

CASTLE A M & CO  
Form 10-Q  
August 09, 2018  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For 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: 1-5415

A. M. Castle & Co.  
(Exact name of registrant as specified in its charter)

Maryland 36-0879160  
(State or other jurisdiction of incorporation of organization) (I.R.S. Employer Identification No.)

1420 Kensington Road, Suite 220, Oak Brook, Illinois 60523  
(Address of principal executive offices) (Zip Code)  
Registrant's telephone, including area code (847) 455-7111

(Former name, former address and former fiscal year, if changed since last report) None

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 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 the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

The number of shares outstanding of the registrant's common stock as of August 3, 2018 was 3,802,839 shares.

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## Part I. FINANCIAL INFORMATION

## Item 1. Financial Statements (unaudited)

Amounts in thousands, except par value and per share data

A.M. Castle &amp; Co.

Condensed Consolidated Balance Sheets

|   | Successor        |                      |
|---|------------------|----------------------|
|   | June 30,<br>2018 | December 31,<br>2017 |
| <b>ASSETS</b>   |                  |                      |
| Current assets:   |                  |                      |
| Cash and cash equivalents   | \$6,636          | \$ 11,104            |
| Accounts receivable, less allowances of \$1,678 and \$1,586, respectively   | 91,060           | 74,370               |
| Inventories   | 164,120          | 154,491              |
| Prepaid expenses and other current assets   | 15,307           | 12,274               |
| Income tax receivable   | 3,593            | 1,576                |
| Total current assets  | 280,716          | 253,815              |
| Goodwill and intangible assets, net   | 8,176            | 8,176                |
| Prepaid pension cost  | 12,121           | 10,745               |
| Deferred income taxes   | 1,277            | 1,278                |
| Other noncurrent assets   | 1,270            | 1,344                |
| Property, plant and equipment:  |                  |                      |
| Land  | 5,578            | 5,581                |
| Buildings   | 21,264           | 21,296               |
| Machinery and equipment   | 35,843           | 33,011               |
| Property, plant and equipment, at cost  | 62,685           | 59,888               |
| Accumulated depreciation  | (7,227 )         | (2,961 )             |
| Property, plant and equipment, net  | 55,458           | 56,927               |
| Total assets  | \$359,018        | \$ 332,285           |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                  |                      |
| Current liabilities:  |                  |                      |
| Accounts payable  | \$52,031         | \$ 41,757            |
| Accrued and other current liabilities   | 15,581           | 13,931               |
| Income tax payable  | —                | 262                  |
| Short-term borrowings   | 4,838            | 5,854                |
| Current portion of long-term debt   | 119              | 118                  |
| Total current liabilities   | 72,569           | 61,922               |
| Long-term debt, less current portion  | 229,183          | 199,903              |
| Deferred income taxes   | 16,166           | 16,166               |
| Build-to-suit liability   | 9,609            | 10,148               |
| Other noncurrent liabilities  | 3,577            | 3,784                |
| Pension and postretirement benefit obligations  | 6,313            | 6,377                |
| Commitments and contingencies (Note 13)   |                  |                      |
| Stockholders' equity:   |                  |                      |
| Common stock, \$0.01 par value—200,000 Class A shares authorized with 3,803 shares issued and outstanding at June 30, 2018 and 3,734 shares issued and outstanding at December 31, 2017 | 38               | 37                   |
| Additional paid-in capital  | 53,212           | 49,944               |
| Accumulated deficit   | (26,981 )        | (13,327 )            |

|  |           |   |            |   |
|--|-----------|---|------------|---|
| Accumulated other comprehensive loss       | (4,668    | ) | (2,669     | ) |
| Total stockholders' equity                 | 21,601    |   | 33,985     |   |
| Total liabilities and stockholders' equity | \$359,018 |   | \$ 332,285 |   |

The accompanying notes are an integral part of these financial statements.

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Condensed Consolidated Statements of Operations  
and Comprehensive Loss

|   | Successor<br>Three<br>Months<br>Ended<br>June 30,<br>2018 | Predecessor<br>Three<br>Months<br>Ended<br>June 30,<br>2017<br>As<br>Adjusted* | Successor<br>Six<br>Months<br>Ended<br>June 30,<br>2018 | Predecessor<br>Six Months<br>Ended<br>June 30,<br>2017<br>As<br>Adjusted* |
|---|---|--|---|---|
| Net sales   | \$150,414   | \$136,482  | \$296,287   | \$272,408   |
| Costs and expenses:   |   |  |   |   |
| Cost of materials (exclusive of depreciation and amortization)              | 111,061   | 102,052  | 220,965   | 203,089   |
| Warehouse, processing and delivery expense                                  | 21,165  | 19,318   | 41,520  | 38,037  |
| Sales, general and administrative expense                                   | 16,974  | 15,215   | 33,522  | 30,311  |
| Restructuring expense   | —   | 40   | —   | 168   |
| Depreciation and amortization expense                                       | 2,362   | 3,895  | 4,738   | 7,759   |
| Total costs and expenses  | 151,562   | 140,520  | 300,745   | 279,364   |
| Operating loss  | (1,148 )  | (4,038 )   | (4,458 )  | (6,956 )  |
| Interest expense, net   | 8,129   | 11,274   | 15,255  | 23,220  |
| Financial restructuring expense   | —   | 5,723  | —   | 6,600   |
| Unrealized loss on embedded debt conversion option                          | —   | —  | —   | 146   |
| Other expense (income), net   | 673   | (4,067 )   | (4,101 )  | (6,399 )  |
| Reorganization items, net   | —   | 5,502  | —   | 5,502   |
| Loss before income taxes  | (9,950 )  | (22,470 )  | (15,612 )   | (36,025 )   |
| Income tax (benefit) expense  | (1,437 )  | 71   | (1,958 )  | 8   |
| Net loss  | \$(8,513 )  | \$(22,541 )  | \$(13,654 )   | \$(36,033 )   |
| Basic and diluted loss per common share                                     | \$(4.26 )   | \$(0.70 )  | \$(6.83 )   | \$(1.12 )   |
| Comprehensive loss:   |   |  |   |   |
| Net loss  | \$(8,513 )  | \$(22,541 )  | \$(13,654 )   | \$(36,033 )   |
| Change in unrecognized pension and postretirement benefit costs, net of tax | —   | 214  | —   | 428   |
| Foreign currency translation adjustments, net of tax                        | (1,124 )  | (685 )   | (1,999 )  | (1,685 )  |
| Comprehensive loss  | \$(9,637 )  | \$(23,012 )  | \$(15,653 )   | \$(37,290 )   |

\* Adjusted due to the adoption of ASU No. 2017-07, "Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." See Note 3 - New Accounting Standards, for additional information.

The accompanying notes are an integral part of these financial statements.

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A.M. Castle &amp; Co.

Condensed Consolidated Statements of Cash Flows

|   | Successor<br>Six<br>Months<br>Ended<br>June 30,<br>2018 | Predecessor<br>Six Months<br>Ended<br>June 30,<br>2017 |
|---|---|--|
| Operating activities:   |   |  |
| Net loss  | \$(13,654)  | \$(36,033 )  |
| Adjustments to reconcile net loss to net cash used in operating activities:     |   |  |
| Depreciation and amortization   | 4,738   | 7,759  |
| Amortization of deferred financing costs and debt discount                      | 3,628   | 3,056  |
| Unrealized loss on embedded debt conversion option                              | —   | 146  |
| Noncash reorganization items, net   | —   | 4,850  |
| (Gain) loss on sale of property, plant and equipment                            | (5 )  | 7  |
| Unrealized foreign currency gain  | (11 )   | (3,153 )   |
| Noncash interest paid in kind   | 6,138   | —  |
| Noncash compensation expense  | 1,342   | 442  |
| Deferred income taxes   | —   | (1,325 )   |
| Other, net  | 298   | 408  |
| Changes in assets and liabilities:  |   |  |
| Accounts receivable   | (17,283 )   | (16,729 )  |
| Inventories   | (10,776 )   | 487  |
| Prepaid expenses and other current assets                                       | (3,586 )  | (6,262 )   |
| Other noncurrent assets   | 806   | 1,533  |
| Prepaid pension costs   | (1,376 )  | (1,792 )   |
| Accounts payable  | 10,663  | 5,976  |
| Income tax payable and receivable   | (2,288 )  | 433  |
| Accrued and other current liabilities   | 964   | 7,200  |
| Pension and postretirement benefit obligations and other noncurrent liabilities | (195 )  | (353 )   |
| Net cash used in operating activities   | (20,597 )   | (33,350 )  |
| Investing activities:   |   |  |
| Capital expenditures  | (3,379 )  | (2,264 )   |
| Proceeds from sale of property, plant and equipment                             | 5   | 47   |
| Proceeds from release of cash collateralization of letters of credit            | —   | 246  |
| Net cash used in investing activities   | (3,374 )  | (1,971 )   |
| Financing activities:   |   |  |
| Proceeds from long-term debt including credit facilities                        | 39,461  | 12,500   |
| Repayments of long-term debt including credit facilities                        | (17,570 )   | (126 )   |
| Repayments of short-term borrowings, net  | (852 )  | —  |
| Payments of debt issue costs  | (482 )  | (1,831 )   |
| Payments of build-to-suit liability   | (897 )  | —  |
| Net cash from financing activities  | 19,660  | 10,543   |
| Effect of exchange rate changes on cash and cash equivalents                    | (157 )  | 374  |
| Net change in cash and cash equivalents   | (4,468 )  | (24,404 )  |
| Cash and cash equivalents - beginning of year                                   | 11,104  | 35,624   |
| Cash and cash equivalents - end of period                                       | \$6,636   | \$ 11,220  |

The accompanying notes are an integral part of these financial statements.





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Notes to Condensed Consolidated Financial Statements

Unaudited - Amounts in thousands except per share data and percentages

(1) Basis of Presentation

As previously disclosed, on June 18, 2017 (the "Petition Date"), A. M. Castle & Co. (the "Company") and four of its subsidiaries (together with the Company, the "Debtors") filed voluntary petitions for reorganization under chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") with the United States Bankruptcy Court for the District of Delaware in Wilmington, Delaware (the "Bankruptcy Court"). Also on June 18, 2017, the Debtors filed the Debtors' Prepackaged Joint Chapter 11 Plan of Reorganization with the Bankruptcy Court and on July 25, 2017, the Debtors filed the Debtors' Amended Prepackaged Joint Chapter 11 Plan of Reorganization (the "Plan") with the Bankruptcy Court. On August 2, 2017, the Bankruptcy Court entered an order (the "Confirmation Order") confirming the Plan. On August 31, 2017 (the "Effective Date"), the Plan became effective pursuant to its terms and the Debtors emerged from their chapter 11 cases. Refer to Note 2 - Bankruptcy Related Disclosures.

The Condensed Consolidated Financial Statements included herein have been prepared to reflect the application of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") No. 852, "Reorganizations" and ASC 805, "Business Combinations". Accordingly, the Company adopted fresh-start accounting upon emergence from their chapter 11 cases and became a new entity for financial reporting purposes as of September 1, 2017. For accounting purposes all emergence related transactions of the Predecessor including the impact of the issuance of the Successor common stock, the entry into a new asset-based revolving credit facility and new senior secured convertible notes, and the accelerated debt obligations of the Company that were satisfied pursuant to the terms of the Plan, were recorded as of August 31, 2017. Accordingly, the Condensed Consolidated Financial Statements for the Successor are not comparable to the Condensed Consolidated Financial Statements for the Predecessor.

Also in connection with the adoption of fresh-start accounting, the Company elected to make an accounting policy change related to the accounting for stock-based compensation. The Predecessor estimated the level of forfeitures expected to occur at the time of each grant and recorded compensation expense only for those stock-based awards that it ultimately expected would vest. The estimate was based on the Company's historical rates of forfeitures and was updated periodically. The Successor has elected to no longer estimate the number of stock-based awards expected to vest but rather, will account for forfeitures as they occur.

The Condensed Consolidated Financial Statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"), and accounting principles generally accepted in the United States of America ("GAAP"). This report contains Condensed Consolidated Financial Statements of the Company as of June 30, 2018 (Successor) and for the three and six months ended June 30, 2018 (Successor) and June 30, 2017 (Predecessor). The Condensed Consolidated Balance Sheet at December 31, 2017 (Successor) is derived from the audited financial statements at that date. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the SEC. In the opinion of management, the unaudited statements included herein contain all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of financial results for the interim period. These Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and the Notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. The 2018 interim results reported herein may not necessarily be indicative of the results of the Company's operations for the full year.

(2) Bankruptcy Related Disclosures

Chapter 11 Bankruptcy Filing

On the Petition Date, the Debtors filed voluntary chapter 11 petitions for reorganization under the Bankruptcy Code with the Bankruptcy Court pursuant to the terms of a Restructuring Support Agreement (as defined below) that contemplated the reorganization of the Debtors pursuant to a prepackaged plan of reorganization. The chapter 11 cases were consolidated for procedural purposes only and were administered jointly under the caption In re Keystone Tube Company, LLC., et al. (Case No. 17-11330). No trustee was appointed in the chapter 11 cases, and during the

pendency of the chapter 11 cases, the Debtors continued to operate their business as “debtors-in-possession” subject to the supervision and orders of the Bankruptcy Court in accordance with the Bankruptcy Code.

The filing of the bankruptcy petitions constituted a default or event of default that accelerated the Company’s obligations under (i) the Pre-Bankruptcy Facilities Agreement (as defined below) and the 11.00% Senior Secured Term Loan Credit

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Facilities due 2018 issued pursuant thereto (the "Pre-Bankruptcy Credit Facilities"), (ii) the Indenture dated February 8, 2016 (the "Pre-Bankruptcy Secured Notes Indenture") and the 12.75% Senior Secured Notes due 2018 issued pursuant thereto (the "Pre-Bankruptcy Secured Notes"), and (iii) the Indenture dated May 19, 2016 (the "Pre-Bankruptcy Convertible Notes Indenture") and the 5.25% Convertible Senior Secured Notes due 2019 issued pursuant thereto (the "Pre-Bankruptcy Convertible Notes"). The Pre-Bankruptcy Credit Facilities Agreement, the Pre-Bankruptcy Secured Notes Indenture, and the Pre-Bankruptcy Convertible Notes Indenture provide that, as a result of the filing of the bankruptcy petitions, all outstanding indebtedness due thereunder shall be immediately due and payable. Any efforts to enforce such payment obligations under the Pre-Bankruptcy Credit Facilities Agreement, the Pre-Bankruptcy Secured Notes Indenture, and the Pre-Bankruptcy Convertible Notes Indenture were automatically stayed as a result of the bankruptcy petitions, and the creditors' rights of enforcement in respect of the Pre-Bankruptcy Credit Facilities Agreement, the Pre-Bankruptcy Secured Notes Indenture, and the Pre-Bankruptcy Convertible Notes Indenture are subject to the applicable provisions of the Restructuring Support Agreement (as defined below) and the Bankruptcy Code.

Prior to the Petition Date, on June 16, 2017, the Debtors entered into an agreement (the "Commitment Agreement") with certain of their creditors (the "Commitment Parties"). The Commitment Parties are the holders (or the investment advisors or managers for the holders) of the Pre-Bankruptcy Credit Facility term loans made to the Company under a Credit and Guaranty Agreement, dated December 8, 2016, by and among the Company, Highbridge International Capital Management, LLC, Corre Partners Management, LLC, Whitebox Credit Partners, L.P., WFF Cayman II Limited, and SGF, LLC and Cantor Fitzgerald Securities, among others (as amended, the "Pre-Bankruptcy Credit Facilities Agreement").

The Commitment Agreement was entered into pursuant to a Restructuring Support Agreement dated April 6, 2017, as amended, by and among the Debtors and certain of their creditors, including the Commitment Parties (the "RSA"). The RSA provides for a consensual restructuring of the debt and equity of the Company, which the Company seeks to effect by means of the Plan.

The Company continued its operations without interruption during the pendency of the chapter 11 cases and reorganization process. To maintain and continue ordinary course operations without interruption, the Company received approval from the Bankruptcy Court of a variety of "first day" motions seeking certain relief and authorizing the Company to maintain its operations and pay trade claims in the ordinary course.

Plan of Reorganization and Emergence from Chapter 11

Pursuant to the terms of the RSA, on the Petition Date, the Debtors filed the Plan with the Bankruptcy Court.

The Plan allowed general unsecured claims and claims that are unimpaired under the Plan to be paid in full in cash. On August 2, 2017, the Bankruptcy Court entered the Confirmation Order approving and confirming the Plan. On the Effective Date, the Plan became effective pursuant to the terms described above and the Debtors emerged from their chapter 11 cases.

Key components of the Plan, which became effective on August 31, 2017, include:

Entry into a Revolving Credit and Security Agreement (the "ABL Credit Agreement") dated as of August 31, 2017 with PNC Bank, National Association ("PNC"), as lender and as administrative and collateral agent (the "Agent"), and the other lenders party thereto, which provided for a \$125,000 senior secured, revolving credit facility for the Company (the "Revolving A Credit Facility"). Refer to Note 7 - Debt, for further details.

On the Effective Date, in connection with its entering into the ABL Credit Agreement, the Company borrowed an aggregate amount equal to \$78,797, proceeds from which, along with proceeds of the New Money Notes (defined below) of \$38,002, were used to pay down all outstanding indebtedness, accrued interest, and related fees of the Company under the Pre-Bankruptcy Credit Facilities Agreement and the borrowings outstanding under the Debtor-in-Possession Revolving Credit and Security Agreement dated as of June 10, 2017.

Entry into an Indenture (the "Second Lien Notes Indenture") with Wilmington Savings Fund Society, FSB, as trustee and collateral agent ("Indenture Agent") and, pursuant thereto, issued approximately \$162,502 in aggregate original principal amount of its 5.00% / 7.00% Convertible Senior Secured Paid-in-Kind ("PIK") Toggle Notes due 2022 (the "Second Lien Notes"), excluding restricted notes issued under the A.M. Castle & Co. 2017 Management Incentive Plan.



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The Second Lien Notes were issued as follows:

\$111,875 in aggregate principal Second Lien Notes issued to holders of Prepetition Second Lien Secured Claims in partial satisfaction of their claims;

\$3,125 in aggregate principal Second Lien Notes issued to holders of Prepetition Third Lien Secured Claims in partial satisfaction of their claims; and

\$47,502 in aggregate principal Second Lien Notes issued to the Commitment Parties pursuant to the Commitment Agreement (the "New Money Notes").

As a result of these Plan actions, all of the outstanding indebtedness of the Pre-Bankruptcy Secured Notes and Pre-Bankruptcy Convertible Notes was discharged and canceled.

Issuance of an aggregate of 2,000 shares of a new class of common stock, par value \$0.01 per share (the "New Common Stock"), as follows:

1,300 shares issued to holders of Prepetition Second Lien Secured Claims in partial satisfaction of their claims;

300 shares issued to holders of Prepetition Third Lien Secured Claims in partial satisfaction of their claims; and

400 shares issued to participating holders of the Company's outstanding common stock as of August 2, 2017.

Payment in full of all general unsecured claims and claims that were unimpaired under the Plan in cash in the ordinary course of business.

Cash payment of \$6,646 to holders of Prepetition Second Lien Secured Claims.

Cash payment of a put option fee of \$2,000 to the Commitment Parties pursuant to the Commitment Agreement.

All agreements, instruments, and other documents evidencing, relating to or connected with any equity interests of the Company (which include the Company's prior common stock, warrants to purchase the Company's prior common stock, and unvested/unexercised awards under any management equity plans adopted before the Effective Date) were canceled and extinguished without recovery.

All prior director, officer and employee incentive plans, as well as the awards issued thereunder, were canceled. The new A.M. Castle & Co. 2017 Management Incentive Plan, under which persons eligible to receive awards including directors, officers and employees of the Company and its subsidiaries, became effective.

### Financial Reporting During Bankruptcy

During the pendency of the Company's chapter 11 cases, expenses and income directly associated with the chapter 11 proceedings were reported separately in reorganization items, net in the Company's Condensed Consolidated Statements of Operations and Comprehensive Loss. Reorganization items, net also include adjustments to reflect the carrying value of liabilities subject to compromise ("LSTC") at their estimated allowed claim amounts, as such adjustments were determined. In addition, effective as of the Petition Date and during the pendency of the Company's chapter 11 cases, the Company discontinued recording interest expense on outstanding prepetition debt classified as LSTC. Upon the Company's emergence from its chapter 11 cases, the Company settled and extinguished or reinstated liabilities that were subject to compromise.

Reorganization items, net for the both the three and six months ended June 30, 2017 (Predecessor) was an expense of \$5,502, and was comprised of legal and other professional fees of \$652 and the write-off of unamortized debt issuance costs and discounts related to the Pre-Bankruptcy Secured Notes and Pre-Bankruptcy Convertible Notes of \$4,850, both of which occurred in the second quarter of 2017.

### Fresh-Start Accounting

Under ASC No. 852, "Reorganizations", fresh-start accounting is required upon emergence from chapter 11 if (i) the reorganization value of the assets of the emerging entity immediately before the date of confirmation is less than the total of all post-petition liabilities and allowed claims; and (ii) holders of existing voting shares immediately before confirmation receive less than 50% of the voting shares of the emerging entity. The Company qualified for and adopted fresh-start accounting as of the Effective Date. Adopting fresh-start accounting results in a new reporting entity with

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no beginning retained earnings or deficits. The cancellation of all existing common shares outstanding on the Effective Date and issuance of new shares of the reorganized entity resulted in a change of control of the Company under ASC No. 852 "Reorganizations".

Adoption of fresh-start accounting resulted in the Company becoming a new entity for financial reporting purposes and the recording of the Company's assets and liabilities at their fair value as of the Effective Date, with the excess of reorganization value over net asset values recorded as goodwill, in conformity with ASC No. 805, "Business Combinations". The estimated fair values of the Company's assets and liabilities as of that date differed from the recorded values of its assets and liabilities as reflected in its historical consolidated financial statements. In addition, the Company's adoption of fresh-start accounting affected its results of operations following the fresh-start reporting date, as the Company had a new basis in its assets and liabilities. The Company also adopted one new accounting policy in connection with its adoption of fresh-start accounting (see Note 1 - Basis of Presentation). Consequently, the Company's financial statements on or after the Effective Date are not comparable with the financial statements prior to that date and the historical financial statements before the Effective Date are not reliable indicators of its financial condition and results of operations for any period after it adopted fresh-start accounting.

**(3) New Accounting Standards****Standards Updates Adopted**

In March 2017, the FASB issued Accounting Standards Update ("ASU") No. 2017-07, "Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." Under the new guidance, employers must present the service cost component of the net periodic benefit cost in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. In addition, only the service cost component will be eligible for capitalization in assets. The other components of net periodic benefit cost must be reported separately from the line item(s) that includes the service cost component and outside of any subtotal of operating income, if one is presented. Employers will have to disclose the line(s) used to present the other components of net periodic benefit cost, if the components are not presented separately in the income statement. The guidance on the income statement presentation of the components of net periodic benefit cost must be applied retrospectively, while the guidance limiting the capitalization of net periodic benefit cost in assets to the service cost component must be applied prospectively. For public business entities, the guidance was effective for fiscal years beginning after December 15, 2017, and interim periods within those years. The Company adopted ASU 2017-07 in the first quarter of 2018 and concluded it had no impact on its net loss before income taxes. Prior to the adoption of ASU No. 2017-07, the Company's net periodic pension and postretirement benefit costs were reported as sales, general and administrative expense on the Company's Condensed Consolidated Statements of Operations and Comprehensive Loss. As a result of the adoption of ASU No. 2017-07, the Company reclassified the interest cost component of net periodic pension and postretirement benefit costs of \$1,211 from sales, general and administrative expense to interest expense and a net periodic pension and postretirement benefit of \$1,821 from sales, general and administrative expense to other expense (income), net on the Condensed Consolidated Statements of Operations and Comprehensive Loss in the three months ended June 30, 2017 (Predecessor). The Company reclassified the interest cost component of net periodic pension and postretirement benefit costs of \$2,421 from sales, general and administrative expense to interest expense and a net periodic pension and postretirement benefit of \$3,641 from sales, general and administrative expense to other expense (income), net on the Condensed Consolidated Statements of Operations and Comprehensive Loss in the six months ended June 30, 2017 (Predecessor). In January 2017, the FASB issued ASU 2017-04, "Intangibles – Goodwill and Other (Topic 350)", which simplifies the subsequent measurement of goodwill by eliminating step two from the goodwill impairment test. ASU 2017-04 is effective for annual and interim impairment tests beginning January 1, 2020 for the Company and is required to be adopted using a prospective approach. Early adoption is allowed for annual goodwill impairment tests performed on testing dates after January 1, 2017. Unless an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value, the Company's annual goodwill impairment testing will next occur on December 1, 2018. The Company adopted the new guidance in the first quarter of 2018 and as a result, will no longer apply step two from the goodwill impairment test when performing its annual or interim goodwill impairment testing, if necessary.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," to reduce the existing diversity in practice related to how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230. The amendments in ASU No. 2016-15 address eight specific cash flow issues and apply to all entities that are required to present a statement of cash flows under Topic 230. The provisions of ASU No. 2016-15 must be applied retrospectively to all periods

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presented with limited exceptions. For public companies, the amendments in ASU No. 2016-15 were effective for fiscal years beginning after December 15, 2017, and interim periods within those years. The Company's adoption of ASU No. 2016-15 on January 1, 2018 had no financial statement impact and the Company will apply the presentation and statement of cash flows classification guidance going forward.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" and has subsequently issued several supplemental and/or clarifying ASUs (collectively, "ASC 606"). The underlying principle of ASC 606 is that a business or other organization will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services. The standard also requires more detailed disclosures and provides additional guidance for transactions that were not addressed completely in prior accounting guidance. Adoption of ASC 606 was required for annual and interim periods beginning after December 15, 2017. Almost all of the Company's purchase orders, contracts or purchase agreements do not contain performance obligations other than delivery of the agreed upon product, with title transfer generally occurring at the time of shipment. Thus, the Company generally recognizes revenue upon shipment of the product. Based on the Company's analysis of all of its revenue generating activities and the contracts which might impact its revenue generating activities in light of the new standard, the Company has concluded that the timing and amount of revenue recognized under ASC 606 is consistent with the revenue recognition policy under the previous guidance and none of its revenue streams are materially affected by the adoption of ASC 606.

Effective January 1, 2018, the Company adopted the requirements of ASC 606 using the modified retrospective method, which requires the recognition of the cumulative effect of initially applying the standard (if any) as an adjustment to opening retained earnings for the fiscal year beginning January 1, 2018. The adoption of ASC 606 did not result in the recognition of a cumulative adjustment to opening retained earnings under the modified retrospective approach, nor did it have a material effect on the Company's financial position or results of operations. The adoption of ASC 606 did result in the addition of required disclosures within the notes to the financial statements and the modification of certain significant accounting policies, as disclosed in Note 4 - Revenue.

#### Standards Updates Issued Not Yet Effective

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," which requires that lessees recognize assets and liabilities for leases with lease terms greater than twelve months in the statement of financial position. ASU No. 2016-02 also requires additional disclosures to help users of financial statements better understand the amount, timing and uncertainty of cash flows arising from leases. The provisions of ASU No. 2016-02 are to be applied using a modified retrospective approach, and are effective for fiscal years beginning after December 15, 2018, including interim reporting periods within that reporting period. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of ASU No. 2016-02 will have on its consolidated financial statements, but the Company expects that most existing operating lease commitments will be recognized as operating lease obligations and right-of-use assets as a result of adoption.

#### (4) Revenue

##### Adoption of ASC 606, "Revenue from Contracts with Customers (Topic 606)"

On January 1, 2018, the Company adopted ASC 606 using the modified retrospective method in which the cumulative effect of initially applying the new standard was applied to contracts not completed as of that date. The adoption of Topic 606 did not have a material effect on the Company's financial position or results of operations.

Revenue from the sale of products is recognized when the earnings process is complete and when the title and risk and rewards of ownership have passed to the customer, which is primarily at the time of shipment. Revenue recognized other than at the time of shipment represented less than 1% of the Company's consolidated net sales in the three and six months ended June 30, 2018 (Successor) and June 30, 2017 (Predecessor), respectively. Customer payment terms are established prior to the time of shipment. Provisions for allowances related to sales discounts and rebates are recorded based on terms of the sale in the period that the sale is recorded. The Company utilizes historical information and the current sales trends of the business to estimate such provisions. The provisions related to discounts and rebates due to customers are recorded as a reduction within net sales in the Company's Condensed Consolidated Statements of Operations and Comprehensive Loss.



Revenue from shipping and handling charges is recorded in net sales. Costs incurred in connection with shipping and handling the Company's products, which are related to third-party carriers or performed by Company personnel, are included in warehouse, processing and delivery expenses. In the three months ended June 30, 2018 (Successor) and June 30, 2017 (Predecessor), shipping and handling costs included in warehouse, processing and delivery expenses

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were \$6,813 and \$6,130, respectively. In the six months ended June 30, 2018 (Successor) and June 30, 2017 (Predecessor), shipping and handling costs included in warehouse, processing and delivery expenses were \$13,605 and \$11,860, respectively. As a practical expedient under ASC 606, the Company has elected to account for shipping and handling activities as fulfillment costs and not a promised good or service. As a result, there is no change to the Company's accounting for revenue from shipping and handling charges under ASC 606.

The Company maintains an allowance for doubtful accounts related to the potential inability of customers to make required payments. The allowance for doubtful accounts is maintained at a level considered appropriate based on historical experience and specific identification of customer receivable balances for which collection is unlikely. The provision for doubtful accounts is recorded in sales, general and administrative expense in the Company's Condensed Consolidated Statements of Operations and Comprehensive Loss. Estimates of doubtful accounts are based on historical write-off experience as a percentage of net sales and judgments about the probable effects of economic conditions on certain customers.

The Company also maintains an allowance for credit memos for estimated credit memos to be issued against current sales. Estimates of allowance for credit memos are based upon the application of a historical issuance lag period to the average credit memos issued each month.

Accounts receivable allowance for doubtful accounts and credit memos activity is presented in the table below:

|   | Successor<br>Three<br>Months<br>Ended<br>June 30,<br>2018 | Predecessor<br>Three<br>Months<br>Ended<br>June 30,<br>2017 | Successor<br>Six<br>Months<br>Ended<br>June 30,<br>2018 | Predecessor<br>Six Months<br>Ended<br>June 30,<br>2017 |
|---|---|---|---|--|
| Balance, beginning of period                    | \$ 1,663  | \$ 1,797  | \$ 1,586  | \$ 1,945   |
| Add Provision charged to expense <sup>(a)</sup> | 58  | 58  | 173   | 80   |
| Recoveries                                      | 15  | 4   | 26  | 25   |
| Less Charges against allowance                  | (58 )   | (93 )   | (107 )  | (284 )   |
| Balance, end of period                          | \$ 1,678  | \$ 1,766  | \$ 1,678  | \$ 1,766   |

<sup>(a)</sup> Includes the net amount of credit memos reserved and issued.

The Company operates primarily in North America. Net sales are attributed to countries based on the location of the Company's subsidiary that is selling direct to the customer and exclude assessed taxes such as sales and excise tax.

Company-wide geographic data is as follows:

|                     | Successor<br>Three<br>Months<br>Ended<br>June 30,<br>2018 | Predecessor<br>Three<br>Months<br>Ended<br>June 30,<br>2017 | Successor<br>Six<br>Months<br>Ended<br>June 30,<br>2018 | Predecessor<br>Six Months<br>Ended<br>June 30,<br>2017 |
|---------------------|---|---|---|--|
| Net sales           |   |   |   |  |
| United States       | \$97,933  | \$ 82,605   | \$ 191,499  | \$ 167,545   |
| Canada              | 11,821  | 10,118  | 24,275  | 20,649   |
| Mexico              | 15,590  | 15,987  | 31,538  | 28,759   |
| All other countries | 25,070  | 27,772  | 48,975  | 55,455   |
| Total               | \$ 150,414  | \$ 136,482  | \$ 296,287  | \$ 272,408   |

The Company does not incur significant incremental costs when obtaining customer contracts and any costs that are incurred are generally not recoverable from its customers. Substantially all of the Company's customer contracts are for a duration of less than one year. As a practical expedient under ASC 606, the Company has elected to continue to recognize incremental costs of obtaining a contract, if any, as an expense when incurred if the amortization period of the asset would have been one year or less. The Company does not have any costs to obtain a contract that are capitalized under ASC 606.



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## (5) Loss Per Share

Diluted loss per common share is computed by dividing net loss by the weighted average number of shares of common stock outstanding plus outstanding common stock equivalents. Common stock equivalents consist of employee and director stock options (Predecessor), restricted stock awards (Predecessor and Successor), other share-based payment awards (Predecessor), contingently issuable shares related to the Company's 5.25% Pre-Bankruptcy Convertible Notes (Predecessor), and the Company's Second Lien Notes (Successor), which are included in the calculation of weighted average shares outstanding using the if-converted method. Refer to Note 7 - Debt for further description of the Pre-Bankruptcy Convertible Notes and Second Lien Notes.

The following tables are reconciliations of the basic and diluted loss per common share calculations:

|  | Successor<br>Three<br>Months<br>Ended<br>June 30,<br>2018 | Predecessor<br>Three<br>Months<br>Ended<br>June 30,<br>2017 | Successor<br>Six<br>Months<br>Ended<br>June 30,<br>2018 | Predecessor<br>Six Months<br>Ended<br>June 30,<br>2017 |
|--|---|---|---|--|
| Numerator:   |   |   |   |  |
| Net loss   | \$ (8,513 )   | \$ (22,541 )  | \$ (13,654 )  | \$ (36,033 )   |
| Denominator:   |   |   |   |  |
| Weighted average common shares outstanding                             | 2,000   | 32,310  | 2,000   | 32,306   |
| Effect of dilutive securities:   |   |   |   |  |
| Outstanding common stock equivalents                                   | —   | —   | —   | —  |
| Denominator for diluted loss per common share                          | 2,000   | 32,310  | 2,000   | 32,306   |
| Basic loss per common share  | \$ (4.26 )  | \$ (0.70 )  | \$ (6.83 )  | \$ (1.12 )   |
| Diluted loss per common share  | \$ (4.26 )  | \$ (0.70 )  | \$ (6.83 )  | \$ (1.12 )   |
| Excluded outstanding share-based awards having an anti-dilutive effect | 1,803   | 2,457   | 1,803   | 2,457  |

The computation of diluted loss per common share does not include common shares issuable upon conversion of the Company's outstanding Second Lien Notes (Successor) or the 5.25% Pre-Bankruptcy Convertible Notes (Predecessor), as they were anti-dilutive under the if-converted method.

The Second Lien Notes (Successor) are convertible into shares of the Company's common stock at any time at the initial conversion price of \$3.77 per share. In future periods, absent a fundamental change (as defined in the Second Lien Notes Indenture), the outstanding Second Lien Notes could increase diluted average shares outstanding by a maximum of approximately 43,700 shares.

## (6) Goodwill and Intangible Asset

In connection with the Company's adoption of fresh-start accounting on the Effective Date, the Company recorded \$2,675 of goodwill representing the excess of reorganization value over the fair value of identifiable tangible and intangible assets. The goodwill is not tax deductible. There were no changes in the amount of goodwill recognized in the six months ended June 30, 2018 (Successor). Also as part of fresh-start accounting, the Company recorded an intangible asset comprised of the indefinite-lived trade name of the Successor, which is not subject to amortization. The gross carrying value of the trade name intangible asset was \$5,500 at both June 30, 2018 (Successor) and December 31, 2017 (Successor).

The Company will test both its goodwill and intangible asset for impairment on an annual basis and more often if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value.



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## (7) Debt

Long-term debt consisted of the following:

|   | Successor        |                      |
|---|------------------|----------------------|
|   | June 30,<br>2018 | December 31,<br>2017 |
| <b>LONG-TERM DEBT</b>   |                  |                      |
| 5.00% / 7.00% Second Lien Notes due August 31, 2022             | \$ 174,725       | \$ 168,767           |
| Floating rate Revolving A Credit Facility due February 28, 2022 | 104,988          | 101,047              |
| 12.00% Revolving B Credit Facility due February 28, 2022        | 18,180           | —                    |
| Other, primarily capital leases                                 | 238              | 288                  |
| Less: unvested restricted Second Lien Notes <sup>(a)</sup>      | (1,761 )         | (2,144 )             |
| Less: unamortized discount                                      | (66,597 )        | (67,937 )            |
| Less: unamortized debt issuance costs                           | (471 )           | —                    |
| Total long-term debt  | 229,302          | 200,021              |
| Less: current portion of long-term debt                         | 119              | 118                  |
| Total long-term portion   | \$ 229,183       | \$ 199,903           |

<sup>(a)</sup> Represents unvested portion of \$2,400 of restricted Second Lien Notes issued to certain members of management (see Note 10 - Share-based compensation).

**Credit Facilities**

Pursuant to the Plan, on the Effective Date, the Successor entered into the Revolving Credit and Security Agreement dated as of August 31, 2017 (the "ABL Credit Agreement"), which provided a \$125,000 senior secured, revolving credit facility under which the Company and four of its subsidiaries each are borrowers (collectively, in such capacity, the "Borrowers"). The obligations of the Borrowers have been guaranteed by the subsidiaries of the Company named therein as guarantors.

On June 1, 2018, the Company entered into an Amendment No. 1 to Revolving Credit and Security Agreement (the "Credit Agreement Amendment") by and among the Company, the Borrowers and guarantors party thereto and the Agent and the lenders party thereto, which amended the ABL Credit Agreement (as amended by the Credit Agreement Amendment, the "Expanded ABL Credit Agreement") to provide for additional borrowing capacity.

The Expanded ABL Credit Agreement provides for an additional \$25,000 last out Revolving B Credit Facility (the "Revolving B Credit Facility" and together with the Revolving A Credit Facility, the "Expanded Credit Facility") made available in part by way of a participation in the Revolving B Credit Facility by certain of the Company's shareholders. Borrowings under the Expanded Credit Facility will mature on February 28, 2022.

Subject to certain exceptions and permitted encumbrances, the obligations under the Expanded Credit Facility are secured by a first priority security interest in substantially all of the assets of each of the Borrowers and certain of their foreign subsidiaries. The proceeds of the advances under the Expanded Credit Facility may only be used to (i) pay certain fees and expenses to the Agent and the lenders under the Expanded Credit Facility, (ii) provide for Borrowers' working capital needs and reimburse drawings under letters of credit, (iii) repay the obligations under the Debtor-in-Possession Revolving Credit and Security Agreement dated as of July 10, 2017, by and among the Company, the lenders party thereto, and PNC, and certain other existing indebtedness, and (iv) provide for the Borrowers' capital expenditure needs, in accordance with the Expanded ABL Credit Agreement.

The Company may prepay its obligations under the Expanded Credit Facility at any time without premium or penalty, and must apply the net proceeds of material sales of collateral in prepayment of such obligations. Payments made must be applied to the Company's obligations under the Revolving A Credit Facility, if any, prior to its obligations under the Revolving B Credit Facility. In connection with an early termination or permanent reduction of the Revolving A Credit Facility prior to June 1, 2020, a 0.50% fee shall be due for the period from June 1, 2018 through May 31, 2019 and 0.25% for the period from June 1, 2019 through May 31, 2020, in each case on the amount of such commitment reduction, subject to reduction as set forth in the Expanded ABL Credit Agreement. Indebtedness for borrowings under the Expanded Credit Facility is subject to acceleration upon the occurrence of specified defaults or

events of default, including failure to pay principal or interest, the inaccuracy of any representation or warranty of a loan party, failure by

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a loan party to perform certain covenants, defaults under indebtedness owed to third parties, certain liability producing events relating to ERISA, the invalidity or impairment of the Agent's lien on its collateral or of any applicable guarantee, and certain adverse bankruptcy-related and other events.

Interest on indebtedness under the Revolving A Credit Facility accrues at a variable rate based on a grid with the highest interest rate being the applicable LIBOR-based rate plus a margin of 3.0%, as set forth in the Expanded ABL Credit Agreement. Interest on indebtedness under the Revolving B Credit Facility accrues at a rate of 12.0% per annum, which will be paid in kind unless the Company elects to pay such interest in cash and the Revolving B payment conditions specified in the Expanded ABL Credit Agreement are satisfied. Additionally, the Company must pay a monthly facility fee equal to the product of (i) 0.25% per annum (or, if the average daily revolving facility usage is less than 50% of the maximum revolving advance amount of the Expanded Credit Facility, 0.375% per annum) multiplied by (ii) the amount by which the maximum advance amount of the Expanded Credit Facility exceeds such average daily Expanded Credit Facility usage for such month. Interest expense related to the Revolving B Credit Facility of \$180 was paid in kind in both the three months ended June 30, 2018 (Successor) and six months ended June 30, 2018 (Successor), respectively.

The weighted average interest rate on outstanding borrowings under the Revolving A Credit Facility for the three months ended June 30, 2018 (Successor) and six months ended June 30, 2018 (Successor) was 4.73% and 4.49%, respectively, and the weighted average facility fee for both periods was 0.25%. The Company pays certain customary recurring fees with respect to the Expanded ABL Credit Agreement.

The Expanded ABL Credit Agreement includes negative covenants customary for an asset-based revolving loan. Such covenants include limitations on the ability of the Borrowers to, among other things, (i) effect mergers and consolidations, (ii) sell assets, (iii) create or suffer to exist any lien, (iv) make certain investments, (v) incur debt and (vi) transact with affiliates. In addition, the Expanded ABL Credit Agreement includes customary affirmative covenants for an asset-based revolving loan, including covenants regarding the delivery of financial statements, reports and notices to the Agent. The Expanded ABL Credit Agreement also contains customary representations and warranties and event of default provisions for a secured term loan.

The Company's Expanded ABL Credit Agreement contains a springing financial maintenance covenant requiring the Company to maintain a Fixed Charge Coverage Ratio of 1.0 to 1.0 in any covenant testing period when the Company's cash liquidity (as defined in the Expanded ABL Credit Agreement) is less than \$12,500. The Company is not in a covenant testing period as of June 30, 2018 (Successor).

Unamortized debt issuance costs of \$471 associated with the Expanded ABL Credit Agreement were recorded as a reduction in long-term debt as of June 30, 2018 (Successor).

#### Second Lien Notes

Pursuant to the Plan, on the Effective Date, the Company entered into a Second Lien Notes Indenture with Wilmington Savings Fund Society, FSB, as trustee and collateral agent ("Indenture Agent") and, pursuant thereto, issued approximately \$164,902 in aggregate original principal amount of its Second Lien Notes, including \$2,400 of restricted Second Lien Notes issued to certain members of management (see Note 10 - Share-based compensation). The Second Lien Notes are five year senior obligations of the Company and certain of its subsidiaries, secured by a lien on all or substantially all of the assets of the Company, its domestic subsidiaries and certain of its foreign subsidiaries, which lien the Indenture Agent has agreed will be junior to the lien of the Agent under the Expanded ABL Credit Agreement.

The Second Lien Notes are convertible into shares of the Company's New Common Stock at any time at the initial conversion price of \$3.77 per share, which rate is subject to adjustment as set forth in the Second Lien Notes Indenture. The value of shares of the Company's New Common Stock for purposes of the settlement of the conversion right will be calculated as provided in the Second Lien Notes Indenture, using a 20 trading day observation period. Upon conversion, the Company will pay and/or deliver, as the case may be, cash, shares of the Company's New Common Stock or a combination of cash and shares of the Company's New Common Stock, at the Company's election, together with cash in lieu of fractional shares.

Under the Second Lien Notes Indenture, in a conversion of the Second Lien Notes in connection with a "Fundamental Change" (as defined in the Second Lien Notes Indenture), for each \$1.00 principal amount of the Second Lien Notes,



that number of shares of the Company's common stock issuable upon conversion shall equal the greater of (a) \$1.00 divided by the then applicable conversion price and (b) \$1.00 divided by the stock price with respect to such Fundamental Change, subject to other provisions of the Second Lien Notes Indenture. Subject to certain exceptions, under the

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Second Lien Notes Indenture a “Fundamental Change” includes, but is not limited to, the following: the acquisition of more than 50% of the voting power of the Company’s common equity by a “person” or “group” within the meaning of Section 13(d) of the Securities Exchange Act of 1934, as amended, the consummation of any recapitalization, reclassification, share exchange, consolidation or merger of the Company pursuant to which the Company’s common stock will be converted into cash, securities or other property, the “Continuing Directors” (as defined in the Second Lien Notes Indenture) cease to constitute at least a majority of the board of directors, and the approval of any plan or proposal for the liquidation or dissolution of the Company by the Company’s stockholders.

The Second Lien Notes are guaranteed, jointly and severally, by certain subsidiaries of the Company. The Second Lien Notes and the related guarantees are secured by a lien on substantially all of the Company’s and the guarantors’ assets, subject to certain exceptions pursuant to certain collateral documents pursuant to the Second Lien Notes Indenture. The terms of the Second Lien Notes contain numerous covenants imposing financial and operating restrictions on the Company’s business. These covenants place restrictions on the Company’s ability and the ability of its subsidiaries to, among other things, pay dividends, redeem stock or make other distributions or restricted payments; incur indebtedness or issue certain stock; make certain investments; create liens; agree to certain payment restrictions affecting certain subsidiaries; sell or otherwise transfer or dispose assets; enter into transactions with affiliates; and enter into sale and leaseback transactions.

The Second Lien Notes may not be redeemed by the Company in whole or in part at any time, subject to certain exceptions provided under the Second Lien Notes Indenture. In addition, if a Fundamental Change occurs at any time, each holder of any Second Lien Notes has the right to require the Company to repurchase such holder’s Second Lien Notes for cash at a repurchase price equal to 100% of the principal amount thereof, together with accrued and unpaid interest thereon, subject to certain exceptions.

The Company must use the excess proceeds of material sales of collateral to make an offer of repurchase to holders of the Second Lien Notes. Indebtedness for borrowings under the Second Lien Notes Indenture is subject to acceleration upon the occurrence of specified defaults or events of default, including failure to pay principal or interest, the inaccuracy of any representation or warranty of any obligor under the Second Lien Notes, failure by an obligor under the Second Lien Notes to perform certain covenants, the invalidity or impairment of the Indenture Agent’s lien on its collateral or of any applicable guarantee, and certain adverse bankruptcy-related and other events.

Interest on the Second Lien Notes accrues at the rate of 5.00% if paid in cash and at the rate of 7.00% if paid in kind. Currently, the Company is paying interest on the Second Lien Notes in kind as per the Second Lien Notes Indenture, interest on the Second Lien Notes in the first 12 months is required to be paid in kind at a rate of 7.00%. The Company may pay the interest on the Second Lien Notes in cash after the first 12 months if certain defined interest payment conditions are met. Interest expense related to the Second Lien Notes of \$3,005 and \$5,959 was paid in kind in the three months ended June 30, 2018 (Successor) and six months ended June 30, 2018 (Successor), respectively.

**Short-term borrowings**

The Company's French subsidiary is party to a local credit facility under which it may borrow against 100% of the eligible accounts receivable factored, with recourse, up to 6,500 Euros. The French subsidiary is charged a factoring fee of 0.16% of the gross amount of accounts receivable factored. Local currency borrowings on the French subsidiary's credit facility are charged interest at the daily 3-months Euribor rate plus a 1.0% margin and U.S dollar borrowings on the credit facility are 3-months LIBOR plus a 1.0% margin. The French subsidiary utilizes the local credit facility to support its operating cash needs. As of June 30, 2018 (Successor), the French subsidiary has borrowings of \$4,838 under the credit facility.

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## (8) Fair Value Measurements

The three-tier value hierarchy the Company utilizes, which prioritizes the inputs used in the valuation methodologies, is:

Level 1—Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2—Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3—Valuations based on unobservable inputs reflecting our own assumptions, consistent with reasonably available assumptions made by other market participants.

The fair value of cash, accounts receivable and accounts payable approximate their carrying values. The fair value of cash equivalents are determined using the fair value hierarchy described above.

The Company's pension plan asset portfolio as of June 30, 2018 (Successor) and December 31, 2017 (Successor) is primarily invested in fixed income securities, which generally fall within Level 2 of the fair value hierarchy. Fixed income securities are valued based on evaluated prices provided to the trustee by independent pricing services. Such prices may be determined by various factors which include, but are not limited to, market quotations, yields, maturities, call features, ratings, institutional size trading in similar groups of securities and developments related to specific securities.

As the Credit Agreement Amendment was entered into on June 1, 2018 between the Company and the lenders in an arm's length transaction, the Company has determined the fair value of its borrowings under the Revolving B Credit Facility approximated its carrying value of \$18,180 as of June 30, 2018 (Successor).

As of June 30, 2018 (Successor), the fair value of the Company's Second Lien Notes, including the conversion option, was estimated to be \$166,775 compared to a carrying value of \$174,725. The fair value of the Second Lien Notes, including the conversion option falls within Level 3 of the fair value hierarchy, was determined using a binomial lattice model using assumptions based on market information and historical data, and a review of prices and terms available for similar debt instruments that do not contain a conversion feature, as well as other factors related to the callable nature of the Second Lien Notes.

The following valuation assumptions were used in determining the fair value of the Second Lien Notes, including the conversion option, as of June 30, 2018 (Successor):

|                         |        |
|-------------------------|--------|
| Risk-free interest rate | 2.16 % |
| Credit spreads          | 13.93% |
| PIK premium spread      | 2.00 % |
| Volatility              | 50.00% |

Given the nature and the variable interest rates, the fair value of borrowings under the Revolving A Credit Facility and the French subsidiary's foreign line of credit approximated their carrying value as of June 30, 2018.

## (9) Stockholders' Equity

## Accumulated Comprehensive Loss

The components of accumulated other comprehensive loss are as follows:

|   | Successor     |                   |
|---|---------------|-------------------|
|   | June 30, 2018 | December 31, 2017 |
| Unrecognized pension and postretirement benefit costs, net of tax | \$34          | \$ 34             |
| Foreign currency translation losses, net of tax                   | (4,702 )      | (2,703 )          |
| Total accumulated other comprehensive loss                        | \$(4,668)     | \$(2,669 )        |

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Changes in accumulated other comprehensive loss by component in the three months ended June 30, 2018 (Successor) and the three months ended June 30, 2017 (Predecessor) are as follows:

|   | Defined Benefit Pension and Postretirement Items |  | Foreign Currency Items                     |  | Total                                      |  |
|---|--|--|--|--|--|--|
|   | Successor Three Months Ended June 30, 2018       | Predecessor Three Months Ended June 30, 2017 | Successor Three Months Ended June 30, 2018 | Predecessor Three Months Ended June 30, 2017 | Successor Three Months Ended June 30, 2018 | Predecessor Three Months Ended June 30, 2017 |
| Beginning Balance   | \$34   | \$(9,583)                                    | \$(3,578)                                  | \$(17,142)                                   | \$(3,544)                                  | \$(26,725)                                   |
| Other comprehensive loss before reclassifications, net of tax                             | —  | —  | (1,124)                                    | (685)  | (1,124)                                    | (685)  |
| Amounts reclassified from accumulated other comprehensive loss, net of tax <sup>(a)</sup> | —  | 214  | —  | —  | —  | 214  |
| Net current period other comprehensive income (loss)                                      | —  | 214  | (1,124)                                    | (685)  | (1,124)                                    | (471)  |
| Ending Balance  | \$34   | \$(9,369)                                    | \$(4,702)                                  | \$(17,827)                                   | \$(4,668)                                  | \$(27,196)                                   |

<sup>(a)</sup> See reclassifications from accumulated other comprehensive loss table below for details of reclassification from accumulated other comprehensive loss in the three months ended June 30, 2018 (Successor) and the three months ended June 30, 2017 (Predecessor).

Changes in accumulated other comprehensive loss by component in the six months ended June 30, 2018 (Successor) and the six months ended June 30, 2017 (Predecessor) are as follows:

|   | Defined Benefit Pension and Postretirement Items |  | Foreign Currency Items                   |  | Total                                    |  |
|---|--|--|--|--|--|--|
|   | Successor Six Months Ended June 30, 2018         | Predecessor Six Months Ended June 30, 2017 | Successor Six Months Ended June 30, 2018 | Predecessor Six Months Ended June 30, 2017 | Successor Six Months Ended June 30, 2018 | Predecessor Six Months Ended June 30, 2017 |
| Beginning Balance   | \$34   | \$(9,797)                                  | \$(2,703)                                | \$(16,142)                                 | \$(2,669)                                | \$(25,939)                                 |
| Other comprehensive loss before reclassifications, net of tax                             | —  | —  | (1,999)                                  | (1,685)                                    | (1,999)                                  | (1,685)                                    |
| Amounts reclassified from accumulated other comprehensive loss, net of tax <sup>(a)</sup> | —  | 428  | —  | —  | —  | 428  |
| Net current period other comprehensive income (loss)                                      | —  | 428  | (1,999)                                  | (1,685)                                    | (1,999)                                  | (1,257)                                    |
| Ending Balance  | \$34   | \$(9,369)                                  | \$(4,702)                                | \$(17,827)                                 | \$(4,668)                                | \$(27,196)                                 |

(a) See reclassifications from accumulated other comprehensive loss table below for details of reclassification from accumulated other comprehensive loss for the six months ended June 30, 2018 (Successor) and the six months ended June 30, 2017 (Predecessor).

Reclassifications from accumulated other comprehensive loss are as follows:

|  | Successor<br>Three<br>Months<br>Ended<br>June 30,<br>2018 | Predecessor<br>Three<br>Months<br>Ended<br>June 30,<br>2017 | Successor<br>Six<br>Months<br>Ended<br>June 30,<br>2018 | Predecessor<br>Six Months<br>Ended<br>June 30,<br>2017 |
|--|---|---|---|--|
| Unrecognized pension and postretirement benefit items: |   |   |   |  |
| Prior service cost <sup>(a)</sup>                      | \$ —  | \$ (50 )  | \$ —  | \$ (100 )  |
| Actuarial gain (loss) <sup>(a)</sup>                   | —   | (164 )  | —   | (328 )   |
| Total before tax                                       | —   | (214 )  | —   | (428 )   |
| Tax effect   | —   | —   | —   | —  |
| Total reclassifications for the period, net of tax     | \$ —  | \$ (214 )   | \$ —  | \$ (428 )  |

<sup>(a)</sup> These accumulated other comprehensive loss components are included in the computation of net periodic pension and postretirement benefit cost included in other expense (income), net.

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## (10) Share-based Compensation

On the Effective Date, pursuant to the operation of the Plan, the A.M. Castle & Co. 2017 Management Incentive Plan (the "MIP") became effective.

Pursuant to the Plan, on September 1, 2017, 1,734 shares, together with an aggregate original principal amount of \$2,400 of Second Lien Notes (the "Restricted Notes") convertible into an additional 638 shares of new common stock as of the Effective Date, were issued as awards of restricted shares of the Company's common stock (the "Restricted Shares") under the MIP to certain officers of the Company.

The Restricted Shares issued on September 1, 2017 and Restricted Notes cliff vest three years from the date of grant, subject to the conditions set forth in the MIP. The grant date fair value of the Restricted Shares issued on September 1, 2017 of \$3.14 per share was based on the value of the common stock of the Successor company as calculated on the Effective Date pursuant to the Plan.

On April 25, 2018, the Company issued 69 Restricted Shares to certain members of the Company's Board of Directors under the MIP. The Restricted Shares issued on April 25, 2018 cliff vest one year from the date of grant, subject to the conditions set forth in the MIP. The grant date fair value of the Restricted Shares issued on April 25, 2018 of \$4.35 per share was based on the market price of the Company's common stock on the date of grant.

A summary of the non-vested Restricted Shares activity is as follows:

|                                   | Shares | Weighted-Average<br>Grant Date Fair<br>Value |
|-----------------------------------|--------|--|
| Outstanding at January 1, 2018    | 1,734  | 3.14   |
| Granted                           | 69     | 4.35   |
| Forfeited                         | —      | —  |
| Vested                            | —      | —  |
| Outstanding at June 30, 2018      | 1,803  | 3.18   |
| Expected to vest at June 30, 2018 | 1,803  | 3.18   |

As of June 30, 2018 (Successor), the unrecognized share-based compensation expense related to unvested Restricted Shares was \$4,184 and the remaining unrecognized compensation cost is expected to be recognized over a weighted-average period of approximately 2.1 years. As discussed in Note 1 - Basis of Presentation, the Successor has elected to account for forfeitures as they occur.

As of June 30, 2018 (Successor), the unrecognized share-based compensation expense related to the Restricted Notes issued to certain officers of the Company was \$1,661 and is expected to be recognized over a weighted-average period of approximately 2.2 years. The Company will recognize this expense on a straight-line basis over the three-year vesting period using the fair value at the issue date, \$2,300.

## (11) Employee Benefit Plans

Components of the net periodic pension and postretirement benefit cost are as follows:

|  | Successor<br>Three<br>Months<br>Ended<br>June 30,<br>2018 | Predecessor<br>Three<br>Months<br>Ended<br>June 30,<br>2017 | Successor<br>Six<br>Months<br>Ended<br>June 30,<br>2018 | Predecessor<br>Six Months<br>Ended<br>June 30,<br>2017 |
|--|---|---|---|--|
| Service cost   | \$ 117  | \$ 105  | \$ 234  | \$ 211   |
| Interest cost  | 1,225   | 1,211   | 2,450   | 2,421  |
| Expected return on assets                            | (1,971 )  | (2,035 )  | (3,942 )  | (4,069 )   |
| Amortization of prior service cost                   | —   | 50  | —   | 100  |
| Amortization of actuarial loss                       | —   | 164   | —   | 328  |
| Net periodic pension and postretirement benefit gain | \$ (629 )   | \$ (505 )   | \$ (1,258 )   | \$ (1,009 )  |
| Contributions paid                                   | \$ —  | \$ —  | \$ —  | \$ 356   |



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The Company anticipates making no additional cash contributions to its pension plans in the remainder of 2018. In the first quarter of 2018, the Company adopted ASU 2017-07, which requires that all net periodic pension and postretirement benefit costs, with the exception of service costs, be included as a component of non-operating income on the Company's Condensed Consolidated Statements of Operations and Comprehensive Loss. Prior to the adoption of ASU 2017-07, the Company reported net periodic pension and postretirement benefit costs as a component of sales, general and administrative expense. As a result of the adoption of ASU No. 2017-07, the Company included the interest cost component of net periodic pension and postretirement benefit costs of \$1,225 in interest expense and the expected return on assets component net periodic pension and postretirement benefit costs of \$1,971 in other expense (income), net on the Condensed Consolidated Statements of Operations and Comprehensive Loss in the three months ended June 30, 2018 (Successor) and included the interest cost component of net periodic pension and postretirement benefit costs of \$2,450 in interest expense and the expected return on assets component net periodic pension and postretirement benefit costs of \$3,942 in other expense (income), net on the Condensed Consolidated Statements of Operations and Comprehensive Loss in the six months ended June 30, 2018 (Successor). Prior year amounts have been reclassified to conform to the current year presentation in the Condensed Consolidated Financial Statements (see Note 3 - New Accounting Standards).

The Company was party to a multi-employer pension plan. In connection with the April 2015 restructuring plan, which is now complete, the Company stated its intention to withdraw from the multi-employer pension plan. At June 30, 2018 (Successor), the total estimated liability to withdraw from the plan is \$3,340. The current liability associated with the Company's withdrawal from the multi-employer pension plan of \$240 is included in accrued and other current liabilities in the Condensed Consolidated Balance Sheet and the long-term liability of \$3,100 is included in other noncurrent liabilities in the Condensed Consolidated Balance Sheet.

**(12) Income Taxes**

The Company's tax provision for interim periods is determined using an estimate of its annual effective tax rate, adjusted for discrete items. The Company's effective tax rate is expressed as income tax benefit as a percentage of loss before income taxes.

In the three months ended June 30, 2018 (Successor), the Company recorded income tax benefit of \$1,437 on pre-tax loss of \$9,950, for an effective tax rate of 14.4%. In the three months ended June 30, 2017 (Predecessor), the Company recorded income tax expense of \$71 on pre-tax loss of \$22,470, for an effective tax rate of (0.3)%. In the six months ended June 30, 2018 (Successor), the Company recorded income tax benefit of \$1,958 on pre-tax loss of \$15,612, for an effective tax rate of 12.5%. In the six months ended June 30, 2017 (Predecessor), the Company recorded income tax expense of \$8 on pre-tax loss of \$36,025, for an effective tax rate of (0.02)%.

On December 22, 2017, the U.S. enacted significant changes to the U.S. tax law following the passage and signing of H.R.1, "An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018" (the "Tax Act") (previously known as "The Tax Cuts and Jobs Act"). The Tax Act included significant changes to existing tax law, including, but not limited to, a permanent reduction to the U.S. federal corporate income tax rate from 35% to 21%, effective January 1, 2018.

On December 22, 2017, the Securities Exchange Commission ("SEC") issued Staff Accounting Bulletin 118, "SAB 118", which expresses views of the SEC regarding ASC Topic 740, "Income Taxes" ("ASC 740"), in the reporting period that includes the enactment date of the Tax Act. Subsequent to the issuance of SAB 118, in March 2018, the FASB issued ASU 2018-05 "Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin 118," which formally amended ASC 740 for the guidance previously provided by SAB 118. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record and provisional estimate in the financial statements.

Given the complexity of the Tax Act and anticipated guidance from the U.S. treasury about implementing the Tax Act, the Company's analysis and accounting for the tax effects of the enactment of the Tax Act is preliminary. The



Company has made provisional estimates in accordance with SAB 118 but has not fully completed its analysis and calculation of foreign earnings subject to the transition tax or its analysis of certain other aspects of the Tax Act that could result in adjustments to the remeasurement of deferred tax balances. Upon completion of the analysis in 2018, these estimates

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may be adjusted through income tax benefit or expense in the Consolidated Statements of Operations and Comprehensive Loss. No adjustments to these provisional estimates were made in either the three or six months ended June 30, 2018 (Successor).

The Tax Act subjects a U.S. shareholder to tax on Global Intangible Low-Taxed Income ("GILTI") earned by certain foreign subsidiaries. The FASB Staff Q&A, Topic 740, No. 5, "Accounting for Global Intangible Low-Taxed Income", states that an entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred as a period expense only. Given the complexity of the GILTI provisions, the Company is still evaluating the effects of the GILTI provisions and have not yet determined our accounting policy. At June 30, 2018 (Successor), because the Company is still evaluating the GILTI provisions and its analysis of future taxable income that is subject to GILTI, the Company has included GILTI related to current year operations only in its estimated annual effective tax rate and has not provided additional GILTI on deferred items.

Accordingly, in both the three months ended June 30, 2018 (Successor) and the six months ended June 30, 2018 (Successor), the Company's income tax provision reflects i) the current year impacts of the Tax Act on the estimated annual effective tax rate and ii) discrete items, if any, resulting directly from the enactment of the Tax Act based on information available, prepared, or analyzed (including computations) in reasonable detail. There were no discrete impacts from the enactment of the Tax Act in either the three months ended June 30, 2018 (Successor) or six months ended June 30, 2018 (Successor).

The most significant factors impacting the effective tax rate in the three and six months ended June 30, 2018 (Successor) were the impact of the U.S. federal corporate tax rate reduction in connection with the enactment of the Tax Act on the estimated annual effective tax rate, the foreign rate differential, and the release of valuation allowances in jurisdictions that have become profitable.

(13) Commitments and Contingent Liabilities

The Company is party to a variety of legal proceedings, claims, and inquiries, including proceedings or inquiries by governmental authorities, which arise from the operation of its business. These proceedings, claims, and inquiries are incidental to and occur in the normal course of the Company's business affairs. The majority of these proceedings, claims, and inquiries relate to commercial disputes with customers, suppliers, and others; employment and employee benefits-related disputes; product quality disputes with vendors and/or customers; and environmental, health and safety claims. It is the opinion of management that the currently expected outcome of these proceedings, claims, and inquiries, after taking into account recorded accruals and the availability and limits of our insurance coverage, will not have a material adverse effect on the consolidated results of operations, financial condition or cash flows of the Company.

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## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

## Disclosure Regarding Forward-Looking Statements

Information provided and statements contained in this report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended ("Securities Act"), Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"), and the Private Securities Litigation Reform Act of 1995. Such forward-looking statements only speak as of the date of this report and the Company assumes no obligation to update the information included in this report. Such forward-looking statements include information concerning our possible or assumed future results of operations, including descriptions of our business strategy, and the cost savings and other benefits that we expect to achieve from our restructuring, as well as the anticipated increase in our borrowing capacity under our existing revolving credit facility. These statements often include words such as "believe," "expect," "anticipate," "intend," "predict," "plan," "should," or similar expressions. These statements are not guaranteed of performance or results, and they involve risks, uncertainties, and assumptions. Although we believe that these forward-looking statements are based on reasonable assumptions, there are many factors that could affect our actual financial results or results of operations and could cause actual results to differ materially from those in the forward-looking statements. These factors include our ability to effectively manage our operational initiatives and implemented restructuring activities, the impact of volatility of metals prices, the impact of imposed tariffs and/or duties, the cyclical and seasonal aspects of our business, our ability to effectively manage inventory levels, the impact of our substantial level of indebtedness and our ability to obtain the requisite approvals and finalize the documentation relating to our additional borrowing capacity, as well as those risk factors identified in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, which we filed on March 15, 2018. All future written and oral forward-looking statements by us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to above. Except as required by the federal securities laws, we do not have any obligations or intention to release publicly any revisions to any forward-looking statements to reflect events or circumstances in the future, to reflect the occurrence of unanticipated events or for any other reason.

The following discussion should be read in conjunction with the Company's Condensed Consolidated Financial Statements and related notes thereto in Item 1 "Financial Statements (unaudited)".

## Overview

A. M. Castle & Co., together with its subsidiaries, (the "Company") is a specialty metals distribution company serving customers on a global basis. The Company has operations in the United States, Canada, Mexico, France, the United Kingdom, Spain, China and Singapore. The Company provides a broad range of product inventories as well as value-added processing and supply chain services to a wide array of customers, principally within the producer durable equipment, aerospace, heavy industrial equipment, industrial goods, construction equipment, and retail sectors of the global economy. Particular focus is placed on the aerospace and defense, power generation, mining, heavy industrial equipment, and general manufacturing industries, as well as general engineering applications.

## Recent Developments

## Emergence from Chapter 11

On June 18, 2017 (the "Petition Date"), A. M. Castle & Co. and four of its subsidiaries (together with A. M. Castle & Co., the "Debtors") filed voluntary petitions for reorganization under chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") with the United States Bankruptcy Court for the District of Delaware in Wilmington, Delaware (the "Bankruptcy Court"). The four subsidiaries in the chapter 11 cases are Keystone Tube Company, LLC, HY-Alloy Steels Company, Keystone Service, Inc. and Total Plastics, Inc. Also on June 18, 2017, the Debtors filed the Debtors' Prepackaged Joint Chapter 11 Plan of Reorganization with the Bankruptcy Court and on July 25, 2017, the Debtors filed the Debtors' Amended Prepackaged Joint Chapter 11 Plan of Reorganization (the "Plan") with the Bankruptcy Court. On August 2, 2017, the Bankruptcy Court entered an order (the "Confirmation Order") confirming the Plan. On August 31, 2017 (the "Effective Date"), the Plan became effective pursuant to its terms and the Debtors emerged from their chapter 11 cases.

On the Effective Date, by operation of the Plan, among other things:

• The Company issued an aggregate of 2.0 million shares of its new class of common stock, par value \$0.01 per share ("New Common Stock") consisting of 1.3 million shares issued to holders of Prepetition Second Lien Secured Claims

(as defined by the Plan) in partial satisfaction of their claims; 0.3 million shares issued to holders of Prepetition Third Lien Secured Claims (as defined by the Amended Plan) in partial satisfaction

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of their claims; and 0.4 million shares issued to participating holders of the Company's outstanding common stock as of August 2, 2017.

All agreements, instruments, and other documents evidencing, related to or connected with any equity interests of the Company (which include the Company's prior common stock, par value \$0.01 per share, warrants to purchase such common stock, and awards under management equity plans adopted before the Effective Date) were canceled and extinguished without recovery.

All outstanding indebtedness, accrued interest, and related fees of the Debtors under that certain Credit and Guaranty Agreement, dated December 8, 2016, by and among the Company, Highbridge International Capital Management, LLC, Corre Partners Management, LLC, Whitebox Credit Partners, L.P., WFF Cayman II Limited, and SGF, LLC and Cantor Fitzgerald Securities, among others (as amended, the "Pre-Bankruptcy Credit Facilities Agreement"), amounting to \$49.4 million, was paid in full with the proceeds of borrowings under the Revolving A Credit Facility (defined below) and the issuance of Second Lien Notes (defined below) under the Indenture dated August 31, 2017 ("Second Lien Notes Indenture").

All outstanding indebtedness of the Debtors under the Company's 12.75% Senior Secured Notes due 2018 (the "Pre-Bankruptcy Secured Notes") and the Indenture dated February 8, 2016 (the "Pre-Bankruptcy Secured Notes Indenture"), by and between the Company, as issuer, its guarantors, and U.S. Bank National Association, as trustee, and all outstanding indebtedness of the Debtors under the Company's 5.25% Convertible Senior Secured Notes due 2019 (the "Pre-Bankruptcy Convertible Notes") and the Indenture dated May 19, 2016 (the "Pre-Bankruptcy Convertible Notes Indenture"), by and between the Company, as issuer, its guarantors, and U.S. Bank National Association, as trustee, was discharged and canceled in exchange for Second Lien Notes (defined below) and New Common Stock in the Company.

The A.M. Castle & Co. 2017 Management Incentive Plan became effective.

All of the existing members of the Board were deemed to have resigned and were replaced the new Board of the Company consisting of six members, four of whom were new to the Board.

Pursuant to the Plan, on September 1, 2017, the Company issued 1.7 million restricted New Common Stock shares, together with an aggregate original principal amount of \$2.4 million of 5.00% / 7.00% Convertible Senior Secured PIK Toggle Notes due 2022 ("Second Lien Notes") convertible into an additional 0.6 million shares of New Common Stock as of the Effective Date, and issued as awards under the A.M. Castle & Co. 2017 Management Incentive Plan to certain officers of the Company.

Pursuant to the Plan, on the Effective Date, the Debtors entered into Revolving Credit and Security Agreement (the "ABL Credit Agreement") dated as of August 31, 2017 with PNC Bank, National Association ("PNC"), as lender and as administrative and collateral agent (the "Agent") which, provided for a \$125.0 million senior secured, revolving credit facility for the Company (the "Revolving A Credit Facility").

On the Effective Date, in connection with its entering into the ABL Credit Agreement, the Company borrowed an aggregate amount equal to \$78.8 million, of which \$49.4 million was used to pay down outstanding indebtedness, accrued interest, and related fees of the Company under the Pre-Bankruptcy Credit Facilities Agreement.

Pursuant to the Plan, on the Effective Date, the Company entered into the Second Lien Notes Indenture and, pursuant thereto, issued approximately \$164.9 million in Second Lien Notes.

The Second Lien Notes are five-year senior obligations of the Company and certain of its subsidiaries, secured by a lien on all or substantially all of the assets of the Company, its domestic subsidiaries and certain of its foreign subsidiaries, which lien the Indenture Agent has agreed will be junior to the lien of the Agent under the ABL Credit Agreement.

### Financial Reporting Under Reorganization

Refer to Note 2 - Bankruptcy Related Disclosures, to the Notes to the Condensed Consolidated Financial Statements for further discussion of financial reporting implications related to the Company's chapter 11 cases, and emergence therefrom.

### Presentation of Predecessor and Successor

The Company adopted fresh-start reporting as of the Effective Date. As a result of the application of fresh-start reporting, the Company's financial statements for periods prior to the Effective Date are not comparable to those for

periods subsequent to the Effective Date. References in this report to “Successor” refer to the Company on or after the Effective

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Date. References to “Predecessor” refer to the Company prior to the Effective Date. Operating results for the Successor and Predecessor periods are not necessarily indicative of the results to be expected for a full fiscal year. References such as the “Company,” “we,” “our” and “us” refer to A.M. Castle & Co. and its consolidated subsidiaries, whether Predecessor and/or Successor, as appropriate.

Expanded Credit Facility

On June 1, 2018, the Debtors entered into an Amendment No. 1 to Revolving Credit and Security Agreement (the “Credit Agreement Amendment”) by and among the Company, the other borrowers and guarantors party thereto and the Agent and the lenders party thereto, which amended the ABL Credit Agreement (as amended by the Credit Agreement Amendment, the “Expanded ABL Credit Agreement”) to provide for additional borrowing capacity. Refer to Note 7 - Debt, to the Notes to the Condensed Consolidated Financial Statements for further details.

Results of Operations: Three Months Ended June 30, 2018 (Successor) Compared to Three Months Ended June 30, 2017 (Predecessor)

The following table sets forth certain statement of operations data in the three months ended June 30, 2018 (Successor) and the three months ended June 30, 2017 (Predecessor).

|  | Successor                        |                | Predecessor                      |                | Favorable/(Unfavorable) |  |          |
|--|----------------------------------|----------------|----------------------------------|----------------|-------------------------|--|----------|
|  | Three Months Ended June 30, 2018 |                | Three Months Ended June 30, 2017 |                |                         |  |          |
|  |                                  | % of Net Sales |                                  | % of Net Sales |                         |  |          |
| (Dollar amounts in millions)                                   | \$                               |                | \$                               |                | \$ Change               |  | % Change |
| Net sales  | \$ 150.4                         | 100.0 %        | \$ 136.5                         | 100.0 %        | \$ 13.9                 |  | 10.2 %   |
| Cost of materials (exclusive of depreciation and amortization) | 111.1                            | 73.8 %         | 102.1                            | 74.8 %         | (9.0 )                  |  | (8.8 )%  |
| Operating costs and expenses                                   | 40.4                             | 26.9 %         | 38.4                             | 28.2 %         | (2.0 )                  |  | (5.2 )%  |
| Operating loss   | \$(1.1 )                         | (0.7 )%        | \$(4.0 )                         | (3.0 )%        | \$ 2.9                  |  | 72.5 %   |

\* Adjusted due to the adoption of ASU No. 2017-07, "Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." See Note 3 - New Accounting Standards to the Notes to the Condensed Consolidated Financial Statements for additional information.

Net Sales

Net sales of \$150.4 million in the three months ended June 30, 2018 (Successor) were an increase of \$13.9 million, or 10.2%, compared to \$136.5 million in the three months ended June 30, 2017 (Predecessor). The increase in net sales in the current quarter compared to the prior year quarter was driven primarily by strong market demand and an increase in commodities pricing, both of which had a favorable impact on selling prices in the current year quarter, as did the announced imposition of tariffs by the U.S. on imports of steel and aluminum from certain countries. Overall average selling prices increased 14.4% in the three months ended June 30, 2018 (Successor) compared to the three months ended June 30, 2017 (Predecessor) with favorable selling prices realized on virtually every product the Company sells. The most favorable selling prices were realized on many of the Company's highest selling products including all carbon and alloy products, as well as SBQ bar.

Tons sold per day decreased by 4.7% in the three months ended June 30, 2018 (Successor) compared to the same period in the prior year driven mainly by sales volume decreases in flat carbon and alloy products, cold finished carbon and SBQ bar, which more than offset sales volume increases in many of the Company's other products including aluminum and stainless. The decrease in tons sold of many of these products was the result of lower sales of excess and slow-moving inventory in the current quarter compared to the prior year quarter.





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## Cost of Materials

Cost of materials (exclusive of depreciation and amortization) was \$111.1 million in the three months ended June 30, 2018 (Successor) compared to \$102.1 million in the three months ended June 30, 2017 (Predecessor). The \$9.0 million, or 8.8%, increase between the three month periods is due mainly to an increase in product mill pricing through the first half of 2018 resulting from higher market demand for metals and higher commodity pricing. Also contributing to the increase in the Company's material cost of each ton sold was higher mill pricing resulting from the announced imposition of tariffs by the U.S. on imports of steel and aluminum from certain countries.

Cost of materials (exclusive of depreciation and amortization) was 73.8% of net sales in the three months ended June 30, 2018 (Successor) compared to 74.8% of net sales in the three months ended June 30, 2017 (Predecessor) due mainly to the recent imposition of tariffs which, favorably impacted the Company's gross material margin (calculated as net sales less cost of materials divided by net sales) as the Company experienced an overall increase in its average selling prices per ton sold. Gross material margins were also beneficially impacted by the elimination of some lower margin sales of excess and slow-moving inventory in the current year quarter as compared to the prior year quarter.

## Operating Costs and Expenses and Operating Loss

Operating costs and expenses in the three months ended June 30, 2018 (Successor) and the three months ended June 30, 2017 (Predecessor) were as follows:

| (Dollar amounts in millions)               | Successor                        | Predecessor                                   | Favorable/(Unfavorable) |          |
|--|----------------------------------|---|-------------------------|----------|
|  | Three Months Ended June 30, 2018 | Three Months Ended June 30, 2017 As Adjusted* | \$ Change               | % Change |
| Warehouse, processing and delivery expense | \$ 21.1                          | \$ 19.3                                       | \$ (1.8 )               | (9.3 )%  |
| Sales, general and administrative expense  | 17.0                             | 15.2  | (1.8 )                  | (11.8 )% |
| Depreciation and amortization expense      | 2.3                              | 3.9   | 1.6                     | 41.0 %   |
| Total operating costs and expenses         | \$ 40.4                          | \$ 38.4                                       | \$ (2.0 )               | (5.2 )%  |

\* Adjusted due to the adoption of ASU No. 2017-07, "Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." See Note 3 - New Accounting Standards to the Notes to the Condensed Consolidated Financial Statements for additional information.

Operating costs and expenses increased by \$2.0 million from \$38.4 million in the three months ended June 30, 2017 (Predecessor) to \$40.4 million in the three months ended June 30, 2018 (Successor).

Warehouse, processing and delivery expense increased by \$1.8 million mainly as a result of higher payroll and benefits costs, as well as higher warehouse and freight costs attributable to an increase in fuel prices and labor costs. Sales, general and administrative expense increased by \$1.8 million mainly as a result of higher payroll and benefits costs.

Depreciation and amortization expense decreased by \$1.6 million due to lower depreciation expense in the three months ended June 30, 2018 (Successor) from a lower depreciable base of property, plant and equipment as a result of fresh-start accounting and no amortization of intangible assets.

Operating loss in the three months ended June 30, 2018 (Successor) was \$1.1 million compared to operating loss of \$4.0 million in the three months ended June 30, 2017 (Predecessor).

## Other Income and Expense, Income Taxes and Net Loss

The Company adopted Accounting Standards Update ("ASU") No. 2017-07, "Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost", in the first quarter of 2018. In accordance with the adoption of ASU No. 2017-07, the Company now classifies the interest cost component of net periodic benefit cost in interest expense, net, with the service cost component continuing to be classified in sales, general and administrative expense. The other components of net periodic benefit cost are now classified in other expense (income), net. As result of the adoption of ASU No. 2017-07, the Company

reclassified a net pension cost of \$1.2 million from sales, general and administrative expense to interest expense and a net pension benefit of \$1.8 million from sales, general and administrative expense to other expense (income), net on the Condensed

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Consolidated Statements of Operations and Comprehensive Loss for the three months ended June 30, 2017 (Predecessor). See Note - 3 New Accounting Standards to the Notes to the Condensed Consolidated Financial Statements for further discussion.

Interest expense was \$8.1 million in the three months ended June 30, 2018 (Successor), compared to \$11.3 million in the three months ended June 30, 2017 (Predecessor). Interest expense in both the three months ended June 30, 2018 (Successor) and the three months ended June 30, 2017 included the interest cost component of net periodic benefit cost of \$1.2 million. Following the Plan becoming effective on August 31, 2017, the Company has significantly reduced its debt and contractual interest burden from what it had been in the prepetition periods resulting in significantly lower interest expense from debt in the three months ended June 30, 2018 (Successor), compared to the three months ended June 30, 2017 (Predecessor).

Financial restructuring expense of \$5.7 million in the three months ended June 30, 2017 (Predecessor) was mostly comprised of legal and other professional fees incurred prior to filing the chapter 11 bankruptcy petitions in connection with the financial restructuring of the debt and equity of the Company.

Other expense, net was \$0.7 million in the three months ended June 30, 2018 (Successor), compared to other income, net \$4.1 million in the three months ended June 30, 2017 (Predecessor). Included in other expense (income), net in the three months ended June 30, 2018 (Successor) and the three months ended June 30, 2017 (Predecessor) was net pension benefit of \$2.0 million and \$1.8 million, respectively. The remaining other expense (income), net for the comparative periods is comprised mostly of foreign currency transaction gains and losses. The Company recorded a foreign currency loss of \$2.6 million in the three months ended June 30, 2018 (Successor) compared to a foreign currency gain of \$2.2 million in the three months ended June 30, 2017 (Predecessor).

Reorganization items, net in the three months ended June 30, 2017 (Predecessor) was an expense of \$5.5 million, and was comprised of legal and other professional fees of \$0.7 million and the write-off of unamortized debt issuance costs and discounts related to the Pre-Bankruptcy Secured Notes and Pre-Bankruptcy Convertible Notes of \$4.8 million. Reorganization items, net represent expenses and income directly associated with the chapter 11 proceedings, as well as adjustments to reflect the carrying value of liabilities subject to compromise at their estimated allowed claim amounts, as such adjustments are determined.

Loss before income taxes was \$10.0 million in the three months ended June 30, 2018 (Successor). Loss before income taxes was \$22.5 million in the three months ended June 30, 2017 (Predecessor). Included in the loss before income taxes in the three months ended June 30, 2017 (Predecessor) was financial restructuring expenses of \$5.7 million and expenses related to reorganization items, net of \$5.5 million.

The Company recorded income tax benefit of \$1.4 million in the three months ended June 30, 2018 (Successor) compared to an income tax expense of \$0.1 million in the three months ended June 30, 2017 (Predecessor). The Company's effective tax rate is expressed as income tax expense as a percentage of loss before income taxes. The effective tax rate in the three months ended June 30, 2018 (Successor) and three months ended June 30, 2017 was 14.4% and (0.3)%, respectively. The change in the effective tax rate between periods resulted from changes in the geographic mix and timing of income or losses, the inability to benefit from current year losses due to valuation allowance positions in the U.S., the impact of the U.S. federal corporate tax rate reduction in connection with the U.S. tax reform legislation enacted in December 2017, the inclusion of foreign earnings under Internal Revenue Code ("IRC") Section 956, and the impact of the foreign income tax rate differential.

Net loss was \$8.5 million in the three months ended June 30, 2018 (Successor). Net loss in the three months ended June 30, 2017 (Predecessor), which includes financial restructuring expense and reorganization items, was \$22.5 million.

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Results of Operations: Six Months Ended June 30, 2018 (Successor) Compared to Six Months Ended June 30, 2017 (Predecessor)

The following table sets forth certain statement of operations data in the six months ended June 30, 2018 (Successor) and the six months ended June 30, 2017 (Predecessor).

|  | Successor                      |                |   | Predecessor                                 |                |   | Favorable/(Unfavorable) |          |
|--|--------------------------------|----------------|---|---|----------------|---|-------------------------|----------|
|  | Six Months Ended June 30, 2018 |                |   | Six Months Ended June 30, 2017 As Adjusted* |                |   |                         |          |
|  | \$                             | % of Net Sales | % | \$  | % of Net Sales | % | \$ Change               | % Change |
| (Dollar amounts in millions)                                   |                                |                |   |   |                |   |                         |          |
| Net sales  | \$296.3                        | 100.0 %        |   | \$272.4                                     | 100.0 %        |   | \$ 23.9                 | 8.8 %    |
| Cost of materials (exclusive of depreciation and amortization) | 221.0                          | 74.6 %         |   | 203.1                                       | 74.6 %         |   | (17.9 )                 | (8.8 )%  |
| Operating costs and expenses                                   | 79.8                           | 26.9 %         |   | 76.3  | 28.0 %         |   | (3.5 )                  | (4.6 )%  |
| Operating loss   | \$(4.5 )                       | (1.5 )%        |   | \$(7.0 )                                    | (2.6 )%        |   | \$ 2.5                  | 35.7 %   |

\* Adjusted due to the adoption of ASU No. 2017-07, "Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." See Note 3 - New Accounting Standards to the Notes to the Condensed Consolidated Financial Statements for additional information.

**Net Sales**

Net sales of \$296.3 million in the six months ended June 30, 2018 (Successor) were an increase of \$23.9 million, or 8.8%, compared to the six months ended June 30, 2017 (Predecessor). The increase in net sales in the first half of 2018 compared to the first half of 2017 was driven primarily by strong market demand and an increase in commodities pricing, both of which had a favorable impact on selling prices in the first half of the current year, as did the announced imposition of tariffs by the U.S. on imports of steel and aluminum from certain countries. Overall average selling prices increased 9.7% in the six months ended June 30, 2018 (Successor) compared to the six months ended June 30, 2017 (Predecessor) on the strength of favorable pricing of many of the Company's highest selling products including all carbon and alloy products, as well as SBQ bar.

Overall tons sold per day were flat in the six months ended June 30, 2018 (Successor) compared to the same period in the prior year. Sales volume increases in many carbon and alloy products, as well as sales volume increases in aluminum and stainless were offset by significant decreases in carbon and alloy plate and SBQ bar, the majority of which occurred in the second quarter of 2018.

**Cost of Materials**

Cost of materials (exclusive of depreciation and amortization) was \$221.0 million in the six months ended June 30, 2018 (Successor) compared to \$203.1 million in the six months ended June 30, 2017 (Predecessor). The \$17.9 million, or 8.8%, increase between the six month periods is due mainly to an increase in product mill pricing through the first half of 2018 resulting from higher market demand for metals and higher commodity pricing. Also contributing to the increase in the Company's material cost of each ton sold was higher mill pricing resulting from the announced imposition of tariffs by the U.S. on imports of steel and aluminum from certain countries.

Cost of materials (exclusive of depreciation and amortization) was 74.6% as a percent of net sales in both the six months ended June 30, 2018 (Successor) and the six months ended June 30, 2017 (Predecessor). Although the Company's material cost of each ton sold was higher in the six months ended June 30, 2018 (Successor) compared to the six months ended June 30, 2017 (Predecessor), the Company recognized a similar increase in the selling prices on products sold to customers, which resulted in a flat cost of materials (exclusive of depreciation and amortization) as a percentage of net sales between periods.



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## Operating Costs and Expenses and Operating Loss

Operating costs and expenses in the six months ended June 30, 2018 (Successor) and six months ended June 30, 2017 (Predecessor) were as follows:

| (Dollar amounts in millions)               | Successor                      | Predecessor                                 | Favorable/(Unfavorable) |          |
|--|--------------------------------|---|-------------------------|----------|
|  | Six Months Ended June 30, 2018 | Six Months Ended June 30, 2017 As Adjusted* | \$ Change               | % Change |
| Warehouse, processing and delivery expense | \$ 41.5                        | \$ 38.0                                     | \$ (3.5 )               | (9.2 )%  |
| Sales, general and administrative expense  | 33.5                           | 30.4  | (3.1 )                  | (10.2 )% |
| Restructuring expense                      | —                              | 0.1   | 0.1                     | 100.0 %  |
| Depreciation and amortization expense      | 4.8                            | 7.8   | 3.0                     | 38.5 %   |
| Total operating costs and expenses         | \$ 79.8                        | \$ 76.3                                     | \$ (3.5 )               | (4.6 )%  |

\* Adjusted due to the adoption of ASU No. 2017-07, "Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." See Note 3 - New Accounting Standards to the Notes to the Condensed Consolidated Financial Statements for additional information. Operating costs and expenses increased by \$3.5 million from \$76.3 million during the six months ended June 30, 2017 (Predecessor) to \$79.8 million in the six months ended June 30, 2018 (Successor).

Warehouse, processing and delivery expense increased by \$3.5 million primarily mainly as a result of higher payroll and benefits costs as well as higher warehouse and freight costs attributable to an increase in fuel prices and labor costs.

Sales, general and administrative expense increased by \$3.1 million mainly as a result of higher payroll and benefits costs.

Depreciation and amortization expense decreased by \$3.0 million due to lower depreciation expense in the six months ended June 30, 2018 (Successor) from a lower depreciable base of property, plant and equipment as a result of fresh-start accounting and no amortization of intangible assets.

Operating loss in the six months ended June 30, 2018 (Successor) was \$4.5 million compared to operating loss of \$7.0 million in the six months ended June 30, 2017 (Predecessor).

## Other Income and Expense, Income Taxes and Net Loss

As result of the adoption of ASU No. 2017-07, the Company reclassified a net pension cost of \$2.4 million from sales, general and administrative expense to interest expense and a net pension benefit of \$3.6 million from sales, general and administrative expense to other expense (income), net on the Condensed Consolidated Statements of Operations and Comprehensive Loss for the six months ended June 30, 2018 (Predecessor).

Interest expense was \$15.3 million in the six months ended June 30, 2018 (Successor) compared to \$23.2 million in the six months ended June 30, 2017 (Predecessor). Interest expense in the six months ended June 30, 2018 (Successor) and the six months ended June 30, 2017 (Predecessor) included the interest cost component of net periodic benefit cost of \$2.5 million and \$2.4 million, respectively. Following the Plan becoming effective on August 31, 2017, the Company has significantly reduced its debt and contractual interest burden from what it had been in the prepetition periods resulting in significantly lower interest expense from debt in the six months ended June 30, 2018 (Successor), compared to the six months ended June 30, 2017 (Predecessor).

Financial restructuring expense of \$6.6 million in the six months ended June 30, 2017 (Predecessor) was mostly comprised of legal and other professional fees incurred prior to filing the chapter 11 bankruptcy petitions in connection with the financial restructuring of the debt and equity of the Company.

Unrealized loss on the embedded conversion option associated with the Pre-Bankruptcy Convertible Notes was \$0.1 million in the six months ended June 30, 2017 (Predecessor). Because of the chapter 11 bankruptcy proceedings, the fair value of the derivative liability for the embedded conversion feature of the Pre-Bankruptcy Convertible Notes was estimated to be zero as of the Petition Date, and the carrying value of the embedded conversion feature was written off

to reorganization items, net in the second quarter of 2017 (Predecessor).

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Other income, net was \$4.1 million in the six months ended June 30, 2018 (Successor) compared to income, net of \$6.4 million in the six months ended June 30, 2017 (Predecessor). Included in other income, net in the six months ended June 30, 2018 (Successor) and the six months ended June 30, 2017 (Predecessor) was net pension benefit of \$3.9 million and \$3.6 million, respectively. The remaining other income, net for the comparative periods is comprised mostly of foreign currency transaction gains of \$0.2 million in the six months ended June 30, 2018 (Successor) and \$2.8 million in the six months ended June 30, 2017 (Predecessor).

Reorganization items, net for the six months ended June 30, 2017 (Predecessor) was an expense of \$5.5 million, and was comprised of legal and other professional fees of \$0.7 million and the write-off of unamortized debt issuance costs and discounts related to the Pre-Bankruptcy Secured Notes and Pre-Bankruptcy Convertible Notes of \$4.8 million, both of which were incurred in the second quarter of 2017. Reorganization items, net represent expenses and income directly associated with the chapter 11 proceedings, as well as adjustments to reflect the carrying value of liabilities subject to compromise at their estimated allowed claim amounts, as such adjustments are determined.

Loss before income taxes was \$15.6 million in the six months ended June 30, 2018 (Successor). Loss before income taxes was \$36.0 million in the six months ended June 30, 2017 (Predecessor). Included in the loss before income taxes in the six months ended June 30, 2017 (Predecessor) was financial restructuring expenses of \$6.6 million and expenses related to reorganization items, net of \$5.5 million.

The Company recorded income tax expense of \$2.0 million in the six months ended June 30, 2018 (Successor) and an income tax expense of less than \$0.1 million in the six months ended June 30, 2017 (Predecessor). The Company's effective tax rate is expressed as income tax expense as a percentage of loss before income taxes. The effective tax rate in the six months ended June 30, 2018 (Successor) was 12.5% and (0.02)% in the six months ended June 30, 2017 (Predecessor). The change in the effective tax rate between periods resulted from changes in the geographic mix and timing of income or losses, the inability to benefit from current year losses due to valuation allowance positions in the U.S., and the impact of intraperiod allocations.

Net loss was \$13.7 million in the six months ended June 30, 2018 (Successor). Net loss was \$36.0 million for six months ended June 30, 2017 (Predecessor), which includes financial restructuring expense and reorganization items.

Liquidity and Capital Resources

Cash and cash equivalents increased (decreased) as follows:

|  | Successor<br>Six<br>Months<br>Ended<br>June 30,<br>2018 | Predecessor<br>Six Months<br>Ended<br>June 30,<br>2017 |
|--|---|--|
| (Dollar amounts in millions)                                 |   |  |
| Net cash used in operating activities                        | \$ (20.6 )  | \$ (33.3 )   |
| Net cash used in investing activities                        | (3.4 )  | (2.0 )   |
| Net cash from financing activities                           | 19.7  | 10.5   |
| Effect of exchange rate changes on cash and cash equivalents | (0.2 )  | 0.4  |
| Net change in cash and cash equivalents                      | \$ (4.5 )   | \$ (24.4 )   |



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The Company's principal sources of liquidity are cash provided by operations and proceeds from borrowings under its revolving credit facilities. As discussed in further detail below and at Note 7 - Debt, to the Notes to the Condensed Consolidated Financial Statements, on June 1, 2018, the Company entered into the Credit Agreement Amendment which increased the maximum borrowing availability under its existing revolving credit facilities by \$25.0 million, to a total maximum borrowing capacity of \$150.0 million.

In periods of market growth, such as those currently being experienced, a substantial amount of the Company's principal sources of liquidity are invested in working capital to support the growth. Accordingly, the Company expects working capital increases to result in a cash flow use from operations in the near term, supported by higher borrowings under its revolving credit facilities.

Specific components of the change in working capital (defined as current assets less current liabilities), are highlighted below:

Higher accounts receivable at June 30, 2018 (Successor) compared to year-end 2017 resulted in a cash flow use of \$17.3 million in the six months ended June 30, 2018 (Successor) compared to \$16.7 million of cash flow use in the six months ended June 30, 2017 (Predecessor). The increase in accounts receivable at June 30, 2018 (Successor) compared to the year-end 2017 was mainly attributable to higher net sales in the three months ended June 30, 2018 (Successor). Average receivable days outstanding was 53.6 days in the six months ended June 30, 2018 compared to 51.4 days for the six months ended June 30, 2017.

Higher inventory levels at June 30, 2018 (Successor) compared to year-end 2017 resulted in a cash flow use of \$10.8 million in the six months ended June 30, 2018 (Successor) compared to a \$0.5 million cash flow source in the six months ended June 30, 2017 (Predecessor). Average days sales in inventory was 129.8 days for the six months ended June 30, 2018 compared to 135.9 days for the six months ended June 30, 2017. The decrease in average days sales in inventory is primarily the result of improved inventory management.

Increases in total accounts payable and accrued and other current liabilities compared to year-end 2017 resulted in a \$11.6 million cash flow source in the six months ended June 30, 2018 (Successor) compared to a \$13.2 million cash flow source for the Predecessor's same period last year. Accounts payable days outstanding was 43.1 days for the six months ended June 30, 2018 compared to 38.8 days for the same period last year.

Working capital and the balances of its significant components are as follows:

| (Dollar amounts in millions)          | Successor        |                      | Working<br>Capital<br>Increase<br>(Decrease) |
|---------------------------------------|------------------|----------------------|--|
|                                       | June 30,<br>2018 | December 31,<br>2017 |  |
| Working capital                       | \$208.1          | \$ 191.9             | \$ 16.2                                      |
| Cash and cash equivalents             | 6.6              | 11.1                 | (4.5 )                                       |
| Accounts receivable                   | 91.1             | 74.4                 | 16.7   |
| Inventories                           | 164.1            | 154.5                | 9.6  |
| Accounts payable                      | 52.0             | 41.8                 | (10.2 )                                      |
| Accrued and other current liabilities | 15.6             | 13.9                 | (1.7 )                                       |

Approximately \$2.8 million of the Company's consolidated cash and cash equivalents balance of \$6.6 million at June 30, 2018 (Successor) resided in the United States.

Net cash used in investing activities of \$3.4 million during the six months ended June 30, 2018 (Successor) and \$2.0 million in the six months ended June 30, 2017 (Predecessor) is mostly attributable to cash paid for capital expenditures in the respective periods. Management expects capital expenditures to range from \$6.5 million to \$7.5 million for the full-year 2018.

During the six months ended June 30, 2018 (Successor), net cash from financing activities of \$19.7 million was mainly attributable to proceeds from borrowings under the Company's Expanded ABL Credit Agreement offset by net repayments of short-term borrowings under the Company's foreign line of credit and a payment of \$0.9 million made in connection with the Company's build-to-suit liability associated with its warehouse in Janesville, WI. During the six



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months ended June 30, 2017 (Predecessor), net cash from financing activities of \$10.5 million was mainly due to proceeds from borrowings under the Company's credit facilities available at that time, partially offset by the cash payment of debt issuance costs.

As fully discussed at Note 2 - Bankruptcy Related Disclosures, to the Condensed Consolidated Financial Statements, on the August 31, 2017 Effective Date, the Company's bankruptcy plan became effective pursuant to its terms and the Debtors emerged from their chapter 11 cases. By operation of the Plan, all outstanding indebtedness, accrued interest, and related fees of the Debtors under the Pre-Bankruptcy Credit Facilities Agreement, amounting to \$49.4 million, was paid in full with the proceeds of borrowings under the Revolving Credit A Facility and the issuance of Second Lien Notes under the Second Lien Indenture. Also, on the Effective Date and by operation of the Plan, all outstanding indebtedness of the Debtors under (i) the Company's Pre-Bankruptcy Secured Notes Indenture and the Pre-Bankruptcy Secured Notes issued pursuant thereto, and (ii) the Company's Pre-Bankruptcy Convertible Notes Indenture and the Pre-Bankruptcy Convertible Notes issues pursuant thereto, were discharged and canceled.

The ABL Credit Agreement provided for a \$125.0 million senior secured, revolving credit facility for the Company. On June 1, 2018, the Company entered into the Credit Agreement Amendment by and among the Company, the Borrowers and guarantors party thereto and the Agent and the lenders party thereto, which amended the ABL Credit Agreement (as amended by the Credit Agreement Amendment, the Expanded ABL Credit Agreement) to provide for additional borrowing capacity.

The Expanded ABL Credit Agreement provides for an additional \$25.0 million last out Revolving B Credit Facility (the "Revolving B Credit Facility" and together with the Revolving A Credit Facility, the "Expanded Credit Facility") made available in part by way of a participation in the Revolving B Credit Facility by certain of the Company's shareholders. Borrowings under the Expanded Credit Facility will mature on February 28, 2022.

Subject to certain exceptions and permitted encumbrances, the obligations under the Expanded Credit Facility are secured by a first priority security interest in substantially all of the assets of each of the Borrowers and certain of their foreign subsidiaries. The proceeds of the advances under the Expanded Credit Facility may only be used to (i) pay certain fees and expenses to the Agent and the lenders under the Expanded Credit Facility, (ii) provide for Borrowers' working capital needs and reimburse drawings under letters of credit, (iii) repay the obligations under the Debtor-in-Possession Revolving Credit and Security Agreement dated as of June 10, 2017, by and among the Company, the lenders party thereto, and PNC, and certain other existing indebtedness, and (iv) provide for the Borrowers' capital expenditure needs, in accordance with the Expanded ABL Credit Agreement.

The Company may prepay its obligations under the Expanded Credit Facility at any time without premium or penalty, and must apply the net proceeds of material sales of collateral in prepayment of such obligations. Payments made must be applied to the Company's obligations under the Revolving A Credit Facility, if any, prior to its obligations under the Revolving B Credit Facility. In connection with an early termination or permanent reduction of the Revolving A Credit Facility prior to June 1, 2020, a 0.50% fee shall be due for the period from June 1, 2018 through May 31, 2019 and 0.25% for the period from June 1, 2019 through May 31, 2020, in each case on the amount of such commitment reduction, subject to reduction as set forth in the Expanded ABL Credit Agreement. Indebtedness for borrowings under the Expanded Credit Facility is subject to acceleration upon the occurrence of specified defaults or events of default, including failure to pay principal or interest, the inaccuracy of any representation or warranty of a loan party, failure by a loan party to perform certain covenants, defaults under indebtedness owed to third parties, certain liability producing events relating to ERISA, the invalidity or impairment of the Agent's lien on its collateral or of any applicable guarantee, and certain adverse bankruptcy-related and other events.

Interest on indebtedness under the Revolving A Credit Facility accrues at a variable rate based on a grid with the highest interest rate being the applicable LIBOR-based rate plus a margin of 3.0%, as set forth in the Expanded ABL Credit Agreement. Interest on indebtedness under the Revolving B Credit Facility accrues at a rate of 12.0% per annum, which will be paid-in-kind unless the Company elects to pay such interest in cash and the Revolving B payment conditions specified in the Expanded ABL Credit Agreement are satisfied. Additionally, the Company must pay a monthly facility fee equal to the product of (i) 0.25% per annum (or, if the average daily revolving facility usage is less than 50% of the maximum revolving advance amount of the Expanded Credit Facility, 0.375% per annum) multiplied by (ii) the amount by which the maximum advance amount of the Expanded Credit Facility exceeds such

average daily Expanded Credit Facility usage for such month.

Under the Expanded ABL Credit Agreement, the maximum borrowing capacity of the Revolving A Credit Facility is based on the Company's borrowing base calculation. The weighted average advance rates used in the borrowing base calculation are 88.4% on eligible accounts receivable and 70.4% on eligible inventory.

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The Company's Expanded ABL Credit Agreement contains certain covenants and restrictions customary to an asset-based revolving loan. Indebtedness for borrowings under the Expanded ABL Credit Agreement is subject to acceleration upon the occurrence of specified defaults or events of default, including failure to pay principal or interest, the inaccuracy of any representation or warranty of a loan party, failure by a loan party to perform certain covenants, defaults under indebtedness owed to third parties, certain liability producing events relating to ERISA, the invalidity or impairment of the Agent's lien on its collateral or of any applicable guarantee, and certain adverse bankruptcy-related and other events.

The Company's Expanded ABL Credit Agreement contains a springing financial maintenance covenant requiring the Company to maintain a Fixed Charge Coverage Ratio of 1.0 to 1.0 in any covenant testing period when the Company's cash liquidity (as defined in the Expanded Credit Facility Agreement) is less than \$12.5 million. The Company is not in a covenant testing period as of June 30, 2018 (Successor).

Additionally, upon the occurrence and during the continuation of an event of default or upon the failure of the Company to maintain cash liquidity (as defined in the Expanded Credit Facility Agreement) in excess of \$12.5 million, the lender has the right to take full dominion of the Company's cash collections and apply these proceeds to outstanding loans under the Expanded Credit Facility Agreement ("Cash Dominion"). Based on the Company's cash projections, it does not anticipate that Cash Dominion will occur during the next 12 months.

Additional unrestricted borrowing capacity under the Revolving A Credit Facility as of June 30, 2018 (Successor) was as follows (in millions):

|  |          |
|--|----------|
| Maximum borrowing capacity                 | \$ 125.0 |
| Letters of credit and other reserves       | (2.1 )   |
| Current maximum borrowing capacity         | 122.9    |
| Current borrowings                         | (105.0 ) |
| Additional unrestricted borrowing capacity | \$ 17.9  |

The Second Lien Notes are five-year senior obligations of the Company and certain of its subsidiaries, secured by a lien on all or substantially all of the assets of the Company, its domestic subsidiaries and certain of its foreign subsidiaries, which lien the Indenture Agent has agreed will be junior to the lien of the Agent under the Expanded ABL Credit Agreement.

The Second Lien Notes are convertible into shares of the Company's common stock at any time at the initial conversion price of \$3.77 per share, which rate is subject to adjustment as set forth in the Second Lien Notes Indenture. The value of shares of the Company's common stock for purposes of the settlement of the conversion right will be calculated as provided in the Second Lien Notes Indenture, using a 20 trading day observation period. Upon conversion, the Company will pay and/or deliver, as the case may be, cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's election, together with cash in lieu of fractional shares.

The terms of the Second Lien Notes contain numerous covenants imposing financial and operating restrictions on the Company's business. These covenants place restrictions on the Company's ability and the ability of its subsidiaries to, among other things, pay dividends, redeem stock or make other distributions or restricted payments; incur indebtedness or issue certain stock; make certain investments; create liens; agree to certain payment restrictions affecting certain subsidiaries; sell or otherwise transfer or dispose assets; enter into transactions with affiliates; and enter into sale and leaseback transactions.

The Second Lien Notes may not be redeemed by the Company in whole or in part at any time, subject to certain exceptions provided under the Second Lien Notes Indenture. In addition, if a Fundamental Change occurs at any time, each holder of any Second Lien Notes has the right to require the Company to repurchase such holder's Second Lien Notes for cash at a repurchase price equal to 100% of the principal amount thereof, together with accrued and unpaid interest thereon, subject to certain exceptions.

The Company must use the net proceeds of material sales of collateral, which proceeds are not used for other permissible purposes, to make an offer of repurchase to holders of the Second Lien Notes. Indebtedness for borrowings under the Second Lien Notes Indenture is subject to acceleration upon the occurrence of specified defaults or events of default, including failure to pay principal or interest, the inaccuracy of any representation or warranty of

any obligor under the Second Lien Notes, failure by an obligor under the Second Lien Notes to perform certain covenants, the

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invalidity or impairment of the Indenture Agent's lien on its collateral or of any applicable guarantee, and certain adverse bankruptcy-related and other events.

Interest on the Second Lien Notes accrues at the rate of 5.00% if paid in cash and at the rate of 7.00% if paid in kind. Currently, the Company is paying interest on the Second Lien Notes in kind as per the Second Lien Notes Indenture, interest on the Second Lien Notes in the first 12 months is required to be paid in kind at a rate of 7.00%. The Company may pay the interest on the Second Lien Notes in cash after the first 12 months if certain defined interest payment conditions are met.

In July 2017, the Company's French subsidiary entered into a local credit facility under which it may borrow against 100% of the eligible accounts receivable factored, with recourse, up to 6.5 million Euros, subject to factoring fees and floating Euribor or LIBOR interest rates, plus a 1.0% margin. The French subsidiary utilizes the local credit facility to support its operating cash needs. As of as of June 30, 2018 (Successor), the French subsidiary has borrowings of \$4.8 million under the credit facility.

Interest expense in the three and six months ended June 30, 2018 (Successor) was \$8.1 million and \$15.3 million, respectively, of which \$1.7 million and \$3.1 million, respectively, was cash interest.

As of as of June 30, 2018 (Successor), the Company had \$2.1 million of irrevocable letters of credit outstanding.

For additional information regarding the terms of the Expanded ABL Credit Agreement, the Second Lien Notes, and the French credit facility refer to Note 7 - Debt to the Notes to the Condensed Consolidated Financial Statements.

**Critical Accounting Policies**

The preparation of our financial statements requires us to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Part II, Item 7 of the Company's most recent Form 10-K for the fiscal year ended December 31, 2017, which we filed with the Securities and Exchange Commission on March 15, 2018, includes a summary of the critical accounting policies we believe are the most important to aid in understanding our financial results. There have been no changes to those critical accounting policies that have had a material impact on our reported amounts of assets, liabilities, revenues or expenses during the first six months of 2018.

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Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

A review and evaluation was performed by the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934). Based upon that review and evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

(b) Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15 and 15d-15 under the Exchange Act that occurred during the three months ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



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Part II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is party to a variety of legal proceedings, claims, and inquiries, including proceedings or inquiries by governmental authorities, which arise from the operation of its business. These proceedings, claims, and inquiries are incidental to and occur in the normal course of the Company's business affairs. The majority of these proceedings, claims, and inquiries relate to commercial disputes with customers, suppliers, and others; employment and employee benefits-related disputes; product quality disputes with vendors and/or customers; and environmental, health and safety claims. It is the opinion of management that the currently expected outcome of these proceedings, claims, and inquiries, after taking into account recorded accruals and the availability and limits of our insurance coverage, will not have a material adverse effect on the consolidated results of operations, financial condition or cash flows of the Company.

Item 1A. Risk Factors

The risk factors that were disclosed under the caption "Risk Factors" in Part I, Item 1A of the Company's most recent Form 10-K have not materially changed since the date the most recent Form 10-K was filed with the SEC.

Item 6. Exhibits

Exhibits required to be filed as part of this Report on Form 10-Q are listed in the Exhibit Index, which is incorporated by reference herein.

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Exhibit Index

The following exhibits are filed herewith or incorporated herein by reference:

| Exhibit No. | Description  |
|-------------|--|
| 10.1        | <u>Amendment No. 1 to Revolving Credit and Security Agreement dated June 1, 2018 between the Company and certain of its subsidiaries, PNC Bank, National Association, as lender and as administrative and collateral agent, and the other lenders party thereto. Incorporated by reference to Exhibit 10.1 on the Company's Current Report on Form 8-K filed with the SEC on June 4, 2018. Commission File No. 1-05415</u> |
| 10.2        | <u>Supplemental Indenture and Amendment No. 1 dated June 1, 2018 between the Company, certain of its subsidiaries, Wilmington Savings Fund Society, FSB, as Trustee and Collateral Agent. Incorporated by reference to Exhibit 10.2 on the Company's Current Report on Form 8-K filed with the SEC on June 4, 2018. Commission File No. 1-05415</u>  |
| 31.1        | <u>CEO Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002</u>   |
| 31.2        | <u>CFO Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002</u>   |
| 32.1        | <u>CEO and CFO Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002</u>   |
| 101.INS     | XBRL Instance Document   |
| 101.SCH     | XBRL Taxonomy Extension Schema Document  |
| 101.CAL     | XBRL Taxonomy Calculation Linkbase Document  |
| 101.DEF     | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB     | XBRL Taxonomy Label Linkbase Document  |
| 101.PRE     | XBRL Taxonomy Presentation Linkbase Document   |

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SIGNATURE

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.

A. M. Castle & Co.

(Registrant)

Date: August 9, 2018 By: /s/ Edward M. Quinn

Edward M. Quinn, Vice President, Controller and Chief Accounting Officer

(Principal Accounting Officer)