

Veritiv Corp
Form 10-K
March 15, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015

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

For the transition period from _____ to _____

Commission file number 001-36479

VERITIV CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

46-3234977

(State or other jurisdiction of incorporation or organization)

(I.R.S Employer Identification Number)

1000 Abernathy Road NE

Building 400, Suite 1700

Atlanta, Georgia

30328

(Address of principal executive offices)

(Zip code)

(770) 391-8200

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common stock, \$0.01 par value

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

As of June 30, 2015, the aggregate market value of the voting common stock of the registrant held by non-affiliates of the registrant, based on the closing sale price of those shares on the New York Stock Exchange reported on June 30, 2015, was \$296,958,898. For the purposes of this disclosure only, the registrant has assumed that its directors,

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executive officers (as defined in Rule 3b-7 under the Exchange Act) and the UWW Holdings, LLC stockholder are the affiliates of the registrant.

The number of shares outstanding of the registrant's common stock as of March 11, 2016 was 16,000,753.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for the 2016 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

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EXPLANATORY NOTE

On July 1, 2014, International Paper Company completed the spin-off of its xpedx distribution solutions business ("xpedx") to the International Paper Company shareholders. Immediately following the spin-off, UWW Holdings, Inc., the parent company of Unisource Worldwide, Inc. ("Unisource"), was merged with and into xpedx to form a new publicly traded company known as Veritiv Corporation (the "Company").

All financial statements and notes thereto presented in this report as of and for the year ended December 31, 2015 reflect the results of the consolidated legacy xpedx and Unisource businesses. Because the spin-off and merger transactions were consummated on July 1, 2014:

All financial statements and notes thereto presented in this report for the year ended December 31, 2014 include the legacy xpedx business for the full twelve months presented and the legacy Unisource business from July 1, 2014;

All financial statements and notes thereto presented in this report for the year ended December 31, 2013 reflect the results of the legacy xpedx business only.

Additionally, the financial information presented in Part II, Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—of this report, and elsewhere, is consistent with the above financial statement presentation.

CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

Certain statements contained in this report regarding the Company's future operating results, performance, business plans, prospects, guidance and any other statements not constituting historical fact are "forward-looking statements" subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. Where possible, the words "believe," "expect," "anticipate," "intend," "should," "will," "would," "planned," "estimated," "potential," "goal," "outlook," "may," "predicts," "could," or the negative of such terms, or other comparable expressions, as they relate to the Company or its management, have been used to identify such forward-looking statements. All forward-looking statements reflect only the Company's current beliefs and assumptions with respect to future operating results, performance, business plans, prospects, guidance and other matters, and are based on information currently available to the Company. Accordingly, the statements are subject to significant risks, uncertainties and contingencies, which could cause the Company's actual operating results, performance, business plans or prospects to differ materially from those expressed in, or implied by, these statements.

Factors that could cause actual results to differ materially from current expectations include risks and other factors described under "Risk Factors" in this report and elsewhere in the Company's publicly available reports filed with the Securities and Exchange Commission ("SEC"), which contain a discussion of various factors that may affect the Company's business or financial results. Such risks and other factors, which in some instances are beyond the Company's control, include: the industry-wide decline in demand for paper and related products; increased competition from existing and non-traditional sources; adverse developments in general business and economic conditions as well as conditions in the global capital and credit markets; foreign currency fluctuations; our ability to collect trade receivables from customers to whom we extend credit; our ability to attract, train and retain highly qualified employees; the effects of work stoppages, union negotiations and union disputes; loss of significant customers; changes in business conditions in our international operations; procurement and other risks in obtaining packaging, paper and facility products from our suppliers for resale to our customers; changes in prices for raw materials; fuel cost increases; inclement weather, anti-terrorism measures and other disruptions to the transportation network; our dependence on a variety of IT and telecommunications systems and the Internet; our reliance on third-party vendors for various services; cyber-security risks; costs to comply with laws, rules and regulations, including environmental, health and safety laws, and to satisfy any liability or obligation imposed under such laws; regulatory changes and

judicial rulings impacting our business; adverse results from litigation, governmental investigations or audits, or tax-related proceedings or audits; our inability to renew existing leases on acceptable terms, negotiate rent decreases or concessions and identify affordable real estate; our ability to adequately protect our material intellectual property and other proprietary rights, or to defend successfully against intellectual property infringement claims by third parties; our pension and health care costs and participation in multi-employer plans; increasing interest rates; our ability to generate sufficient cash to service our debt; our ability to comply with the covenants contained in our debt agreements; our ability to refinance or restructure our debt on reasonable terms and conditions as might be necessary from time to time; changes in accounting standards and methodologies; our ability to realize the anticipated synergies, cost savings and growth opportunities from the merger transaction, our ability to integrate the xpedx business with the Unisource business, the possibility of incurring expenditures in excess of those currently budgeted in connection with the integration,

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and our limited experience complying with the reporting and other requirements of a publicly traded company, including the Sarbanes-Oxley Act; and other events of which we are presently unaware or that we currently deem immaterial that may result in unexpected adverse operating results.

For a more detailed discussion of these factors, see the information under the heading "Risk Factors" in this report and in other filings we make with the SEC. Forward-looking statements are made only as of the date hereof, and the Company undertakes no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. In addition, historical information should not be considered as an indicator of future performance.

PART I

ITEM 1. BUSINESS

Our Company

Veritiv Corporation ("Veritiv" or the "Company" and sometimes referred to in this Annual Report on Form 10-K as "we", "our", "us", or "ourselves") is a leading North American business-to-business distributor of print, publishing, packaging, and facility solutions. Additionally, Veritiv provides logistics and supply chain management solutions to its customers. Veritiv was established in 2014, following the merger of International Paper Company's ("International Paper" or "Parent") xpedx distribution solutions business and UWW Holdings, Inc. ("UWWH"), the parent company of Unisource. Independently, the two companies achieved past success by continuously upholding high standards of efficiency and customer focus. Through leveraging this combined history of operational excellence, Veritiv evolved into one team shaping its success through exceptional service, innovative people and consistent values. Today, Veritiv's focus on segment-tailored market leadership in distribution and a commitment to operational excellence allows it to partner with world class suppliers, add value through multiple capabilities and deliver solutions to a wide range of customer segments.

We operate from approximately 180 distribution centers primarily throughout the U.S., Canada and Mexico, serving customers across a broad range of industries. These customers include printers, publishers, data centers, manufacturers, higher education institutions, healthcare facilities, sporting and performance arenas, retail stores, government agencies, property managers and building service contractors.

Veritiv's business is organized under four reportable segments: Print, Publishing, Packaging and Facility Solutions. This segment structure is consistent with the way the Chief Operating Decision Maker, who is Veritiv's Chief Executive Officer, makes operating decisions and manages the growth and profitability of the Company's business. The Company also has a Corporate & Other category which includes certain assets and costs not primarily attributable to any of the reportable segments, as well as our Veritiv logistics solutions business which provides transportation and warehousing solutions. The following summary describes the products and services offered in each of the reportable segments:

Print – The Print segment sells and distributes commercial printing, writing, copying, digital, wide format and specialty paper products, graphics consumables and graphics equipment primarily in the U.S., Canada and Mexico. This segment also includes customized paper conversion services of commercial printing paper for distribution to document centers and form printers. Our broad geographic platform of operations coupled with the breadth of paper and graphics products, including our exclusive private brand offerings, provides a foundation to service national, regional and local customers across North America.

Publishing – The Publishing segment sells and distributes coated and uncoated commercial printing papers to publishers, retailers, converters, printers and specialty businesses for use in magazines, catalogs, books, directories, gaming, couponing, retail inserts and direct mail. This segment also provides print management, procurement and

supply chain management solutions to simplify paper and print procurement processes for our customers.

Packaging – The Packaging segment provides standard as well as custom and comprehensive packaging solutions for customers based in North America and in key global markets. The business is strategically focused on higher growth industries including light industrial/general manufacturing, food production, fulfillment and internet retail, as well as niche verticals based on geographical and functional expertise. Veritiv’s packaging professionals create customer value through supply chain solutions, structural and graphic packaging design and engineering, automation, workflow and equipment services, contract packaging, and kitting and fulfillment.

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Facility Solutions – The Facility Solutions segment sources and sells cleaning, break-room and other supplies such as towels, tissues, wipers and dispensers, can liners, commercial cleaning chemicals, soaps and sanitizers, sanitary maintenance supplies and equipment, safety and hazard supplies, and shampoos and amenities primarily in the U.S., Canada and Mexico. Veritiv is a leading distributor in the Facility Solutions segment. Through this segment we manage a world class network of leading suppliers in most facilities solutions categories. Additionally, we offer total cost of ownership solutions with re-merchandising, budgeting and compliance reporting, inventory management, and a sales-force trained to bring leading vertical expertise to the major North American geographies.

The table below summarizes net sales for each of the above segments, as a percentage of consolidated net sales:

	Year Ended December 31,		
	2015	2014	2013
Print	38%	40%	43%
Publishing	14%	15%	14%
Packaging	32%	30%	28%
Facility Solutions	15%	14%	15%
Corporate & Other	1%	1%	—%
Total	100%	100%	100%

Additional financial information regarding our reportable business segments and certain geographic information is included in Item 7 of this report and in Note 17 of the Notes to Consolidated and Combined Financial Statements in Item 8 of this report.

Our History

On July 1, 2014 (the "Distribution Date"), International Paper completed the previously announced spin-off of xpedx to its shareholders (the "Spin-off"), forming a new public company known as Veritiv. Immediately following the Spin-off, UWWH merged with and into Veritiv (the "Merger"). The Spin-off and the Merger are collectively referred to as the "Transactions".

On the Distribution Date, 8.16 million shares of Veritiv common stock were distributed on a pro rata basis to the International Paper shareholders of record as of the close of business on June 20, 2014. Immediately following the Spin-off, but prior to the Merger, International Paper's shareholders owned all of the outstanding shares of Veritiv common stock.

Immediately following the Spin-off on the Distribution Date, UWW Holdings, LLC, the sole stockholder of UWWH, (the "UWWH Stockholder") which is jointly owned by Bain Capital and Georgia-Pacific, received 7.84 million shares of Veritiv common stock for all of the outstanding shares of UWWH common stock that it held on the Distribution Date, in a private placement transaction.

Immediately following the completion of the Transactions, International Paper shareholders owned approximately 51%, and the UWWH Stockholder owned approximately 49%, of the shares of Veritiv common stock on a fully-diluted basis. Immediately following the completion of the Spin-off, International Paper did not own any shares of Veritiv common stock. Veritiv's common stock began regular-way trading on the New York Stock Exchange on July 2, 2014 under the ticker symbol VRTV.

International Paper's distribution business was consolidated into a division operating under the xpedx name in 1998 to serve the U.S. and Mexico markets. International Paper grew its distribution business both organically and through the acquisition of over 30 distribution businesses located across the U.S. and Mexico. Unisource was a wholly-owned subsidiary of Alco Standard Corporation until its spin-off of Unisource in December 1996 whereby Unisource became a separate public company. Unisource was acquired by Georgia-Pacific, now owned by Koch Industries, in July 1999. In November 2002, Bain Capital acquired approximately a 60% ownership interest in Unisource, while Georgia-Pacific retained approximately a 40% ownership interest.

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Products and Services

Veritiv distributes well-known national and regional brand products as well as products marketed under its own private label brands. Products under the Company's private label brands are manufactured by third-party suppliers in accordance with specifications established by the Company. Our portfolio of private label products includes:

- Coated and uncoated papers, coated board and cut size under the Endurance, uBrand, nordic+, Econosource, Comet, Starbrite Opaque Select and other brands;
- Packaging products under the TUFFflex brand, which include stretch film, carton sealing tape and other specialty tapes; and
- Cleaning chemicals, skin care products, sanitary maintenance supplies and a wide range of facility supplies products under the Reliable and Spring Grove brands.

The table below summarizes sales of products sold under private label brands as a percentage of the respective total Company or indicated segment's net sales for the periods shown:

	Year Ended December 31,	
	2015	2014
Print	19%	21%
Publishing	—%	—%
Packaging	6%	8%
Facility Solutions	8%	9%
Corporate & Other	—%	—%
Total Company	10%	12%

Customers

We serve customers across a broad range of industries, through a variety of means ranging from multi-year supply agreements to transactional sales. The Company has valuable, multi-year, long-term supply agreements with many of its largest customers that set forth the terms and conditions of sale, including product pricing and warranties. Generally, the Company's customers are not required to purchase any minimum amount of products under these agreements and can place orders on an individual purchase order basis. However, the Company enters into negotiated supply agreements with a minority of its customers.

For the years ended December 31, 2015, 2014, and 2013, no single customer accounted for more than 5% of the Company's consolidated net sales.

Suppliers

We purchase our products from thousands of suppliers, both domestic and international, across different business segments. Although varying by segment, the Company's suppliers consist generally of large corporations selling brand name and private label products and, to a more limited extent, independent regional and private label suppliers. Suppliers are selected based on customer demand for the product and a supplier's total service, cost and product quality offering.

Our sourcing organization supports the purchasing of well-known national and regional brand products as well as products marketed under our own private label brands from key national suppliers in the Print, Packaging and Facility

Solutions segments. The Publishing segment primarily operates as a direct ship brokerage business aligned with the Company's core supplier strategy. In addition, under the guidance and oversight of the sourcing team, our merchandising personnel located within individual distribution centers source products not available within our core offering in order to meet specialized customer needs.

The product sourcing program is designed to ensure that the Company is able to offer consistent product selections and market competitive pricing across the enterprise while maintaining the ability to service localized market requirements. Our procurement program is also focused on replenishment which includes purchase order placement and managing the total cost of inventory by improving the number of day's inventory on hand, negotiating favorable payment terms and maintaining

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vendor-owned and vendor-managed programs. As one of the largest purchasers of paper, graphics, packaging and facility supplies, we can qualify for volume allowances with some suppliers and can realize significant economies of scale. We in turn enter into incentive agreements with certain of our largest customers, which are generally based on sales to these customers.

During the year ended December 31, 2015, approximately 40% of our purchases were made from ten suppliers.

Competition

The paper, publishing, packaging and facility solutions distribution industry is highly competitive, with numerous regional and local competitors, and is a mature industry characterized by slowing growth or, in the case of paper, declining net sales. The Company's principal competitors include national, regional and local distributors, national and regional manufacturers, independent brokers and both catalog-based and online business-to-business suppliers. Most of these competitors generally offer a wide range of products at prices comparable to those Veritiv offers, though at varying service levels. Additionally, new competition could arise from non-traditional sources, group purchasing organizations, e-commerce, discount wholesalers or consolidation among competitors. Veritiv believes it offers the full range of services required to effectively compete, but if new competitive sources appear it may result in margin erosion or make it more difficult to attract and retain customers.

The following summary briefly describes the key competitive landscape for each of Veritiv's business segments:

Print – Industry sources estimate that there are hundreds of regional and local companies engaged in the marketing and distribution of paper and graphics products. While the Company believes there are few national distributors of paper and graphics products similar to Veritiv, several regional and local distributors have cooperated together to serve customers nationally. The Company's customers also have the opportunity to purchase products directly from paper and graphics manufacturers. In addition, competitors also include regional and local specialty distributors, office supply and big box stores, independent brokers and large commercial printers that broker the sale of paper in connection with the sale of their printing services.

Publishing – The publishing market is serviced by printers, paper brokers and distributors. The Company's customers also have the opportunity to purchase paper directly from paper manufacturers. The market consists primarily of magazine and book publishers, cataloguers, direct mailers and retail customers using catalog, insert and direct mail as a method of advertising. Veritiv's brokerage companies, Bulkley Dunton and Graphic Communications, act in a consulting capacity in the selection of products as well as providing supply chain services and solutions.

Packaging – The packaging market is fragmented and consists of competition from national and regional packaging distributors, national and regional manufacturers of packaging materials, independent brokers and both catalog-based and online business-to-business suppliers. Veritiv believes there are few national packaging distributors with substrate neutral design capabilities similar to the Company's capabilities.

Facility Solutions – There are few national, but numerous regional and local distributors of facility supply solutions. Several groups of distributors have created strategic alliances among multiple distributors to provide broader geographic coverage for larger customers. Other key competitors include the business-to-business divisions of big box stores, purchasing group affiliates and both catalog-based and online business-to-business suppliers.

We believe that our competitive advantages include over 1,600 sales and marketing professionals and the breadth of our selection of quality products, including high-quality private brands. The breadth of products distributed and services offered, the diversity of the types of customers served, and our broad geographic footprint in the U.S., Canada and Mexico buffer the impact of regional economic declines while also providing a network to readily serve national accounts.

Distribution and Logistics

Timely and accurate delivery of a customer's order, on a consistent basis, are important criteria in a customer's decision to purchase products and services from Veritiv. Delivery of products is provided through two primary channels, either from the Company's warehouses or directly from the manufacturer. Our distribution centers offer a range of delivery options depending on the customer's needs and preferences, and the strategic placement of the distribution centers also allows for delivery of special or "rush" orders to many customers.

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Working Capital

Veritiv's working capital needs generally reflect the need to carry significant amounts of inventory in our distribution centers to meet delivery requirements of our customers, as well as significant accounts receivable balances. As is typical in our industry, our customers often do not pay upon receipt, but are offered terms which are heavily dependent on the specific circumstances of the sale.

Employees

As of December 31, 2015, Veritiv had approximately 8,800 employees worldwide, of which approximately 9% were covered by collective bargaining agreements. Labor contract negotiations are handled on an individual basis by a team of Veritiv Human Resources and Legal personnel. Approximately 34% of the Company's unionized employees have collective bargaining agreements that expire during 2016. We currently expect that we will be able to renegotiate such agreements on satisfactory terms. We consider labor relations to be good.

Government Relations

As a distributor, our transportation operations are subject to the U.S. Department of Transportation Federal Motor Carrier Safety Regulations. We are also subject to federal, state and local regulations regarding licensing and inspection of facilities, including compliance with the U.S. Occupational Safety and Health Act. These regulations require us to comply with health and safety standards to protect our employees from accidents and establish communication programs to transmit information on the hazards of certain chemicals present in specific products that we distribute.

We are also subject to regulation by numerous U.S., Canadian and Mexican federal, state and local regulatory agencies, including, but not limited to, the U.S. Department of Labor which sets employment practice standards for workers. Although we are subject to other U.S., Canadian and Mexican federal, state and local provisions relating to the protection of the environment and the discharge or destruction of materials, these provisions do not materially impact the use or operation of the Company's facilities. Compliance with these laws has not had, and is not anticipated to have, a material effect on Veritiv's capital expenditures, earnings or competitive position.

Intellectual Property

We have numerous well-recognized trademarks, represented primarily by our private label brands. Most of our trademark registrations are effective for an initial period of 10 years, and we generally renew our trademark registrations before their expiration dates for trademarks that are in use or have reasonable potential for future use. Although our Print, Packaging and Facility Solutions segments rely on a number of trademarks that, in the aggregate, provide important protections to the Company, no single trademark is material to any one of these segments. See the Products and Services section above for additional information regarding our private label brand sales.

Veritiv does not have any material patents or licenses. During the last three years, Veritiv has not had any significant research and development expenditures.

Seasonality

The Company's operating results are subject to seasonal influences. Historically, our highest consolidated net sales and consequently Adjusted EBITDA (as defined in the "Key Performance Measure" section of Item 7 of this report)

occur during the third quarter while our lowest consolidated net sales and consequently Adjusted EBITDA occur during the first quarter. Within the Print and Publishing segments, seasonality is driven by increased magazine advertising page counts, retail inserts, catalogs and direct mail primarily due to back-to-school, political election and holiday-related advertising and promotions in the second half of the year. The Packaging segment net sales tend to increase each quarter throughout the year and net sales for the first quarter are typically less than net sales for the fourth quarter of the preceding year. Production schedules for non-durable goods that build up to the holidays and peak in the fourth quarter drive this seasonal net sales pattern. Net sales for the Facility Solutions segment tend to be highest during the second quarter due to increased summer demand in the away-from-home resort, cruise and hospitality markets and second highest during the third quarter due to back-to-school demand from our customers.

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Executive Officers of the Company

The following table sets forth certain information concerning the individuals who serve as executive officers of the Company as of March 1, 2016.

Name	Age	Position
Mary A. Laschinger	55	Chairman and Chief Executive Officer
Stephen J. Smith	52	Senior Vice President and Chief Financial Officer
Charles B. Henry	51	Senior Vice President Corporate Services
Mark W. Hianik	55	