affected by the factors described in other risk factors and a number of factors beyond Essendant’s control, including, without limitation, general economic conditions, further consolidation in the industries in which Essendant operates, increased operating costs and regulatory developments.

#### ***The integration of the SPR Business with Essendant following the Transactions may present significant challenges.***

There is a significant degree of difficulty inherent in the process of integrating the SPR Business with Essendant. These difficulties include:

- the integration of the SPR Business including its employees, customers, and suppliers, with Essendant while carrying on the ongoing operations of all businesses;
- managing a significantly larger company than before the consummation of the Transactions;
- coordinating geographically separate organizations;
- integrating the business cultures of each of the SPR Business and Essendant, which may prove to be incompatible;
- creating uniform standards, controls, procedures, policies and information systems and controlling the costs associated with such matters; and
- the potential difficulty in retaining key officers and personnel of Essendant and SpinCo.

The process of integrating operations could cause an interruption of, or loss of momentum in, the activities of the SPR Business or Essendant’s business. Members of Essendant’s or the SPR Business’ senior management may be required to devote considerable amounts of time to this integration process, which will decrease the time they will have to manage Essendant or the SPR Business, serve the existing Essendant business or the SPR Business, or develop new services or strategies. If Essendant’s or the SPR Business’ senior management is not able to effectively manage the integration process, or if any significant business activities are interrupted as a result of the integration process, the business of Essendant or the SPR Business could suffer.

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Essendant's successful or cost-effective integration of the SPR Business cannot be assured. The failure to do so could have a material adverse effect on Essendant's business, financial condition or results of operations after the Transactions.

***Essendant and GPC may fail to obtain the required regulatory approvals in connection with the Merger in a timely fashion, if at all, or regulators may impose burdensome conditions.***

Essendant and GPC are subject to certain antitrust and competition laws, and the proposed Merger is subject to review and approval by regulators under those laws, including review and approval by the Federal Trade Commission ("FTC"). Although Essendant and GPC have agreed to use reasonable best efforts to obtain the requisite approvals, there can be no assurance that these regulatory approvals will be obtained. The parties made their respective filings with the FTC under the Hart-Scott-Rodino Antitrust Improvements Acts of 1976 ("HSR Act") on May 2, 2018. On June 1, 2018, the FTC extended the waiting period by requesting additional information from the parties (a "Second Request"). The effect of the Second Request is to extend the waiting period imposed by the HSR Act until 11:59 p.m. (Eastern Time in the U.S.) on the 30th day after certification of substantial compliance by the parties with such request unless that period is extended voluntarily by the parties or terminated sooner by the FTC.

The parties' requirement to substantially comply with the Second Request or receive certain federal regulatory approvals before the consummation of the Transactions could delay the completion of the Transactions. An extended delay in the completion of the Transactions could diminish the anticipated benefits of the Transactions or result in additional transaction costs, loss of revenue or other effects associated with uncertainty about the Transactions. In addition, these governmental entities may attempt to condition their approval of the Transactions on the imposition of conditions, terms, obligations or restrictions that could have a material adverse effect on the Transactions themselves or Essendant's businesses after the Transactions, including, but not limited to, Essendant's operating results or the value of its common stock. If Essendant agrees to any material conditions, terms, obligations or restrictions in order to obtain any approvals required to complete the Transactions, the business, financial condition or results of operations of the combined company may be adversely affected.

***Failure to complete the Transactions could adversely impact the market price of Essendant common stock as well as its business and operating results.***

The consummation of the Transactions is subject to numerous conditions, including without limitation: (i) the separation of the SPR Business from the other businesses of GPC (the "Separation") having taken place in accordance with the Separation Agreement; (ii) approval of the issuance of our common stock in connection with the Merger Agreement by the requisite vote of Essendant's stockholders; and (iii) expiration of the applicable waiting period under the HSR Act. There is no assurance that these conditions will be met and that the Transactions will be consummated.

If the Transactions are not completed for any reason, the price of Essendant common stock may decline to the extent that the market price of Essendant common stock reflects positive market assumptions that the Transactions will be completed and the related benefits will be realized. In addition, Essendant and GPC have expended and will continue to expend significant management time and resources and have incurred and will continue to incur significant expenses due to legal, advisory, printing and financial services fees related to the Transactions. A substantial portion of these expenses must be paid regardless of whether the Transactions are consummated. Even if the Transactions are completed, delay in the completion of the Transactions could diminish the anticipated benefits of the Transactions or result in additional transaction expenses, loss of revenue or other effects associated with uncertainty about the Transactions. If the Transactions are not consummated because the Merger Agreement is terminated, Essendant may be required under certain circumstances to pay GPC a \$12 million termination fee or may under other circumstances be required to reimburse GPC for up to \$3 million for certain expenses in connection with the Transactions.

***The announcement and pendency of the Merger could have an adverse effect on Essendant's stock price or the business, financial condition, results of operations or business prospects of Essendant or the SPR Business.***

The announcement and pendency of the Merger could disrupt Essendant's businesses in negative ways. For example, customers and other third-party business partners of Essendant or the SPR Business may seek to terminate and/or renegotiate their relationships with Essendant or the SPR Business as a result of the Merger, whether pursuant to the terms of their existing agreements with Essendant and/or the SPR Business or otherwise. In addition, current and prospective employees of Essendant and the SPR Business may experience uncertainty regarding their future roles with the combined company, which might adversely affect Essendant's ability to retain, recruit and motivate key personnel. Should they occur, any of these events could adversely affect the stock price of Essendant, or harm the financial condition, results of operations or business prospects of, Essendant or the SPR Business.

***The previously announced unsolicited proposal from Staples, Inc. to acquire Essendant could have an adverse effect on the business, financial condition, results of operations or business prospects of Essendant.***

The previously announced unsolicited proposal from Staples, Inc. to acquire Essendant could disrupt Essendant's businesses in negative ways. For example, customers, suppliers and other partners of Essendant may seek to terminate or reduce their relationships with Essendant as a result of the proposal. In addition, current and prospective employees of Essendant may experience uncertainty regarding their current or potential roles with Essendant, which might adversely affect Essendant's ability to retain, recruit and motivate key personnel. Should they occur, any of these events could adversely affect the financial condition, results of operations or business prospects of Essendant.

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### ***Essendant will incur significant costs related to the Transactions.***

Essendant expects to incur significant one-time costs in connection with the Transactions in 2018, including financing-related fees, legal, accounting and other professional fees and transition and integration-related expenses. While Essendant expects to be able to fund these one-time costs using cash from operations and borrowings under existing and anticipated credit sources, these costs will negatively impact Essendant's liquidity, cash flows and results of operations in the periods in which they are incurred.

### ***Essendant will incur significant debt related to the Transactions.***

Essendant expects to incur new indebtedness in connection with the Transactions, and the degree to which Essendant will be leveraged following completion of the Transactions may have a material adverse effect on Essendant's businesses, financial condition or results of operations and cash flows. On April 12, 2018, Essendant entered into a commitment letter with JPMorgan Chase Bank, N.A. and Citibank, N.A. (collectively, together with all additional commitment parties added to the commitment letters from time to time, the "Commitment Parties") (together with any amendments, supplements and joinders thereto, the "Essendant Commitment Letter") pursuant to which the Commitment Parties have agreed to provide credit facilities to Essendant, the proceeds of which will be used for general corporate purposes, to make any true-up payments required to be made by SpinCo pursuant to the Separation Agreement, to pay certain other fees and expenses and to refinance certain existing indebtedness of Essendant. Also on April 12, 2018, SpinCo entered into a commitment letter with the Commitment Parties (together with any amendments, supplements and joinders thereto the "SpinCo Commitment Letter"; the SpinCo Commitment Letter and the Essendant Commitment Letter are referred to herein collectively as the "Commitment Letters"), pursuant to which the Commitment Parties have agreed to provide a term loan credit facility to SpinCo, the proceeds of which will finance the Internal Reorganization Cash Payments and certain fees and expenses related to the Transactions. Essendant's ability to make payments on and to refinance its indebtedness, including the debt incurred pursuant to the Transactions, as well as any future debt that Essendant may incur, will depend on, among other things, Essendant's ability to generate cash in the future from operations, financings or asset sales. Essendant's ability to generate cash is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond Essendant's control. If Essendant is not able to repay or refinance its debt as it becomes due, Essendant may be forced to sell assets or take other disadvantageous actions, including (i) reducing financing in the future for working capital, capital expenditures and general corporate purposes or (ii) dedicating an unsustainable level of Essendant's cash flow from operations to the payment of principal and interest on Essendant's indebtedness. In addition, Essendant's ability to withstand competitive pressures and react to changes in Essendant's industry could be impaired. The lenders who hold such debt also could accelerate amounts due in the event Essendant were to default, which could potentially trigger a default or acceleration of any of Essendant's other debt. In addition, Essendant may increase its debt or raise additional capital following the Transactions, subject to restrictions in Essendant's debt agreements and agreements entered into in connection with the Transactions. If Essendant's cash flow from operations is less than it anticipates, or if Essendant's cash requirements are more than it expects, Essendant may require more financing. However, debt or equity financing may not be available to Essendant on terms advantageous or acceptable to Essendant, if at all. If Essendant incurs additional debt or raises equity through the issuance of preferred stock, the terms of the debt or preferred stock issued may give the holders rights, preferences and privileges senior to those of holders of Essendant's common stock, particularly in the event of liquidation. The terms of the debt or preferred stock also may impose additional and more stringent restrictions on Essendant's operations than it currently has. If Essendant raises funds through the issuance of additional equity, Essendant stockholders' percentage ownership in Essendant would be diluted. If Essendant is unable to raise additional capital when needed, it could affect Essendant's financial condition.

### ***Essendant's rights plan and certain anti-takeover provisions contained in Essendant's certificate of incorporation, Essendant's bylaws and under Delaware law could hinder a takeover attempt.***

On May 17, 2018, the Essendant Board of Directors adopted a stockholder rights plan, as subsequently amended on May 29, 2018, between Essendant and Equiniti Trust Company, as rights agent (the "Rights Plan"). Pursuant to the Rights Plan, one preferred stock purchase right (a "Right") was distributed as a dividend on each share of Essendant common stock held of record as of the close of business on May 27, 2018. Each Right entitles Essendant stockholders to purchase a unit representing one one-thousandth of a share of Series A Junior Participating Preferred Stock for \$33.00, subject to adjustment.

The Rights generally will be exercisable only if a person or group acquires beneficial ownership (including through derivatives) of 10% or more (or 15% or more for a person or group reporting beneficial ownership on Schedule 13G) of Essendant common stock or commences a tender or exchange offer upon consummation of which such person or group would beneficially own 10% or more of Essendant common stock. The Rights expire on May 17, 2019, unless earlier redeemed, exchanged or terminated.

Although the Essendant Board of Directors believes that, given current circumstances, it is in the best interests of stockholders that no one person or group acquire undue influence or control through purchases of Essendant stock, the Rights Plan could have the effect of delaying, deferring or preventing a change in control. For example, such provisions may deter tender offers for shares of common

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stock or exchangeable shares, which offers may be attractive to stockholders, or deter purchases of large blocks of common stock or exchangeable shares, thereby limiting the opportunity for stockholders to receive a premium for their shares of common stock or exchangeable shares over the then-prevailing market prices.

Essendant is subject to the provisions of Section 203 of the Delaware General Corporation Law prohibiting, under some circumstances, publicly-held Delaware corporations from engaging in business combinations with certain interested stockholders unless certain approvals are obtained. Such provisions could delay or impede the removal of incumbent directors and could make more difficult a merger, tender offer or proxy contest involving Essendant, even if such events could be beneficial, in the short-term, to the interests of the stockholders. In addition, such provisions could limit the price that some investors might be willing to pay in the future for shares of Essendant common stock. Additionally, Essendant's certificate of incorporation and bylaws contain provisions relating to the limitations of liability and indemnification of Essendant's directors and officers and dividing its board of directors into three classes of directors serving three-year terms. These provisions also may have the effect of deterring hostile takeovers or delaying changes in control or management of Essendant.

### ***The Transactions may discourage other companies from trying to acquire Essendant before or for a period of time following completion of the Transactions.***

Certain provisions in the Merger Agreement prohibit Essendant from soliciting any acquisition proposal during the pendency of the Merger. If the Merger Agreement is terminated under circumstances that obligate Essendant to pay GPC a termination fee, Essendant's financial condition will be adversely affected as a result of the payment of the termination fee, which might deter third parties from proposing alternative acquisition proposals, including acquisition proposals that might result in greater value to Essendant stockholders than the Transactions. In addition, certain provisions of the tax matters agreement entered into between Essendant, SpinCo and GPC, which are intended to preserve the intended tax treatment of certain aspects of the Transactions for U.S. federal income tax purposes, may discourage acquisition proposals for a period of time following the Transactions. Essendant expects to issue approximately 40.2 million shares of its common stock in connection with the Merger. Consequently, Essendant will be a significantly larger company and have significantly more shares of common stock outstanding after the consummation of the Transactions, and an acquisition of Essendant may become more expensive. As a result, some companies that would otherwise consider acquiring Essendant may not seek to do so.

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**Table of Contents****ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

- (a) Not applicable.
- (b) Not applicable.
- (c) Common Stock Purchases.

The Company did not repurchase any shares of common stock in the three months ended June 30, 2018 and 2017. The Company did not repurchase any additional shares through July 26, 2018. As of that date, the Company had approximately \$68.2 million remaining of existing share repurchase authorization from the Board of Directors.

<u>2018 Fiscal Month</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of a Publicly Announced Program</u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program</u>
April 1, 2018 to April 30, 2018	—	—	—	68,160,702
May 1, 2018 to May 31, 2018	—	—	—	68,160,702
June 1, 2018 to June 30, 2018	—	—	—	68,160,702
Total Second Quarter	—	\$ —	—	\$ 68,160,702

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### ITEM 6. EXHIBITS

#### (a) Exhibits

This Quarterly Report on Form 10-Q includes as exhibits certain documents that the Company has previously filed with the SEC. Such previously filed documents are incorporated herein by reference from the respective filings indicated in parentheses at the end of the exhibit descriptions (all made under the Company's file number of 0-10653). Each of the management contracts and compensatory plans or arrangements included below as an exhibit is identified as such by a double asterisk at the end of the related exhibit description.

<u>Exhibit No.</u>	<u>Description</u>
3.1	<a href="#"><u>Third Restated Certificate of Incorporation of Essendant Inc. ("ESND" or the "Company"), dated as of June 1, 2015 (Exhibit 3.1 to the Form 10-Q, filed on July 23, 2015)</u></a>
3.2	<a href="#"><u>Amended and Restated Bylaws of Essendant Inc., dated as of December 13, 2016 (Exhibit 3.1 to the Company's Current Report on Form 8-K, filed on December 16, 2016)</u></a>
3.3	<a href="#"><u>Certificate of Elimination of Series A. Junior Preferred Stock of ESND (Exhibit 3.1 to the Company's Current Report on Form 8-K filed on May 17, 2018)</u></a>
3.4	<a href="#"><u>Certificate of Designation, preferences and Rights of Series A. Junior Participating Preferred Stock of ESND (Exhibit 3.2 to the Company's Current Report on Form 8-K filed on May 17, 2018)</u></a>
4.1	<a href="#"><u>Note Purchase Agreement, dated as of November 25, 2013, among ESND, Essendant Co. (ECO), and the note purchasers identified therein (the "2013 Note Purchase Agreement") (Exhibit 4.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013, filed on February 19, 2014 (the "2013 Form 10-K"))</u></a>
4.2	<a href="#"><u>Amendment No. 1 to Note Purchase Agreement, dated as of January 27, 2016, among ECO, ESND and the holders of Notes issued by the Company that are parties thereto (Exhibit 4.2 to the Form 10-Q, filed on April 20, 2016)</u></a>
4.3	<a href="#"><u>Amendment No. 2 to Note Purchase Agreement, dated as of August 30, 2016, among ESND, ECO, and the note purchasers identified therein (Exhibit 10.7 to the Company's Form 10-Q filed on October 26, 2016)</u></a>
4.4	<a href="#"><u>Amendment No 3 to Note Purchase Agreement, dated as of February 9, 2017, among ESND, ECO and the note purchasers identified therein (Exhibit 10.2 to the Form 10-Q filed on April 27, 2017)</u></a>
4.5	<a href="#"><u>Amendment No 4 to Note Purchase Agreement, dated as of February 22, 2017, among ESND, ECO and the note purchasers identified therein (Exhibit 10.3 to the Form 10-Q filed on April 27, 2017)</u></a>
4.6	<a href="#"><u>Parent Guaranty, dated as of November 25, 2013, by ESND in favor of the holders of the promissory notes identified therein (Exhibit 4.5 to the 2013 Form 10-K)</u></a>
4.7	<a href="#"><u>Subsidiary Guaranty, dated as of November 25, 2013, by all of the domestic subsidiaries of ECO (Exhibit 4.6 to the 2013 Form 10-K)</u></a>
4.8	<a href="#"><u>Rights Agreement, dated as of May 17, 2018, between ESND and Equinity Trust Company, as rights agent (Exhibit 4.1 to the Company's Current Report on Form 8-K filed on May 17, 2018)</u></a>
10.1*	Form of Cash Unit Award Agreement for Non-Employee Directors**
10.2*	Form of Cash Unit Award Agreement**
10.3*	Form of Restricted Stock Unit Award Agreement**
10.4*	Form of Restricted Stock Unit Award Agreement for Non-Employee Directors**
10.5*	Form of Restricted Stock Award Agreement for Non-Employee Directors**
31.1*	Certification of Chief Executive Officer, dated as of August 9, 2018, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer, dated as of August 9, 2018, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer and Chief Financial Officer, dated as of August 9, 2018, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101*	The following financial information from Essendant Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2018, filed with the SEC on August 9, 2018, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheet at June 30, 2018 and December 31, 2017; (ii) the Condensed Consolidated Statement of Loss for the three- and six-month periods ended June 30, 2018 and 2017; (iii) the Condensed Consolidated Statements of Comprehensive Loss for the three- and six-month periods ended June 30, 2018 and 2017; (iv) the Condensed Consolidated Statement of Cash Flows for the six-month periods ended June 30, 2018 and 2017; and (v) Notes to Condensed Consolidated Financial Statements.

\* Filed herewith

\*\* Represents a management contract or compensatory plan or arrangement

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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.

ESSENDANT INC.

(Registrant)

Date: August 9, 2018

/s/ Janet Zelenka

Janet Zelenka

Senior Vice President and Chief Financial Officer

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