CASTLE A M & CO
Form 10-Q
November 14, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

ýQuarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For Quarterly Period Ended September 30, 2017
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 ý 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 ý 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 ý
	Emerging growth company ¨

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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 ý
The number of shares outstanding of the registrant’s common stock as of November 10, 2017 was 3,734,109 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 & Co.
Condensed Consolidated Balance Sheets

	Successor September 30, 2017	Predecessor December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 11,116	$ 35,624
Accounts receivable, less allowances of $422 and $1,945, respectively	76,802	64,385
Inventories	154,321	146,603
Prepaid expenses and other current assets	16,223	10,141
Income tax receivable	388	433
Total current assets	258,850	257,186
Goodwill and intangible assets, net	8,175	4,101
Prepaid pension cost	9,518	8,501
Deferred income taxes	—	381
Other noncurrent assets	823	9,449
Property, plant and equipment:		
Land	5,940	2,070
Buildings	22,017	37,341
Machinery and equipment	29,693	125,836
Property, plant and equipment, at cost	57,650	165,247
Accumulated depreciation	(502)	(115,537)
Property, plant and equipment, net	57,148	49,710
Total assets	$ 334,514	$ 329,328
LIABILITIES AND STOCKHOLDERS’ (EQUITY) DEFICIT		
Current liabilities:		
Accounts payable	$ 47,170	$ 33,083
Accrued and other current liabilities	14,586	19,854
Income tax payable	—	209
Short-term borrowings	3,581	—
Current portion of long-term debt	118	137
Total current liabilities	65,455	53,283
Long-term debt, less current portion	244,347	286,459
Deferred income taxes	1,785	—
Build-to-suit liability	9,973	12,305
Other noncurrent liabilities	3,931	5,978
Pension and postretirement benefit obligations	6,395	6,430
Commitments and contingencies (Note 15)		
Stockholders’ equity (deficit):		
Predecessor preferred stock, $0.01 par value—9,988 shares authorized (including 400 Series B Junior Preferred, $0.00 par value); no shares issued and outstanding at December 31, 2016	—	—
Predecessor common stock, $0.01 par value—60,000 shares authorized; 32,768 shares issued and 32,566 outstanding at December 31, 2016	—	327

Successor common stock, $0.01 par value—200,000 Class A shares authorized with 3,734 shares issued and outstanding at September 30, 2017	20	—
Predecessor additional paid-in capital	—	244,825
Successor additional paid-in capital	5,791	—
Accumulated deficit	(821)	(253,291)
Accumulated other comprehensive loss	(2,362)	(25,939)
Treasury stock, at cost—no shares at September 30, 2017 and 202 shares at December 31, 2016	—	(1,049)
Total stockholders’ equity (deficit)	2,628	(35,127)
Total liabilities and stockholders’ equity (deficit)	$ 334,514	$ 329,328

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

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A.M. Castle & Co.
Condensed Consolidated Statements of Operations
and Comprehensive (Loss) Income

	Successor	Predecessor	
	September 1, 2017 Through September 30, 2017	July 1, 2017 Through August 31, 2017	Three Months Ended September 30, 2016
Net sales	$ 41,725	$ 81,518	$ 124,893
Costs and expenses:			
Cost of materials (exclusive of depreciation and amortization)	31,482	63,406	92,406
Warehouse, processing and delivery expense	5,972	12,277	19,561
Sales, general and administrative expense	4,846	10,048	16,820
Restructuring expense	—	398	912
Depreciation and amortization expense	502	2,391	3,845
Total costs and expenses	42,802	88,520	133,544
Operating loss	(1,077)	(7,002)	(8,651)
Interest expense, net	1,408	2,602	8,743
Financial restructuring expense	—	424	—
Unrealized gain on embedded debt conversion option	—	—	(6,285)
Other (income) expense, net	(2,078)	(823)	6,250
Reorganization items, net	128	(80,033)	—
(Loss) income from continuing operations before income taxes and equity in losses of joint venture	(535)	70,828	(17,359)
Income tax expense (benefit)	286	(1,395)	903
(Loss) income from continuing operations before equity in losses of joint venture	(821)	72,223	(18,262)
Equity in losses of joint venture	—	—	(36)
(Loss) income from continuing operations	(821)	72,223	(18,298)
Loss from discontinued operations, net of income taxes	—	—	(1,688)
Net (loss) income	$ (821)	$ 72,223	$ (19,986)
Basic and diluted earnings (loss) per common share:			
Continuing operations	$ (0.41)	$ 2.27	$ (0.57)
Discontinued operations	—	—	(0.05)
Net basic and diluted (loss) earnings per common share	$ (0.41)	$ 2.27	$ (0.62)
Comprehensive (loss) income:			
Net (loss) income	$ (821)	$ 72,223	$ (19,986)
Change in unrecognized pension and postretirement benefit costs, net of tax	—	9,369	456
Foreign currency translation adjustments, net of tax	(2,362)	17,827	2,967
Comprehensive (loss) income	$ (3,183)	$ 99,419	$ (16,563)

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

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A.M. Castle & Co.
Condensed Consolidated Statements of Operations
and Comprehensive (Loss) Income Continued

	Successor	Predecessor	
	September 1, 2017 Through September 30, 2017	January 1, 2017 Through August 31, 2017	Nine Months Ended September 30, 2016
Net sales	$ 41,725	$ 353,926	$ 419,433
Costs and expenses:			
Cost of materials (exclusive of depreciation and amortization)	31,482	266,495	323,808
Warehouse, processing and delivery expense	5,972	50,314	63,772
Sales, general and administrative expense	4,846	39,139	51,486
Restructuring expense	—	566	14,674
Depreciation and amortization expense	502	10,150	12,498
Total costs and expenses	42,802	366,664	466,238
Operating loss	(1,077)	(12,738)	(46,805)
Interest expense, net	1,408	23,402	28,711
Financial restructuring expense	—	7,024	—
Unrealized loss (gain) on embedded debt conversion option	—	146	(7,569)
Debt restructuring loss, net	—	—	6,562
Other (income) expense, net	(2,078)	(3,582)	4,587
Reorganization items, net	128	(74,531)	—
(Loss) income from continuing operations before income taxes and equity in losses of joint venture	(535)	34,803	(79,096)
Income tax expense (benefit)	286	(1,387)	1,099
(Loss) income from continuing operations before equity in losses of joint venture	(821)	36,190	(80,195)
Equity in losses of joint venture	—	—	(4,177)
(Loss) income from continuing operations	(821)	36,190	(84,372)
Income from discontinued operations, net of income taxes	—	—	6,246
Net (loss) income	$ (821)	$ 36,190	$ (78,126)
Basic and diluted earnings (loss) per common share:			
Continuing operations	$ (0.41)	$ 1.12	$ (3.02)
Discontinued operations	—	—	0.22
Net basic and diluted (loss) income per common share	$ (0.41)	$ 1.12	$ (2.80)
Comprehensive (loss) income:			
Net (loss) income	$ (821)	$ 36,190	$ (78,126)
Change in unrecognized pension and postretirement benefit costs, net of tax	—	9,797	1,368
Foreign currency translation adjustments, net of tax	(2,362)	16,142	(497)
Comprehensive (loss) income	$ (3,183)	$ 62,129	$ (77,255)

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

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A.M. Castle & Co.
Condensed Consolidated Statements of Cash Flows

	Successor	Predecessor	
	September 1, 2017 Through September 30, 2017	January 1, 2017 Through August 31, 2017	Nine Months Ended September 30, 2016
Operating activities:			
Net (loss) income	$ (821)	$36,190	$(78,126)
Less: Income from discontinued operations, net of income taxes	—	—	6,246
(Loss) income from continuing operations	(821)	36,190	(84,372)
Adjustments to reconcile (loss) income from continuing operations to net cash used in operating activities of continuing operations:			
Depreciation and amortization	502	10,150	12,498
Amortization of deferred gain	(9)	(56)	(92)
Amortization of deferred financing costs and debt discount	73	3,810	4,258
Debt restructuring loss, net	—	—	6,562
Loss from lease termination	—	—	4,452
Unrealized loss (gain) on embedded debt conversion option	—	146	(7,569)
Noncash reorganization items, net	—	(87,107)	—
Loss on sale of property, plant and equipment	—	7	1,720
Unrealized gain on commodity hedges	—	—	(813)
Unrealized foreign currency transaction (gain) loss	(1,292)	(4,439)	2,484
Equity in losses of joint venture	—	—	4,141
Noncash interest paid in kind	951	—	—
Share-based compensation expense	215	630	916
Deferred income taxes	—	(953)	113
Other, net	75	593	679
Changes in assets and liabilities:			
Accounts receivable	(3,658)	(6,061)	(5,128)
Inventories	(784)	(2,703)	34,780
Prepaid expenses and other current assets	(3,050)	(3,100)	(301)
Other noncurrent assets	567	1,664	(302)
Prepaid pension costs	(168)	(849)	(406)
Accounts payable	235	8,602	6,026
Income tax payable and receivable	174	(340)	198
Accrued and other current liabilities	523	(6,002)	8,604
Pension and postretirement benefit obligations and other noncurrent liabilities	(93)	(471)	865
Net cash used in operating activities of continuing operations	(6,560)	(50,289)	(10,687)
Net cash used in operating activities of discontinued operations	—	—	(6,907)
Net cash used in operating activities	(6,560)	(50,289)	(17,594)
Investing activities:			
Proceeds from sale of investment in joint venture	—	—	31,550
Capital expenditures	(924)	(2,850)	(2,431)
Proceeds from sale of property, plant and equipment	5	619	2,829
Proceeds from release of cash collateralization of letters of credit	—	7,492	—
Net cash (used in) from investing activities of continuing operations	(919)	5,261	31,948

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A.M. Castle & Co.
Condensed Consolidated Statements of Cash Flows

	Successor	Predecessor	
	September 1, 2017 Through September 30, 2017	January 1, 2017 Through August 31, 2017	Nine Months Ended September 30, 2016
Net cash from investing activities of discontinued operations	—	—	53,570
Net cash (used in) from investing activities	(919)	5,261	85,518
Financing activities:			
Proceeds from long-term debt including credit facilities	8,677	195,026	581,052
Repayments of long-term debt including credit facilities	(25)	(175,414)	(640,415)
Short-term borrowings (repayments), net	(216)	3,797	—
Payments of debt restructuring costs	—	—	(8,677)
Payments of debt issue costs	—	(1,831)	—
Payments of build-to-suit liability	—	(3,000)	(687)
Net cash from (used in) financing activities	8,436	18,578	(68,727)
Effect of exchange rate changes on cash and cash equivalents	95	890	(292)
Net change in cash and cash equivalents	1,052	(25,560)	(1,095)
Cash and cash equivalents - beginning of period	10,064	35,624	11,100
Cash and cash equivalents - end of period	$ 11,116	$ 10,064	$ 10,005

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

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A. M. Castle & Co.
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"). The four subsidiaries in the chapter 11 cases were 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. Refer to Note 2 - Bankruptcy Related Disclosures.
The condensed consolidated financial statements included herein have been prepared to reflect the application of 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 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 September 30, 2017 (Successor), for the three-month and nine-month periods ended September 30, 2016 (Predecessor), for the period from July 1, 2017 to August 31, 2017 (Predecessor), for the period from January 1, 2017 to August 31, 2017 (Predecessor), and for the period from September 1, 2017 to September 30, 2017 (Successor). The Condensed Consolidated Balance Sheet at December 31, 2016 (Predecessor) 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, 2016. The 2017 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

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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 Credit Facilities Agreement (as defined below) and the 11.00% Senior Secured Term Loan Credit Facilities due 2018 issued pursuant thereto (the "Credit Facilities"), (ii) the Indenture dated February 8, 2016 (the "Senior Notes Indenture") and the 12.75% Senior Secured Notes due 2018 issued pursuant thereto (the "12.75% Secured Notes"), and (iii) the Indenture dated May 19, 2016 (the "Convertible Notes Indenture") and the 5.25% Convertible Senior Secured Notes due 2019 issued pursuant thereto (the "5.25% Convertible Notes"). The Credit Facilities Agreement, the Senior Notes Indenture, and the 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 Credit Facilities Agreement, the Senior Notes Indenture, and the Convertible Notes Indenture were automatically stayed as a result of the bankruptcy petitions, and the creditors' rights of enforcement in respect of the Credit Facilities Agreement, the Senior Notes Indenture, and the 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 a 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 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 "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 new senior secured exit financing facility in the form of an asset-based revolving credit facility (the "New ABL Facility") with PNC Bank, National Association, as lender and as administrative and collateral agent (the "Agent"), and the other lenders party thereto. The New ABL Agreement provides for a $125,000 senior secured, revolving credit facility for the Company. The proceeds of the advances under the New ABL Facility may only be used to (i) pay certain fees and expenses to the Agent and the lenders under the New ABL 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 ("DIP Facility"), by and among the Company, the lenders party thereto, and PNC Bank, National Association, and certain other existing indebtedness, and (iv) provide for the Borrowers' capital expenditure needs, in accordance with the New ABL Facility.

On the Effective Date, in connection with its entering into the New ABL Agreement, the Company borrowed an aggregate amount equal to $78,797, proceeds from which, along with proceeds of the New Money Notes of $38,002, were used to pay down all outstanding indebtedness, accrued interest, and related fees of the Company under the

Credit Facilities Agreement and the borrowings outstanding under the DIP Facility.

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- Entry into an Indenture (the "Second Lien Notes Indenture") with Wilmington Savings Fund Society, FSB ("WSFS, 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 (See Note 11 - Share Based Compensation, for full description).

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 12.75% Secured Notes and 5.25% Convertible Notes was discharged and canceled.

- Issuance of an aggregate of 2,000 shares of 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 warrants to purchase the Company's prior common stock and unvested/unexercised awards under any existing pre-Effective Date management incentive compensation plans) were canceled 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 include directors, officers and employees of the Company and its subsidiaries, became effective.

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.

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 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.

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.

Reorganization Value

Reorganization value is the value attributed to an entity emerging from bankruptcy, as well as the expected net realizable value of those assets that will be disposed before emergence occurs. This value is viewed as the value of the entity before considering liabilities and approximates the amount a willing buyer would pay for the assets of the entity immediately after emergence. Fresh-start accounting requires that the reporting entity allocate the reorganization value to its assets and liabilities in relation to their fair values upon emergence from Chapter 11, with the excess of reorganization value over net asset values recorded as goodwill. The Company’s valuation of the reorganized Company, which was included in the Disclosure Statement related to the Plan, estimated the enterprise value of the Company to be in a range between $234 million and $264 million. The Company estimated the enterprise value of the Successor Company to be $244 million. The estimated enterprise value and the equity value are highly dependent on the achievement of the future financial results contemplated in the projections that were set forth in the Plan. The estimates and assumptions made in the valuation are inherently subject to significant uncertainties. The primary assumptions for which there is a reasonable possibility of the occurrence of a variation that would have significantly affected the reorganization value include the assumptions regarding revenue growth, operating expenses, the amount and timing of capital expenditures and the discount rate utilized.

In order to determine the reorganization value, the Company estimated the enterprise value of the Successor utilizing the discounted cash flow analysis.

To estimate the fair value utilizing the discounted cash flow analysis, the Company established an estimate of future cash flows for the period from August 31, 2017 to December 31, 2021 and discounted the estimated future cash flows to the present value, adding the present value of the terminal value of cash flows beyond December 31, 2021. The expected cash flows for the period August 31, 2017 to December 31, 2021 were derived from earnings forecasts and assumptions regarding growth and margin projections and adjusted for other cash flows including capital expenditures and charges to working capital, as applicable, and expressed as a multiple of Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA"). The discount rate of 11.1% was estimated based on an after-tax weighted average cost of capital reflecting the rate of return that would be expected by a market participant.

The following table reconciles the Company's enterprise value to the estimated fair value of the Successor's equity as of the Effective Date:

Enterprise value	$244,000
Less: fair value of debt	(238,340)
Equity value	$5,660

The fair value of the convertible notes portion of the debt was determined based on market information 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 convertible notes. Given the nature and the variable interest rates, the fair value of borrowings under the asset-based lending facility approximated carrying value as of the Effective Date.

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The following table reconciles the Company's enterprise value to the reorganization value of the Successor's assets:

Enterprise value	$244,000
Current liabilities	64,992
Noncurrent liabilities	23,479
Reorganization value of Successor assets	$328,648

The total of all postpetition liabilities and allowed claims immediately prior to confirmation of the Plan was approximately $404 million.

Fresh-Start Balance Sheet

The following fresh-start balance sheet as of the Effective Date, August 31, 2017, illustrates the financial effects on the Company of the implementation of the Plan and the adoption of fresh-start reporting. This fresh-start balance sheet reflects the effect of the completion of the transactions included in the Plan, including the issuance of successor equity and the settlement of prepetition indebtedness.

Reorganization adjustments, shown in column 2 of the following schedule, represent amounts recorded on the Effective Date for the implementation of the Plan, including the settlement of liabilities subject to comprise and related payments, the issuance of new debt and new shares of common stock, repayment of the debtor-in-possession revolving credit facility and cancellation of Predecessor common stock.

Fresh-start adjustments, as shown in column 3 of the following schedule, represent amounts recorded on the Effective Date as a result of the adoption of fresh-start accounting, which resulted in the Company becoming a new entity for financial reporting purposes. The Company’s assets and liabilities have been recorded at estimated fair value as of the fresh-start reporting date or Effective Date.

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	As of August 31, 2017						
	Predecessor	Reorganization Adjustments		Fresh-Start Adjustments			Successor
ASSETS							
Current assets:							
Cash and cash equivalents	$20,443	$ (10,379	) (a)	$ —			$10,064
Accounts receivable, net	73,056	—		—			73,056
Inventories	153,785	—		—			153,785
Prepaid expenses and other current assets	14,217	—		—			14,217
Income tax receivable	588	—		—			588
Total current assets	262,089	(10,379	)	—			251,710
Intangible assets, net	24	—		8,151		(j)	8,175
Prepaid pension cost	9,350	—		—			9,350
Deferred income taxes	1,381	—		—			1,381
Other noncurrent assets	1,364	—		—			1,364
Property, plant and equipment:							—
Land	2,073	—		3,867		(i)	5,940
Buildings	37,498	—		(15,518	)	(i)	21,980
Machinery and equipment	129,324	—		(100,576	)	(i)	28,748
Property, plant and equipment, at cost	168,895	—		(112,227	)		56,668
Accumulated depreciation	(122,087)	—		122,087			—
Property, plant and equipment, net	46,808	—		9,860			56,668
Total assets	$321,016	$ (10,379	)	$ 18,011			$328,648
LIABILITIES AND STOCKHOLDERS' EARNINGS (DEFICIT)							
Current liabilities:							
Accounts payable	$47,063	$ —		$ —			$47,063
Accrued and other current liabilities	12,145	1,961	(b)	—			14,106
Short-term borrowings	3,797	—		—			3,797
Current portion of long-term debt	109,213	(109,187	) (c)	—			26
Total current liabilities	172,218	(107,226	)	—			64,992
Long-term debt, less current portion	—	234,517	(d)	—			234,517
Deferred income taxes	—	—		3,159		(m)	3,159
Build-to-suit liability	9,898	—		—			9,898
Other noncurrent liabilities	5,711	—		(1,715	)	(k)	3,996
Pension and postretirement benefit obligations	6,426	—		—			6,426
Liabilities subject to compromise	211,363	(211,363	) (e)	—			—
Commitments and contingencies							
Stockholders' earnings (deficit):							
Predecessor common stock	327	(327	) (f)	—			—
Successor common stock	—	20	(g)	—			20
Predecessor additional paid-in capital	245,546	(1,883	) (f)	(243,663	)	(l)	—
Successor additional paid-in capital	—	5,640	(g)	—			5,640
Retained (deficit) earnings	(302,833)	69,165	(h)	233,668		(l)	—
Accumulated other comprehensive loss	(26,562)	—		26,562		(l)	—
Treasury stock, at cost	(1,078)	1,078	(f)	—			—
Total stockholders' earnings (deficit)	(84,600)	73,693		16,567			5,660
Total liabilities and stockholders' earnings (deficit)	$321,016	$ (10,379	)	$ 18,011			$328,648

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Reorganization Adjustments

The unaudited consolidated financial information gives effect to the following Reorganization Adjustments, the Plan and the implementation of the transactions contemplated by the Plan. These adjustments give effect to the terms of the Plan and certain underlying assumptions, which include, but are not limited to, the following:

a. Represents net cash outflows occurring upon the Plan becoming effective on August 31, 2017 as follows:

Cash received from initial draw on New ABL Facility	$78,797
Repayment of Debtor-In-Possession financing borrowings, including interest and fees	(66,932)
Cash received from issuance of New Money Notes	38,002
Payment of put option fee	(2,000)
Repayment of prepetition First Lien Notes, including interest and fees	(49,415)
Payment of cash recovery to prepetition Second Lien Noteholders	(6,646)
Payment related to key employee incentive plan	(1,229)
Professional fees paid upon emergence	(956)
Net cash paid upon emergence	$(10,379)

b. Represents the accrual of success fees earned upon emergence of $2,416 net of payment of accrued interest on the prepetition First Lien Notes of $455.

c. Represents repayment of the Debtor-In-Possession financing balance of $66,599 and the repayment of the prepetition First Lien Notes principal balance of $48,000, net of the write-off of unamortized original issue discount and deferred issuance costs related to the prepetition First Lien Notes of $5,412.

d. Represents the fair value of the Second Lien Notes Indenture issued upon emergence of $155,720 and the initial draw on New ABL Facility of $78,797.

e. Liabilities subject to compromise were satisfied as follows:

12.75% Senior Secured Notes due December 15, 2018	$177,019
5.25% Convertible Notes due December 30, 2019	22,323
Accrued interest payable	12,021
Liabilities subject to compromise	211,363
Cash payment to prepetition Second Lien Noteholders	(6,646)
Fair value of Second Lien Notes (including conversion option) issued to prepetition Second and Third Lien Noteholders	(110,200)
New equity issued to prepetition Second and Third Lien Noteholders	(4,528)
Gain on settlement of liabilities subject to compromise	$89,989

f. Represents the cancellation of the Predecessor common stock, warrants and treasury stock.

g. Represents the issuance of 2,000 common shares of the Successor company in accordance with the Plan.

h. The cumulative effect on retained earnings of the reorganization adjustments discussed above is as follows:

Gain on settlement of liabilities subject to compromise	$89,989
Write off of original issue discount and deferred financing costs	(5,412)
Backstop and other fees related to the repayment of old debt and issuance of new debt	(10,811)
Success fees and key employee incentive plan payments	(4,601)
Net impact to retained earnings (accumulated deficit)	$69,165

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Fresh-Start Adjustments

i. Represents the adjustments made to increase the carrying value of property, plant and equipment to their estimated fair value. The Company's overall range of useful lives from an accounting policy perspective did not change. However, when the fair value of each asset was adjusted, a new remaining useful life was assigned to each asset, and the new value will be depreciated over that time period, which may be different from the remaining depreciable life of that asset at the end of the Predecessor period. Estimated fair value was determined as follows:

- The cost approach was utilized to estimate the fair value of personal property as well as buildings and land improvements. This approach considers the amount required to construct or purchase a new asset of equal utility at current market prices, with adjustments in value for physical deterioration.
- The sales comparison approach was utilized to estimate fair value of owned real property. The sales comparison approach relies upon recent sales, offerings of similar assets or a specific inflationary adjustment to original purchase price to arrive at a probable selling price.

j. An adjustment of $8,151 was made to record the estimated fair value of the Successor trade name of $5,500 and write off $24 of Predecessor intangible assets, and to record goodwill of $2,675, representing the excess of the reorganization value of the assets over the fair value of identifiable assets, as follows:

Reorganization value of assets	$328,648
Less: fair value of:	
Total current assets	(251,710)
Property, plant and equipment	(56,668)
Successor trade name	(5,500)
Other noncurrent assets	(12,095)
Goodwill	$2,675

The fair value of the Successor's customer relationships was determined to be nil.

k. Represents the elimination of deferred rent and deferred gains of $2,105, adjusting these balances to zero fair value, net of a liability for unfavorable contracts of $390.

l. Represents the cumulative impact of fresh-start adjustments as discussed above and the elimination of Predecessor retained deficit and other comprehensive loss.

m. Represents the recording of a tax liability related to indefinite lived trade names and land.

Contractual Interest

Effective June 18, 2017, the Company discontinued recording interest expense on outstanding prepetition debt classified as LSTC. The table below shows contractual interest amounts for debt classified as LSTC calculated in accordance with the respective agreements without giving effect to any penalties as a result of the default on such agreements, which are amounts due under the contractual terms of the outstanding debt. Interest expense reported in the Condensed Consolidated Statement of Operations for the periods after the Effective Date does not include $4,089 and $4,880, per the table below, in contractual interest on prepetition debt classified as LSTC, which was stayed by the Bankruptcy Court effective on the Petition Date.

	Predecessor	
	July 1, 2017 Through August 31, 2017	June 18, 2017 Through August 31, 2017
12.75% Senior Secured Notes due December 15, 2018	$3,887	$ 4,639
5.25% Convertible Notes due December 30, 2019	202	241
Total Contractual Interest	$4,089	$ 4,880

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Reorganization Items, Net

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 LSTC at their estimated allowed claim amounts, as such adjustments were determined. The following table presents reorganization items incurred in the the periods after the Effective Date, as reported in the accompanying Condensed Consolidated Statement of Operations:

	Successor	Predecessor	
	September 1, 2017 Through September 30, 2017	July 1, 2017 Through August 31, 2017	June 18, 2017 Through August 31, 2017
Gain on extinguishment of debt	—	(89,989)	(89,989)
Gain on fresh-start revaluation	—	(16,566)	(16,566)
Write-off of unamortized debt issuance costs and discounts	—	5,412	10,262
Prepayment penalties and debt-related fees	—	13,191	13,191
Professional fees	128	6,690	7,342
Key employee incentive plan	—	1,229	1,229
Reorganization items, net	$ 128	$(80,033)	$(74,531)

For the period from June 18, 2017 through August 31, 2017, the cash reorganization items included approximately $8,571 of professional fees and employee incentives and $3,673 of debt issuance and repayment costs. Cash reorganization items included approximately $128 for professional fees for the period from September 1, 2017 through September 30, 2017 (Successor). The cash outflow is included in net cash provided by operating activities in our Condensed Consolidated Statements of Cash Flows for the periods presented.

(3) New Accounting Standards

Standards Updates Adopted

Effective January 1, 2017, the Company adopted FASB ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting," which simplifies several aspects of the accounting for employee share-based payment transactions. Under ASU No. 2016-09, a company recognizes all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement, eliminating the notion of the additional paid-in capital pool and significantly reducing the complexity and cost of accounting for excess tax benefits and tax deficiencies. This aspect of the guidance is required to be applied prospectively. For interim reporting purposes, excess tax benefits and tax deficiencies are considered discrete items in the reporting period in which they occur and are not included in the estimate of an entity's annual effective tax rate. ASU No. 2016-09 further eliminates the requirement to defer recognition of an excess tax benefit until the benefit is realized through a reduction to taxes payable. Upon adoption, the Company elected to continue to estimate forfeitures expected to occur to determine the amount of compensation cost to be recognized in each period. The adoption of ASU No. 2016-09 did not have a material impact on the Company's consolidated financial statements. As described in Note 1 - Basis of Presentation, upon emergence from bankruptcy, the Company elected to account for forfeitures as they occur, which did not have a material impact on the condensed consolidated financial statements.

Standards Updates Issued Not Yet Effective

In March 2017, the FASB issued 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

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component must be applied prospectively. For public business entities, the guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those years. Early adoption is permitted as of the beginning of an annual period for which interim financial statements have not been issued. The Company is currently evaluating the impact the adoption of ASU No. 2017-07 will have on its consolidated financial statements.

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. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements and related disclosures.

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 presented with limited exceptions. For public companies, the amendments in ASU No. 2016-15 are effective for fiscal years beginning after December 15, 2017, and interim periods within those years. Early adoption is permitted, including adoption in an interim period. The Company does not expect the adoption of ASU No. 2016-15 to have a material impact on its consolidated financial statements.

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.

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 is required for annual and interim periods beginning after December 15, 2017. The Company plans to adopt ASC 606 on January 1, 2018 using the modified retrospective transition method with the cumulative effect of initial adoption, if any, recognized in opening retained earnings or accumulated deficit on the adoption date. 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. While the Company is still in the process of completing an 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 does not believe that any of its revenue streams will be materially affected by the adoption of ASC 606, and therefore it does not expect its Consolidated Statements of Operations will be materially affected. The Company is currently in the process of evaluating additional disclosures which may be required upon the adoption of ASC 606.

(4) Discontinued Operation

On March 15, 2016, the Company completed the sale of substantially all the assets of its wholly-owned subsidiary, Total Plastics, Inc. ("TPI") for $55,070 in cash, subject to customary working capital adjustments. Under the terms of the sale, $1,500 of the purchase price was placed into escrow pending adjustment based upon the final calculation of the working capital at closing. The Company and the buyer agreed to the final working capital adjustment during the third quarter of 2016, which resulted in the full escrowed amount being returned to the buyer. The sale ultimately resulted in pre-tax and after-tax gains of $2,003 and $1,306, respectively, for the year ended December 31, 2016.

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Summarized results of the discontinued operation for the nine months ended September 30, 2016 were as follows:

	Predecessor	
	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Net sales	$—	$ 29,680
Cost of materials	—	21,027
Operating costs and expenses	—	7,288
Interest expense[a]	—	333
Income from discontinued operations before income taxes	—	1,032
Income tax expense benefit [b]	—	(3,908)
(Loss) gain on sale of discontinued operations, net of income taxes	(1,688)	1,306
Income from discontinued operations, net of income taxes	$(1,688)	$ 6,246

[a] Interest expense was allocated to the discontinued operation based on the debt that was required to be paid as a result of the sale of TPI.

[b] Income tax benefit for the nine months ended September 30, 2016 includes $4,207 reversal of valuation allowance resulting from the sale of TPI.

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Earnings (Loss) Per Share

Diluted earnings (loss) per common share is computed by dividing income (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), and contingently issuable shares related to the Company's 5.25% Convertible Notes (Predecessor), and the Company's Second Lien Notes (Successor), which are included in the calculation of weighted average shares outstanding using the treasury stock method, if dilutive. Refer to Note 8 - Debt for further description of the New Convertible Notes and Second Lien Notes.

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

	Successor	Predecessor	
	September 1, 2017 Through September 30, 2017	July 1, 2017 Through August 31, 2017	Three Months Ended September 30, 2016
Numerator:			
(Loss) income from continuing operations	$ (821)	$72,223	$(18,298)
Income from discontinued operations, net of income taxes	—	—	(1,688)
Net (loss) income	$ (821)	$72,223	$(19,986)
Denominator:			
Weighted average common shares outstanding	2,000	31,790	32,260
Effect of dilutive securities:			
Outstanding common stock equivalents	—	—	—
Denominator for diluted earnings (loss) per common share	2,000	31,790	32,260
Basic earnings (loss) per common share:			
Continuing operations	$ (0.41)	$2.27	$(0.57)
Discontinued operations	—	—	(0.05)
Net basic (loss) earnings per common share	$ (0.41)	$2.27	$(0.62)
Diluted earnings (loss) per common share:			
Continuing operations	$ (0.41)	$2.27	$(0.57)
Discontinued operations	—	—	(0.05)
Net diluted (loss) earnings per common share	$ (0.41)	$2.27	$(0.62)
Excluded outstanding share-based awards having an anti-dilutive effect	1,734	—	2,326
Excluded "in the money" portion of 5.25% Convertible Notes (Predecessor) having an anti-dilutive effect	—	—	—
Excluded "in the money" portion of Second Lien Notes (Successor) having an anti-dilutive effect	—	—	—

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	Successor	Predecessor	
	September 1, 2017 Through September 30, 2017	January 1, 2017 Through August 31, 2017	Nine Months Ended September 30, 2016
Numerator:			
Loss from continuing operations	$ (821)	$ 36,190	$ (84,372)
Income from discontinued operations, net of income taxes	—	—	6,246
Net loss	$ (821)	$ 36,190	$ (78,126)
Denominator:			
Weighted average common shares outstanding	2,000	32,174	27,909
Effect of dilutive securities:			
Outstanding common stock equivalents	—	—	—
Denominator for diluted earnings (loss) per common share	2,000	32,174	27,909
Basic earnings (loss) per common share:			
Continuing operations	$ (0.41)	$ 1.12	$ (3.02)