UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED 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: 000-24385

SCHOOL SPECIALTY, INC.
(Exact name of Registrant as specified in its charter)

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (check one):

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

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

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

The aggregate market value of the Registrant's common stock held by non-affiliates as of June 30, 2017 was $77,217,446.

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

Class	Outstanding at August 7, 2018
Common Stock, $0.001 par value	**7,000,000**

SCHOOL SPECIALTY, INC.

INDEX TO FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2018

		Page Number
PART I - FINANCIAL INFORMATION		
ITEM 1.	CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS	
	Condensed Consolidated Balance Sheets at June 30, 2018, December 30, 2017 and July 1, 2017	1
	Condensed Consolidated Statements of Operations for the Three Months and Six Months Ended June 30, 2018 and July 1, 2017	2
	Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three Months and Six Months Ended June 30, 2018 and July 1, 2017	3
	Condensed Consolidated Statements of Cash Flows for Six Months Ended June 30, 2018 and July 1, 2017	4
	Notes to Condensed Consolidated Financial Statements	5
ITEM 2.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	30
ITEM 3.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	37
ITEM 4.	CONTROLS AND PROCEDURES	37
PART II - OTHER INFORMATION		
ITEM 6.	EXHIBITS	38

Table of Contents

PART I - FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Unaudited Financial Statements

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

	June 30, 2018	December 30, 2017	July 1, 2017
ASSETS			
Current assets:			
Cash and cash equivalents	$ 8,640	$ 31,861	$ 6,900
Accounts receivable, less allowance for doubtful accounts of $1,310, $1,059, and $1,136, respectively	90,470	69,297	87,461
Inventories, net	131,761	77,162	124,906
Deferred catalog costs	—	3,450	6,762
Prepaid expenses and other current assets	21,154	14,121	11,145
Refundable income taxes	2,115	547	1,325
Total current assets	254,140	196,438	238,499
Property, plant and equipment, net	32,063	33,579	32,180
Goodwill	26,842	26,842	21,588
Intangible assets, net	35,184	37,163	33,247
Development costs and other	16,191	16,339	12,600
Deferred income taxes long-term	8,347	2,046	193
Total assets	$ 372,767	$ 312,407	$ 338,307
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Current maturities—long-term debt	$ 64,600	$ 10,989	$ 46,882
Accounts payable	61,894	26,591	59,125
Accrued compensation	8,209	11,995	9,173
Contract liabilities	5,804	3,454	2,808
Accrued royalties	1,998	5,699	—
Other accrued liabilities	12,265	15,442	12,547
Total current liabilities	154,770	74,170	130,535
Long-term debt—less current maturities	130,437	130,574	124,849
Other liabilities	792	172	169
Total liabilities	285,999	204,916	255,553
Commitments and contingencies—Note 16			
Stockholders' equity:			
Preferred stock, $0.001 par value per share, 500,000 shares authorized; none outstanding	—	—	—
Common stock, $0.001 par value per share, 50,000,000 shares authorized; 7,000,000 shares outstanding	7	7	7
Capital in excess of par value	124,149	123,083	121,940
Accumulated other comprehensive loss	(1,832)	(1,425)	(1,600)
Accumulated deficit	(35,556)	(14,174)	(37,593)
Total stockholders' equity	86,768	107,491	82,754
Total liabilities and stockholders' equity	$ 372,767	$ 312,407	$ 338,307

See accompanying notes to condensed consolidated financial statements.

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

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Revenues	$ 169,272	$ 160,177	$ 268,559	$ 257,288
Cost of revenues	110,528	99,682	173,694	162,269
Gross profit	58,744	60,495	94,865	95,019
Selling, general and administrative expenses	53,808	51,721	110,946	99,189
Facility exit costs and restructuring	171	44	482	217
Operating income (loss)	4,765	8,730	(16,563)	(4,387)
Other expense (income):				
Interest expense	3,688	4,197	7,194	8,247
Loss on early extinguishment of debt	—	4,298	—	4,298
Income (loss) before provision for (benefit from) income taxes	1,077	235	(23,757)	(16,932)
Provision for (benefit from) income taxes	1,059	99	(5,097)	(292)
Net income (loss)	$ 18	$ 136	$ (18,660)	$ (16,640)
Weighted average shares outstanding:				
Basic EPS	7,000	7,000	7,000	7,000
Diluted EPS	7,129	7,077	7,000	7,000
Net loss per Share:				
Basic	$ 0.00	$ 0.02	$ (2.67)	$ (2.38)
Diluted	$ 0.00	$ 0.02	$ (2.67)	$ (2.38)

See accompanying notes to condensed consolidated financial statements.

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

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Net income (loss)	$ 18	$ 136	$ (18,660)	$ (16,640)
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	(171)	139	(407)	184
Total comprehensive income (loss)	$ (153)	$ 275	$ (19,067)	$ (16,456)

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

	For the Six Months Ended	
	June 30, 2018	July 1, 2017
Cash flows from operating activities:		
Net loss	$ (18,660)	$ (16,640)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and intangible asset amortization expense	9,393	6,473
Amortization of development costs	2,687	2,283
(Gain) on disposal of assets	(20)	—
Amortization of debt fees and other	541	797
Loss on early extinguishment of debt	—	4,298
Unrealized foreign exchange (gain) loss	69	(30)
Share-based compensation expense	1,066	1,091
Deferred taxes	(5,355)	(7)
Non-cash interest expense	1,170	1,921
Changes in current assets and liabilities:		
Accounts receivable	(21,261)	(25,665)
Inventories	(56,071)	(51,254)
Deferred catalog costs	—	(1,526)
Prepaid expenses and other current assets	(6,850)	233
Accounts payable	35,118	37,141
Accrued liabilities	(7,744)	(5,353)
Net cash used by operating activities	(65,917)	(46,238)
Cash flows from investing activities:		
Additions to property, plant and equipment	(5,978)	(8,167)
Investment in product development costs	(2,650)	(1,050)
Proceeds from sale of assets	100	—
Net cash used in investing activities	(8,528)	(9,217)
Cash flows from financing activities:		
Proceeds from bank borrowings	117,228	220,485
Repayment of debt and capital leases	(65,166)	(189,267)
Earnout payment for acquisition	(625)	—
Payment of debt fees and other	—	(4,009)
Net cash provided in financing activities	51,437	27,209
Effect of exchange rate changes on cash	(213)	49
Net decrease in cash and cash equivalents	(23,221)	(28,197)
Cash and cash equivalents, beginning of period	31,861	35,097
Cash and cash equivalents, end of period	$ 8,640	$ 6,900
Supplemental disclosures of cash flow information:		
Interest paid	$ 5,483	$ 5,529
Income taxes paid, net	$ 1,245	$ 244

See accompanying notes to condensed consolidated financial statements.

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

NOTE 1 – BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (which are normal and recurring in nature unless otherwise noted) considered necessary for a fair presentation have been included. The balance sheet at December 30, 2017 has been derived from School Specialty, Inc.'s ("School Specialty" or the "Company") audited financial statements for the period ended December 30, 2017. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Form 10-K for the period ended December 30, 2017.

NOTE 2 – INCREASED AUTHORIZED SHARES AND STOCK-SPLIT

At the Special Meeting of Stockholders of School Specialty, Inc. (the "Company") held on August 15, 2017, the Company's stockholders voted on a proposal to approve the proposed amendment to the Company's Amended and Restated Certificate of Incorporation, as amended, to increase the number of authorized shares of common stock, par value $0.001 per share, of the Company ("Common Stock") from 2,000 to 50,000 shares (the "Amendment") for the purpose of, among other things, effecting a seven-for-one stock split of the Common Stock as part of the Amendment. Our condensed consolidated financial statements, related notes, and other financial data contained in this report have been adjusted to give retroactive effect to the increased authorization and stock split for all periods presented.

NOTE 3 – RECENT ACCOUNTING PRONOUNCEMENTS

In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-07, "*Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting."* ASU 2018-07 simplifies the accounting for non-employee stock based compensation. Specifically, stock based compensation to non-employees is now measured on the grant date by estimating the fair value of the equity compensation to be issued. Entities should remeasure non-employee stock based compensation only for those not settled as of the measurement date through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. The amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2018, including interim periods within those annual periods, and early adoption is permitted for interim or annual periods, but no earlier than the entity's adoption date of Topic 606. The adoption is not expected to have a material impact on the consolidated financial statements.

In February 2018, the FASB issued Accounting Standards Update ASU No. 2018-02, *"Income Statement – Reporting Comprehensive Income: Reclassification of Certain Tax Effect from Accumulated Other Comprehensive Income."* ASU 2018-02 permits a company to reclassify the income tax effects of the U.S. Tax Cuts and Jobs Act of 2017 (the "Tax Act") on items within accumulated other comprehensive income or loss (AOCI-L) to retained earnings. Because most items that are charged to AOCI-L are recorded net of applicable income taxes, the subsequent reclassification of these items from AOCI-L to the statement of operations will be at different income tax rates due to the Tax Act, thereby leaving a "stranded" tax balance within AOCI-L. ASU 2018-02 will allow a company to transfer these "stranded" amounts from AOCI-L to retained earnings. ASU 2018-02 will be effective for the Company at the beginning of fiscal 2019, with early adoption permitted. The adoption is not expected to have a material impact on the consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, *"Compensation—Stock Compensation: Scope of Modification Accounting."* ASU 2017-09 amends the scope of modification accounting for share-based payment arrangements. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. The amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2017, including interim periods within those annual periods, and early adoption is permitted for interim or annual periods. The adoption did not have a material impact on the consolidated financial statements.

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

In February 2016, the FASB issued ASU No. 2016-02, "*Leases.*" ASU No. 2016-02 requires lessees to recognize the assets and liabilities arising from leases on the balance sheet. The new guidance requires that all leases create an asset and a liability for the lessee in accordance with FASB Concepts Statement No. 6, Elements of Financial Statements. This guidance will be effective for periods beginning after December 15, 2018. The Company is currently in the process of evaluating the impact of adoption of this ASU on the Company's consolidated financial statements.

NOTE 4 – CHANGE IN ACCOUNTING PRINCIPLE

In the first quarter of 2018, the Company adopted ASU No. 2014-09, *"Revenue from Contracts with Customers."* ASU No. 2014-09 provides guidance for revenue recognition. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. The guidance within this standard must be applied using either of the following transition methods: (1) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients; or (2) a modified retrospective approach with the cumulative effect of initially adopting the standard recognized at the date of adoption (which requires additional footnote disclosures). The Company chose to adopt ASC 606 using the modified retrospective approach applied to contracts not completed as of the date of adoption. We recognized the cumulative effect of initially applying the new revenue standard, net of tax, as an increase of $2,722 to the opening balance of accumulated deficit. The comparative financial information has not been restated and continues to be reported under the accounting standards in effect for that period. We do not expect the adoption of the new revenue standard to have a material impact on our net income on an ongoing basis.

Revenue is recognized upon the satisfaction of performance obligations, which occurs when control of the good or service transfers to the customer. Approximately 98% of the Company's consolidated revenues are related to the sale of products. Under our standard contracts or purchase orders received from customers, the only performance obligation is the shipment of products. Revenue for products is recognized and the customer is invoiced when the control of the product transfers to the customer, which is generally when the product is shipped. The Company determines the time at which transfer and control of products has passed to its customers, and the time at which it is able to invoice the customers, based on review of contracts, sales agreements and purchase orders. Payment terms are generally established to be 30 days from the shipment date. We generally determine standalone selling prices based on the prices charged to customers for all material performance obligations.

The Company provides its customers an implicit right of return for full or partial refund. Prior to the adjustment for ASC 606 the Company reflected the right of return in accounts receivable. Under ASC 606 the Company has reclassified this right of return from accounts receivable into a combination of a refund liability, included within other accrued liabilities for the gross return or credit, and other current assets for the assumed value of the returned product.

Variable consideration is accounted for as a price adjustment (sales adjustment). Examples of variable consideration that affect the Company's reported revenue include implicit rights of return and trade promotions. *Implicit rights of return* are typically contractually limited, amounts are estimable based upon historic return levels, and the Company records provisions for anticipated returns at the time revenue is recognized. *Trade promotions* are offered to cooperatives and end users through various programs, generally with terms of one year or less. Such promotions typically involve rebates based on annual purchases. Payment of incentives generally take the form of cash and are paid according to the terms of their agreement, typically within a year. Rebates are accrued as sales occur based on the program rebate rates.

Amounts billed to customers for shipping and handling are included in revenues when control of the goods and services transfers to the customer. Shipping and handling is arranged with third party carriers in connection with delivering good to customers. Amounts billed to customers for sales tax are not included in revenues.

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

The Company typically does not have contracts with significant financing components as payments are generally received within 60 days from the time of completion of the performance obligations. Cost incurred to obtain contracts are settled within 12 months of contract inception. Our accounting policy under ASC 606 remains consistent with past accounting policy whereby such costs are expensed as incurred.

In the analysis of the revenue streams, the Company identified two revenue streams for which the timing of revenue recognition would change.

1) Furniture revenue associated with projects was previously recognized upon the completion of the project, or at customer acceptance. Under ASC 606, the Company has determined that is has two performance obligations within the project revenue stream: a) the delivery of equipment or furniture and b) the installation of the equipment or the furniture. For furniture associated with projects, the Company determined that control of the furniture was transferred to the customer upon delivery of the furniture to the customer site as the customer is in possession of the product at that time. The revenue attributable to the performance obligation associated with the delivery of the equipment is accelerated under the new revenue recognition standard and recognized upon delivery. The revenue attributable to installation is recognized over time during the installation process based on costs incurred relative to total expected installation costs. Under the contract terms the customer is not billed for the equipment or furniture or installation until the installation is complete. The Company allocates revenues to these two performance obligations using a cost plus margin approach, whereby gross margins are consistent for each component. The revenue associated with unsatisfied performance obligations for furniture is related to installation. The installation is typically completed and the associated revenue is recognized within approximately 90 days following the delivery of the equipment or furniture. The impact of this change in the second quarter of fiscal 2018 was the acceleration of the recognition of $5,388 of revenue and $1,144 of gross profit. The cumulative impact of this change year to date during fiscal 2018 was the acceleration of the recognition of $5,928 of revenue and $1,179 of gross profit.

2) Professional development or training days are provided to customers that order certain of the Company's curriculum products, the most prominent of which being the FOSS product line. The Company bills for these training days at the same time the customer is billed for the product based on the stand alone selling price. Prior to the adoption of ASC 606, the Company accrued the estimated costs associated with providing training days, when the product was shipped. After the adoption of ASC 606, the Company is deferring revenue associated with providing training days and will recognize the cost associated with providing the training when the costs are incurred. Training typically is completed and revenue is recognized within six to nine months following the shipment of the product. As the value of the training provided in both the three and six month periods ended June 30, 2018 exceeded the value of training days billed in the respective periods, the adoption of ASC 606 resulted in incremental revenue, gross profit and SG&A in each period. The impact of this change in the second quarter of fiscal 2018 was the recognition of $314 of both revenue and gross profit and SG&A of $175. The cumulative impact of this change year to date during fiscal 2018 was the recognition of $497 of both revenue and gross profit and SG&A of $221.

3) Certain customer contracts specifically indicate that the customer obtains control of the product upon delivery. While the Company's sales orders, invoices and catalog order forms indicate that control of the products has passed to the customer at time of shipment, a review of contracts has identified certain contracts for which the language associated with control of the product is deemed to supercede invoice terms and conditions. In the second quarter of fiscal 2018, this change resulted in the deferral of $1,016 of revenue and $394 of gross profit. The impact of this change as of 2017 year end and the end of the first quarter 2018 was immaterial, due primarily to the Company's seasonality.

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

The Company also evaluated its catalog costs under the new revenue recognition standard and determined that its catalog costs should be treated as costs incurred to obtain contracts. Since catalog costs are incurred regardless of whether specific customer contracts or purchase orders are obtained, catalog costs are now expensed as incurred. Under the prior guidance, the Company capitalized catalog costs and amortized over the period within which revenues attributable to the catalogs were generated, which was generally one year or less. The impact of this change resulted in lower catalog expense in SG&A by $1,697 in the second quarter of fiscal 2018. This reduction reflects the difference between catalog costs incurred during the period and the catalog amortization expense prior to adopting ASC 606. The cumulative impact of this change year to date during fiscal 2018 was the acceleration of the recognition of catalog costs in SG&A of $2,527.

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

The cumulative effect of the changes made to our consolidated condensed balance sheet on December 31, 2017 (the first day of our fiscal 2018) for the adoption of the new revenue standard was as follows:

	Reported as of December 30, 2017	Adjustments Due to ASC 606	As Adjusted December 31, 2017
ASSETS			
Accounts receivable (3)	$ 69,297	$ 458	$ 69,755
Inventories, net	77,162	(1,468)	75,694
Deferred catalog costs	3,450	(3,450)	—
Prepaid expenses and other current assets (1) (3)	14,121	2,043	16,164
Deferred taxes long-term	2,046	947	2,993
Total Assets	312,407	(1,470)	310,937
LIABILITIES			
Contract liabilities (2) (4)	3,454	2,723	6,177
Other accrued liabilities (2) (3)	15,442	(1,471)	13,971
Total Liabilities	204,916	1,252	206,168
STOCKHOLDERS' EQUITY			
Accumulated deficit	$ (14,174)	$ (2,722)	$ (16,896)
Total Stockholders' Equity	107,491	(2,722)	104,769
Total Liabilities and Stockholders' Equity	$ 312,407	$ (1,470)	$ 310,937

(1) Contract assets of $1,750 are included in Prepaid expenses and other current assets above.
(2) Customer rebates of $1,689 have been reclassified from Other accrued liabilities to Contract liabilities.
(3) The reserve for customer returns, refunds and allowances, in the amount of $458, was reclassified as follows: a) The amount associated with refund liabilities, of $755, has been reclassified to Other accrued liabilities; and b) The amount associated with the estimated value of returned product, of $297, has been reclassified to Prepaid expenses and other current assets.
(4) The amounts classified as Deferred revenues in the Company's December 30, 2017 consolidated balance sheets, have been reclassified to Contract liabilities in accordance with ASC 606.

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

The cumulative effect of the adjustments to our June 30, 2018 condensed consolidated statement of operations and condensed consolidated balance sheet for the adoption of ASC 606 were as follows:

	For the Three Months Ended June 30, 2018			For the Six Months Ended June 30, 2018		
	Prior to Adoption of ASC 606	Adjustments Due to ASC 606	As Reported	Prior to Adoption of ASC 606	Adjustments Due to ASC 606	As Reported
Revenues	$ 164,586	$ 4,686	$ 169,272	$ 263,151	$ 5,408	$ 268,559
Cost of revenues	106,906	3,622	110,528	169,567	4,127	173,694
Gross profit	57,680	1,064	58,744	93,584	1,281	94,865
Selling, general and administrative expenses	55,330	(1,522)	53,808	108,198	2,748	110,946
Operating income (loss)	2,179	2,586	4,765	(15,096)	(1,467)	(16,563)
Income (loss) before benefit from income taxes	(1,509)	2,586	1,077	(22,290)	(1,467)	(23,757)
Benefit from (payment of) income taxes	412	647	1,059	(4,730)	(367)	(5,097)
Net income (loss)	$ (1,921)	$ 1,939	$ 18	$ (17,560)	$ (1,100)	$ (18,660)

	June 30, 2018		
	Prior to Adoption of ASC 606	Adjustments Due to ASC 606	As Reported
ASSETS			
Accounts receivable (3)	$ 90,733	$ (263)	$ 90,470
Inventories, net	137,354	(5,593)	131,761
Deferred catalog costs	5,977	(5,977)	—
Prepaid expenses and other current assets (1) (3)	12,907	8,247	21,154
Deferred taxes long-term	7,980	367	8,347
Total Assets	375,986	(3,219)	372,767
LIABILITIES			
Contract liabilities (2)	$ 3,687	$ 2,117	$ 5,804
Other accrued liabilities (2) (3)	12,838	(573)	12,265
Total Liabilities	284,455	1,544	285,999
STOCKHOLDERS' EQUITY			
Accumulated deficit	$ (30,793)	$ (4,763)	$ (35,556)
Total Stockholders' Equity	91,531	(4,763)	86,768
Total Liabilities and Stockholders' Equity	$ 375,986	$ (3,219)	$ 372,767

(1) Contract assets of $7,678 are included in Prepaid expenses and other current assets.
(2) Customer rebates of $1,578 have been reclassed from Other accrued liabilities to Contract liabilities.
(3) The reserve for customer returns, refunds and allowances, in the amount of $753, was reclassified as follows: a) The amount associated with refund liabilities, of $1,322, has been reclassified to Other accrued liabilities; and b) The amount associated with the estimated value of returned product, of $569, has been reclassified to Prepaid expenses and other current assets.

The below table shows the Company's disaggregated revenues for the three months and six months ended June 30, 2018 and July 1, 2017.

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

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Distribution revenues by product line:				
Supplies	$ 80,241	$ 76,756	$ 133,673	$ 134,955
Furniture	52,354	42,774	76,305	65,370
Instruction & Intervention	14,337	10,238	26,858	16,420
AV Tech	4,089	4,502	8,366	9,286
Agendas	4,588	6,476	4,834	6,746
Freight Revenue	2,581	2,454	4,387	3,993
Customer Allowances / Discounts	(2,415)	(1,856)	(4,028)	(3,473)
Total Distribution Segment	$ 155,775	$ 141,344	$ 250,395	$ 233,297
Curriculum revenues by product line:				
Science	$ 13,497	$ 18,833	$ 18,164	$ 23,991
Total Curriculum Segment	$ 13,497	$ 18,833	$ 18,164	$ 23,991
Total revenues	$ 169,272	$ 160,177	$ 268,559	$ 257,288

Revenues from the sale of products comprise the significant portion of revenues in all product categories in the above table. The product revenues associated with the above disaggregated revenues are recorded when control of goods or services are transferred to the customer. The Furniture category includes installation revenues that are recorded over time as installation services are incurred. The Instruction & Intervention category includes subscription revenues which are recognized over the subscription period, typically twelve months. All product categories are impacted by school budget funding.

The Company had a contract liability balance of $6,177 as of December 31, 2017, after the cumulative effects related to the adoption of ASC 606. During the six months ended June 30, 2018, the Company recognized into revenues $4,684, which had been included in the contract liability balance as of December 31, 2017.

NOTE 5 – BUSINESS COMBINATIONS

On August 18, 2017, the Company completed the acquisition of the assets of Triumph Learning, LLC (“Triumph Learning”) pursuant to the terms of an Asset Purchase Agreement dated August 18, 2017 (the “Purchase Agreement”) by and among School Specialty and Triumph Learning, LLC, a Delaware limited liability company. School Specialty acquired all the assets of Triumph Learning for $20,376 plus the assumption of certain liabilities. At closing, $18,114 of the total purchase price was paid using the Company’s existing debt facilities (see Note 12 – Debt). The Company drew $14,000 from the delayed draw term loan feature of its New Term Loan (as defined in Note 12) and drew $4,114 from its ABL Facility (as defined in Note 12) to fund this portion of the purchase price. In November 2017, the Company paid $912 as a final working capital adjustment, which was funded through the Company’s ABL Facility. The remaining purchase price in excess of the cash paid at closing represents the discounted fair value of the contingent portion of the purchase price. The contingent portion of the purchase price is 4.5% of net Triumph Learning revenues from certain Triumph Learning products over the period August 18, 2017 through December 18, 2018, subject to a maximum consideration of $1.5 million. The contingent portion of the purchase price is scheduled to be paid quarterly over the above-mentioned period, and $343 of this contingent obligation was paid in the first quarter ended March 31, 2018 and $282 was paid in the second quarter ended June 30, 2018. The maximum present value of the contingent portion of the purchase price is $1,350. The Company accounted for this acquisition as a business combination in accordance with ASC 805.

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

Triumph Learning is a publisher of state-specific assessment preparation, and supplemental and intervention curriculum products for the K-12 education market. For over 25 years, Triumph Learning's flagship product, Coach, has been utilized throughout education, providing educational facilities and teachers with hands-on test preparation books for English and Language Arts (ELA), Math, Science and Social Studies, with materials customized to state-specific best practices, along with a comprehensive series of supplemental and intervention resources for Math, ELA and Science. Solutions are delivered through multiple platforms, including both print and digital, as well as through third-party platforms and applications. Triumph Learning's products are complementary to School Specialty's current offering and others that it intends to bring to market, as it expands its product offering in the Instruction & Intervention category. There are also significant potential synergies beyond the product offering as the Company anticipates the acquisition will result in a broader and more effective selling organization and an extended customer reach that will enable the Company to deliver a true blended learning solution to its customers.

School Specialty incurred acquisition and integration costs of $1,404 in the first and second quarters of 2018 and $3,203 in the third and fourth quarters of fiscal 2017 related to the Triumph Learning acquisition. These costs included legal, due diligence and integration-related costs and are recorded as SG&A.

The Company engaged a third party to complete a full valuation of the assets, including any identified intangible assets of Triumph Learning. School Specialty's estimates and assumptions are subject to change during the measurement period (up to one year from the acquisition date), as the Company finalizes the valuations of certain liabilities assumed in connection with the acquisition. The table below summarizes the fair value amounts of the $20,376 of net assets acquired.

Accounts receivable	$ 4,409
Inventory	2,307
Prepaids	476
Property, plant & equipment	920
Product Development	4,273
Coach Brand	3,887
Customer Relationships	1,994
Goodwill	5,253
Total assets	$23,519
Accounts payable	$ 2,251
Other accruals	892
Deferred revenue	—
Total liabilities	$ 3,143
Cash paid	$20,376

The unaudited pro forma consolidated results in the following table include the Company's reported results for each respective period and the historical results of Triumph Learning for those periods. The unaudited condensed combined statements of operations for the three and six month periods ended July 30, 2018 and the unaudited pro forma condensed combined statements of operations for the three months and six months ended July 1, 2017 give effect to the acquisition of Triumph Learning as if it had occurred at the beginning of the periods presented.

Anticipated synergies from the combined operations have not been incorporated into the pro forma results as synergies are preliminary. Net income does reflect the incremental interest expense which would have been incurred if the acquisition had been completed at the beginning of the periods presented.

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

CONDENSED COMBINED STATEMENTS OF OPERATIONS (UNAUDITED)
(In Thousands, Except Per Share Amounts)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Revenues	$ 169,272	$ 165,843	$ 268,559	$ 270,512
Net income (loss)	18	(858)	(18,660)	(17,642)
Weighted average shares outstanding:				
Basic EPS	7,000	7,000	7,000	7,000
Diluted EPS	7,129	7,077	7,000	7,000
Net income per Share:				
Basic	$ 0.00	$ (0.12)	$ (2.67)	$ (2.52)
Diluted	$ 0.00	$ (0.12)	$ (2.67)	$ (2.52)

NOTE 6 – INCOME TAXES

The Company files income tax returns with the U.S., various U.S. states, and foreign jurisdictions. The most significant tax return the Company files is with the U.S. The Company's tax returns are no longer subject to examination by the U.S. for fiscal years before 2015. The Company has various state tax audits and appeals in process at any given time. It is not anticipated that any adjustments resulting from tax examinations or appeals would result in a material change to the Company's financial position or results of operations.

The Company has net operating loss ("NOL") carryforwards of approximately $3,400 for federal and approximately $3,400 for state. The federal NOL begins to expire in 2037. In December 2017, the Tax Act was enacted into law, significantly changing income tax law that affects U.S. corporations. Key changes included a corporate tax rate reduction from 35 percent to 21 percent effective January 1, 2018, expensing of certain qualified property, significant changes to the U.S international tax system such as a one-time transition tax on accumulated foreign earnings, and how foreign earnings are subject to U.S. tax. Due to the timing of the Tax Act and additional guidance and interpretations that may be issued in the future, the Company has not completed its analysis of the effects of the Tax Act as it relates to the one-time transition tax on accumulated foreign earnings. The Company has estimated the impact of the one-time transition tax to be between zero and $1,000. For the period ended December 30, 2017, the Company recorded a tax benefit of $704 associated with the re-measurement of deferred taxes for the corporate rate reduction and a provisional tax provision of zero for the one-time transition tax. The provisional estimates will be adjusted during the measurement period of twelve months from the initial date of the Tax Act, defined under SAB 118, based upon the Company's ongoing analysis of its data and tax positions along with new guidance from regulators and interpretations of the law.

The Company has considered the effect of U.S. Internal Revenue Code ("Code") Section 382 on our ability to utilize existing net operating losses and foreign tax credit carryforwards. Section 382 imposes limits on the amount of tax attributes that can be utilized where there has been an ownership change as defined under the Code. The Company has determined that an ownership change occurred in fiscal 2013 that was subject to Section 382. Due to the application of Section 382, certain federal and state deferred tax attributes, such as foreign tax credits, were subject to future limitation.

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

In the fourth quarter of fiscal 2017, the Company decreased its valuation allowance by approximately $1,700. Based on the Company's trend of positive earnings before tax plus projections of the future earnings before tax we believe it is more likely than not that we will realize the tax benefit associated with $1,700 of net deferred tax assets. As of December 30, 2017, the Company continued to maintain a valuation allowance of $7,263 against its foreign tax credits and capital loss carryovers based on projections that reflect minimal to zero foreign source income and capital gains. The Company previously had concluded that the realization of substantially all its deferred tax assets did not meet the more likely than not threshold and recorded a tax valuation allowance due to the lack of taxable income. As of June 30, 2018, the Company had an immaterial amount of unremitted earnings from foreign investments.

The balance of the Company's liability for unrecognized income tax benefits, net of federal tax benefits, at June 30, 2018, December 30, 2017, and July 1, 2017, was $792, $172, and $169, respectively, all of which would have an impact on the effective tax rate if recognized. The Company does not expect any material changes in the amount of unrecognized tax benefits within the next twelve months. The Company classifies accrued interest and penalties related to unrecognized tax benefits as income tax expense in its consolidated statements of operations. The amounts of accrued interest and penalties included in the liability for uncertain tax positions are not material.

NOTE 7 – STOCKHOLDERS' EQUITY

Changes in condensed consolidated stockholders' equity during the six months ended June 30, 2018 and July 1, 2017, were as follows:

(in thousands)	Common Stock	Capital in Excess of Par Value	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, December 30, 2017	$ 7	$ 123,083	$ (14,174)	$ (1,425)	$ 107,491
Cumulative effect of change in accounting principle (1)	—	—	(2,722)	—	(2,722)
Net loss	—	—	(18,660)	—	(18,660)
Share-based compensation expense	—	1,066	—	—	1,066
Foreign currency translation adjustment	—	—	—	(407)	(407)
Balance, June 30, 2018	$ 7	$ 124,149	$ (35,556)	$ (1,832)	$ 86,768
Balance, December 31, 2016	$ 7	$ 120,849	$ (20,953)	$ (1,784)	$ 98,119
Net loss	—	—	(16,640)	—	(16,640)
Share-based compensation expense	—	1,091	—	—	1,091
Foreign currency translation adjustment	—	—	—	184	184
Balance, July 1, 2017	$ 7	$ 121,940	$ (37,593)	$ (1,600)	$ 82,754

(1) – See Note 4, "Change in Accounting Principle," of the notes to condensed consolidated financial statements for further discussion.

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

NOTE 8 – EARNINGS PER SHARE

Earnings Per Share

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

	Income (loss) (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
Three months ended June 30, 2018:			
Basic EPS	$ 18	7,000	$ 0.00
Effect of dilutive stock options	—	—	
Effect of dilutive restricted stock units	—	129	
Diluted EPS	$ 18	7,129	$ 0.00
Three months ended July 1, 2017:			
Basic EPS	$ 136	7,000	$ 0.02
Effect of dilutive stock options	—	—	
Effect of dilutive restricted stock units	—	77	
Basic and diluted EPS	$ 136	7,077	$ 0.02

	Income (loss) (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
Six months ended June 30, 2018:			
Basic EPS	$ (18,660)	7,000	$ (2.67)
Effect of dilutive stock options	—	—	
Effect of dilutive restricted stock units	—	—	
Basic and diluted EPS	$ (18,660)	7,000	$ (2.67)
Six months ended July 1, 2017:			
Basic EPS	$ (16,640)	7,000	$ (2.38)
Effect of dilutive stock options	—	—	
Effect of dilutive restricted stock units	—	—	
Basic and diluted EPS	$ (16,640)	7,000	$ (2.38)

The Company had weighted average stock options outstanding of 714 for both the three months ended June 30, 2018 and July 1, 2017, which were not included in the computation of diluted EPS because they were anti-dilutive. The Company had weighted average stock options outstanding of 718 and 623 for the six months ended June 30, 2018 and July 1, 2017, respectively, which were not included in the computation of diluted EPS because they were anti-dilutive.

The Company had weighted average restricted stock units outstanding of 214 and 205 for the three and six months ended June 30, 2018, respectively. The Company had weighted average restricted stock units outstanding of 196 for the three and six month periods ended July 1, 2017.

For the three month period ended June 30, 2018 and July 1, 2017, 85 and 128 of the restricted stock units were not included in the computation of diluted EPS because they were anti-dilutive. For the six month periods ended June 30, 2018 and July 1, 2017, no portion of the restricted stock units were not included in the computation of diluted EPS because they were anti-dilutive due to the net loss.

On August 15, 2017, the Company's stockholders approved an increase in the number of authorized shares of School Specialty common stock from 2,000 shares to 50,000 shares, for the purpose of, among other things, effecting a seven-for-one stock split of School Specialty's shares. The stock split became effective on August 23, 2017, and the number of outstanding shares of School Specialty stock increased from 1,000 to 7,000. All previously stated values have been restated to adjust for this seven-for-one stock split.

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

NOTE 9 – SHARE-BASED COMPENSATION EXPENSE

As of June 30, 2018, the Company had one share-based employee compensation plan: the School Specialty, Inc. 2014 Incentive Plan (the "2014 Plan"). The 2014 Plan was adopted by the Board of Directors on April 24, 2014 and approved on September 4, 2014 by the Company's stockholders. On June 12, 2018, the Company's stockholders approved an amendment to the 2014 Plan, which increased the number of share available under the 2014 Plan by an additional 700 shares.

Options

The Compensation Committee of the Board of Directors of the Company ("Compensation Committee") granted 238 stock option awards during the six month period ended July 1, 2017 to members of management including its CEO. The options awarded to the Company's CEO will vest as to one-fourth of the options on the first four anniversaries of the date of the award. The options that were awarded to the other members of management will vest as to one-half of the options on the second anniversary of the date of the award and as to one-fourth of the options on each of the third and fourth anniversaries of the award date. The Company did not grant stock option awards during the three and six month periods ended June 30, 2018.

The fair-value of the options granted in the three month period ended July 1, 2017 was $10.08 per share. The fair value of the options is estimated on the measurement date using the Black-Scholes single option pricing model. The assumptions included a risk-free rate of 1.92%, expected volatility of 59% and an expected term of 6.3 years.

The fair-value of the options granted in the six month period ended July 1, 2017 was $10.14 per share. The fair value of the options is estimated on the measurement date using the Black-Scholes single option pricing model. The assumptions included a risk-free rate of 2.31%, expected volatility of 59% and an expected term of 6.3 years.

A summary of option transactions for the six months ended June 30, 2018 and July 1, 2017 were as follows:

	Options Outstanding		Options Exercisable	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Balance at December 30, 2017	721	$ 18.57	350	$ 18.57
Granted	—			
Exercised	—			
Canceled	(14)	18.57		
Balance at June 30, 2018	707	$ 18.57	433	$ 18.57
Balance at December 31, 2016	497	$ 18.57	224	$ 18.57
Granted	238	18.57		
Exercised	—			
Canceled	(21)	18.57		
Balance at July 1, 2017	714	$ 18.57	315	$ 18.57

The weighted average life remaining of the stock options outstanding as of June 30, 2018 was 6.9 years and as of July 1, 2017 was 7.9 years.

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

Restricted Stock Units

On June 18, 2018, the Compensation Committee granted an aggregate of 109 Restricted Stock Units ("RSUs") under the Company's 2014 Plan to members of the Company's senior management. The RSUs have time-based vesting provisions, with one-third of the RSUs vesting on each March 15 of 2019, 2020 and 2021. In addition, the Compensation Committee granted an aggregate of 15 RSUs under the 2014 Plan to each of the non-employee members of the Board of Directors. The RSUs have time-based vesting provisions, with all of the RSUs vesting on June 18, 2019.

On March 23, 2016, the Compensation Committee of the Board of Directors of the Company granted an aggregate of 196 RSUs under the Company's 2014 Plan to members of the Company's senior management. The RSUs are performance-based. A certain percentage of the RSUs will vest on the third anniversary of the date of grant, with such percentage based on the 15 day Volume Weighted Average Price ("VWAP") of the Company's common stock prior to the vesting date. The percentage of RSUs that will vest shall be determined as follows:

Vesting %	15 Day VWAP
0%	VWAP less than $15.43
20%	VWAP greater than or equal to $15.43, but less than $16.86
40%	VWAP greater than or equal to $16.86, but less than $18.29
60%	VWAP greater than or equal to $18.29, but less than $19.71
80%	VWAP greater than or equal to $19.71, but less than $21.14
100%	VWAP greater than or equal to $21.14

Due to the nature of the vesting conditions of the RSUs, a valuation methodology needed to incorporate potential equity value paths for the Company. As such, the fair value of the RSU grants was determined under a Monte Carlo approach with a simulation of the Company's stock price to a date that is 15 trading days prior to the vesting date. A large number of trials were run under the Monte Carlo approach to ensure an adequate sampling of different potential scenarios was achieved. Based on this approach, the fair value of the RSUs granted on March 23, 2016 was $11.55 per share. Any RSUs that vest will be settled in shares of Company common stock

Stock Appreciation Rights

On May 28, 2014, the Board granted 39 stock appreciation rights ("SARs") to each of the non-employee members of the Board under the 2014 Plan. On September 28, 2015, the Board granted 39 SARs to each of the two new non-employee members of the Board. On January 17, 2018, the Board granted 39 SARs to its new non-employee member of the Board. Each SAR has a grant date value of $18.57 and will be settled in cash upon exercise. As such, the SARs are accounted for as liability awards. As the Company's stock trading price was exceeded each SAR's exercise price as of June 30, 2018, expense of $99 was recorded for the SARs during the three months ended June 30, 2018. The SARs vested as to one-half of the SARs on the second anniversary of the date of grant and vested as to one-fourth of the SARs on each of the third and fourth anniversaries of the date of grant. 39 of the outstanding SARs were exercised by a member of the Board and $31 of expense was recognized. Total SARs that remain outstanding as of June 30, 2018 are 154.

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

The following table presents the share-based compensation expense recognized for the three and six month periods ended June 30, 2018 and July 1, 2017:

	For the Three Months Ended			
	June 30, 2018		July 1, 2017	
	Gross	Net of Tax	Gross	Net of Tax
Stock Options	$ 267	$ 200	$ 322	$ 196
SARs	131	98	—	—
RSUs	227	170	189	115
Total stock-based compensation expense	$ 625		$ 511	

	For the Six Months Ended			
	June 30, 2018		July 1, 2017	
	Gross	Net of Tax	Gross	Net of Tax
Stock Options	$ 651	$ 488	$ 704	$ 430
SARs	131	98	—	—
RSUs	415	311	387	236
Total stock-based compensation expense	$1,197		$1,091	

The stock-based compensation expense is reflected in selling, general and administrative (“SG&A”) expenses in the accompanying consolidated statements of operations. The Company records actual forfeitures in the period the forfeiture occurs. Stock-based compensation expense associated with stock options and RSUs are non-cash expenses which are recorded to additional paid in capital. Stock-based compensation expense associated with SARs must be cash-settled and are recorded to other accrued liabilities until settled.

The total unrecognized share-based compensation expense as of June 30, 2018 and July 1, 2017 was as follows:

	June 30, 2018	July 1, 2017
Stock Options, net of actual forfeitures	$ 1,701	$ 3,335
SARs	55	—
RSUs	2,921	1,378

Table of Contents

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

NOTE 10 – GOODWILL AND OTHER INTANGIBLE ASSETS

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

June 30, 2018	Gross Value	Accumulated Amortization	Net Book Value
Amortizable intangible assets:			
Customer relationships (10-13 years)	$13,294	$ (4,601)	$ 8,693
Publishing rights (20 years)	4,000	(1,017)	2,983
Trademarks (20 years)	26,587	(5,948)	20,639
Developed technology (7 years)	6,600	(4,793)	1,807
Content (5 years)	4,400	(4,400)	—
Perpetual license agreements (5 years)	1,200	(1,200)	—
Favorable leasehold interests (10 years)	2,160	(1,098)	1,062
Total intangible assets	$58,241	$ (23,057)	$35,184

December 30, 2017	Gross Value	Accumulated Amortization	Net Book Value
Amortizable intangible assets:			
Customer relationships (10-13 years)	$13,294	$ (4,067)	$ 9,227
Publishing rights (20 years)	4,000	(917)	3,083
Trademarks (20 years)	26,587	(5,283)	21,304
Developed technology (7 years)	6,600	(4,321)	2,279
Content (5 years)	4,400	(4,400)	—
Perpetual license agreements (5 years)	1,200	(990)	210
Favorable leasehold interests (10 years)	2,160	(1,100)	1,060
Total intangible assets	$58,241	$ (21,078)	$37,163

July 1, 2017	Gross Value	Accumulated Amortization	Net Book Value
Amortizable intangible assets:			
Customer relationships (10-13 years)	$11,300	$ (3,549)	$ 7,751
Publishing rights (20 years)	4,000	(817)	3,183
Trademarks (20 years)	22,700	(4,635)	18,065
Developed technology (7 years)	6,600	(3,850)	2,750
Content (5 years)	4,400	(4,400)	—
Perpetual license agreements (5 years)	1,200	(980)	220
Favorable leasehold interests (10 years)	2,160	(882)	1,278
Total intangible assets	$52,360	$ (19,113)	$33,247

The gross values were determined by valuations performed either as part of fresh start accounting or the acquisition of Triumph Learning. In addition to the intangible assets above, the Company recorded $26,842 of goodwill. This includes $5,253 of goodwill associated with the purchase price allocation for the Triumph Learning acquisition.

Intangible asset amortization expense was including in selling, general and administrative expense. Intangible asset amortization expense for the three month periods ended June 30, 2018 and July 1, 2017, was $979 and $901, respectively. Intangible asset amortization expense for the six month periods ended June 30, 2018 and July 1, 2017, was $1,978 and $1,802, respectively.

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

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

Fiscal 2018 (6 months remaining)	$1,878
Fiscal 2019	3,757
Fiscal 2020	3,207
Fiscal 2021	2,814
Fiscal 2022	2,814
Fiscal 2023	2,688

The table below shows the allocation of the recorded goodwill as of June 30, 2018 for both the reporting units and reporting segments.

	Distribution Segment	Curriculum Segment	Total
Goodwill	$ 22,262	$ 4,580	$26,842
Balance at June 30, 2018	$ 22,262	$ 4,580	$26,842

NOTE 11 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	June 30, 2018	December 30, 2017	July 1, 2017
Projects in progress	$ 2,983	$ 5,186	$ 11,284
Buildings and leasehold improvements	2,971	3,048	3,298
Furniture, fixtures and other	64,828	60,046	49,383
Machinery and warehouse equipment	14,595	13,813	13,155
Total property, plant and equipment	85,377	82,093	77,120
Less: Accumulated depreciation	(53,314)	(48,514)	(44,940)
Net property, plant and equipment	$ 32,063	$ 33,579	$ 32,180

Depreciation expense for the three and six month periods ended June 30, 2018 and July 1, 2017 was $2,955 and $2,425 and $7,414 and $4,671, respectively.

NOTE 12 – DEBT

Long-term debt consisted of the following:

`	June 30, 2018	December 30, 2017	July 1, 2017
ABL Facility, maturing in 2022	$ 61,500	$ —	$ 44,132
New Term Loan, maturing in 2022	112,499	121,938	109,313
Unamortized New Term Loan Debt Issuance Costs	(2,872)	(3,205)	(3,533)
Deferred Cash Payment Obligations, maturing in 2019	23,910	22,830	21,819
Total debt	195,037	141,563	171,731
Less: Current maturities	(64,600)	(10,989)	(46,882)
Total long-term debt	$ 130,437	$ 130,574	$ 124,849

ABL Facility

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

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

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

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

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

In September 2015, the Company amended the ABL Facility. The main purposes for the amendment were to reduce the Applicable Margin for base rate and LIBOR loans, reduce the unused line fee rate and extend the scheduled maturity date. As amended, the maturity date was extended to September 16, 2020, which would have automatically become March 12, 2019 unless the Company's term loan facility had been repaid, refinanced, redeemed, exchanged or amended prior to such date, in the case of any refinancing or amendment, to a date that was at least 90 days after the scheduled maturity date. In addition, the amendment provided for the withdrawal of Sun Trust Bank as a lender and the assumption of its commitments by the remaining lenders.

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

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

The effective interest rate under the ABL Facility for the three months ended June 30, 2018 was 5.33%, which includes interest on borrowings of $455, amortization of loan origination fees of $104 and commitment fees on unborrowed funds of $73. The effective interest rate under the ABL Facility for the three months ended July 1, 2017 was 4.75%, which includes interest on borrowings of $250, amortization of loan origination fees of $104 and commitment fees on unborrowed funds of $83.

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

The effective interest rate under the ABL Facility for the six months ended June 30, 2018 was 6.54%, which includes interest on borrowings of $538, amortization of loan origination fees of $208 and commitment fees on unborrowed funds of $181. As of June 30, 2018, the outstanding balance on the ABL Facility was $61,500. The effective interest rate under the ABL Facility for the six months ended July 1, 2017 was 8.03%, which includes interest on borrowings of $263, amortization of loan origination fees of $299 and commitment fees on unborrowed funds of $199. As of July 1, 2017, the outstanding balance on the ABL Facility was $44,132. The Company has estimated that the fair value of its ABL Facility (valued under level 3) as of June 30, 2018 approximated the carrying value of $61,500.

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

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

Term Loan

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

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

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

The Term Loan Credit Agreement contained customary events of default and financial, affirmative and negative covenants, including but not limited to quarterly financial covenants, relating to the Company's (1) minimum interest coverage ratio and (2) maximum net total leverage ratio and restrictions on indebtedness, liens, investments, asset dispositions and dividends and other restricted payments. The Company was in compliance with the financial covenants of the loan during the period of time in which the loan was outstanding during fiscal 2017.

The Term Loan required the Company to enter into an interest rate hedge, within 90 days of its effective date, in an amount equal to at least 50% of the aggregate principal amount outstanding under the Term Loan. The purpose of the interest rate hedge was to effectively subject a portion of the Term Loan to a fixed or maximum interest rate. As such, the Company entered into an interest rate swap agreement on August 27, 2013 that effectively fixed the interest payments on a portion of the Company's variable-rate debt. The swap, which terminated on September 11, 2016, effectively fixed the LIBOR-based interest rate on the debt in the amount of the notional amount of the swap at 9.985%. The Company did not enter into a subsequent interest rate swap after the termination of the above-mentioned interest rate swap.

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

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

New Term Loan

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

Under the New Term Loan Agreement, the Term Loan Lenders agreed to make a term loan (the "New Term Loan") to the Company in aggregate principal amount of $140,000. The initial draw on the New Term Loan at closing was $110,000. These proceeds, along with proceeds received from a draw on the ABL Facility (as defined below), were used to repay the Term Loan which had a remaining principal balance including accrued interest of $118,167. The New Term Loan Agreement provides for a delayed draw feature that allows the Company to draw up to an additional $30,000 through April 7, 2019. The ability to access the delayed draw commitment is subject to compliance with certain terms and conditions. The proceeds from the delayed draw can be used to fund distributions, permitted acquisitions, and repayments of existing indebtedness. In the third quarter of fiscal 2017, the Company drew $14,000 under the delayed draw term loan feature in conjunction with the Triumph Learning acquisition. At the Company's option, the New Term Loan interest rate will be either the prime rate or the LIBOR rate (with a LIBOR floor of 1.0%), plus an applicable margin based on the Company's net senior leverage ratio. The Company may specify the interest rate period of one, three or six months for interest on loans under the New Term Loan Agreement bearing interest based on the LIBOR rate.

The New Term Loan matures on April 7, 2022. The New Term Loan requires scheduled quarterly principal payments of 0.625% of the original principal amount which commenced June 30, 2017 and continue through the quarter ended March 31, 2019. Subsequent to March 31, 2019, the scheduled quarterly principal payments are 1.250% of the original principal amount. Required scheduled quarterly principal payments on borrowings under the delayed-draw feature begin in the quarter following a draw on this feature. In addition to scheduled quarterly principal repayments, the New Term Loan Agreement requires prepayments at specified levels upon the Company's receipt of net proceeds from certain events, including but not limited to certain asset dispositions, extraordinary receipts, and the issuance or sale of any indebtedness or equity interests (other than permitted issuances or sales). The New Term Loan Agreement also requires prepayments at specified levels from the Company's excess cash flow. In the first quarter of fiscal 2018, the Company made a $7,801 repayment of principal based on fiscal 2017 excess cash flow. The Company is also permitted to voluntarily prepay the New Term Loan in whole or in part. Voluntary prepayments made before April 7, 2018 will be subject to an early prepayment fee of 2.0%, while any voluntary prepayment made on or after April 7, 2018, but before April 7, 2019, will be subject to a 1.0% early prepayment fee. Voluntary prepayments made on or after April 7, 2019 will not be subject to an early payment fee. All prepayments of the loans will be applied first to that portion of the loans comprised of prime rate loans and then to that portion of loans comprised of LIBOR rate loans. The New Term Loan Agreement contains customary events of default and financial, affirmative and negative covenants, including but not limited to quarterly financial covenants commencing with the fiscal quarter ending September 30, 2017 relating to the Company's fixed charge coverage ratio and net senior leverage ratio, and an annual limitation on capital expenditures and product development investments, collectively. The Company was in compliance with all such financial covenants during the second quarter of fiscal 2018.

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

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

The effective interest rate under the New Term Loan for the three months ended June 30, 2018 was 8.70%, which includes interest on borrowings of $2,310 and amortization of loan origination fees of $180. The effective interest rate under the New Term Loan for the three months ended July 1, 2017 was 8.27%, which includes interest on borrowings of $2,139 and amortization of loan origination fees of $170.

As of July 1, 2017, the outstanding balance on the New Term Loan Credit Agreement was $109,313. Of this amount, $2,750 was reflected as currently maturing, long-term debt in the accompanying condensed consolidated balance sheets.

The effective interest rate under the New Term Loan for the six months ended June 30, 2018 was 8.63%, which includes interest on borrowings of $4,740 and amortization of loan origination fees of $358. As of June 30, 2018, the outstanding balance on the New Term Loan Credit Agreement was $112,499. Of this amount, $3,100 was reflected as currently maturing, long-term debt in the accompanying condensed consolidated balance sheets.

The Company has estimated that the fair value of its New Term Loan (valued under Level 3) as of June 30, 2018 approximated the carrying value of $112,499.

Deferred Cash Payment Obligations

In connection with the previously disclosed 2013 Reorganization Plan, general unsecured creditors are entitled to receive a deferred cash payment obligation of 20% of the allowed claim in full settlement of the allowed unsecured claims. Such payment accrues quarterly paid-in-kind interest of 5% per annum beginning on June 11, 2013 (the “Effective Date”). Trade unsecured creditors had the ability to make a trade election to provide agreed upon customary trade terms. If the election was made, those unsecured trade creditors received a deferred cash payment obligation of 45% of the allowed claim in full settlement of those claims. As of the Effective Date, the deferred payment obligations under the trade elections began to accrue quarterly paid-in-kind interest of 10% per annum. All deferred cash payment obligations, along with interest paid-in-kind, are payable in December 2019.

The Company’s reconciliation of general unsecured claims was completed in fiscal 2015. As of June 30, 2018, the Company’s deferred payment obligations were $23,910, of which $3,094 represents a 20% recovery for the general unsecured creditors and $12,095 represents a 45% recovery for those creditors who elected to provide the Company standard trade terms with the remaining $8,721 related to accrued paid-in-kind interest.

The Company has estimated that the fair value of its Deferred Cash Payment Obligations (valued under Level 3) approximates $23,827 as of June 30, 2018. The Company estimated the fair value for its Deferred Cash Payment Obligations based upon the net present value of future cash flows using the discount rate that is consistent with our New Term Loan.

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

NOTE 13 – CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Changes in accumulated other comprehensive loss during the six months ended June 30, 2018 and July 1, 2017 were as follows:

	Foreign Currency Translation
Accumulated Other Comprehensive Income (Loss) at December 30, 2017	$ (1,425)
Other comprehensive income (loss) before reclassifications	(236)
Amounts reclassified from other comprehensive income	—
Accumulated Other Comprehensive Income (Loss) at March 31, 2018	$ (1,661)
Other comprehensive income (loss) before reclassifications	(171)
Amounts reclassified from other comprehensive income	—
Accumulated Other Comprehensive Income (Loss) at June 30, 2018	$ (1,832)

	Foreign Currency Translation
Accumulated Other Comprehensive Income (Loss) at December 31, 2016	$ (1,784)
Other comprehensive income before reclassifications	45
Amounts reclassified from other comprehensive income	—
Accumulated Other Comprehensive Income (Loss) at April 1, 2017	$ (1,739)
Other comprehensive income before reclassifications	139
Amounts reclassified from other comprehensive income	—
Accumulated Other Comprehensive Income (Loss) at July 1, 2017	$ (1,600)

NOTE 14 – RESTRUCTURING

In the three and six months ended June 30, 2018 and July 1, 2017, the Company recorded restructuring costs associated with severance related to staffing reductions. The following is a reconciliation of accrued restructuring costs for these periods and are included in facility exit costs and restructuring in the Condensed Consolidated Statements of Operations.

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

	Distribution	Curriculum	Corporate	Total
Accrued Restructuring Costs at December 30, 2017	$ —	$ —	$ 50	$ 50
Amounts charged to expense	—	—	311	311
Payments	—	—	(189)	(189)
Accrued Restructuring Costs at March 31, 2018	$ —	$ —	$ 172	$ 172
Amounts charged to expense	—	—	171	171
Payments	—	—	(258)	(258)
Accrued Restructuring Costs at June 30, 2018	$ —	$ —	$ 85	$ 85

	Distribution	Curriculum	Corporate	Total
Accrued Restructuring Costs at December 31, 2016	$ —	$ —	$ 561	$ 561
Amounts charged to expense	—	—	173	173
Payments	—	—	(574)	(574)
Accrued Restructuring Costs at April 1, 2017	$ —	$ —	$ 160	$ 160
Amounts charged to expense	—	—	44	44
Payments	—	—	(161)	(161)
Accrued Restructuring Costs at July 1, 2017	$ —	$ —	$ 43	$ 43

NOTE 15 –SEGMENT INFORMATION

The Company determines its operating segments based on the information utilized by the chief operating decision maker, the Company’s Chief Executive Officer, to allocate resources and assess performance. Based on this information, the Company has determined that it operates in two operating segments, Distribution and Curriculum, which also constitute its reportable segments. The Company operates principally in the United States, with limited operations in Canada.

Beginning in the second quarter of fiscal 2017, the Company revised its internal management reporting structure whereby: a) a new Instruction & Intervention product line included in the Distribution segment was formed consisting of its Reading product lines, formerly managed as a separate product line, and the supplemental education products, which were previously included within the former Instructional Solutions product line: b) the early learning and special needs products from the former Instructional Solutions product line are reported within the Supplies product line: and, c) the science supplies, previously included in the Science product line, within the Curriculum operating segment, were combined within the Supplies product line within the Distribution operating segment. The Company has revised its go-to-market strategy and management structure resulting in the alignment of the reading and science supply products to be consistent with other distributed items within the Distribution operating segment. This change also is consistent with the Company’s internal realignment of the new team sell model established in 2017 whereby every customer, district and territory will have a Distribution team supporting their business. The Distribution sales team focuses on selling all Distribution segment products, including the reading and science supplies items. The Distribution segment offers products primarily to the pre-kindergarten through twelfth grade (“preK-12”) education market that include basic classroom supplies and office products, instructional materials, indoor and outdoor furniture and equipment, physical education equipment, classroom technology, and planning and organizational products.

The Curriculum segment is a publisher of proprietary core curriculum, primarily FOSS and Delta Science Module products, in the science category within the preK-12 education market. The Curriculum segment has a sales team which is unique from the Distribution sales team and focuses exclusively on the products within this segment. In addition, these products have specific product development requirements, and customer purchasing decisions are made in a different manner than the products represented in our Distribution segment. The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies as included in the Company’s Report on Form 10-K for the fiscal year ended December 30, 2017.

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

The Company changed how cost variances are allocated between the two segments beginning in the second quarter of fiscal 2018. The changes were not material. The information prior to the second quarter of fiscal 2018 has been restated to reflect the change in allocation methodologies.

The Company measures profitability of its operating segments at a gross profit level. Since the majority of SG&A costs are managed centrally and allocation methodologies of these costs to the operating segments is arbitrary, the Company's chief operating decision maker does not review segment profitability using operating profit, only gross profit. Accordingly, the segment information reports gross profit at the segment level.

Table of Contents

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

	Three Months Ended June 30, 2018	Three Months Ended July 1, 2017	Six Months Ended June 30, 2018	Six Months Ended July 1, 2017
Revenues:				
Distribution	$ 155,775	$ 141,344	$ 250,395	$ 233,297
Curriculum	13,497	18,833	18,164	23,991
Total	$ 169,272	$ 160,177	$ 268,559	$ 257,288
Gross Profit:				
Distribution	$ 50,803	$ 50,440	$ 84,745	$ 82,406
Curriculum	7,941	10,055	10,120	12,613
Total	$ 58,744	$ 60,495	$ 94,865	$ 95,019
Operating income (loss) and loss before taxes:				
Operating income (loss)	4,765	8,730	(16,563)	(4,387)
Interest expense and reorganization items, net	3,688	8,495	7,194	12,545
Income (loss) before provision for or benefit from income taxes	$ 1,077	$ 235	$ (23,757)	$ (16,932)

	June 30, 2018	December 30, 2017	July 1, 2017
Identifiable assets:			
Distribution	$ 301,838	$ 230,449	$ 276,588
Curriculum	54,629	48,894	56,630
Corporate assets	16,300	33,064	5,089
Total	$ 372,767	$ 312,407	$ 338,307

	Three Months Ended June 30, 2018	Three Months Ended July 1, 2017	Six Months Ended June 30, 2018	Six Months Ended July 1, 2017
Depreciation and amortization of intangible assets and development costs:				
Distribution	$ 4,771	$ 3,353	$ 10,774	$ 6,832
Curriculum	547	964	1,336	1,924
Total	$ 5,318	$ 4,317	$ 12,080	$ 8,756
Expenditures for property, plant and equipment, intangible and other assets and development costs:				
Distribution	$ 3,051	$ 4,768	$ 6,747	$ 8,053
Curriculum	922	662	1,881	1,164
Total	$ 3,973	$ 5,430	$ 8,628	$ 9,217

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

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

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2018	July 1, 2017	June 30, 2018	July 1, 2017
Distribution revenues by product line:				
Supplies	$ 80,241	$ 76,756	$ 133,673	$ 134,955
Furniture	52,354	42,774	76,305	65,370
Instruction & Intervention	14,337	10,238	26,858	16,420
AV Tech	4,089	4,502	8,366	9,286
Agendas	4,588	6,476	4,834	6,746
Freight Revenue	2,581	2,454	4,387	3,993
Customer Allowances / Discounts	(2,415)	(1,856)	(4,028)	(3,473)
Total Distribution Segment	$ 155,775	$ 141,344	$ 250,395	$ 233,297
Curriculum revenues by product line:				
Science	$ 13,497	$ 18,833	$ 18,164	$ 23,991
Total Curriculum Segment	$ 13,497	$ 18,833	$ 18,164	$ 23,991
Total revenues	$ 169,272	$ 160,177	$ 268,559	$ 257,288

The above table is an enhanced disclosure to provide additional details related to our revenues by segment. Prior period amounts in this note have been reclassified in order to present segment and product line amounts consistent with the Company's current reporting structure.

Revenues associated with the Triumph Learning acquisition are included within the Instruction & Intervention product line. The above table is consistent with disaggregated revenues in Note 4.

NOTE 16 – COMMITMENTS AND CONTINGENCIES

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

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

Quarterly Overview

School Specialty is a leading provider of innovative solutions that support integrated learning environments. School Specialty designs, develops and delivers a broad assortment of innovative and proprietary products, programs and services to the education marketplace, including essential classroom supplies, furniture, educational technology, supplemental learning resources ("instructional solutions"), science curriculum solutions, and evidence-based safety and security training. The Company applies its unmatched team of subject-matter experts and customized planning, development and project management tools to deliver this comprehensive offering as the 21st Century Safe School™, a concept built around best-practice school environments that support the social, emotional, mental, and physical safety of students – improving both learning outcomes and school district performance. The Company provides educators with innovative and proprietary products and services, from basic school supplies to 21st century learning environments to Science, English and Language Arts ("ELA"), and Math core and supplemental instructional materials. Through its nationwide distribution network, School Specialty also provides its customers with access to a broad spectrum of trusted, third-party brands across its business segments. This assortment strategy enables the Company to offer a broad range of products primarily serving the preK-12 education market at the state, district and school levels. The Company is expanding its presence outside the education market into channels such as partnerships with e-tailers, and healthcare facilities.

Our goal is to grow profitably as a leading provider of innovative 21st century classroom solutions including, supplies, furniture products, services and curriculum for the education market and select other markets. We have experienced three consecutive years of overall revenue growth. We expect to continue to achieve this goal over the long-term through an organic growth strategy based on leveraging our strong brand names and distribution capabilities and transforming the Company's sales and marketing to a team-based selling approach focused on new customer acquisition, customer retention and penetration, and expanding into new markets or product areas. New revenue streams may include opportunities in areas that could expand our addressable market, such as distribution to non-education customers, expansion into new product lines, continued growth in our e-tail partnerships, and potentially, abroad in select international markets. In addition, the Company is committed to continuing to invest in product development in order to expand and improve its product offerings.

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

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

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

On August 18, 2017, the Company acquired of the assets of Triumph Learning. Triumph Learning is a publisher of state-specific test preparation, and supplemental and intervention curriculum products for the K-12 education market. For over 25 years, Triumph Learning's flagship product, Coach, has been utilized throughout education, providing educational facilities and teachers with hands-on test preparation books for ELA, Math, Science and Social Studies, with materials customized to state-specific best practices, along with a comprehensive series of supplemental and intervention resources for Math, ELA and Science. Solutions are delivered through multiple platforms, including both print and digital, as well as through third-party platforms and applications.

Triumph Learning's products are complementary to School Specialty's current offering and others that it intends to bring to market, as it expands its product offering in the Instruction & Intervention category. There are also significant potential synergies beyond the product offering as the Company anticipates the acquisition will result in a broader and more effective selling organization and an extended customer reach that will enable the Company to deliver a true blended learning solution to its customers.

Results of Operations

Costs of Revenues and Selling, General and Administrative Expenses

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

Cost of Revenues	Selling, General and Administrative Expenses
• Direct costs of merchandise sold, net of vendor rebates other than vender payments for or the reimbursement of specific, incremental and identifiable costs, and net of early payment discounts.	• Compensation and benefit costs for all selling (including commissions), marketing, customer care and fulfillment center operations (which include the pick, pack and shipping functions), and other general administrative functions such as finance, human resources and information technology.
• Amortization of product development costs.	• Occupancy and operating costs for our fulfillment centers and office operations.
• Freight expenses associated with moving merchandise from our vendors to fulfillment centers or from our vendors directly to our customers.	• Freight expenses associated with moving our merchandise from our fulfillment centers to our customers.
	• Catalog expenses, offset by vendor payments for or reimbursement of specific, incremental and identifiable costs.
	• Depreciation and intangible asset amortization expense, other than amortization of product development costs.

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

Three Months Ended June 30, 2018 Compared to Three Months Ended July 1, 2017

Revenues

Revenue of $169.3 million for the three months ended June 30, 2018 increased by $9.1 million, or 5.7%, as compared to the three months ended July 1, 2017. The adoption of ASC 606 contributed $4.7 million of the incremental revenue, primarily within the Company's Distribution segment.

Distribution segment revenues of $155.8 million for the three months ended June 30, 2018 increased by 10.2%, or $14.4 million, from the three months ended July 1, 2017. Revenues from the Triumph Learning products, acquired in the third quarter of fiscal 2017 and reported in our Instruction & Intervention product category, contributed $4.1 million of incremental revenues in the second quarter of fiscal 2018. After adjusting for the impact of revenues from our Triumph Learning products, Distribution segment revenues are up in the second quarter by $10.3 million compared to the prior year period. Revenues from the Supplies product category, our largest category, increased approximately $3.5 million in the quarter as incoming orders in the quarter were up over 11% compared to incoming orders in the second quarter orders in 2017. Second quarter revenues in our second largest category, Furniture, were up 22.4%, or $9.6 million, compared to last year's second quarter. While the adoption of ASC 606 contributed $5.4 million of this increase, incoming orders remained strong throughout the quarter, up 16.5% versus last year's second quarter. Adjusting the Instruction & Intervention category to exclude the incremental revenue associated with the Triumph Learning products, the category was flat to prior year. Agendas revenues were $4.6 million in the second quarter of fiscal 2018, or down $1.9 million from last year's second quarter. AV Tech revenues of $4.1 million were down $0.4 million as compared to last year's second quarter. The revenue performance of Agendas and AV Tech were modestly below our expectations.

Curriculum segment revenues of $13.5 million for the three months ended June 30, 2018 decreased by 28.3%, or $5.3 million, from the three months ended July 1, 2017. The decline was primarily related to three large school district orders, totaling $4.4 million, which shipped in last year's second quarter. With limited state science adoption related opportunities in 2018, we expected declines in segment revenues in fiscal 2018. However, based on the current pipeline of state adoption and significant opportunities in open territory states, we anticipate segment growth resuming in 2019 as adoption related opportunities are expected to increase.

Gross Profit

Gross profit for the three months ended June 30, 2018 was $58.7 million, as compared to $60.5 million for the three months ended July 1, 2017. Gross margin for the three months ended June 30, 2018 was 34.7%, as compared to 37.8% for the three months ended July 1, 2017.

Distribution segment gross margin was 32.6% for the three months ended June 30, 2018, as compared to 35.7% for the three months ended July 1, 2017. Rate variances at a product level negatively impacted gross margins by 250 basis points in the current year second quarter. These negative rate variances are related to certain state, regional and district-level pricing agreements, which became effective at various points in 2017. In addition, the strategic move to more competitive pricing on commodity items also is a contributing factor the decline. However, these pricing actions have driven growth and customer penetration in fiscal 2018. Higher product development amortization in the current year second quarter resulted in 20 basis points of lower gross margin.

Curriculum segment gross margin was 58.8% for the three months ended June 30, 2018, as compared to 53.4% for the three months ended July 1, 2017. Incremental training revenue in the current year's second quarter contributed approximately 150 basis points to the gross margin improvement, while favorable lower product costs in the current year contributed approximately 360 basis points to the gross margin improvement. Lower product development amortization in the current year second quarter contributed 30 basis points of the gross margin increase.

Selling, General and Administrative Expenses

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

SG&A increased $2.1 million in the second quarter of fiscal 2018, from $51.7 million for the three months ended July 1, 2017 to $53.8 million for the three months ended June 30, 2018. The increase in SG&A is primarily related to the Triumph Learning acquisition completed in August 2017, higher transportation costs, and incremental depreciation and amortization. The impact of ASC 606 on second quarter SG&A costs was $1.5 million.

The Company's acquisition of Triumph Learning during last year's third quarter resulted in approximately $2.9 million of incremental SG&A costs in the second quarter of 2018 versus last year's second quarter. Approximately $0.3 million of the costs associated with Triumph Learning were related directly to the integration through the finalization of first quarter 2018 estimates. Transportation costs increased by $1.9 million in the second quarter of fiscal 2018 due to a combination of incremental volume in the quarter and industry-wide increases in freight rates. Depreciation and amortization expense increased by $0.8 million in the current year second quarter related primarily to incremental depreciation associated with the Company's implementation of its new e-commerce platform.

These increases were partially offset by a combination of $2.0 million of lower catalog expense associated with the adoption of ASC 606, reductions in marketing and selling costs, and lower incentive compensation expense in the quarter.

As a percent of revenue, SG&A decreased from 32.3% for the three months ended July 1, 2017 to 31.8% for the three months ended June 30, 2018.

Facility exit costs and restructuring

For the three-month period ended June 30, 2018, the Company recorded $0.2 million of facility exit costs and restructuring charges. For the three-month period ended July 1, 2017, the Company recorded $0.1 million of facility exit costs and restructuring charges. The amounts in both periods were entirely related to severance.

Interest Expense

Interest expense decreased from $4.2 million for the three months ended July 1, 2017 to $3.7 million for the three months ended June 30, 2018. The decrease is related to a reduction in non-cash interest of $0.9 million. This decline in non-cash interest was due to lower interest attributable to the Company's vendor note obligations. The decrease in non-cash interest expense in the second quarter of fiscal 2018 was partially offset by $0.4 million of incremental cash interest associated with an increase in average borrowings in the current quarter. The increase in average borrowings is related to the acquisition of Triumph Learning in the third quarter of fiscal 2017.

Loss on Early Extinguishment of Debt

During the three months ended July 1, 2017, the Company recorded a non-cash charge of $4.3 million related to the write-off of $3.1 million of remaining unamortized debt issuance costs and $1.2 million of remaining original issue discount both of which were associated with the term loan that was repaid on April 7, 2017. No such charge was recorded in fiscal 2018.

Provision for (Benefit from) Income Taxes

The provision for income taxes was $1.1 million for the three months ended June 30, 2018, as compared to tax of $0.1 million for the three months ended July 1, 2017.

The effective income tax rate for the three months ended June 30, 2018 and the three months ended July 1, 2017 was 98.3% and 42.1%, respectively. Due to the minimal amount of income before provision for income taxes in both periods, the effective income tax rate is not representative of the full year expected rate as discrete, such realized built-in loss and foreign tax adjustments, tax items in the quarter can have a large impact on the quarterly rate.

Six Months Ended June 30, 2018 Compared to Six Months Ended July 1, 2017

Revenues

Revenue of $268.6 million for the six months ended June 30, 2018 increased by $11.3 million, or 4.4%, as compared to the six months ended July 1, 2017. The adoption of ASC 606 contributed $5.4 million of the incremental revenue, primarily within the Company's Distribution segment.

Distribution segment revenues of $250.4 million for the six months ended June 30, 2018 increased by 7.3%, or $17.1 million, from the six months ended July 1, 2017. Revenues from the Triumph Learning products, acquired in the third quarter of fiscal 2017 and which are reported in our Instruction & Intervention product category, contributed $11.1 million of incremental revenues in the first six months fiscal 2018. After adjusting for the impact of revenues from our Triumph Learning products, Distribution segment revenues are up in the first six months of 2018 by $6.0 million. Revenues in the first half of 2018 were impacted by peak season orders building later in the season. The Company entered the third quarter of fiscal 2018 with $11.8 million of incremental open orders, or up 15.4%, as compared to open orders entering last year's third quarter. Although revenues from the Supplies product category declined approximately $1.3 million during the six months ended June 30, 2018, the open orders entering the third quarter in the Supplies category are up year-over-year by $2.7 million. In addition, incoming orders have continued to gain momentum in the third quarter. Third quarter to date incoming orders are up year-over-year by 7.8%, resulting in a 4.9% increase in year-to-date orders for the Supplies category. Year-to-date revenues in Furniture were up 16.7%, or $10.9 million, compared to 2017. The adoption of ASC 606 drove $5.9 million of this increase year-over-year, although the full-year impact of the adoption of ASC 606 is expected to be minimal. The incoming order rate for Furniture products remains strong as year-to-date orders were up 12.8% through the end of the second quarter. Third quarter to date Furniture orders are up year-over-year by 21.4% Adjusting the Instruction & Intervention category to exclude the incremental revenue associated with the Triumph Learning products, the category was down 4.0%, or $0.7 million. However, order trends have continued to improve as the year progresses, especially in core proprietary products such as Wordly Wise and Spire, which are up nearly 4% year-to-date. The Company's Agendas and AV Tech categories are down $1.9 million and $0.9 million, respectively, through the first six months of fiscal 2018. Both the AV Tech and Agenda categories are performing modestly below expectations.

Curriculum segment revenues of $18.2 million for the six months ended June 30, 2018 decreased by 24.3%, or $5.8 million, from the six months ended July 1, 2017. The limited amount of adoption activity in 2018 and fewer large opportunities in open territory states are contributing to the decline. However, the competitive positioning remains strong and the pipeline for opportunities for 2019 is building.

Gross Profit

Gross profit for the six months ended June 30, 2018 was $94.9 million, as compared to $95.0 million for the six months ended July 1, 2017. Gross margin for the six months ended June 30, 2018 was 35.3%, as compared to 36.9% for the six months ended July 1, 2017. Increased revenues contributed $4.6 million of additional gross profit offset by a combination of a shift in product mix, lower product level gross margins and higher product development amortization.

Distribution segment gross margin was 33.8% for the six months ended June 30, 2018, as compared to 35.3% for the six months ended July 1, 2017. Year-over-year product rate variances had a negative impact on gross margin of 170 basis points, which was partially offset by a shift in product mix, primarily related to the Triumph Learning products. A shift in product mix contributed approximately 50 basis points of gross margin improvement in the first six months of fiscal 2018. Higher product development amortization in the current year second quarter resulted in 30 basis points of lower gross margin. More aggressive pricing in certain large state, regional and district-level pricing agreements, which became effective at various points in 2017 resulted in approximately $3.0 million of the decline. In addition, the strategic move to more competitive pricing on commodity items also is a contributing factor the decline. However, these pricing actions have driven growth and customer penetration in fiscal 2018. The Company expects the year-over-year variance in gross margin associated with certain pricing agreements will stabilize or improve slightly in the second half of fiscal 2018.

Curriculum segment gross margin was 55.7% for the six months ended June 30, 2018, as compared to 52.6% for the six months ended July 1, 2017. Lower product development amortization in the current year second quarter contributed 90 basis points of the gross margin increase. The adoption of ASC 606 contributed approximately 120 basis points of the gross margin increase in the first six month of fiscal 2018 due to the increase in training revenues in the first half of 2018 as compared to the first half of 2017. The remaining difference in gross margin is related to a combination of year-over-year changes in product costs.

Selling, General and Administrative Expenses

SG&A increased $11.8 million in the first six months of fiscal 2018, from $99.2 million for the six months ended July 1, 2017 to $110.9 million for the six months ended June 30, 2018. The increase in SG&A is primarily related to the adoption of ASC 606, the Triumph Learning acquisition completed in August 2017, and incremental depreciation and amortization.

The adoption of ASC 606 resulted in a $2.5 million increase in catalog expenses in the first six months of fiscal 2018 as compared to the first six months of fiscal 2017. Under ASC 606, catalog costs are treated as a cost to acquire contracts and are not related to a specific contract, therefore are expensed when incurred. Prior to ASC 606, the Company capitalized catalog costs and amortized the costs over the revenue stream attributable to the catalogs. The Company expects to recognize lower catalog expenses over the remaining two quarters of fiscal 2018 as compared to the last two quarters of fiscal 2017, and full year catalog expenses for 2018 are anticipated to be lower as compared to 2017. The Company's acquisition of Triumph Learning during last year's third quarter resulted in approximately $7.2 million of incremental SG&A costs in the first six months of 2018 versus last year's first six months. Approximately $1.7 million of the costs associated with Triumph Learning were related directly to the integration. As of the end of the first quarter of fiscal 2018, Triumph Learning is fully integrated into the operations of the Company. Depreciation and amortization expense increased by $2.9 million in the current year first half related primarily to incremental depreciation associated with the Company's new phone system and new e-commerce platform implementations. Remaining SG&A costs were down $0.9 million in the six months ended June 30, 2018, as increases in transportation expenses associated with a combination of volume and increased industry-wide freight rates were offset by reductions in marketing and selling costs and incentive-based compensation expense.

As a percent of revenue, SG&A increased from 38.6% for the six months ended July 1, 2017 to 41.3% for the six months ended June 30, 2018. The impact of the adoption of ASC 606 contributed 100 bps of this increase. Despite the year-to-date increase through June 30, 2018, the Company expects full-year 2018 SG&A as a percent of revenue to be down as compared to full-year 2017 SG&A as a percent of revenue due to the combination of cost leverage realized on anticipated revenue growth during the remainder of 2018, and further anticipated SG&A reductions tied to cost reduction and process improvement initiatives.

Facility exit costs and restructuring

For the six month period ended June 30, 2018, the Company recorded $0.5 million of facility exit costs and restructuring charges. For the six month period ended July 1, 2017, the Company recorded $0.2 million of facility exit costs and restructuring charges. The amounts in both periods were related entirely to severance.

Interest Expense

Interest expense decreased from $8.2 million for the six months ended July 1, 2017 to $7.2 million for the six months ended June 30, 2018. Non-cash interest and amortization of debt fees were down approximately $1.0 million year-over-year primarily due to lower interest attributable to the Company's vendor note obligations recorded in 2018 as compared to 2017. Cash interest expense was essentially flat in the first six months of 2018 as compared to the first six months of 2017. Incremental interest expense related to increased in borrowings of approximately $10.4 million in the first half of fiscal 2018, was offset by a lower interest rate.

Loss on Early Extinguishment of Debt

During the six months ended July 1, 2017, the Company recorded a non-cash charge of $4.3 million related to the write-off of $3.1 million of remaining unamortized debt issuance costs and $1.2 million of remaining original issue discount both of which were associated with the term loan that was repaid on April 7, 2017. No such charge was recorded in fiscal 2018.

Provision for (Benefit from) Income Taxes

The benefit from income taxes was $5.1 million for the six months ended June 30, 2018, as compared to $0.3 million for the six months ended July 1, 2017.

The effective income tax rate for the six months ended June 30, 2018 and the six months ended July 1, 2017 was 21.5% and 1.7%, respectively. The change in the effective income tax rate year-over-year is due to a combination of lower tax rates associated with the 2017 tax reform as well as the partial reversal of valuation allowances in the fourth quarter of fiscal 2017. The tax benefit recorded in the six months ended June 30, 2018 is expected to be entirely offset by tax provisions recognized against the net income expected to be generated over the remainder of fiscal 2018.

Liquidity and Capital Resources

At June 30, 2018, the Company had net working capital of $99.4 million, a decrease of $8.6 million as compared to July 1, 2017. Net working capital in the current year includes both $8.6 million of cash and $64.6 million of current maturities of long term debt. The Company estimates that the carrying values of its accounts receivable and accounts payable, as shown in the condensed consolidated balance sheets, approximate fair value. The Company's capitalization at June 30, 2018 was $281.8 million and consisted of total debt of $195.0 million and stockholders' equity of $86.8 million. The change in accounting principle (See Note 4) resulted in $4.8 million of decreased working capital, primarily related to the immediate expensing of catalog costs.

Net cash used by operating activities was $65.9 million and $46.2 million for the six months ended June 30, 2018 and July 1, 2017, respectively. The increase in cash used by operating activities related primarily to an increased operating loss of $12.2 million in the first six months of 2018 versus the first six months of fiscal 2017. The remainder of the increase in cash used by operating activities was related to incremental working capital changes in the current year. Excluding the working capital impact of ASC 606, inventory and accounts receivable balances increased in the current year due to incremental volume.

Table of Contents

Net cash used in investing activities was $8.5 million in the first six months of fiscal 2018 as compared to $9.2 million in the first six months of fiscal 2017. The Company expects net cash used in investing activities to increase by approximately $2.4 million for the full year fiscal 2018 as compared to full year fiscal 2017 due to investments in the Company's ecommerce platform, product information management systems and curriculum product development. The completion of these projects is expected to result in improvements to the Company's platforms and processes, lower both ongoing operating costs and future investments in systems, and enable revenue growth.

Net cash provided from financing activities was $51.4 million in fiscal 2018 versus $27.2 million in fiscal 2017. In both periods the net cash provided from financing activities represents net draws from the ABL Facility, which combined with beginning of period cash balances, were used to fund operating and investing cash outflows, as well as Term Loan repayments in fiscal 2017. Outstanding borrowings on the ABL Facility were $61.5 million as of June 30, 2018, while the excess availability on that date for the ABL Facility was $59.6 million. The company repaid principal on its Term Loan in the amount of $9.4 million during the first six months of fiscal 2018, which consisted of an excess cash flow payment of $7.8 million and regularly scheduled principal payments of $1.6 million.

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

We believe that our cash flow from operations, borrowings available from our ABL Facility and the remaining portion of the delayed draw term loan available under the New Term Loan will be sufficient to meet our liquidity requirements for operations, including anticipated capital expenditures and our contractual obligations for the next twelve months.

Fluctuations in Quarterly Results of Operations

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

Inflation

Inflation, particularly in energy costs, wage rate, and transportation costs has had and is expected to have an effect on our results of operations and our internal and external sources of liquidity.

Forward-Looking Statements

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

All forward-looking statements included in this Quarterly Report are based on information available to us as of the date hereof. We do not undertake to update any forward-looking statements that may be made by us or on our behalf, in this Quarterly Report on Form 10-Q or otherwise. Our actual results may differ materially from those contained in the forward-looking statements identified above. Factors which may cause such a difference to occur include, but are not limited to, the risk factors set forth in Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 30, 2017.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in qualitative and quantitative disclosures about market risk from what was reported on Form 10-K for the fiscal year ended December 30, 2017.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on an evaluation as of the end of the period covered by this quarterly report, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) were not effective for the purposes set forth in the definition of the Exchange Act rules due to a material weakness in internal control over financial reporting related to insufficient general information technology controls which impact the reliability of automated inventory and revenue controls. While the Company has operational procedures in the areas of inventory and revenue control, they are not designed, executed and/or documented in a manner that is sufficient to be considered effective manual controls in accordance with the criteria established by Internal Control—Integrated Framework 2013. Based on the Company's inability rely on these automated and manual controls, the Company has concluded it has material weaknesses in controls related to: a) inventory quantities at the locations subject to routine cycle counts; and b) the accuracy of pricing and quantities shipped to customers. We did not identify any adjustments to our financial statements as a result of either the identification of these material weaknesses, our additional review of these areas, or our initial implementation of measures to remediate these material weaknesses.

Changes in Internal Control Over Financial Reporting

The Company has implemented a number of process-related manual controls in order to address, or compensate for, certain general information technology control deficiencies identified in 2017. In addition, the Company has remediation actions related to its general information technology control deficiencies, most notably remediation of access-related controls. The Company believes the changes or remediations to its process level internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the fiscal quarter ended June 30, 2018 are reasonably likely to strengthen, our internal control over financial reporting.

Table of Contents

PART II - OTHER INFORMATION

ITEM 6. Exhibits

Exhibit No.	Description
10.1	School Specialty, Inc. 2014 Incentive Plan, as amended.
10.2	Form of Executive Restricted Stock Unit Agreement under the School Specialty, Inc. 2014 Incentive Plan, as amended.
10.3	Form of Director Restricted Stock Unit Agreement under the School Specialty, Inc 2014 Incentive Plan, as amended.
31.1	Certification pursuant to Section 302 of the Sarbanes Oxley Act of 2002, by Chief Executive Officer.
31.2	Certification pursuant to Section 302 of the Sarbanes Oxley Act of 2002, by Chief Financial Officer.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002, by Chief Executive Officer.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002, by Chief Financial Officer.
101	The following materials from School Specialty, Inc.'s. Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 are filed herewith, formatted in XBRL (Extensive Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statement of Operations, (iii) the Condensed Consolidated Statement of Comprehensive Income, (iv) the Condensed Consolidated Statement of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements.

Table of Contents

SIGNATURES

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

SCHOOL SPECIALTY, INC.
(Registrant)

August 7, 2018	/s/ Joseph M. Yorio
Date	Joseph M. Yorio President and Chief Executive Officer (Principal Executive Officer)
August 7, 2018	/s/ Kevin L. Baehler
Date	Kevin L. Baehler Executive Vice President and Chief Financial Officer (Principal Financial Officer)

EXHIBIT 10.1

2014 INCENTIVE PLAN
OF SCHOOL SPECIALTY, INC.
(AMENDED EFFECTIVE APRIL 9, 2018)

(Initially approved by the Board of Directors on April 24, 2014 and amended on May 22, 2014, initially approved by the stockholders at the 2014 Annual Meeting on September 4, 2014, and amended by the Board of Directors on April 9, 2018, subject to stockholders' approval at the 2018 Annual Meeting)

1. PURPOSE OF THE PLAN

The purpose of this 2014 Incentive Plan of School Specialty, Inc. (this "Plan") is to enable School Specialty, Inc., a Delaware corporation (the "Company"), to attract, retain and motivate its Directors, Employees and Consultants, and to further align the interests of such persons with those of the stockholders of the Company by providing for or increasing the proprietary interest of such persons in the Company.

2. PERSONS ELIGIBLE UNDER PLAN

Any person who is a Director, Employee or Consultant of the Company as determined, in its discretion and for purposes only of this Plan, by the Administrator (an "Eligible Person"), shall be eligible to be considered for the grant of Awards hereunder. A "Participant" is any current or former Eligible Person to whom an Award has been made and any person (including any estate) to whom an Award has been assigned or transferred pursuant to Section 15 of the Plan.

3. DEFINITIONS

Unless the context otherwise requires, the following terms shall have the meanings set forth below:

(a) "Administrator" means the Board of Directors or committee thereof as will be administering the Plan, in accordance with Section 6 of the Plan.

(b) "Award" shall mean an Incentive Bonus, Option, Restricted Stock, Restricted Stock Unit, or SAR granted under the Plan.

(c) "Board of Directors" shall mean the entire board of directors of the Company.

(d) "Cause" means a (i) conviction of a felony or misdemeanor involving moral turpitude, or (ii) willful gross neglect or willful gross misconduct in carrying out the individual's duties, resulting in material economic harm to the Company or any Successor.

(e) "Change in Control" shall mean the first to occur of the following:

(1) the merger or consolidation of the Company with or into another corporation, other than a merger or consolidation which would result in the voting

securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least 66 2/3% of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation;

(2) the acquisition, directly or indirectly, by another entity, person or group, of 66 2/3% or more of the Company's then outstanding voting stock;

(3) the liquidation or dissolution of the Company;

(4) during any period of 12 consecutive months, individuals who at the beginning of such 12-month period constituted the Board of Directors (together with any new Directors whose election by the Board of Directors or whose nomination for election by the stockholders of the Company was approved by a vote of a majority of the Directors then still in office who were either Directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors then in office, provided, however, that a Change in Control will not be deemed to have occurred in respect of a merger in which (x) the Company is the surviving corporation, (y) no person or group acquires, directly or indirectly, 66 2/3% or more of the Company's outstanding voting stock and (z) the Shares outstanding prior to the merger remain outstanding thereafter; and provided further, that a merger or consolidation will not be considered a Change in Control if such transaction results only in the reincorporation of the Company in another jurisdiction or its restructuring into holding company form;

(5) A change in the ownership of a substantial portion of the Company's assets which occurs on the date that any entity, person or group acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than 50% of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions; provided, however, that for purposes of this Section 3(e)(5), the following will not constitute a change in the ownership of a substantial portion of the Company's assets: (A) a transfer to an entity that is controlled by the Company's stockholders immediately after the transfer, or (B) a transfer of assets by the Company to: (a) an entity, 50% or more of the total value or voting power of which is owned, directly or indirectly, by the Company, (b) an entity, person or group, that owns, directly or indirectly, 50% or more of the total value or voting power of all the outstanding stock of the Company, or (c) an entity, at least 50% of the total value or voting power of which is owned, directly or indirectly, by an entity, person or group described in this Section 3(e)(5). For purposes of this Section 3(e)(5), gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

(f) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(g) "Company" has the meaning set forth in Section 1 of the Plan.

(h) "Consultant" means any person, including an advisor, engaged by the Company or a Parent or Subsidiary to render services to such entity.

(i) "Director" means a member of the Board of Directors of the Company.

(j) "Disability" shall mean (i) a Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (ii) a Participant is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than 3 months under an accident and health plan covering employees of the Participant's employer.

(k) "Eligible Person" has the meaning set forth in Section 2 of the Plan.

(l) "Employee" shall mean an individual who is an employee of the Company or a Subsidiary.

(m) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

(n) "Good Reason" shall mean (i) a material diminution in a Participant's authority or duties, (ii) a material reduction in a Participant's base salary (excluding, however, any reduction made in connection with, and proportionate to, a Company-wide reduction), or (iii) a material change in a Participant's location of employment (excluding any required relocation within a 50-mile radius of such location of employment); provided, however, that the Participant has given notice of the existence of the good reason condition within 60 days of its occurrence, and the Company has been given at least 30 days to remedy the condition and has failed to do so.

(o) "Grant Value" of a SAR means the dollar value assigned to the SAR by the Administrator on the date the SAR is granted under the Plan.

(p) "Incentive Bonus" means a bonus opportunity awarded under Section 10 of the Plan pursuant to which a Participant may become entitled to receive an amount based on satisfaction of such performance criteria as are specified in the Incentive Bonus Agreement.

(q) "Incentive Bonus Agreement" shall mean the agreement whereby the Company's grant of an Incentive Bonus to a Participant is confirmed.

(r) "Incentive Stock Option" shall mean an option to purchase Shares which complies with the provisions of Section 422 of the Code.

(s) "Fair Market Value" shall mean (a) the average of the closing bid and asked prices of the common stock on the OTCQB Marketplace (or if the common stock is not then traded on the OTCQB Marketplace, the average of the closing bid and asked prices on such other exchange or inter-dealer quotation system on which the common stock is listed) as reported in any commonly-accepted electronic medium or other authoritative source on the indicated date or (b) if no sales of common stock were made on said marketplace (or other exchange or inter-dealer quotation system) on that date, Fair Market Value shall mean the average of the closing bid and asked prices of common stock as reported for the most recent preceding day on which sales of common stock were made on said marketplace (or other exchange or inter-dealer quotation system); provided, however, that if the aggregate trading volume of Shares on the OTCQB Marketplace or such other exchange or inter-dealer quotation system during the five trading days preceding the indicated date is less than one percent of the total number of Shares outstanding on that date, "Fair Market Value" shall mean such other fair market value as the Administrator may determine in conformity with pertinent law and regulations of the Treasury Department.

(t) "OTCQB Marketplace" means the OTCQB Marketplace or such other marketplace, stock exchange or quotation system on which Shares are listed or quoted.

(u) "Nonqualified Stock Option" shall mean an option to purchase Shares which does not comply with the provisions of Section 422 of the Code or which is designated as such pursuant to Section 7 of the Plan.

(v) "Option" shall mean an Incentive Stock Option or Nonqualified Stock Option granted under the Plan.

(w) "Option Agreement" shall mean the agreement whereby the Company's grant of an Option to a Participant is confirmed.

(x) "Participant" has the meaning set forth in Section 2 of the Plan.

(y) "Plan" has the meaning set forth in Section 1 of the Plan.

(z) "Qualifying Performance Criteria" shall mean any one or more of the following performance criteria, either individually, alternatively or in any combination, applied to either the Company as a whole or to a business unit or subsidiary, either individually, alternatively or in any combination, and measured either annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years' results or to a designated comparison group, in each case as specified by the Administrator in the Award: (a) cash flow, (b) earnings per share, (c) EBITDA (earnings before interest, taxes, depreciation and amortization), (d) Adjusted EBITDA (operating profit adjusted to exclude non-cash expenses of depreciation, amortization, pension expense, stock compensation expense and management incentive cash compensation plan provisions), (e) return on equity, (f) total stockholder return, (g) return on capital, (h) return on assets or net assets, (i) revenue or sales, (j) income or net income, (k) operating income or net operating income, (l) operating profit or net operating profit, (m) operating margin, (n) return on operating revenue, (o) market share, (p) share price, and (q) average working capital as a percentage of sales. The Administrator may specify any reasonable

definition of the Qualifying Performance Criteria it uses at the time the goals for such Qualifying Performance Criteria goals are set. The Administrator shall appropriately adjust any evaluation of performance under a Qualifying Performance Criteria to exclude any of the following events that occurs during a performance period: (i) asset write-downs, (ii) litigation or claim judgments or settlements, (iii) the effect of changes in tax law, accounting principles or other such laws or provisions affecting reported results, (iv) accruals for reorganization and restructuring programs and (v) any extraordinary non-recurring items as described in the audited financial statements of the Company for the applicable year.

(aa) "Restricted Period" has the meaning set forth in Section 8(b) of the Plan.

(bb) "Restricted Stock" shall mean Shares granted to a Participant by the Administrator which are subject to restrictions imposed under Section 8 of the Plan.

(cc) "Restricted Stock Agreement" shall mean the agreement whereby the Company's grant of shares of Restricted Stock to a Participant is confirmed.

(dd) "Restricted Stock Unit" shall mean a right to receive one Share from the Company in accordance with, and subject to, Section 8 of the Plan.

(ee) "Restricted Stock Unit Agreement" shall mean the agreement whereby the Company's grant of Restricted Stock Units to a Participant is confirmed.

(ff) "SAR" shall mean a stock appreciation right with respect to one Share granted under Section 9 of the Plan.

(gg) "SAR Agreement" shall mean the agreement whereby the Company's grant of SARs to a Participant is confirmed.

(hh) "Service Provider" means an Employee, Director or Consultant.

(ii) "Share" or "Shares" shall mean the $0.001 par value of common stock of the Company.

(jj) "Subsidiary" shall mean any subsidiary entity of the Company, including without limitation, a subsidiary corporation of the Company as defined in Section 424(f) of the Code.

(kk) "Successor" means any acquiror of all or substantially all of the stock, assets or business of the Company.

(ll) "Valuation Date" has the meaning set forth in Section 9(e) of the Plan.

Words importing the singular shall include the plural and vice versa and words importing the masculine shall include the feminine.

4. ELIGIBILITY AND AWARDS AVAILABLE UNDER THE PLAN

(a) Eligible Persons shall be eligible to receive Incentive Bonuses, Nonqualified Stock Options, Incentive Stock Options, Restricted Stock, Restricted Stock Units, and SARs under the Plan. In determining the Eligible Persons to whom Awards shall be granted and the number of Shares to be covered by each Award, the Administrator may take into account the nature of the services rendered by the respective Eligible Persons, their present and potential contributions to the success of the Company, and other such factors as the Administrator in its discretion shall deem relevant.

(b) The Administrator shall have sole authority in its discretion, but always subject to the express provisions of the Plan and applicable law, to determine the Eligible Persons to whom Awards are granted under the Plan and the terms and provisions of each such Award, and to make all other determinations and interpretations deemed necessary or advisable for the administration of the Plan. The Administrator's determination of the foregoing matters shall be conclusive and binding on the Company, all Participants and all other persons.

(c) A Participant may be granted additional Awards under the Plan if the Administrator shall so determine subject to the limitations contained in Section 5.

5. SHARES RESERVED UNDER PLAN

(a) The aggregate number of Shares which may be issued under the Plan pursuant to the exercise of Options, the payment of Incentive Bonuses, the grant of Restricted Stock, and pursuant to the settlement of Restricted Stock Units shall not exceed 1,750,000 Shares, which may be treasury Shares or authorized but unissued Shares, or a combination of the two, subject to adjustment as provided in Section 12 hereof. For purposes of determining the maximum number of Shares available for issuance under the Plan, (1) any Shares which have been issued as Restricted Stock which are forfeited to the Company shall be treated, following such forfeiture, as Shares which have not been issued; (2) upon the exercise of an Option granted under the Plan, the full number of Options exercised at such time shall be treated as Shares issued under the Plan, notwithstanding that a lesser amount of Shares or cash representing Shares may have been actually issued or paid upon such exercise; and (3) upon the exercise of a SAR granted under the Plan, the full number of SARs exercised at such time shall not be treated as Shares issued under the Plan. For the sake of clarity, Shares withheld to satisfy taxes and Shares used to exercise an Option, either directly or by attestation, shall be treated as issued hereunder, and if an Option is exercised by using the net exercise method in accordance with Section 7(f), the gross number of Shares for which the Option is exercised shall be treated as issued for purposes of counting the Shares available for issuance under this Plan, not just the net Shares issued to the Participant after reduction for the exercise price and any required withholding tax. Further, for the avoidance of doubt, any Shares purchased by the Company using proceeds from Option exercises shall not be included in the number of Shares available under this Plan.

(b) No individual Participant shall be eligible to receive grants of Options for more than an aggregate of 350,000 Shares during any calendar year (subject to adjustment as provided in Section 12 hereof).

(c) The aggregate number of shares of Restricted Stock that are subject to vesting based on Qualifying Performance Criteria, plus the number of Restricted Stock Units that are subject to vesting based on Qualifying Performance Criteria granted to any one Participant during any calendar year shall be limited to 175,000 (subject to adjustment as provided in Section 12 hereof.)

(d) In no event shall the number of Shares issued pursuant to the exercise of Incentive Stock Options exceed 1,050,000 Shares (subject to adjustment as provided in Section 12 hereof).

6. ADMINISTRATION OF THE PLAN

(a) Different committees with respect to different groups of Service Providers may administer the Plan.

(b) To the extent that the Administrator determines it to be desirable to qualify Awards granted hereunder as "performance-based compensation" within the meaning of Section 162(m) of the Code, the Plan will be administered by a committee of two or more "outside directors" within the meaning of Section 162(m) of the Code.

(c) To the extent desirable to qualify transactions hereunder as exempt under Rule 16b-3 of the Securities Exchange Act of 1934, as amended, the transactions contemplated hereunder will be structured to satisfy the requirements for exemption under Rule 16b-3.

(d) Other than as provided above, the Plan will be administered by (A) the Board of Directors or (B) a committee of the Board of Directors, which committee will be constituted to satisfy applicable laws.

(e) The Administrator may designate the Secretary of the Company or other Company employees to assist the Administrator in the administration of this Plan, and may grant authority to such persons to execute agreements or other documents evidencing Awards made under this Plan or other documents entered into under this Plan on behalf of the Administrator or the Company.

7. OPTIONS

Options granted under this Plan shall be subject to such terms and conditions not inconsistent with the Plan as the Administrator shall determine, including the following:

(a) <u>Types of Options</u>. An Option to purchase Shares granted pursuant to this Plan shall be specified to be either an Incentive Stock Option or a Nonqualified Stock Option. Any grant of an Option shall be confirmed by the execution of an Option Agreement. An Option Agreement may include both an Incentive Stock Option and a Nonqualified Stock Option, provided each Option is clearly identified as either an Incentive Stock Option or a Nonqualified Stock Option.

(b) Maximum Annual Grant of Incentive Stock Options to Any Participant. The aggregate Fair Market Value (determined at the time the Incentive Stock Option is granted in accordance with applicable law) of the Shares with respect to which Incentive Stock Options are exercisable for the first time by any Participant during any calendar year under this Plan (and under all other plans of the Company or any Subsidiary) shall not exceed $100,000 or any lower limit set forth in the Code from time to time.

(c) Option Exercise Price. The per share purchase price of the Shares under each Option granted pursuant to this Plan shall be determined by the Administrator but shall in all cases be equal to or greater than the Fair Market Value per Share on the date of grant of such Option.

(d) Exercise. An Option Agreement may provide for exercise of an Option in such amounts and at such times as shall be specified therein; provided, however, except as provided in Section 7(g), below, or as otherwise determined by the Administrator, no Option granted to a Service Provider may be exercised unless that person is then rendering services to the Company or a Subsidiary and shall have been continuously so rendering services since its date of grant. Except as otherwise permitted by the Administrator, an Option shall be exercisable by a Participant giving written notice of exercise to the Secretary of the Company accompanied by payment of the required exercise price.

(e) Vesting. Options granted under this Plan shall be exercisable at such time and in such installments during the period prior to the expiration of the Option's term as determined by the Administrator. The Administrator shall have the right to make the ability to exercise any Option granted under this Plan subject to such performance requirements as deemed appropriate by the Administrator.

(f) Payment of Exercise Price. The exercise price shall be payable in whole or in part in cash, Shares held by the Participant, other property, or such other consideration consistent with the Plan's purpose and applicable law as may be determined by the Administrator from time to time. Unless otherwise determined by the Administrator, such price shall be paid in full at the time that an Option is exercised. If the Participant elects to pay all or a part of the exercise price in Shares, such Participant may make such payment by delivering to the Company a number of Shares already owned by the Participant, either directly or by attestation, which are equal in value to the purchase or exercise price. All Shares so delivered shall be valued at the Fair Market Value as of the business day immediately preceding the date on which such Shares are delivered. The Administrator may, in its discretion, permit a Participant to exercise an Option under a broker-assisted (or other) cashless exercise program (whether through a broker or otherwise) implemented by the Company in connection with the Plan. The Administrator may, in its discretion, permit a Participant to exercise an Option on a "net exercise" basis. In such case, the Company will deliver that number of Shares to the Participant which equals the number of Shares for which the Option was exercised, reduced by the number of whole Shares (which the Company shall retain) with a value on the date of exercise (based on

the Fair Market Value as of the business day immediately preceding the date of exercise) equal to the exercise price and the required withholding tax at the time of exercise. To the extent the combined value of the whole Shares (valued at the Fair Market Value as of the business day immediately preceding the date of exercise) is not sufficient to equal the exercise price and required withholding tax, the Participant must pay such difference in cash to the Company before delivery of the Shares will be made to the Participant.

(g) Termination of Relationship as a Service Provider. Except as determined otherwise by the Administrator at the time of grant:

(1) Any Participant who ceases to be a Service Provider due to Disability shall have one year from the date of such cessation to exercise any Option granted hereunder as to all or part of the Shares subject to such Option; provided, however, that no Option shall be exercisable subsequent to ten years after its date of grant, and provided further that on the date the Participant ceases to be a Service Provider, he or she then has a present right to exercise such Option;

(2) In the event of the death of a Participant while a Service Provider, any Option, as to all or any part of the Shares subject to such Option, granted to such Service Provider shall be exercisable:

(A) for one year after the Participant's death, but in no event subsequent to ten years from its date of grant;

(B) only (i) by the deceased Participant's designated beneficiary (such designation to be made in writing at such time and in such manner as the Administrator shall approve or prescribe), or, (ii) if the deceased Participant dies without a surviving designated beneficiary, by the personal representative, Administrator, or other representative of the estate of the deceased Participant, or (iii) by the person or persons to whom the deceased Participant's rights under the Option shall pass by will or the laws of descent and distribution; and

(C) only to the extent that the deceased Participant would have been entitled to exercise such Option on the date of the Participant's death.

(3) A Participant who holds an Option who has designated a beneficiary for purposes of Section 7(g)(2)(B)(i), above, may change such designation at any time, by giving written notice to the Administrator, subject to such conditions and requirements as the Administrator may prescribe in accordance with applicable law.

(4) If a Participant ceases to be a Service Provider for any other reason except termination of employment for Cause, then any Option, as to all or any part of the Shares subject to such Option, granted to such Participant shall be exercisable for three months after such cessation; provided, however, that no Option shall be exercisable subsequent to ten years after its date of grant, and provided further that on the date the Participant ceases to be a Service Provider, he or she then has a present right to exercise such Option.

(5) If a person ceases to be a Service Provider because of a termination of employment for Cause, to the extent an Option is not effectively exercised prior to such cessation, it shall lapse immediately upon such cessation.

(h) Term of Options. In no event shall an Option be exercisable after the ten-year anniversary of the grant of such Option. Every Option that has not been exercised within ten years of its date of grant shall lapse upon the expiration of said ten-year period unless it shall have lapsed at an earlier time.

(i) Nature of Options. No Participant shall have any interest in any fund or in any specific asset or assets of the Company by reason of any Options granted hereunder, or any right to exercise any of the rights or privileges of a stockholder (including, but not limited to, voting rights or entitlement to dividends) with respect to any Options until Shares are issued in connection with any exercise.

8. RESTRICTED STOCK AND RESTRICTED STOCK UNITS

Restricted Stock or Restricted Stock Units granted under this Plan shall be subject to such terms and conditions not inconsistent with the Plan as the Administrator shall determine, including the following:

(a) Grants. The terms of any grant of Restricted Stock or Restricted Stock Units shall be confirmed by the execution of a Restricted Stock Agreement or a Restricted Stock Unit Agreement.

(b) Restrictions on Restricted Stock. Restricted Stock may not be sold, assigned, conveyed, donated, pledged, transferred or otherwise disposed of or encumbered for the period determined by the Administrator (the "Restricted Period"), subject to the provisions of this Section 8. In the event that a Participant shall sell, assign, convey, donate, pledge, transfer or otherwise dispose of or encumber the Restricted Stock, said Restricted Stock shall, at the Administrator's option, and in addition to such other rights and remedies available to the Administrator (including the right to restrain or set aside such transfer), be forfeited to the Company upon written notice to the transferee thereof at any time within ninety (90) days after its discovery of such transaction.

(c) Vesting Conditions. The Administrator shall determine the conditions under which Restricted Stock or Restricted Stock Units shall vest, including the satisfaction of performance criteria or the continuation of employment or services for the Company. The Administrator may set vesting conditions based upon the achievement of specific performance objectives, the continued employment of a Participant, or both. For purposes of qualifying Restricted Stock or Restricted Stock Units as "performance-based compensation" under Section 162(m) of the Code, the Administrator may set performance conditions based upon the achievement of Qualifying Performance Criteria. In such event, the Qualifying Performance Criteria shall be set by the Administrator on or before the latest date permissible to enable the Restricted Stock or Restricted Stock Units to qualify as "performance-based compensation" under Section 162(m) of the Code and the Administrator shall follow any procedures determined by it from time to time to be

necessary or appropriate to ensure qualification of the Restricted Stock or Restricted Stock Units under Section 162(m) of the Code, including, without limitation, written certification by the Administrator that the performance objectives and other applicable conditions have been satisfied before the Restricted Period shall end or the Restricted Stock Units are paid.

(d) Termination of Relationship as a Service Provider. Except as determined otherwise by the Administrator at the time of grant, if a Participant ceases to be a Service Provider for any reason, all Restricted Stock and unvested Restricted Stock Units held by such Participant shall be forfeited to the Company.

(e) Discretionary Adjustments. Notwithstanding satisfaction of any performance goals, the number of Shares granted, issued, retainable, or vested under an Award of Restricted Stock or Restricted Stock Units on account of either financial performance or personal performance evaluations may be reduced by the Administrator on the basis of such further considerations as the Administrator shall determine.

(f) No Rights as Stockholders for Participants Holding Restricted Stock Units. No Participant shall have any interest in any fund or in any specific asset or assets of the Company by reason of any Restricted Stock Units granted hereunder, nor any right to exercise any of the rights or privileges of a stockholder with respect to any Restricted Stock Units or any Shares distributable with respect to any Restricted Stock Units until such Shares are so distributed.

(g) Dividends and Distributions with Respect to Restricted Stock. Except as otherwise provided by the Administrator, a Participant who holds Restricted Stock shall be entitled to receive all dividends and other distributions paid with respect to the Restricted Stock, if any, until the Restricted Stock is forfeited or otherwise transferred back to the Company. Dividends payable by the Company to public stockholders in cash shall, with respect to any unvested shares of Restricted Stock, be paid in cash on or about the date such dividends are payable to public stockholders, subject to any applicable tax withholding requirements.

(h) Distribution of Shares with Respect to Restricted Stock Units. Each Participant who holds Restricted Stock Units shall be entitled to receive from the Company one Share for each Restricted Stock Unit, as adjusted from time to time in the manner set forth in Section 12, below. However, the Company, as determined in the sole discretion of the Administrator at the time of grant, shall be entitled to settle its obligation to deliver Shares by instead making a payment of cash substantially equal to the Fair Market Value of the Shares it would otherwise be obligated to deliver, or by the issuance of a combination of Shares and cash, in the proportions determined by the Administrator, substantially equal to the Fair Market Value of the Shares the Company would otherwise be obligated to deliver. The Fair Market Value of a Share for this purpose will mean the Fair Market Value on the business day immediately preceding the date of the cash payment. Except as otherwise determined by the Administrator at the time of the grant, Restricted Stock Units shall vest and Shares shall be distributed to the Participant in respect thereof as of the vesting date; provided, however, if any grant of Restricted Stock

Units to a Participant who is subject to U.S. federal income tax is nonqualified deferred compensation for purposes of Section 409A of the Code, cash or Shares shall only be distributed in a manner such that Section 409A of the Code will not cause the Participant to become subject to penalties and/or interest thereunder.

(i) Dividends and Distributions with Respect to Restricted Stock Units. Except as otherwise provided by the Administrator, a Participant who holds Restricted Stock Units shall not be entitled to receive any dividends, dividend equivalents, or other distributions paid with respect to Shares.

9. SARS

Each SAR granted under this Plan shall be subject to such terms and conditions not inconsistent with the Plan as the Administrator shall determine, including the following:

(a) Grants. The terms of any grant of SARs shall be confirmed by the execution of a SAR Agreement.

(b) Grant Value. The Grant Value of each SAR granted pursuant to this Plan shall be determined by the Administrator and shall in all cases be equal to or greater than the Fair Market Value per Share on the date of grant of such SAR.

(c) Exercise. An SAR Agreement may provide for exercise of a SAR by a Participant in such amounts and at such times as shall be specified therein. Except as otherwise permitted by the Administrator, a SAR shall be exercisable by a Participant by such Participant giving written notice of exercise to the Secretary of the Company.

(d) Vesting. SARs shall be exercisable at such times and in such installments during the period prior to the expiration of the SAR term as determined by the Administrator. The Administrator shall have the right to make the timing of the ability to exercise any SAR granted under this Plan subject to such performance requirements as deemed appropriate by the Administrator.

(e) Rights on Exercise. A SAR shall entitle the Participant to receive from the Company an amount in cash substantially equal to the excess of the Fair Market Value of one share as of the business day immediately preceding the date of exercise (the "Valuation Date") over the Grant Value for such SAR as set forth in the applicable SAR Agreement, multiplied by the number of SARs exercised.

(f) Term of SARs. In no event shall a SAR be exercisable after the ten-year anniversary of the grant of such SAR. Every SAR that has not been exercised within ten years of its date of grant shall lapse upon the expiration of said ten-year period unless it shall have lapsed at an earlier date.

(g) Termination of Relationship as a Service Provider. Except as determined otherwise by the Administrator at the time of grant:

(1) Any Participant who ceases to be a Service Provider due to Disability shall have one year from the date of such cessation to exercise any SAR granted hereunder; provided, however, that no SAR shall be exercisable subsequent to ten years after its date of grant, and provided further that on the date the Participant ceases to be a Service Provider, he or she then has a present right to exercise such SAR.

(2) In the event of the death of a Participant while a Service Provider, any SAR granted to such Participant shall be exercisable:

(A) For one year after the Participant's death, but in no event later than ten years from its date of grant;

(B) only (i) by the deceased Participant's designated beneficiary (such designation to be made in writing at such time and in such manner as the Administrator shall approve or prescribe), (ii) if the deceased Participant dies without a surviving designated beneficiary, by the personal representative, administrator, or other representative of the estate of the deceased Participant, or (iii) by the person or persons to whom the deceased Participant's rights under the SAR shall pass by will or the laws of descent and distribution; and

(C) only to the extent that the deceased Participant would have been entitled to exercise such SAR on the date of the Participant's death.

(3) A Participant who holds a SAR who has designated a beneficiary for purposes of Section 9(g)(2)(B)(i), above, may change such designation at any time, by giving written notice to the Administrator, subject to such conditions and requirements as the Administrator may prescribe in accordance with applicable law.

(4) If a Participant ceases to be a Service Provider for any other reason except termination of employment for Cause, then any SAR granted to such Participant shall be exercisable for three months after such cessation; provided, however, that no SAR shall be exercisable subsequent to ten years after its date of grant, and provided further that on the date the person ceases to be a Service Provider, he or she then has a present right to exercise such SAR.

(5) If a person ceases to be a Service Provider because of a termination of employment for Cause, to the extent an SAR is not effectively exercised prior to such cessation, it shall lapse immediately upon such cessation.

(h) Nature of SARs. No Participant shall have any interest in any fund or in any specific asset or assets of the Company by reason of any SARs granted hereunder, or any right to exercise any of the rights or privileges of a stockholder (including, but not limited to, voting rights or entitlement to dividends) with respect to any SARs.

10. INCENTIVE BONUSES

Each Incentive Bonus granted under this Plan shall be subject to such terms and conditions not inconsistent with the Plan as the Administrator shall determine, including the following:

(a) Incentive Bonuses in General. Each Award of an Incentive Bonus will confer upon the Participant the opportunity to earn a future payment tied to the level of achievement with respect to one or more performance criteria established for a performance period of one year or greater.

(b) Incentive Bonus Agreement. The terms of any grant of an Incentive Bonus shall be confirmed by the execution of an Incentive Bonus Agreement. Each Incentive Bonus Agreement shall contain provisions regarding (a) the target and maximum amount payable to the Participant as an Incentive Bonus, (b) the performance criteria and level of achievement versus these criteria that shall determine the amount of such payment, (c) the term of the performance period as to which performance shall be measured for determining the amount of any payment, (d) the timing of any payment earned by virtue of performance, (e) restrictions on the alienation or transfer of the Incentive Bonus prior to actual payment, (f) forfeiture provisions, and (g) such further terms and conditions, in each case not inconsistent with this Plan, as may be determined from time to time by the Administrator. The maximum amount payable as an Incentive Bonus may be a multiple of the target amount payable, but the maximum amount payable pursuant to that portion of an Award of an Incentive Bonus granted under this Plan for any fiscal year to any Participant shall not exceed $2,500,000.

(c) Performance Criteria. The Administrator shall establish the performance criteria and level of achievement versus these criteria that shall determine the target and maximum amount payable under an Award of an Incentive Bonus, which criteria may be based on financial performance, personal performance evaluations, or both.

(d) Timing and Form of Payment. The Administrator shall determine the timing of payment of any Incentive Bonus, provided that the timing of such payment shall satisfy an exception to Code Section 409A or, if no such exception is available, the timing of such payment shall comply with the requirements of Code Section 409A. Payment for any Incentive Bonus shall be made in cash, Shares or a combination thereof as determined by the Administrator.

(e) Discretionary Adjustments. Notwithstanding satisfaction of any Qualifying Performance Criteria, the amount paid under an Award of an Incentive Bonus on account of either financial performance or personal performance evaluations may be reduced by the Administrator on the basis of such further considerations as the Administrator shall determine.

11. LAWS AND REGULATIONS

Each Incentive Bonus Agreement, Option Agreement, Restricted Stock Agreement, Restricted Stock Unit Agreement, and SAR Agreement shall contain such representations, warranties and other terms and conditions as shall be necessary in the opinion of counsel to the Company to comply with all applicable federal and state securities laws. The Company shall have the right to delay the issue or delivery of any Shares under the Plan until (a) the completion of such registration or qualification of such Shares under any federal or state law, ruling or regulation as the Company shall determine to be necessary or advisable, and (b) receipt from the Participant of such documents and information as the Administrator may deem necessary or appropriate in connection with such registration or qualification.

12. ADJUSTMENT PROVISIONS

(a) Share Adjustments. In the event of any stock dividend, stock split, recapitalization, merger, consolidation, combination or exchange of shares, or the like, as a result of which shares of any class are issued in respect of the outstanding Shares, or the Shares are changed into the same or a different number of the same or another class of stock, or into securities of another person, cash or other property (not including a regular cash dividend), the total number of Shares authorized to be offered in accordance with Section 5 and the other limitations contained in Section 5, the number of Shares subject to each outstanding Option, the number of Shares of Restricted Stock then held by each Participant, the number of shares to which each then outstanding SAR relates, the number of shares to which each outstanding Award of Restricted Stock Unit relates, the exercise price applicable to each outstanding Option and the Grant Value of each outstanding SAR shall be appropriately adjusted as determined by the Administrator.

(b) Binding Effect. Any adjustment, waiver, conversion or other action taken by the Administrator under this Section 12 shall be conclusive and binding on all Participants and all other persons.

13. CORPORATE TRANSACTIONS OR CHANGES OF CONTROL

(a) Merger, Consolidation or Reorganization. In the event of the consummation of a merger, consolidation or reorganization with another corporation in which the Company is not the surviving corporation or a merger, consolidation or reorganization involving the Company in which the common stock ceases to be publicly traded, the Administrator may, subject to the approval of the Board of Directors, or the board of directors of any corporation assuming the obligations of the Company hereunder, take action regarding each outstanding and unexercised Award pursuant to either clause (1) or (2) below:

(1) Appropriate provision may be made for the protection of such stock-based Award by the substitution on an equitable basis of appropriate shares of the surviving or related corporation, provided that, for Options or SARs, the excess of the aggregate Fair Market Value of the Shares subject to such Award immediately before such substitution over the exercise price or Grant Value thereof, if any, is not more than the excess of the aggregate Fair Market Value of the substituted shares made subject to such Award immediately after such substitution over the exercise price thereof, if any; or

(2) The Administrator may cancel such Award. In the event any Option or SAR is canceled, the Company, or the corporation assuming the obligations of the Company hereunder, shall pay the Participant an amount of cash (less normal withholding taxes) equal to the excess of (i) the value, as determined by the Administrator, of the property (including cash) received by the holder of a Share as a result of such event over (ii) the exercise price of such Option or Grant Value of such SAR, multiplied by the number of shares subject to such Option or the number of SARs (including, in the sole discretion of the Administrator, any unvested portion). In the event any other Award is canceled, the Company, or the corporation assuming the obligations of the Company hereunder, shall pay the Participant an amount of cash or stock, as determined by the Administrator, based upon the value, as determined by the Administrator, of the property (including cash) received by the holder of a Share as a result of such event (including, in the sole discretion of the Administrator, payment for any unvested portion). No payment shall be made to a Participant for any Option or SAR if the exercise price for such Option or Grant Value of such SAR exceeds the value, as determined by the Administrator, of the property (including cash) received by the holder of a share of Company Stock as a result of such event. Except as otherwise provided by the Administrator, determination of any payment under this Section 13(a)(2) for an Award that is subject to Qualifying Performance Criteria shall be based upon achievement at the target level of performance.

(b) Effect of Change in Control upon Certain Awards. Except as otherwise determined by the Administrator, or except where a Participant's entitlement to an Award is subject to Qualifying Performance Criteria, upon a Participant's involuntary termination of employment without Cause or a voluntary termination of the Participant's employment for Good Reason within twelve months following a Change in Control, all Awards will become fully vested, and for Options and SARs, immediately exercisable. In the case of an Award under which a Participant's entitlement to the Award is subject to the achievement of Qualifying Performance Criteria, except as otherwise determined by the Administrator, upon the occurrence of a Change in Control, the Participant shall be deemed to have satisfied the Qualifying Performance Criteria at the target level of performance and such Award shall continue to vest based upon the time-based service vesting criteria, if any, to which the Award is subject. For Awards described in the preceding sentence that are assumed or maintained by the acquiring or surviving company following a Change in Control, except as otherwise determined by the Administrator, upon a Participant's involuntary termination of employment without Cause or a voluntary termination of the Participant's employment for Good Reason within twelve months following a Change in Control, the time-based service vesting criteria shall be deemed satisfied at the time of such termination. Other than as specifically set forth in this Section 13, following a Change in Control, Awards shall continue to be subject to any time-based vesting criteria or forfeiture provisions to which such Awards were subject prior to the Change in Control.

14. TAXES

(a) Incentive Bonuses. The Company shall be entitled to pay and withhold from any amounts payable by the Company to a Participant the amount of any tax which it believes is required as a result of the payment of an Incentive Bonus.

(b) Options and SARs. The Company shall be entitled to pay and withhold from any amounts payable by the Company to a Participant the amount of any tax which it believes is required as a result of the grant, vesting or exercise of any Option or SAR. The Company may defer making delivery with respect to Shares obtained pursuant to exercise of any Option until arrangements satisfactory to it have been made with respect to any such withholding obligations. Except as otherwise provided by the Administrator, a Participant exercising an Option may, at his or her election, satisfy his or her obligation for payment of required withholding taxes by having the Company retain a number of Shares having an aggregate value (based on the Fair Market Value per Share on the business day immediately preceding the date the Option is exercised) equal to the amount of the required withholding tax.

(c) Restricted Stock. The Company shall be entitled to pay and withhold from any amounts payable by the Company to a Participant the amount of any tax which it believes is required as a result of the issuance of or lapse of restrictions on Restricted Stock, and the Company may defer the delivery of any Shares or Share certificates until arrangements satisfactory to the Administrator shall have been made with respect to any such withholding obligations. Except as otherwise provided by the Administrator, a Participant may, at his or her election, satisfy his or her obligation for payment of required withholding taxes with respect to Restricted Stock by delivering to the Company a number of Shares which were Restricted Stock upon the lapse of restrictions, or Shares already owned, having an aggregate value (based on the Fair Market Value per Share on the business day immediately preceding the date the Shares are withheld) equal to the amount of the required withholding tax.

(d) Restricted Stock Units. The Company shall be entitled to pay and withhold from any amounts payable by the Company to a Participant the amount of any tax which it believes is required as a result of the grant or vesting of any Restricted Stock Units or the distribution of any Shares or cash payments with respect to Restricted Stock Units, and the Company may defer making delivery of Shares with respect to Restricted Stock Units until arrangements satisfactory to the Administrator have been made with respect to any such withholding obligations. Except as otherwise provided by the Administrator, a Participant who holds Restricted Stock Units may, at his or her election, satisfy his or her obligation to pay the required withholding taxes by having the Company withhold from the number of Shares distributable, if any, a number of Shares having an aggregate value (based on the Fair Market Value per Share on the business day immediately preceding the date the Shares are withheld) equal to the amount of the required withholding tax.

15. TRANSFERABILITY

Unless the agreement or other document evidencing an Award (or an amendment thereto authorized by the Administrator) expressly states that the Award is transferable, no Award granted under this Plan, nor any interest in such Award, may be sold, assigned, conveyed, gifted, pledged, hypothecated or otherwise transferred for value in any manner prior to the vesting or lapse of any and all restrictions applicable thereto, other than by will or the laws of descent and distribution or pursuant to a “domestic relations order,” as defined in the Code. The Administrator may grant an Award or amend an outstanding Award to provide that the Award is

transferable or assignable to a member or members of the Participant's "immediate family," as such term is defined in Rule 16a-1(e) under the Exchange Act, or to a trust for the benefit solely of a member or members of the Participant's immediate family, or to a partnership or other entity whose only owners are members of the Participant's immediate family, provided that following any such transfer or assignment the Award will remain subject to substantially the same terms applicable to the Award while held by the Participant, as modified as the Administrator shall determine appropriate, and the transferee shall execute an agreement agreeing to be bound by such terms.

16. EFFECTIVENESS OF THE PLAN

The effective date of the Plan is April 24, 2014 (the "Effective Date"). The Board amended the Plan April 9, 2018, subject to the approval of stockholders of the Company at the 2018 Annual Meeting of Stockholders.

17. TERMINATION AND AMENDMENT

Unless the Plan is earlier terminated as hereinafter provided, no Award shall be granted after the ten-year anniversary of the Effective Date of the Plan, as provided in Section 16. The Board of Directors may terminate the Plan or make such modifications or amendments to the Plan as it shall deem advisable, including, but not limited to, such modifications or amendments as it shall deem advisable in order to conform to any law or regulation applicable to the Plan; provided, however, that the Board of Directors may not, without further approval of the holders of a majority of the Shares voted at any meeting of stockholders at which a quorum is present and voting, adopt any amendment to the Plan for which stockholder approval is required under tax, securities or any other applicable law or the listing standards of such exchange or inter-dealer quotation system on which the Shares are listed. Except to the extent necessary for Participants to avoid becoming subject to penalties and/or interest under Section 409A of the Code with respect to Awards that are treated as nonqualified deferred compensation thereunder, no termination, modification or amendment of the Plan may, without the consent of the Participant, adversely affect the rights of such Participant under an outstanding Award then held by the Participant.

Except as otherwise provided in this Plan, the Administrator may amend an outstanding Award or any Incentive Bonus Agreement, Option Agreement, Restricted Stock Agreement, Restricted Stock Unit Agreement, or SAR Agreement; provided, however, that the Participant's consent to such action shall be required unless the Administrator determines that the action, taking into account any related action, (i) would not materially and adversely affect the Participant or (ii) where applicable, is required in order for the Participant to avoid becoming subject to penalties and/or interest under Section 409A of the Code. The Administrator may also modify or amend the terms of any Award granted under the Plan for the purpose of complying with, or taking advantage of, income or other tax or legal requirements or practices of foreign countries which are applicable to Participants. However, notwithstanding any other provision of the Plan, the Administrator may not reduce the exercise price of any outstanding Option or SAR, whether through amendment, cancellation and replacement grants, or any other means without stockholder approval, except as authorized under Section 12 or 13 of the Plan.

18. OTHER BENEFIT AND COMPENSATION PROGRAMS

Payments and other benefits received by a Participant under an Award granted pursuant to the Plan shall not be deemed a part of such Participant's regular, recurring compensation for purposes of the termination, indemnity or severance pay law of any country and shall not be included in, nor have any effect on, the determination of benefits under any other employee benefit plan, contract or similar arrangement provided by the Company or any Subsidiary unless expressly so provided by such other plan, contract or arrangement, unless required by law, or unless the Administrator expressly determines otherwise.

19. FORFEITURE OF AMOUNTS PAID UNDER THE PLAN

The Company shall have the right to require any Participant to forfeit and return to the Company any Award made to the Participant pursuant to this Plan (or amounts realized thereon) consistent with any recoupment policy maintained by the Company under Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act or any Securities and Exchange Commission rule, as such policy is amended from time to time.

20. NO RIGHT TO EMPLOYMENT

The Plan shall not confer upon any person any right with respect to continuation of employment by the Company or a Subsidiary, nor shall it interfere in any way with the right of the Company or such Subsidiary to terminate any person's employment at any time. The agreements or other documents evidencing Awards may contain such provisions as the Administrator may approve with reference to the effect of approved leaves of absence.

21. GOVERNING LAW

This Plan and any agreements or other documents hereunder shall be interpreted and construed in accordance with the laws of the State of Delaware and applicable federal law. The Administrator may provide that any dispute as to any Award shall be presented and determined in such forum as the Administrator may specify, including through binding arbitration. Any reference in this Plan or in the agreement or other document evidencing any Award to a provision of law or to a rule or regulation shall be deemed to include any successor law, rule or regulation of similar effect or applicability.

EXHIBIT 10.2

SCHOOL SPECIALTY, INC.
2014 INCENTIVE PLAN
RESTRICTED STOCK UNIT AGREEMENT
(EXECUTIVE OFFICER)

School Specialty, Inc. (the "*Company*") hereby grants you a Restricted Stock Unit Award (the "*RSU Award*") under the 2014 Incentive Plan of School Specialty, Inc. (the "*Plan*"). This RSU Award entitles you to a number of shares of the Company's common stock (the "*Shares*") equal to the number of restricted stock units (the "*RSUs"*) granted to you as set forth in **Schedule I** to this Restricted Stock Unit Agreement (this "*Agreement*"), subject to the terms and conditions set forth in this Agreement.

Schedule I to this Agreement provides the details of your RSU Award. It specifies the number of RSUs you have been granted and the vesting schedule applicable to your RSU Award.

The RSU Award is subject in all respects to the applicable provisions of the Plan. This Agreement does not cover all of the rules that apply to the RSU Award under the Plan, and the Plan defines any terms in this Agreement that the Agreement does not define.

In addition to the terms and restrictions in the Plan, the following terms and restrictions apply to the RSU Award:

Vesting

The RSUs you have been granted under the RSU Award shall vest pursuant to the vesting schedule in **Schedule I** to this Agreement. Except as provided in Section 13 of the Plan, if your employment is terminated for any reason, the vesting of the RSUs shall, on the date of such termination, cease and any unvested RSUs shall be forfeited by you and revert to the Company. Unless otherwise adjusted by the Administrator in accordance with the Plan, you shall be entitled to receive one Share for each RSU that vests.

Shareholder Status

You understand and agree that the Company will not consider you a stockholder, and you do not have any rights or privileges of a stockholder for any purpose with respect to any of the RSUs granted under the RSU Award or any Shares distributable with respect to any RSUs until such Shares are so distributed.

Issuance and Delivery of Shares

In accordance with the Plan, the Company shall ascribe to you a number of Shares underlying the RSUs that vest, less any Shares used to satisfy the obligation to withhold income and/or employment taxes in connection with the vesting of any RSUs, as soon as administratively practical following the date your RSUs vest but in no event later than 60 days following the date your RSUs vest.

Taxes

The Company may require payment of or withhold any income or employment tax which it believes is payable as a result of vesting of the RSUs or any payments thereon or in connection therewith, and the Company may defer making delivery with respect to the Shares until arrangements satisfactory to the Company have been made with regard to any such withholding obligation. The Company may withhold Shares to satisfy such withholding obligations.

No Effect on Employment Or Other Relationship	Nothing in this Agreement restricts the Company's rights or those of any of its affiliates to terminate your employment or other relationship at any time, with or without cause. The termination of employment or other relationship, whether by the Company or any of its affiliates or otherwise, and regardless of the reason for such termination, has the consequences provided for under this Agreement.
Governing Law	The laws of the State of Delaware will govern all matters relating to this Agreement, without regard to the principles of conflict of laws, except to the extent superseded by the laws of the United States of America.
Notices	Any notice you give to the Company must follow the procedures then in effect under the Plan and this Agreement. If no other procedures apply, you must deliver your notice in writing by hand or by mail to the office of the Assistant Secretary. If mailed, you should address it to the Company's Assistant Secretary at the Company's then corporate headquarters, unless the Company directs Participants to send notices to another corporate department or to a third party administrator or specifies another method of transmitting notice. The Company will address any notices to you at your office or home address as reflected on the Company's personnel or other business records. You and the Company may change the address for notice by like notice to the other, and the Company can also change the address for notice by general announcements to Participants.
Plan Governs	Wherever a conflict may arise between the terms of this Agreement and the terms of the Plan, the terms of the Plan will control; provided, however that this Agreement may impose greater restrictions on, or grant lesser rights, than the Plan. The Administrator may adjust the number of Shares and other terms of the RSU Award from time to time as the Plan provides.

SCHOOL SPECIALTY, INC.
2014 INCENTIVE PLAN
RESTRICTED STOCK UNIT AGREEMENT

PARTICIPANT ACKNOWLEDGEMENT

I acknowledge I received a copy of the Plan and this Agreement (including Schedule I). I represent that I have read and am familiar with the terms of the Plan and this Agreement (including Schedule I). By signing where indicated below, I accept the RSU Award subject to all of the terms and provisions of this Agreement (including Schedule I) and the Plan, as may be amended in accordance with its terms. I agree to accept as binding, conclusive, and final all decisions or interpretations of the Administrator concerning any questions arising under the Plan and this Agreement with respect to the RSU Award.

EMPLOYEE		SCHOOL SPECIALTY, INC.	
By:	______________________________	By:	______________________________
Date:		Date:	

SCHOOL SPECIALTY, INC.
2014 INCENTIVE PLAN
RESTRICTED STOCK UNIT AGREEMENT

SCHEDULE I

RSU Grant Number:

Participant Information:

Name:

Restricted Stock Unit Information:

RSUs Granted : Date of Grant:

RSU Vesting Provisions

1. Vesting Schedule . Except as otherwise provided in the Plan and this Agreement, the RSUs granted to you above will vest in thirds on the following dates: _________; _________ and _________. The cumulative number of RSUs vested on each of these dates is as follows:

Date	Number of RSUs Vested

2. Change in Control. Except as provided in Section 13 of the Plan, RSUs will continue to be subject to the above time-based vesting provisions following a Change in Control. However, all RSUs will become fully vested upon a Participant's involuntary termination of employment without Cause or a voluntary termination of the Participant's employment for Good Reason within twelve months following a Change in Control.

EXHIBIT 10.3

SCHOOL SPECIALTY, INC.
2014 INCENTIVE PLAN
RESTRICTED STOCK UNIT AGREEMENT
(NON-EMPLOYEE DIRECTOR)

School Specialty, Inc. (the "Company") hereby grants you restricted stock units (each, an "RSU Award") under the 2014 Incentive Plan of School Specialty, Inc., as amended (the "Plan"). This RSU Award entitles you to a number of shares of the Company's common stock (the "Shares") equal to the number of restricted stock units (the "RSUs") granted to you as set forth in **Schedule I** to this Restricted Stock Unit Agreement (this "Agreement"), subject to the terms and conditions set forth in this Agreement.

Schedule I to this Agreement provides the details for your RSU Award. It specifies the number of RSUs you have been granted and the vesting schedule applicable to your RSU Award.

The RSU Award is subject in all respects to the applicable provisions of the Plan. This Agreement does not cover all of the rules that apply to the RSU Award under the Plan, and the Plan defines any terms in this Agreement that this Agreement does not.

In addition to the terms and restrictions in the Plan, the following terms and restrictions apply to the RSU Award:

Vesting

The RSUs you have been granted under the RSU Award shall vest pursuant to the vesting schedule in **Schedule I** to this Agreement. If your service as a director is terminated for any reason except in connection with a Change in Control, the vesting of the RSUs shall, on the date of such termination, cease and any unvested RSUs shall be forfeited by you and revert to the Company. Unless otherwise adjusted by the Administrator in accordance with the Plan, you shall be entitled to receive one Share for each RSU that vests.

Shareholder Status

You understand and agree that the Company will not consider you a stockholder, and you do not have any rights or privileges of a stockholder for any purpose with respect to any of the RSUs granted under the RSU Award or any Shares distributable with respect to any RSUs until such Shares are so distributed.

Issuance and Delivery of Shares

In accordance with the Plan, the Company shall ascribe to you a number of Shares underlying the RSUs that vest, less any Shares used to satisfy the obligation, if any, to withhold income taxes in connection with the vesting of any RSUs, as soon as administratively practical following the date your RSUs vest but in no event later than 60 days following the date your RSUs vest.

Taxes

The Company may require payment of or withhold any withholding tax which it believes is payable as a result of vesting of the RSUs or any payments thereon or in connection therewith, and the Company may defer making delivery with respect to the Shares until arrangements satisfactory to the Company have been made with regard to any such withholding obligation. The Company may withhold Shares to satisfy such withholding obligations.

Compliance	You may not sell or otherwise dispose of the RSU Award in violation of applicable law.
No Effect on Relationships	Nothing in this Agreement restricts the Company's rights or those of any of its affiliates to terminate its or their relationship with you at any time, with or without cause. The termination any such relationship, whether by the Company or any of its affiliates or otherwise, and regardless of the reason for such termination, has the consequences provided for under the Plan.
Governing Law	The laws of the State of Delaware will govern all matters relating to this Agreement, without regard to the principles of conflict of laws, except to the extent superseded by the laws of the United States of America.
Notices	Any notice you give to the Company must follow the procedures then in effect under the Plan and this Agreement. If no other procedures apply, you must deliver your notice in writing by hand or by mail to the office of the Assistant Secretary designated by the Administrator. If mailed, you should address it to such Assistant Secretary at the Company's then corporate headquarters, unless the Company directs grantees to send notices to another corporate department or to a third party administrator or specifies another method of transmitting notice. The Company will address any notices to you at your office or home address as reflected on the Company's personnel or other business records. You and the Company may change the address for notice by like notice to the other, and the Company can also change the address for notice by general announcements to grantees.
Plan Governs	Wherever a conflict may arise between the terms of this Agreement and the terms of the Plan, the terms of the Plan will control; provided, however, that this Agreement may impose greater restrictions on, or grant lesser rights, than the Plan.

SCHOOL SPECIALTY, INC.
2014 INCENTIVE PLAN
RESTRICTED STOCK UNIT AGREEMENT

GRANTEE ACKNOWLEDGMENT

I acknowledge that I have received a copy of the Plan and this Agreement (including Schedule I). I represent that I have read and am familiar with the terms of the Plan and this Agreement (including Schedule I). By signing where indicated below, I accept the RSU Award subject to all of the terms and provisions of this Agreement (including Schedule I) and the Plan, as may be amended in accordance with its terms. I agree to accept as binding, conclusive, and final all decisions or interpretations of the Administrator concerning any questions arising under the Plan and this Agreement with respect to the RSU Award.

EMPLOYEE		SCHOOL SPECIALTY, INC.	
By:	______________________	By:	______________________
Date:		Date:	

SCHOOL SPECIALTY, INC.
2014 INCENTIVE PLAN
RESTRICTED STOCK UNIT AGREEMENT

SCHEDULE I

RSU Grant Number:

Participant Information:

Name:

Restricted Stock Information:

RSUs Granted: Date of Grant:

RSU Vesting Provisions

1. Vesting Schedule. These RSUs will become 100% vested on _________.

2. Change in Control. Notwithstanding the foregoing or any provision in the Agreement or Plan to the contrary, in the event of a Change in Control prior to the Vesting Date, all of the RSUs granted above shall vest upon such a Change in Control provided they have not been previously forfeited.

EXHIBIT 31.1

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

I, Joseph M. Yorio, certify that:

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

Date: August 7, 2018

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

EXHIBIT 31.2

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

I, Kevin L. Baehler, certify that:

1. I have reviewed this quarterly report on Form 10-Q of School Specialty, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d -15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2018

/s/ Kevin L. Baehler

Kevin L. Baehler
Executive Vice President and Chief Financial Officer
Principal Financial Officer

EXHIBIT 32.1

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

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

1. The Quarterly Report on Form 10-Q for the three months ended June 30, 2018 (the "Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations on School Specialty, Inc.

Date: August 7, 2018

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

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

EXHIBIT 32.2

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

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

1. The Quarterly Report on Form 10-Q for the three months ended June 30, 2018 (the "Report") which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations on School Specialty, Inc.

Date: August 7, 2018

/s/ Kevin L. Baehler
Kevin L. Baehler
Executive Vice President and Chief Financial Officer
Principal Financial Officer

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