CASTLE A M & CO
Form 10-Q
November 14, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For Quarterly Period Ended September 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 ý No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit 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 ý Smaller reporting company ý

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 ý

The number of shares outstanding of the registrant’s common stock as of November 9, 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 & Co.
Condensed Consolidated Balance Sheets

	Successor September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$7,356	$ 11,104
Accounts receivable, less allowances of $1,100 and $1,586, respectively	89,297	74,370
Inventories	167,915	154,491
Prepaid expenses and other current assets	15,735	12,274
Income tax receivable	2,056	1,576
Total current assets	282,359	253,815
Goodwill and intangible assets, net	8,176	8,176
Prepaid pension cost	12,810	10,745
Deferred income taxes	1,291	1,278
Other noncurrent assets	835	1,344
Property, plant and equipment:		
Land	5,579	5,581
Buildings	21,319	21,296
Machinery and equipment	37,136	33,011
Property, plant and equipment, at cost	64,034	59,888
Accumulated depreciation	(9,366)	(2,961)
Property, plant and equipment, net	54,668	56,927
Total assets	$360,139	$ 332,285
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$50,363	$ 41,757
Accrued and other current liabilities	16,862	13,931
Income tax payable	668	262
Short-term borrowings	5,069	5,854
Current portion of long-term debt	119	118
Total current liabilities	73,081	61,922
Long-term debt, less current portion	239,908	199,903
Deferred income taxes	11,978	16,166
Build-to-suit liability	9,790	10,148
Other noncurrent liabilities	3,509	3,784
Pension and postretirement benefit obligations	6,281	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 September 30, 2018 and 3,734 shares issued and outstanding at December 31, 2017	38	37
Additional paid-in capital	54,872	49,944
Accumulated deficit	(33,636)	(13,327)

Accumulated other comprehensive loss	(5,682)	(2,669)
Total stockholders’ equity	15,592	33,985
Total liabilities and stockholders’ equity	$360,139	$ 332,285

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
	Three Months Ended September 30, 2018	September 1, 2017 Through September 30, 2017 As Adjusted*	July 1, 2017 Through August 31, 2017 As Adjusted*
Net sales	$148,109	$ 41,725	$ 81,518
Costs and expenses:			
Cost of materials (exclusive of depreciation and amortization)	110,896	31,482	63,406
Warehouse, processing and delivery expense	21,092	5,972	12,277
Sales, general and administrative expense	16,871	5,141	10,455
Restructuring expense	—	—	398
Depreciation and amortization expense	2,227	502	2,391
Total costs and expenses	151,086	43,097	88,927
Operating loss	(2,977)	(1,372)	(7,409)
Interest expense, net	8,746	1,805	3,409
Financial restructuring expense	—	—	424
Other (income) expense, net	(3,000)	(2,770)	(2,037)
Reorganization items, net	—	128	(80,033)
(Loss) income before income taxes	(8,723)	(535)	70,828
Income tax (benefit) expense	(2,068)	286	(1,395)
Net (loss) income	$(6,655)	$ (821)	$ 72,223
Basic and diluted (loss) earnings per common share	$(3.33)	$ (0.41)	$ 2.27
Comprehensive (loss) income:			
Net (loss) income	$(6,655)	$ (821)	$ 72,223
Change in unrecognized pension and postretirement benefit costs, net of tax	—	—	9,369
Foreign currency translation adjustments, net of tax	(1,014)	(2,362)	17,827
Comprehensive (loss) income	$(7,669)	$ (3,183)	$ 99,419

* 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 & Co.
Condensed Consolidated Statements of Operations
and Comprehensive (Loss) Income Continued

	Successor		Predecessor
	Nine Months Ended September 30, 2018	September 1, 2017 Through September 30, 2017 As Adjusted*	January 1, 2017 Through August 31, 2017 As Adjusted*
Net sales	$444,396	$ 41,725	$ 353,926
Costs and expenses:			
Cost of materials (exclusive of depreciation and amortization)	331,861	31,482	266,495
Warehouse, processing and delivery expense	62,612	5,972	50,314
Sales, general and administrative expense	50,393	5,141	40,766
Restructuring expense	—	—	566
Depreciation and amortization expense	6,965	502	10,150
Total costs and expenses	451,831	43,097	368,291
Operating loss	(7,435)	(1,372)	(14,365)
Interest expense, net	24,001	1,805	26,629
Financial restructuring expense	—	—	7,024
Unrealized loss on embedded debt conversion option	—	—	146
Other (income) expense, net	(7,101)	(2,770)	(8,436)
Reorganization items, net	—	128	(74,531)
(Loss) income before income taxes	(24,335)	(535)	34,803
Income tax (benefit) expense	(4,026)	286	(1,387)
Net (loss) income	$(20,309)	$ (821)	$ 36,190
Basic and diluted (loss) earnings per common share	$(10.15)	$ (0.41)	$ 1.12
Comprehensive (loss) income:			
Net (loss) income	$(20,309)	$ (821)	$ 36,190
Change in unrecognized pension and postretirement benefit costs, net of tax	—	—	9,797
Foreign currency translation adjustments, net of tax	(3,013)	(2,362)	16,142
Comprehensive (loss) income	$(23,322)	$ (3,183)	$ 62,129

* 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 & Co.
Condensed Consolidated Statements of Cash Flows

	Successor		Predecessor
	Nine Months Ended September 30, 2018	September 1, 2017 Through September 30, 2017	January 1, 2017 Through August 31, 2017
Operating activities:			
Net (loss) income	$(20,309)	$ (821)	$ 36,190
Adjustments to reconcile net (loss) income to net cash used in operating activities:			
Depreciation and amortization	6,965	502	10,150
Amortization of deferred financing costs and debt discount	5,762	73	3,810
Unrealized loss on embedded debt conversion option	—	—	146
Noncash reorganization items, net	—	—	(87,107)
(Gain) loss on sale of property, plant and equipment	(4)	—	7
Unrealized foreign currency gain	(784)	(1,292)	(4,439)
Noncash interest paid in kind	9,755	951	—
Noncash compensation expense	2,063	215	630
Deferred income taxes	(4,188)	—	(953)
Other, net	463	66	537
Changes in assets and liabilities:			
Accounts receivable	(15,253)	(3,658)	(6,061)
Inventories	(14,324)	(784)	(2,703)
Prepaid expenses and other current assets	(3,614)	(3,050)	(3,100)
Other noncurrent assets	540	567	1,664
Prepaid pension costs	(2,065)	(168)	(849)
Accounts payable	8,947	235	8,602
Income tax payable and receivable	(83)	174	(340)
Accrued and other current liabilities	1,791	523	(6,002)
Pension and postretirement benefit obligations and other noncurrent liabilities	(287)	(93)	(471)
Net cash used in operating activities	(24,625)	(6,560)	(50,289)
Investing activities:			
Capital expenditures	(4,909)	(924)	(2,850)
Proceeds from sale of property, plant and equipment	53	5	619
Proceeds from release of cash collateralization of letters of credit	—	—	7,492
Net cash (used in) from investing activities	(4,856)	(919)	5,261
Financing activities:			
Proceeds from long-term debt including credit facilities	45,454	8,677	195,026
Repayments of long-term debt including credit facilities	(17,600)	(25)	(175,414)
Repayments of short-term borrowings, net	(607)	(216)	3,797
Payments of debt issue costs	(499)	—	(1,831)
Payments of build-to-suit liability	(897)	—	(3,000)
Net cash from financing activities	25,851	8,436	18,578
Effect of exchange rate changes on cash and cash equivalents	(118)	95	890
Net change in cash and cash equivalents	(3,748)	1,052	(25,560)
Cash and cash equivalents - beginning of period	11,104	10,064	35,624
Cash and cash equivalents - end of period	$7,356	$ 11,116	$ 10,064

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"). 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 September 30, 2018 (Successor) and for the three and nine months ended September 30, 2018 (Successor), 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, 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.

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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 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 (the "DIP facility").
- 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")

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Toggle Notes due 2022 (the “Second Lien Notes”), excluding restricted notes issued under the A.M. Castle & Co. 2017 Management Incentive Plan.

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) Income. 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.

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Reorganization Items, Net

The following table presents reorganization items incurred in 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 of 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 the Condensed Consolidated Statements of Cash Flows for the periods presented.

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 "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

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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) Income. 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 $397 from sales, general and administrative expense to interest expense and a net periodic pension and postretirement benefit of $692 from sales, general and administrative expense to other expense (income), net on the Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income in the period September 1, 2017 through September 30, 2017 (Successor). The Company reclassified the interest cost component of net periodic pension and postretirement benefit costs of $806 from sales, general and administrative expense to interest expense and a net periodic pension and postretirement benefit of $1,213 from sales, general and administrative expense to other expense (income), net on the Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income in the period July 1, 2017 through August 31, 2017 (Predecessor) and the interest cost component of net periodic pension and postretirement benefit costs of $3,227 from sales, general and administrative expense to interest expense and a net periodic pension and postretirement benefit of $4,854 from sales, general and administrative expense to other expense (income), net on the Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income in the period January 1, 2017 through August 31, 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 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

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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 August 2018, the FASB issued Accounting Standards Update ("ASU") No. 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement.” ASU No. 2018-13 amends Fair Value Measurement (Topic 820) to add, remove, and modify fair value measurement disclosure requirements. The ASU’s changes to disclosures aim to improve the effectiveness of Topic 820's disclosure requirements under the aforementioned FASB disclosure framework project. ASU No. 2018-13 is effective for all entities for fiscal years beginning after December 15, 2019, including interim periods within the year of adoption. Early adoption is permitted for any eliminated or modified disclosures prescribed by the ASU. The Company will adopt the disclosure requirements of ASU No. 2018-13 in fiscal year 2020.

Also in August 2018, the FASB issued ASU No. 2018-14, “Compensation – Retirement Benefits – Defined Benefit Plans - General (Topic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plan.” ASU No. 2018-14 amends Compensation - Retirement Benefits (Topic 715) to add or remove certain disclosure requirements related to defined benefit pension and other postretirement plans. The ASU’s changes to disclosures aim to improve the effectiveness of Topic 715's disclosure requirements under t