

LAPIS TECHNOLOGIES INC
Form 10-Q
May 14, 2008

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2008

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT~

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER _____

LAPIS TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

27-0016420

(I.R.S. Employer Identification No.)

19 W. 34th Street, Suite 1008, New York, NY 10001

(Address of principal executive offices, Zip Code)

(212) 937-3580

(Registrant's telephone number, including area code)

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The number of shares of registrant's common stock outstanding, as of May 1, 2008 was 6,483,000

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

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LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(In Thousands, Except Share Amounts)

March 31,
2008

ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 521
Accounts receivable	5,221
Inventories	4,280
Prepaid expenses and other current assets	130
Due from stockholder	68
Total current assets	10,220
Property and equipment, net	273
Deferred income taxes	21
	\$ 10,514
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities:	
Bank line of credit	\$ 1,398
Short term bank loans	4,294
Current portion of term loans	217
Accounts payable and accrued expenses	2,803
Due to stockholder	-
Due to affiliates	(102)
Income taxes payable	-
Total current liabilities	8,610
Term loans, net of current portion	213
Severance payable	190
Total liabilities	9,013
Commitments and contingencies	
Minority interest	468
Stockholders' Equity:	
Preferred stock; \$.001 par value, 5,000,000 shares authorized, none issued	-
Common stock; \$.001 par value, 100,000,000 shares authorized, 5,483,000 shares issued and outstanding	6
Additional paid-in capital	78
Accumulated other comprehensive loss	193
Retained Earnings	756

Total stockholders' equity	1,033
	\$ 10,514

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

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LAPIS TECHNOLOGIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Earnings Per Share and Share Amounts)

	Three Months Ended March 31,	
	2008	2007
Sales	\$ 2,401	\$ 1,857
Cost of sales	1,907	1,399
Gross profit	494	458
Operating expenses:		
Research and development expenses	22	169
Selling expenses	7	3
General and administrative	555	293
Total operating expenses	584	465
Income from operations	(90)	(7)
Other income (expense):		
Interest expense, net	(117)	(91)
Income (loss) before provision for income taxes and minority interest	(207)	(98)
Provision for income taxes	-	37
Minority interest	(7)	(59)
Net income (loss)	(200)	(76)
Other comprehensive (loss) income, net of taxes		
Foreign translation (loss) gain	102	(14)
Comprehensive (loss) income	\$ (98)	\$ (90)
Basic net income (loss) per share	\$ (0.03)	\$ (0.01)
Basic weighted average common shares outstanding	6,483,000	6,483,000

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

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Three Months Ended March 31,	
	2008	2007
Cash flows from operating activities:		
Net income	\$ (200)	\$ (76)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	32	29
Minority interest	20	(54)
Gain on sale of property and equipment	-	-
Deferred income tax	(1)	-
Change in operating assets and liabilities:		
Accounts receivable	193	351
Inventories	(544)	(141)
Prepaid expenses and other current assets	(12)	1
Accounts payable and accrued expenses	443	(447)
Income tax payable	(2)	40
Severance payable	14	-
Net cash provided by (used in) operating activities	(57)	(297)
Cash flows from investing activities:		
Purchase of property and equipment	(38)	(31)
Increase in due to affiliates	(19)	2
Increase in due to stockholder	(107)	(24)
Net cash used in investing activities	(164)	(53)
Cash flows from financing activities:		
Increase in bank line of credit, net	36	(500)
Proceeds from long term debt	1,282	1,227
Repayment of long-term debt	(912)	(319)
Net cash (used in) provided by financing activities	406	409
Effects of exchange rates on cash	203	14
Increase (decrease) in cash	388	72
Cash, beginning of period	133	7
Cash, end of period	\$ 521	\$ 79
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 117	\$ 91
Income taxes	\$ 10	-

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

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LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Per Share Amounts)
MARCH 31, 2008

NOTE 1 - DESCRIPTION OF BUSINESS

Lapis Technologies, Inc. (the "Company") was incorporated in the State of Delaware on January 31, 2002. The Company was originally named Enertec Electronics, Inc. and on April 23, 2002 changed its name to Opal Technologies, Inc. which changed its name to Lapis Technologies, Inc. on October 3, 2002. The Company's operations are conducted through its wholly-owned Israeli Subsidiary, Enertec Electronics Ltd. ("Enertec") and its majority owned Israeli subsidiary Enertec Systems 2001 LTD ("Systems"). Enertec is engaged in the manufacturing, distribution and marketing of electronic components and products relating to power supplies, converters and related power conversion products, automatic test equipment, simulators and various military and airborne systems, within the State of Israel.

NOTE 2 - BASIS OF PRESENTATION AND CONSOLIDATION

The accompanying unaudited consolidated financial statements and related footnotes have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial statements and pursuant to the rules and regulations of the Securities and Exchange Commission for Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. For further information read the financial statements and footnotes thereto included in the Company's Annual Report to be filed in accordance with the rules and regulations of the Securities and Exchange Commission on Form 10-KSB for the year ended December 31, 2007. The results of operations for the three months ended March 31, 2008 are not necessarily indicative of the operating results that may be expected for the year ending December 31, 2008.

The accompanying financial statements include the accounts of the Company and their ownership interest in its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Stock based compensation

The Company has adopted Statement of Financial Accounting Statement ("SFAS") No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" ("SFAS 148"). SFAS 148 amends SFAS No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123"), and provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. The Company has adopted the fair value method of accounting as discussed in SFAS 123 as of January 1, 2003. Accordingly, stock options, when issued, will be recorded in accordance with the terms of that document.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Per Share Amounts)
MARCH 31, 2008

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Recent Accounting Pronouncements

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement 109," ("FIN 48"). FIN 48 prescribes a comprehensive model as to how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. The adoption of FIN 48 is effective January 1, 2007. The Company has determined there will be no effect on their financial statements.

In June 2006, the FASB ratified the Emerging Issues Task Force ("EITF") consensus on EITF Issue No. 06-2, "Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43." EITF Issue No. 06-2 requires companies to accrue the costs of compensated absences under a sabbatical or similar benefit arrangement over the requisite service period. EITF Issue No. 06-2 is effective for us beginning July 1, 2007. The cumulative effect of the application of this consensus on prior period results should be recognized through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. Elective retrospective application is also permitted. The application of this consensus won't have a material impact on our financial statements.

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)," ("FAS 158"). Among other things, FAS 158 requires companies to prospectively recognize a net liability or asset and to report the funded status of their defined benefit pension and other postretirement benefit plans on their balance sheets, with an offsetting adjustment to accumulated other comprehensive income; such recognition will not affect the Company's statement of income. The adoption of FAS 158 is effective for the year ending December 31, 2006. The Company has determined there will be no effect on their financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115." This Standard allows entities to voluntarily choose, at specified election dates, to measure many financial assets and financial liabilities (as well as certain non-financial instruments that are similar to financial instruments) at fair value. The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is elected for an instrument, the Statement specifies that all subsequent changes in fair value for that instrument shall be reported in earnings. SFAS No. 159 is effective for ATMI beginning on January 1, 2008. We are currently evaluating the impact this new Standard could have on our financial position and results of operations.

In December 2007 the FASB issued SFAS No. 160 "Non-controlling Interests in Consolidated Financial Statements". FAS 160 seeks to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards. This statement is effective for fiscal years beginning after December 15, 2008. The Company has not yet determined what the effect will be, if any, on their financial statements.

LAPIS TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Per Share Amounts)
MARCH 31, 2008

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Recent Accounting Pronouncements

Management does not believe that any other recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying consolidated financial statements.

NOTE 4 – PROVISION FOR INCOME TAXES -

The income tax expense for the three months ended March 31, 2008 is based upon the income tax laws of Israel. Israeli tax law does not allow a parent company to offset its' income with losses from any of its subsidiaries.

NOTE 5 – SALE OF THE COMPANY

On February 28, 2008 the Company entered into an agreement with an Israeli Company that currently trades on the Tel Aviv Stock Exchange. Under this agreement Lapis will exchange approximately 75,000,000 of its shares (92% based upon the current outstanding amounts) in exchange for approximately 4,500,000 shares of Star Night Technologies Ltd. In addition, the Company's chief executive officer has been granted certain options to sell his Lapis shares to Star Night under certain circumstances.

The agreement also calls for the sale of the Company's wholly owned subsidiary, as well as the subsidiary's own majority owned subsidiary. The result of these transactions will be the ownership of approximately 4,500,000 shares of Star Night Technologies, Ltd.

For further information please refer to Form 8-K filed with the Securities and Exchange Commission on March 5, 2008 which is incorporated by reference into this filing

Item 2. Management's Discussion and Analysis or Plan of Operation.

This Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential" or "continue," the negative of such terms, or other comparable terminology. These statements are only predictions. Actual events or results may differ materially from those in the forward-looking statements as a result of various important factors. Although we believe that the expectations reflected in the forward-looking statements are reasonable, such should not be regarded as a representation by Lapis Technologies, Inc., or any other person, that such forward-looking statements will be achieved. The business and operations of Lapis Technologies, Inc. and its subsidiaries are subject to substantial risks, which increase the uncertainty inherent in the forward-looking statements contained in this Report.

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and related notes included elsewhere in this Report.

Overview

We were formed in Delaware on January 31, 2002 under the name Enertec Electronics, Inc. and have filed two certificates of amendment changing our name to Opal Technologies, Inc. and then to Lapis Technologies, Inc. We conduct operations in Israel through our wholly owned subsidiary, Enertec Electronics Limited ("Enertec Electronics"), an Israeli corporation formed on December 31, 1991, and Enertec Systems 2001 LTD ("Enertec Systems"), an Israeli corporation formed on August 28, 2001, of which we have a 73% equity interest. We are manufacturers and distributors of various military and airborne systems, simulators, automatic test equipment (ATE), electronic components and products relating to power supplies, converters and related power conversion products.

On February 28, 2008, we entered into an agreement for the issue and sale of shares in Lapis Technologies, Inc. and the transfer of shares of Star Night Technologies Ltd. to us (the "Lapis SPA"), with Harry Mund, and Mordechai Solomon (the "Investor"). Mr. Mund is the Company's chief executive officer, director, and majority stockholder. The Lapis SPA will close (subject to fulfillment or waiver of certain closing conditions or the waiver thereof prior to closing, as well as the performance of certain covenants by the parties that include, *inter alia*, the receipt of a fairness opinion) 21 days following the date on which an information statement on Schedule 14C under the Securities Exchange Act of 1934, as amended, is mailed to stockholders of the Company (the "Closing Date"), which closing shall occur concurrently with that of the Systems SPA (defined below) and the Electronics SPA (defined below). Pursuant to the Lapis SPA, we agreed to issue to the Investor, on the Closing Date, 75,129,500 shares of the Company's common stock, representing 92% of the Company's issued and outstanding shares on a fully diluted basis. The Investor agreed to transfer to the Company, on the Closing Date, 4,539,557 shares in Star Night Technologies Ltd., a company traded on the Tel Aviv Stock Exchange, held by the Investor in person.

In addition, pursuant to the Lapis SPA, the Investor agreed to grant to Mr. Mund an option (the "Mund Option"), exercisable by Mr. Mund in his sole discretion, to sell to the Investor, Mr. Mund's 4,750,000 shares of the Company's common stock (the "Option Shares"). The Mund Option will be exercisable during a period of 90 calendar days immediately following the first anniversary of the Closing Date (with respect to 50% of the Option Shares, at an exercise price of US \$0.5434 per share, subject to adjustment in the event of stock splits, stock dividends, and similar transactions) and/or the second anniversary of the Closing Date (with respect to all of the Option Shares, at an exercise price of US \$0.6038 per share, subject to adjustment in the event of stock splits, stock dividends, and similar transactions). The Mund Option is subject to the aggregate value of the Option Shares being no higher than US \$2,868,000, subject to certain adjustments, for a period of 65 consecutive calendar days commencing 120 days after the Closing Date (so long as Mr. Mund may sell his shares pursuant to Rule 144 under the Securities Act of 1933, as amended (the "Securities Act")) during a period of 65 consecutive calendar days during a period of 24 months following

the Closing Date.

In connection with the Lapis SPA, on February 28, 2008, our indirect wholly owned subsidiary, Enertec Management Ltd. (“Enertec Management”) (which we own through its direct wholly owned subsidiary Enertec Electronics Ltd.), entered into an agreement for the sale and purchase of Enertec Systems 2001 Ltd. (the “Systems SPA”), with Harry Mund, and S.D.S. (Star Defense Systems) Ltd., a company traded on the Tel Aviv Stock Exchange (“S.D.S.”) whose majority stockholder is Mordechai Solomon. The Systems SPA will close on the Closing Date concurrently with the Lapis SPA and the Electronics SPA (defined below). Pursuant to the Systems SPA, Enertec Management and Mr. Mund agreed to sell, and S.D.S. agreed to purchase, on the Closing Date, an aggregate of 251,000 shares of Enertec Systems 2001 Ltd. (“Enertec Systems”), representing all of the issued and outstanding capital stock of Enertec Systems, for an aggregate purchase price of US \$1,500,000. The 251,000 shares to be sold pursuant to the Systems SPA represent 67,770 shares to be sold by Mr. Mund and 183,230 shares to be sold by Enertec Management.

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In connection with the Lapis SPA and the Systems SPA, we also entered into, on February 28, 2008, an agreement with Mund Holdings Ltd., a company owned by Harry Mund (the "Electronics SPA"). The Electronics SPA will close on the Closing Date concurrently with the Lapis SPA and the Systems SPA. Pursuant to the Electronics SPA, we agreed to sell, and Mund Holdings Ltd. agreed to purchase, on the Closing Date, NIS (New Israeli Shekel) 100 divided into 100 shares of NIS 1 each, of Enertec Electronics Ltd. ("Enertec Electronics"), representing all of the issued and outstanding capital stock of Enertec Electronics, for a purchase price of US \$250,000.

Our issuance of shares of common stock to Mr. Solomon under the Lapis SPA will be made pursuant to the exemption from registration requirements under Regulation D and/or Regulation S of the Securities Act of 1933, as amended (the "Securities Act"). No form of general solicitation or general advertising was conducted in connection with the issuance. The certificates representing the shares will contain restrictive legends preventing the sale, transfer of such shares unless registered under the Securities Act or pursuant to an exemption therefrom. Mr. Mordechai is an "accredited investor" as defined under Regulation D and/or is not a "U.S. Person" as defined under Regulation S.

Liquidity and Capital Resources

As of March 31, 2008 our cash balance was \$521,000 as compared to \$79,000 at March 31, 2007. Total current assets at March 31, 2008 were \$10,220,000 as compared to \$7,934,000 at March 31, 2007. The increase in current assets is mainly due to the increase in cash balance, accounts receivable and inventories.

Our accounts receivable at March 31, 2008 was \$5,221,000 as compared to \$4,326,000 at March 31, 2007. The change in accounts receivable is primarily due to the increase in sales.

As of March 31, 2008 our working capital was \$1,610,000 as compared to \$1,210,000 at March 31, 2007. The increase in working capital is mainly due to a larger increase in current assets than the increase in bank line of credit and in short term loans and the increase in accounts payable and accrued expenses.

The current portion of long-term debt at March 31, 2008 was \$217,000 as compared to \$186,000 as of March 31, 2007.

At March 31, 2008 our total bank debt was \$6,122,000 as opposed to \$4,565,000 at the end of March 31, 2007. These funds were borrowed as follows: \$4,511,000 which includes the current portion of long term debt as various short term bank loans due through 2008, \$213,000 of long term debt due through 2010 and \$1,398,000 using our bank lines of credit. As a result we increased the amount borrowed for the three-month period ended March 31, 2008 by \$ 1,557,000. The increase in bank debt is mainly due to the increase in accounts receivable and the decrease in USD/Shekel exchange rate since the loans are in Shekels. The USD/Shekel exchange rate decreased by 16.94% from 4.155 as of March 31, 2007 to 3.553 as of March 31, 2008.

As of March 31, 2008, we are current with all of our bank debt and compliant with all the terms of our bank debt.

Financing Needs

Although we currently do not have any material commitments for capital expenditures, we expect our capital requirements to increase over the next several years as we continue to develop and test our suite of products, increase marketing and administration infrastructure, and embark on developing in-house business capabilities and facilities. Our future liquidity and capital funding requirements will depend on numerous factors, including, but not limited to, the levels and costs of our research and development initiatives, the cost of hiring and training additional sales and marketing personnel to promote our products and the cost and timing of the expansion of our marketing efforts.

Based on our current business plan, we anticipate that our existing cash balances and cash generated from future sales will be sufficient to permit us to conduct our operations and to carry out our contemplated business plans for the next twelve months. However, management may undertake additional debt or equity financings to better enable Lapis to grow and meet its future operating and capital requirements. Currently, the only external sources of liquidity are our banks, and we may seek additional financing from them or through securities offerings to expand our operations, using new capital to develop new products, enhance existing products or respond to competitive pressures.

Results of Operations

Three Months Ended March 31, 2008 Compared to Three Months Ended March 31, 2007

Revenues for the three months ended March 31, 2008 were \$2,401,000 as compared to \$1,857,000 for the three months ended March 31, 2007. This represents an increase of \$544,000 or 29.3% comparing the two periods. The increase in revenue for the three months ended March 31, 2008 is mainly the result of the increase in the revenues of the military business and the decrease in USD/Shekel exchange rate.

The average USD/Shekel exchange rate decreased by 16.34% from 4.215 as of March 31, 2007 to 3.623 as of March 31, 2008.

Gross profit increased by \$36,000 or 7.86%, to \$494,000 for the three months ended March 31, 2008 as compared to \$458,000 for the three months ended March 31, 2007. The increase in gross profit is primarily the result of the increase in sales.

Gross profit as a percentage of sales for the three month ended March 31, 2008 was 20.6% as compared to 24.7% for the three month ended March 31, 2007. The decrease in gross profit as a percentage of sales is a result of higher percentage increase in cost of sale as compared to the percentage increase in sales due to the increase in wages and other Shekel related expenses. In the commercial field the decrease in gross profit as a percentage of sales is also a result of narrowing profit margin due to higher cost of sales involved in the increasing volume of customized products in order to allow us to maintain our market share.

For the three months ended March 31, 2008, Selling, General and Administrative expenses totaled \$562,000. This was an increase of \$266,000 or 89.9% as compared to the same period 2007. The increase in selling, general and administrative expenses is mainly a result of the increase in professional services expenses and the decrease in USD/Shekel exchange rate.

For the three months ended March 31, 2008, Research and Development expenses decreased to \$22,000 as compared to \$169,000 for the three months ended March 31, 2007. This represents a decrease of \$147,000 or 87% comparing the two periods. The decrease in R&D expenses for the three months ended March 31, 2008 is primarily the result of more manpower resources during this period being allocated to the fulfillment of the increased number of orders received, resulting in the increase in sales and in the work in process.

Interest expense was \$117,000 and \$91,000 for the three months ended March 31, 2008 and 2007, respectively. This was an increase of \$26,000, or 28.57%. The main reason for this increase was the increase in total bank debt.

Our net loss was \$200,000 for the three months ended March 31, 2008 compared to a net loss of \$76,000 for the three months ended March 31, 2007. The decrease in profitability for the three months ended March 31, 2008 is mainly due to the increase of \$119,000 in the operating expenses and of the interest expenses, partly offset by the increase in the gross profit.

At March 31, 2008, we had two customers that accounted for approximately 65% of accounts receivable. For the three-month periods ended March 31, 2008 and 2007 approximately 52.4% and 56.8% of our sales were to two customers, respectively.

Off-Balance Sheet Arrangements

We do not have any off balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues, and results of operations, liquidity or capital expenditures.

Critical Accounting Policies

Concentration of Credit Risk - Concentrations of credit risk with respect to trade receivables are limited to customers dispersed primarily across Israel. All trade receivables are concentrated in the manufacturing and distribution of electronic components segment of the economy; accordingly the Company is exposed to business and economic risk. Although the Company does not currently foresee a concentrated credit risk associated with these trade receivables, repayment is dependent upon the financial stability of this segment of the economy.

Revenue Recognition and Customer Deposits - Revenue is recorded as product is shipped, the price has been fixed or determined, collectibility is reasonably assured and all material specific performance obligations have been completed. The product sold by the Company is made to the specifications of each customer; sales returns and allowances are allowed on a case-by-case basis, are not material to the financial statements and are recorded as an adjustment to sales. Cash payments received in advance are recorded as customer deposits.

Revenue relating to service is recognized on the straight-line basis over the life of the agreement, generally one year. For the three months ended March 31, 2008 revenue relating to service contracts was less than one percent of net sales.

Financial Instruments - The carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable, bank line of credit, short term bank loans and accounts payable and accrued expenses approximate fair value at March 31, 2008 because of the relatively short maturity of the instruments. The fair value of due from stockholder is not practical to estimate without incurring excessive cost and is carried at cost at March 31, 2008. The carrying value of the long-term debt approximate fair value at March 31, 2008 based upon debt terms available for companies under similar terms.

Foreign Currency Translation - Lapis Technologies, Inc. has one wholly owned subsidiary, Enertec Electronics Limited, an Israeli corporation, and one majority owned subsidiary, Enertec Systems 2001 Ltd., an Israeli corporation. The assets and liabilities of the foreign subsidiaries are translated at current exchange rates and related revenues and expenses at average exchange rates in effect during the periods reported. Resulting translation adjustments, if material, are recorded as a separate component of accumulated other comprehensive income or loss.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

N/A.

Item 4T. Controls and Procedures.

a)Based on an evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) required by paragraph (b) of Rule 13a-15 or Rule 15d-15, as of March 31, 2008, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. Our Chief Executive Officer and Chief Financial Officer also concluded that, as of March 31, 2008, our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Office and Chief Financial Officer, to allow timely decision regarding required disclosure.

b)Changes in Internal Controls. During the quarter ended March 31, 2008, there were no changes in our internal control s over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings.

We are not a party to any pending legal proceeding, nor is our property the subject of a pending legal proceeding, that is not in the ordinary course of business or otherwise material to the financial condition of our business. None of our directors, officers or affiliates is involved in a proceeding adverse to our business or has a material interest adverse to our business.

Item 1A. Risk Factors.

N/A.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Not applicable.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

**Exhibit
Number**

Description

10.1	Agreement for the Issue and Sale of Shares in Lapis Technologies, Inc. and the Transfer of Shares in Star Night Technologies, Ltd., dated February 28, 2008, by and between Lapis Technologies, Inc., Harry Mund and Mordechai Solomon *
10.2	Agreement for the Sale and Purchase of Entertec Systems 2001 Ltd., dated February 28, 2008, by and between Entertec Management Ltd., Harry Mund and S.D.S. (Star Defense Systems) Ltd. *
10.3	Agreement, dated February 28, 2008, by and between Lapis Technologies, Inc. and Mund Holdings Ltd. *
31.1	Certification by Chief Executive Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
31.2	Certification by Chief Financial Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
32.1	Certification by Chief Executive Officer, required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code.
32.2	Certification by Chief Financial Officer, required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code.

* Incorporated by reference to the Company's Current Report on Form 8-K, filed with the SEC on March 5, 2008.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LAPIS TECHNOLOGIES, INC.

Date: May 14, 2008

By: /s/ Harry Mund
Harry Mund
Chief Executive Officer, President
and Chairman of the Board

Date: May 14, 2008

By: /s/ Miron Markovitz
Miron Markovitz
Chief Financial Officer, Chief Accounting
Officer and Director

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g-left:2px;padding-top:2px;padding-bottom:2px;">
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 September 1, 2017 Through September 30, 2017	Predecessor 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 the FASB's disclosure framework project. ASU No. 2018-14 is effective for public entities for fiscal years beginning after December 15, 2020. ASU No. 2018-14 does not impact the interim disclosure requirements of Topic 715. Early adoption is permitted. The Company will adopt the disclosure requirements of this new guidance in fiscal year 2021.

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.

ASU No. 2016-02 is effective for the Company on January 1, 2019, with early adoption permitted. A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. An entity may choose to use either (1) its effective date or (2) the beginning of the earliest comparative period presented in the financial statements as its date of initial application. If an entity chooses the second option, the transition requirements for existing leases also apply to leases entered into between the date of initial application and the effective date. The entity must also recast its comparative period financial statements and provide the disclosures required by the new standard for the comparative periods. The Company expects to adopt ASU No. 2016-02 on January 1, 2019 and use the effective date as its date of initial application. Consequently, financial information will not be updated and the disclosures required under the new standard will not be provided for dates and periods before January 1, 2019.

The Company expects that the adoption of this standard will have a material effect on its financial statements. While it continues to assess all of the effects of adoption, the Company currently believes the most significant effects relate to (1) the recognition of new right-of-use assets and lease liabilities on its balance sheet for its real estate operating leases; (2) the derecognition of existing assets and liabilities for certain sale-leaseback transactions that currently do not qualify for sale accounting, including those arising from build-to-suit lease arrangements for which construction is complete and the Company is leasing the constructed asset; and (3) providing significant new disclosures about the Company's leasing activities. The Company does not expect a significant change its leasing activities between now and adoption.

(4) Revenue

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

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

Revenue from the sale of products is recognized when the earnings process is complete and when the title and risk and rewards of ownership have passed to the customer, which is primarily at the time of shipment. Revenue recognized other than at the time of shipment represented less than 2% of the Company's consolidated net sales in the three and

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nine months ended September 30, 2018 (Successor), in the period September 1, 2017 through September 30, 2017 (Successor), in the period July 1, 2017 through August 31, 2017 (Predecessor), and in the period January 1, 2017 through August 31, 2017 (Predecessor), respectively. Customer payment terms are established prior to the time of shipment. Provisions for allowances related to sales discounts and rebates are recorded based on terms of the sale in the period that the sale is recorded. The Company utilizes historical information and the current sales trends of the business to estimate such provisions. The provisions related to discounts and rebates due to customers are recorded as a reduction within net sales in the Company's Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income.

Revenue from shipping and handling charges is recorded in net sales. Costs incurred in connection with shipping and handling the Company's products, which are related to third-party carriers or performed by Company personnel, are included in warehouse, processing and delivery expenses. In the three and nine months ended September 30, 2018 (Successor), shipping and handling costs included in warehouse, processing and delivery expenses were \$6,662 and \$20,267, respectively. In the period September 1, 2017 through September 30, 2017 (Successor), in the period July 1, 2017 through August 31, 2017 (Predecessor), and in the period January 1, 2017 through August 31, 2017 (Predecessor), shipping and handling costs included in warehouse, processing and delivery expenses were \$1,962, \$4,432, and \$16,292, respectively. As a practical expedient under ASC 606, the Company has elected to account for shipping and handling activities as fulfillment costs and not a promised good or service. As a result, there is no change to the Company's accounting for revenue from shipping and handling charges under ASC 606.

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

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

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

	Successor		Predecessor	
	Three	September	July 1,	
	Months	1, 2017	2017	
	Ended	Through	Through	
	September	September	August 31,	
	30,	30, 2017	2017	
	2018			
Balance, beginning of period	\$1,678	\$ —	\$ 1,766	
Add Provision charged to expense ^(a)	(139)	493	(46)	
Recoveries	10	12	—	
Less Charges against allowance	(449)	(83)	(32)	
Fresh-start accounting adjustment	—	—	(1,688)	
Balance, end of period	\$1,100	\$ 422	\$ —	

^(a) Includes the net amount of credit memos reserved and issued.

	Successor		Predecessor	
	Nine	September	January 1,	
	Months	1, 2017	2017	
	Ended	Through	Through	
	September	September	August 31,	
	30,	30, 2017	2017	

	2018		
Balance, beginning of period	\$1,586	\$ —	\$ 1,945
Add Provision charged to expense ^(a)	34	493	34
Recoveries	36	12	25
Less Charges against allowance	(556)	(83)	(316)
Fresh-start accounting adjustment	—	—	(1,688)
Balance, end of period	\$1,100	\$ 422	\$ —

^(a) Includes the net amount of credit memos reserved and issued.

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

	Successor		Predecessor
	Three	September	July 1,
	Months	1, 2017	2017
	Ended	Through	Through
	September	September	August 31,
	30, 2018	30, 2017	2017
Net sales			
United States	\$97,679	\$ 26,646	\$ 54,641
Canada	11,402	3,100	6,248
Mexico	16,767	5,212	8,659
France	11,944	3,763	5,439
All other countries	10,317	3,004	6,531
Total	\$148,109	\$ 41,725	\$ 81,518
	Successor		Predecessor
	Nine	September	January 1,
	Months	1, 2017	2017
	Ended	Through	Through
	September	September	August 31,
	30, 2018	30, 2017	2017
Net sales			
United States	\$289,178	\$ 26,646	\$ 222,186
Canada	35,677	3,100	26,897
Mexico	48,305	5,212	37,418
France	38,981	3,763	25,216
All other countries	32,255	3,004	42,209
Total	\$444,396	\$ 41,725	\$ 353,926

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

(5) (Loss) Earnings Per Share

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

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

	Successor Three Months Ended September 30, 2018	September 1, 2017 Through September 30, 2017	Predecessor July 1, 2017 Through August 31, 2017
Numerator:			
Net (loss) income \$	(6,655)	\$ (821)	\$ 72,223
Denominator:			
Weighted average common shares outstanding	2,000	2,000	31,790
Effect of dilutive securities:			
Outstanding common stock equivalents	—	—	—
Denominator for diluted (loss) earnings per common share	2,000	2,000	31,790
Basic (loss) earnings per common share			
	\$ (3.33)	\$ (0.41)	\$ 2.27
Diluted (loss) earnings per common share			
	\$ (3.33)	\$ (0.41)	\$ 2.27
Excluded outstanding share-based awards having an anti-dilutive effect			
	1,803	1,734	—

	Successor Nine Months Ended September 30, 2018	September 1, 2017 Through September 30, 2017	Predecessor January 1, 2017 Through August 31, 2017
Numerator:			
Net (loss) income \$	(20,309)	\$ (821)	\$ 36,190
Denominator:			
Weighted average common shares outstanding	2,000	2,000	32,174
Effect of dilutive securities:			
Outstanding common stock	—	—	—

equivalents			
Denominator for diluted (loss) earnings per common share	2,000	2,000	32,174
Basic (loss) earnings per common share	\$ (10.15)	\$ (0.41)	\$ 1.12
Diluted (loss) earnings per common share	\$ (10.15)	\$ (0.41)	\$ 1.12
Excluded outstanding share-based awards having an anti-dilutive effect	1,803	1,734	—

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

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

(6) Goodwill and Intangible Asset

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

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amortization. The gross carrying value of the trade name intangible asset was \$5,500 at both September 30, 2018 (Successor) and December 31, 2017 (Successor).

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

(7) Debt

Long-term debt consisted of the following:

	Successor	
	September 30, 2018	December 31, 2017
LONG-TERM DEBT		
5.00% / 7.00% Second Lien Notes due August 31, 2022	\$ 177,783	\$ 168,767
Floating rate Revolving A Credit Facility due February 28, 2022	110,988	101,047
12.00% Revolving B Credit Facility due February 28, 2022	18,738	—
Other, primarily capital leases	208	288
Less: unvested restricted Second Lien Notes ^(a)	(1,570)	(2,144)
Less: unamortized discount	(65,665)	(67,937)
Less: unamortized debt issuance costs	(455)	—
Total long-term debt	240,027	200,021
Less: current portion of long-term debt	119	118
Total long-term portion	\$239,908	\$ 199,903

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

Credit Facilities

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

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

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

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

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

Interest on indebtedness under the Revolving A Credit Facility accrues at a variable rate based on a grid with the highest interest rate being the applicable LIBOR-based rate plus a margin of 3.0%, as set forth in the Expanded ABL Credit Agreement. Interest on indebtedness under the Revolving B Credit Facility accrues at a rate of 12.0% per annum, which will be paid in kind unless the Company elects to pay such interest in cash and the Revolving B payment conditions specified in the Expanded ABL Credit Agreement are satisfied. Additionally, the Company must pay a monthly facility fee equal to the product of (i) 0.25% per annum (or, if the average daily revolving facility usage is less than 50% of the maximum revolving advance amount of the Expanded Credit Facility, 0.375% per annum) multiplied by (ii) the amount by which the maximum advance amount of the Expanded Credit Facility exceeds such average daily Expanded Credit Facility usage for such month. Interest expense related to the Revolving B Credit Facility of \$558 and \$738 was paid in kind in the three months ended September 30, 2018 (Successor) and nine months ended September 30, 2018 (Successor), respectively.

The weighted average interest rate on outstanding borrowings under the Revolving A Credit Facility for the three months ended September 30, 2018 (Successor) and nine months ended September 30, 2018 (Successor) was 5.21% and 4.74%, respectively, and the weighted average facility fee for both periods was 0.25%. The Company pays certain customary recurring fees with respect to the Expanded ABL Credit Agreement.

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

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

Unamortized debt issuance costs of \$455 associated with the Expanded ABL Credit Agreement were recorded as a reduction in long-term debt as of September 30, 2018 (Successor).

Second Lien Notes

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

The Second Lien Notes are convertible into shares of the Company's New Common Stock at any time at the initial conversion price of \$3.77 per share, which rate is subject to adjustment as set forth in the Second Lien Notes Indenture. The value of shares of the Company's New Common Stock for purposes of the settlement of the conversion right will be calculated as provided in the Second Lien Notes Indenture, using a 20 trading day observation period.

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conversion, the Company will pay and/or deliver, as the case may be, cash, shares of the Company's New Common Stock or a combination of cash and shares of the Company's New Common Stock, at the Company's election, together with cash in lieu of fractional shares.

Under the Second Lien Notes Indenture, in a conversion of the Second Lien Notes in connection with a "Fundamental Change" (as defined in the Second Lien Notes Indenture), for each \$1.00 principal amount of the Second Lien Notes, that number of shares of the Company's common stock issuable upon conversion shall equal the greater of (a) \$1.00 divided by the then applicable conversion price and (b) \$1.00 divided by the stock price with respect to such Fundamental Change, subject to other provisions of the Second Lien Notes Indenture. Subject to certain exceptions, under the Second Lien Notes Indenture a "Fundamental Change" includes, but is not limited to, the following: the acquisition of more than 50% of the voting power of the Company's common equity by a "person" or "group" within the meaning of Section 13(d) of the Securities Exchange Act of 1934, as amended, the consummation of any recapitalization, reclassification, share exchange, consolidation or merger of the Company pursuant to which the Company's common stock will be converted into cash, securities or other property, the "Continuing Directors" (as defined in the Second Lien Notes Indenture) cease to constitute at least a majority of the board of directors, and the approval of any plan or proposal for the liquidation or dissolution of the Company by the Company's stockholders. The Second Lien Notes are guaranteed, jointly and severally, by certain subsidiaries of the Company. The Second Lien Notes and the related guarantees are secured by a lien on substantially all of the Company's and the guarantors' assets, subject to certain exceptions pursuant to certain collateral documents pursuant to the Second Lien Notes Indenture. The terms of the Second Lien Notes contain numerous covenants imposing financial and operating restrictions on the Company's business. These covenants place restrictions on the Company's ability and the ability of its subsidiaries to, among other things, pay dividends, redeem stock or make other distributions or restricted payments; incur indebtedness or issue certain stock; make certain investments; create liens; agree to certain payment restrictions affecting certain subsidiaries; sell or otherwise transfer or dispose assets; enter into transactions with affiliates; and enter into sale and leaseback transactions.

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

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

Interest on the Second Lien Notes accrues at the rate of 5.00% if paid in cash and at the rate of 7.00% if paid in kind. Pursuant to the terms of the Second Lien Notes Indenture, the Company is currently paying interest on the Second Lien Notes in kind. Interest expense related to the Second Lien Notes of \$3,058 and \$9,017 was paid in kind in the three months ended September 30, 2018 (Successor) and nine months ended September 30, 2018 (Successor), respectively, and \$951 was paid in kind in the period September 1, 2017 through September 30, 2017 (Successor).

Short-term borrowings

The Company's French subsidiary is party to a local credit facility under which it may borrow against 100% of the eligible accounts receivable factored, with recourse, up to 6,500 Euros. The French subsidiary is charged a factoring fee of 0.16% of the gross amount of accounts receivable factored. Local currency borrowings on the French subsidiary's credit facility are charged interest at the daily 3-months Euribor rate plus a 1.0% margin and U.S dollar borrowings on the credit facility are 3-months LIBOR plus a 1.0% margin. The French subsidiary utilizes the local credit facility to support its operating cash needs. As of September 30, 2018 (Successor), the French subsidiary has borrowings of \$5,069 under the credit facility.

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(8) Fair Value Measurements

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

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

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

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

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

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

As the Credit Agreement Amendment was entered into on June 1, 2018, and based on the terms of the Credit Agreement Amendment, the Company has determined the fair value of its borrowings under the Revolving B Credit Facility approximated its carrying value of \$18,738 as of September 30, 2018 (Successor).

As of September 30, 2018 (Successor), the fair value of the Company's Second Lien Notes, including the conversion option, was estimated to be \$169,694 compared to a carrying value of \$177,783. The fair value of the Second Lien Notes, including the conversion option falls within Level 3 of the fair value hierarchy, was determined using a binomial lattice model using assumptions based on market information and historical data, and a review of prices and terms available for similar debt instruments that do not contain a conversion feature, as well as other factors related to the callable nature of the Second Lien Notes.

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

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

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

(9) Stockholders' Equity

Accumulated Comprehensive (Loss) Income

The components of accumulated other comprehensive loss are as follows:

	Successor	
	September 30, 2018	December 31, 2017
Unrecognized pension and postretirement benefit costs, net of tax	\$34	\$ 34
Foreign currency translation losses, net of tax	(5,716)	(2,703)
Total accumulated other comprehensive loss	\$(5,682)	\$(2,669)

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Changes in accumulated other comprehensive loss by component in the three months ended September 30, 2018 (Successor) and in the periods September 1, 2017 through September 30, 2017 (Successor) and July 1, 2017 through August 31, 2017 (Predecessor) are as follows:

	Defined Benefit Pension and Postretirement Items		Foreign Currency Items		Total				
	Successor September Three Months Ended September 30, 2018	Predecessor July 1, 2017 Through September 30, 2017	Successor September Three Months Ended September 30, 2018	Predecessor September 1, 2017 Through September 30, 2017	Predecessor July 1, 2017 Through August 31, 2017	Successor September Three Months Ended September 30, 2018	Predecessor September 1, 2017 Through September 30, 2017	Predecessor July 1, 2017 Through August 31, 2017	
Beginning Balance	\$34	\$ —	\$(9,369)	\$(4,702)	\$ —	\$(17,827)	\$(4,668)	\$ —	\$(27,196)
Other comprehensive loss before reclassifications, net of tax	—	—	—	(1,014)	(2,362)	2,070	(1,014)	(2,362)	2,070
Amounts reclassified from accumulated other comprehensive loss, net of tax ^(a)	—	—	(1,436)	—	—	—	—	—	(1,436)
Net current period other comprehensive income (loss)	—	—	(1,436)	(1,014)	(2,362)	2,070	(1,014)	(2,362)	634
Adjustment for fresh-start accounting ^(b)	—	—	10,805	—	—	15,757	—	—	26,562
Ending Balance	\$34	\$ —	\$(5,716)	\$(2,362)	\$ —	\$(5,682)	\$(2,362)	\$ —	\$ —

^(a) See reclassifications from accumulated other comprehensive loss table below for details of reclassification from accumulated other comprehensive loss in the three months ended September 30, 2018 (Successor) and in the periods September 1, 2017 through September 30, 2017 (Successor) and July 1, 2017 through August 31, 2017 (Predecessor). Changes in accumulated other comprehensive loss by component in the nine months ended September 30, 2018 (Successor) and in the periods September 1, 2017 through September 30, 2017 (Successor) and January 1, 2017 through August 31, 2017 (Predecessor) are as follows:

	Defined Benefit Pension and Postretirement Items		Foreign Currency Items		Total				
	Successor September Nine Months Ended September 30, 2018	Predecessor January 1, 2017 Through September 30, 2017	Successor September Nine Months Ended September 30, 2018	Predecessor September 1, 2017 Through September 30, 2017	Predecessor January 1, 2017 Through August 31, 2017	Successor September Nine Months Ended September 30, 2018	Predecessor September 1, 2017 Through September 30, 2017	Predecessor January 1, 2017 Through August 31, 2017	
Beginning Balance	\$34	\$ —	\$(9,797)	\$(2,703)	\$ —	\$(16,142)	\$(2,669)	\$ —	\$(25,939)

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Other comprehensive loss before reclassifications, net of tax	—	—	—	(3,013)	(2,362)	385	(3,013)	(2,362)	385
Amounts reclassified from accumulated other comprehensive loss, net of tax ^(a)	—	—	(1,008)	—	—	—	—	—	(1,008)
Net current period other comprehensive income (loss)	—	—	(1,008)	(3,013)	(2,362)	385	(3,013)	(2,362)	(623)
Adjustment for fresh-start accounting ^(b)	—	—	10,805	—	—	15,757	—	—	26,562
Ending Balance	\$34	\$—	\$—	\$(5,716)	\$(2,362)	\$—	\$(5,682)	\$(2,362)	\$—

^(a) See reclassifications from accumulated other comprehensive loss table below for details of reclassification from accumulated other comprehensive loss for the nine months ended September 30, 2018 (Successor) and in the periods September 1, 2017 through September 30, 2017 (Successor) and January 1, 2017 through August 31, 2017 (Predecessor).

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Reclassifications from accumulated other comprehensive loss are as follows:

	Successor Three Months Ended September 30, 2018	Predecessor July 1, 2017 Through August 31, 2017
Unrecognized pension and postretirement benefit items:		
Prior service cost ^(a)	\$ —	\$ (33)
Actuarial gain (loss) ^(a)	—	1,326
Total before tax	—	1,293
Tax effect	—	143
Total reclassifications for the period, net of tax	\$ —	\$ 1,436

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

	Successor Nine Months Ended September 30, 2018	Predecessor January 1, 2017 Through August 31, 2017
Unrecognized pension and postretirement benefit items:		
Prior service cost ^(a)	\$ —	\$ (133)
Actuarial gain (loss) ^(a)	—	998
Total before tax	—	865
Tax effect	—	143
Total reclassifications for the period, net of tax	\$ —	\$ 1,008

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

(10) Share-based Compensation

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

Restricted Shares

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

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

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

Performance Share Units

On September 10, 2018, the Company granted 644 performance share units ("PSUs") under the MIP to senior level managers and other select personnel. The PSUs contain a performance-based condition tied to the enterprise value of the Company. Each PSU that becomes vested entitles the participant to receive one share of the Company's common stock. Vesting occurs upon achievement of a defined enterprise value of the Company, with 50% vesting

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upon achievement of the defined enterprise value between the performance period September 30, 2020 and September 30, 2022 and 100% vesting upon the achievement of the defined enterprise value as a result of a specified transaction, as defined in the PSU agreement, on or before September 30, 2022. At the discretion of the Company's Board of Directors, payment can be made in stock, cash, or a combination of both.

Compensation expense recognized related to the PSUs is based on management's expectation of future performance compared to the pre-established performance goals. If the performance goals are not expected to be met, no compensation expense is recognized and any previously recognized compensation expense is reversed. As of September 30, 2018 (Successor), no expense was recognized for these awards to date as the threshold for expense recognition for the performance-based condition was not met.

As of September 30, 2018 (Successor), the unrecognized share-based compensation expense related to unvested Restricted Shares was \$3,655 and the remaining unrecognized compensation cost is expected to be recognized over a weighted-average period of approximately 1.9 years. As discussed in Note 1 - Basis of Presentation, the Successor has elected to account for forfeitures as they occur.

As of September 30, 2018 (Successor), the unrecognized share-based compensation expense related to the Restricted Notes issued to certain officers of the Company was \$1,469 and is expected to be recognized over a weighted-average period of approximately 1.9 years. The Company will recognize this expense on a straight-line basis over the three-year vesting period using the fair value at the issue date, \$2,300.

(11) Employee Benefit Plans

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

	Successor Three Months Ended September 30, 2018		Predecessor July 1, 2017 Through August 31, 2017
Service cost	\$117	\$ 38	\$ 71
Interest cost	1,225	397	806
Expected return on assets	(1,971)	(692)	(1,356)
Amortization of prior service cost	—	—	33
Amortization of actuarial loss	—	—	110
Net periodic pension and postretirement benefit credit	\$(629)	\$ (257)	\$ (336)
Contributions paid	\$—	\$ 213	\$ —

	Successor Nine Months Ended September 30, 2018		Predecessor January 1, 2017 Through August 31, 2017
Service cost	\$351	\$ 38	\$ 282
Interest cost	3,675	397	3,227
Expected return on assets	(5,913)	(692)	(5,425)
Amortization of prior service cost	—	—	133
Amortization of actuarial loss	—	—	438
Net periodic pension and postretirement benefit credit	\$(1,887)	\$ (257)	\$ (1,345)
Contributions paid	\$—	\$ 213	\$ 356

The Company anticipates making no additional cash contributions to its pension plans in the remainder of 2018.

In the first quarter of 2018, the Company adopted ASU 2017-07, which requires that all net periodic pension and postretirement benefit costs, with the exception of service costs, be included as a component of non-operating income on the Company's Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income. Prior to the adoption of ASU 2017-07, the Company reported net periodic pension and postretirement benefit costs as a component of sales, general and administrative expense. As a result of the adoption of ASU No. 2017-07, the Company included the interest cost component of net periodic pension and postretirement benefit costs of \$1,225 in interest

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expense and the expected return on assets component net periodic pension and postretirement benefit costs of \$1,971 in other expense (income), net on the Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income in the three months ended September 30, 2018 (Successor) and included the interest cost component of net periodic pension and postretirement benefit costs of \$3,675 in interest expense and the expected return on assets component net periodic pension and postretirement benefit costs of \$5,913 in other expense (income), net on the Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income in the nine months ended September 30, 2018 (Successor). Prior year amounts have been reclassified to conform to the current year presentation in the Condensed Consolidated Financial Statements (see Note 3 - New Accounting Standards).

The Company was party to a multi-employer pension plan. In connection with the April 2015 restructuring plan, which is now complete, the Company stated its intention to withdraw from the multi-employer pension plan. At September 30, 2018 (Successor), the total estimated liability to withdraw from the plan is \$3,307. The current liability associated with the Company's withdrawal from the multi-employer pension plan of \$240 is included in accrued and other current liabilities in the Condensed Consolidated Balance Sheet and the long-term liability of \$3,067 is included in other noncurrent liabilities in the Condensed Consolidated Balance Sheet.

(12) Income Taxes

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

In the period September 1 through September 30, 2017 (Successor), the Company recorded income tax expense of \$286 on pre-tax loss from continuing operations of \$535, for an effective tax rate of (53.5)%.

In the three months ended September 30, 2018 (Successor), the Company recorded income tax benefit of \$2,068 on pre-tax loss of \$8,723, for an effective tax rate of 23.7%. In the period July 1, 2017 through August 31, 2017 (Predecessor), the Company recorded income tax benefit of \$1,395 on pre-tax income of \$70,828, for an effective tax rate of (2.0)%.

In the nine months ended September 30, 2018 (Successor), the Company recorded income tax benefit of \$4,026 on pre-tax loss of \$24,335, for an effective tax rate of 16.5%. In the period January 1, 2017 through August 31, 2017 (Predecessor), the Company recorded income tax benefit of \$1,387 on pre-tax income of \$34,803, for an effective tax rate of (4.0)%.

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

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

Given the complexity of the Tax Act and anticipated guidance from the U.S. treasury about implementing the Tax Act, the Company's analysis and accounting for the tax effects of the enactment of the Tax Act is preliminary. The Company has made provisional estimates in accordance with SAB 118 but has not fully completed its analysis and calculation of foreign earnings subject to the transition tax or its analysis of certain other aspects of the Tax Act that could result in adjustments to the remeasurement of deferred tax balances. Upon completion of the analysis in 2018, these estimates may be adjusted through income tax benefit or expense in the Consolidated Statements of Operations

and Comprehensive (Loss) Income. No adjustments to these provisional estimates were made in either the three or nine months ended September 30, 2018 (Successor). The Company expects to finalize its accounting for the tax effects of the Tax Act in the fourth quarter of 2018.

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

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

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

(13) Commitments and Contingent Liabilities

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

Table of ContentsItem 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Disclosure Regarding Forward-Looking Statements

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

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

Overview

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

Emergence from Chapter 11

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

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

The Company issued an aggregate of 2.0 million shares of its new class of common stock, par value \$0.01 per share ("New Common Stock") consisting of 1.3 million shares issued to holders of Prepetition Second Lien Secured Claims (as defined by the Plan) in partial satisfaction of their claims; 0.3 million shares issued to holders of Prepetition Third Lien Secured Claims (as defined by the Amended Plan) in partial satisfaction of their claims; and 0.4 million shares issued to participating holders of the Company's outstanding common stock as of August 2, 2017.

All agreements, instruments, and other documents evidencing, related to or connected with any equity interests of the Company (which include the Company's prior common stock, par value \$0.01 per share, warrants to

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purchase such common stock, and awards under management equity plans adopted before the Effective Date) were canceled and extinguished without recovery.

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

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

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

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

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

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

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

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

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

Financial Reporting Under Reorganization

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

Presentation of Predecessor and Successor

The Company adopted fresh-start reporting as of the Effective Date. As a result of the application of fresh-start reporting, the Company's financial statements for periods prior to the Effective Date are not comparable to those for periods subsequent to the Effective Date. References in this report to “Successor” refer to the Company on or after the Effective Date. References to “Predecessor” refer to the Company prior to the Effective Date. Operating results for the Successor and Predecessor periods are not necessarily indicative of the results to be expected for a full fiscal year.

References such as the “Company,” “we,” “our” and “us” refer to A.M. Castle & Co. and its consolidated subsidiaries, whether

Predecessor and/or Successor, as appropriate.

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In the following discussion and analysis of the results of operations and liquidity, the Company compares certain financial information for the three and nine months ended September 30, 2018 to the three and nine months ended September 30, 2017. The Company believes that in certain instances, combining the financial results when discussing the Predecessor and Successor periods within the three and nine months ended September 30, 2017 is useful for management and investors to assess the Company's ongoing financial and operational performance and trends.

Expanded Credit Facility

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

Results of Operations: Three Months Ended September 30, 2018 (Successor) Compared to the Periods September 1, 2017 through September 30, 2017 (Successor) and July 1, 2017 through August 31, 2017 (Predecessor)

The following table sets forth certain statement of operations data in the three months ended September 30, 2018 (Successor) and in the periods September 1, 2017 through September 30, 2017 (Successor) and July 1, 2017 through August 31, 2017 (Predecessor).

	Successor		September 1, 2017 through September 30, 2017 As Adjusted*		Predecessor		July 1, 2017 Through August 31, 2017 As Adjusted*		Favorable/ (Unfavorable)	
	Three Months Ended September 30, 2018	% of Net Sales	\$	% of Net Sales	\$	% of Net Sales	\$	% of Net Sales	Three Month \$ Change	Three Month % Change
(Dollar amounts in millions)										
Net sales	\$148.1	100.0 %	\$41.7	100.0 %	\$81.5	100.0 %	\$24.9	20.2 %		
Cost of materials (exclusive of depreciation and amortization)	110.9	74.9 %	31.5	75.5 %	63.4	77.8 %	(16.0)	(16.9)%		
Operating costs and expenses	40.2	27.1 %	11.6	27.8 %	25.5	31.3 %	(3.1)	(8.4)%		
Operating loss	\$(3.0)	(2.0)%	\$(1.4)	(3.3)%	\$(7.4)	(9.1)%	\$5.8	(65.9)%		

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

Net Sales

Net sales of \$148.1 million in the three months ended September 30, 2018 (Successor) were an increase of \$24.9 million, or 20.2%, compared to \$41.7 million in the period September 1, 2017 through September 30, 2017 (Successor) and \$81.5 million in the period July 1, 2017 through August 31, 2017 (Predecessor). The increase in net sales in the current quarter compared to the prior year quarter was driven primarily by strong market demand and a substantial increase in commodities pricing, both of which had a favorable impact on selling prices in the current year quarter, as did the announced imposition of tariffs by the U.S. on imports of steel and aluminum from certain countries. Overall average selling prices increased 15.1% in the three months ended September 30, 2018 (Successor) compared to the three months ended September 30, 2017 (Predecessor) with favorable selling prices realized on virtually every product the Company sells. The most favorable selling prices were realized on the majority of the Company's highest selling products including all carbon and alloy products, as well as SBQ bar and stainless. Tons sold per day increased by 2.8% in the three months ended September 30, 2018 (Successor) compared to the same period in the prior year driven mainly by sales volume increases in aluminum, alloy bar and stainless products, which

more than offset a sales volume decrease in SBQ bar in the quarter.

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Cost of Materials

Cost of materials (exclusive of depreciation and amortization) was \$110.9 million in the three months ended September 30, 2018 (Successor) compared to \$31.5 million in the period September 1, 2017 through September 30, 2017 (Successor) and \$63.4 million in the period July 1, 2017 through August 31, 2017 (Predecessor). The \$16.0 million, or 16.9%, increase between the three month periods is due mainly to higher sales volume in the quarter as well as a continuing trend towards increased product mill pricing resulting from higher market demand for metals and higher commodity pricing.

Cost of materials (exclusive of depreciation and amortization) was 74.9% of net sales in the three months ended September 30, 2018 (Successor) compared to 77.0% of net sales in the three months ended September 30, 2017 (Predecessor) due mainly to the recent imposition of tariffs which, favorably impacted the Company's gross material margin (calculated as net sales less cost of materials divided by net sales) as the Company experienced an overall increase in its average selling prices per ton sold. Gross material margins were also beneficially impacted by the elimination of some lower margin sales in the current year quarter as compared to the prior year quarter, as well as the negative impacts of the Company's bankruptcy proceedings on gross material margins in the prior year quarter.

Operating Costs and Expenses and Operating Loss

Operating costs and expenses in the three months ended September 30, 2018 (Successor) and in the periods September 1, 2017 through September 30, 2017 (Successor) and July 1, 2017 through August 31, 2017 (Predecessor) were as follows:

(Dollar amounts in millions)	Successor		Predecessor		Favorable/(Unfavorable)	
	Three Months Ended September 30, 2018	September 1, 2017 through September 30, 2017 As Adjusted*	July 1, 2017 through August 31, 2017 As Adjusted*	Three Month \$ Change	Three Month % Change	
Warehouse, processing and delivery expense	\$21.1	\$ 6.0	\$ 12.3	\$ (2.8)	(15.3)	%
Sales, general and administrative expense	16.9	5.1	10.4	\$ (1.4)	(9.0)	%
Restructuring expense	—	—	0.4	\$ 0.4	n/a	
Depreciation and amortization expense	2.2	0.5	2.4	\$ 0.7	24.1	%
Total operating costs and expenses	\$40.2	\$ 11.6	\$ 25.5	\$ (3.1)	(8.4)	%

* Adjusted due to the adoption of ASU No. 2017-07, "Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." See Note 3 - New Accounting Standards to the Notes to the Condensed Consolidated Financial Statements for additional information. Operating costs and expenses increased by \$3.1 million from \$11.6 million in the period September 1, 2017 through September 30, 2017 (Successor) and \$25.5 million in the period July 1, 2017 through August 31, 2017 (Predecessor) to \$40.2 million in the three months ended September 30, 2018 (Successor).

Warehouse, processing and delivery expense increased by \$2.8 million mainly as a result of higher payroll and benefits costs as well as higher warehouse and freight costs attributable to an increase in fuel prices and labor costs. In addition, the prior year period included the favorable impact of the resolution of certain real estate and personal property tax matters associated with the Houston and Edmonton facilities, which were closed in the first quarter of 2016.

Sales, general and administrative expense increased by \$1.4 million mainly as a result of higher payroll and benefits costs, as well as costs incurred for outside professional services for the review of the Company's information technology security processes and protocol for potential enhancement.

Depreciation and amortization expense decreased by \$0.7 million due to lower depreciation expense in the three months ended September 30, 2018 (Successor) from a lower depreciable base of property, plant and equipment, as a result of fresh-start accounting, and no amortization of intangible assets.

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Operating loss in the three months ended September 30, 2018 (Successor) was \$3.0 million, compared to \$1.4 million in the period September 1, 2017 through September 30, 2017 (Successor) and \$7.4 million in the period July 1, 2017 through August 31, 2017 (Predecessor).

Other Income and Expense, Income Taxes and Net Loss

The Company adopted Accounting Standards Update ("ASU") No. 2017-07, "Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost", in the first quarter of 2018. In accordance with the adoption of ASU No. 2017-07, the Company now classifies the interest cost component of net periodic benefit cost in interest expense, net, with the service cost component continuing to be classified in sales, general and administrative expense. The other components of net periodic benefit cost are now classified in other expense (income), net. See Note - 3 New Accounting Standards to the Notes to the Condensed Consolidated Financial Statements for further discussion of amounts reclassified in prior year financial statements as a result of this adoption.

Interest expense was \$8.7 million in the three months ended September 30, 2018 (Successor), compared to \$1.8 million in the period September 1, 2017 through September 30, 2017 (Successor) and \$3.4 million in the period July 1, 2017 through August 31, 2017 (Predecessor). Interest expense in the three months ended September 30, 2018 (Successor) includes the interest cost component of net periodic benefit cost of \$1.2 million. Interest expense in the periods September 1, 2017 through September 30, 2017 (Successor) and July 1, 2017 through August 31, 2017 (Predecessor) includes the interest cost component of net periodic benefit cost of \$0.4 million and \$0.8 million, respectively. Effective on the bankruptcy Petition Date, the Company discontinued recording interest expense on outstanding prepetition debt classified as liabilities subject to compromise ("LSTC"). As a result, interest expense for the period July 1, 2017 through the Effective Date, August 31, 2017, excludes approximately \$4.1 million of contractual interest expense associated with the Pre-Bankruptcy Secured Notes and Pre-Bankruptcy Convertible Notes. Offsetting this increase in the current year period is lower interest expense on the Company's existing debt as following the Effective Date, the Company has significantly reduced its debt and contractual interest burden from what it had been in the prepetition periods.

Financial restructuring expense of \$0.4 million in the period July 1, 2017 through August 31, 2017 (Predecessor) was mostly comprised of legal and other professional fees incurred prior to filing the chapter 11 bankruptcy petitions in connection with the financial restructuring of the debt and equity of the Company.

Other income, net was \$3.0 million in the three months ended September 30, 2018 (Successor), compared to \$2.8 million in the period September 1, 2017 through September 30, 2017 (Successor) and \$2.0 million in the period July 1, 2017 through August 31, 2017 (Predecessor). Other income, net in the three months ended September 30, 2018 (Successor) includes net pension benefit of \$2.0 million. The periods September 1, 2017 through September 30, 2017 (Successor) and July 1, 2017 through August 31, 2017 (Predecessor) include a net pension benefit of \$0.7 million and \$1.2 million, respectively. The remaining other income, net for the comparative periods is comprised mostly of foreign currency transaction gains and losses. The Company recorded a foreign currency gain of \$1.0 million in the three months ended September 30, 2018 (Successor) compared to a foreign currency gain of \$2.1 million in the period September 1, 2017 through September 30, 2017 (Successor) and \$0.8 million in the period July 1, 2017 through August 31, 2017 (Predecessor).

Reorganization items, net in the period July 1, 2017 through August 31, 2017 (Predecessor) was a gain of \$80.0 million and relates to expenses and income directly associated with the chapter 11 proceedings and incurred during the pendency of the Company's Chapter 11 Cases. The balance in the period July 1, 2017 through August 31, 2017 is comprised of a gain on extinguishment of debt of \$90.0 million and a gain on fresh-start revaluation of \$16.6 million. Offsetting these gains are \$5.4 million related to the write-off of unamortized debt issuance costs and discounts related to the Pre-Bankruptcy Secured Notes and the Pre-Bankruptcy Convertible Notes, prepayment penalties and debt related fees of \$13.2 million, professional fees of \$6.7 million and key employee incentive plan expense of \$1.2 million.

Loss before income taxes was \$8.7 million in the three months ended September 30, 2018 (Successor). Loss before income taxes in the period September 1, 2017 through September 30, 2017 (Successor) was \$0.5 million. The Company had income before income taxes of \$70.8 million in the period July 1, 2017 through August 31, 2017

(Predecessor) due mainly to the gain from reorganization items, net, of \$80.0 million in the period. The Company recorded income tax benefit of \$2.1 million in the three months ended September 30, 2018 (Successor) compared to an income tax expense of \$0.3 million in the period September 1, 2017 through September 30, 2017 (Successor) and an income tax benefit of \$1.4 million in the period July 1, 2017 through August 31, 2017 (Predecessor). The Company's effective tax rate is expressed as income tax expense as a percentage of loss before

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income taxes. The effective tax rate in the three months ended September 30, 2018 (Successor) was 23.7%. The effective tax rate for the periods September 1, 2017 through September 30, 2017 (Successor) and July 1, 2017 through August 31, 2017 (Predecessor) was (53.5)% and (1.97)%, respectively. The change in the effective tax rate between periods resulted from changes in the geographic mix and timing of income or losses, the impact of the U.S. federal corporate tax rate reduction in connection with the Tax Act, the inclusion of foreign earnings under Internal Revenue Code ("IRC") Section 951A, and the impact of the foreign income tax rate differential.

Net loss was \$6.7 million in the three months ended September 30, 2018 (Successor) and \$0.8 million in the period September 1, 2017 through September 30, 2017 (Successor). Net income of \$72.2 million in the period July 1, 2017 through August 31, 2017 (Predecessor) includes the gain from reorganization items, net, of \$80.0 million.

Results of Operations: Nine Months Ended September 30, 2018 (Successor) Compared to the Periods September 1, 2017 through September 30, 2017 (Successor) and January 1, 2017 through August 31, 2017 (Predecessor)

The following table sets forth certain statement of operations data in the nine months ended September 30, 2018 (Successor) and in the periods September 1, 2017 through September 30, 2017 (Successor) and January 1, 2017 through August 31, 2017 (Predecessor).

	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*			Favorable/ (Unfavorable)	
(Dollar amounts in millions)	\$	% of Net Sales	\$	% of Net Sales	\$	% of Net Sales	Nine Month \$ Change	Nine Month % Change
Net sales	\$444.4	100.0 %	\$41.7	100.0 %	\$353.9	100.0 %	\$48.8	12.3 %
Cost of materials (exclusive of depreciation and amortization)	331.8	74.7 %	31.5	75.5 %	266.5	75.3 %	(33.8)	(11.3)%
Operating costs and expenses	120.0	27.0 %	11.6	27.8 %	101.8	28.8 %	(6.6)	(5.8)%
Operating loss	\$(7.4)	(1.7)%	\$(1.4)	(3.3)%	\$(14.4)	(4.1)%	\$8.4	53.2 %

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

Net Sales

Net sales of \$444.4 million in the nine months ended September 30, 2018 (Successor) were an increase of \$48.8 million, or 12.3%, compared to \$41.7 million in the period September 1, 2017 through September 30, 2017 (Successor) and \$353.9 million in the period January 1, 2017 through August 31, 2017 (Predecessor). The increase in net sales in the first nine months of 2018 compared to the first nine months of 2017 was driven primarily by continuing strong market demand and an increase in commodities pricing, both of which had a favorable impact on selling prices in the first nine months of the current year, as did the announced imposition of tariffs by the U.S. on imports of steel and aluminum from certain countries. Overall average selling prices increased 11.4% in the nine months ended September 30, 2018 (Successor) compared to the same period last year. In the first nine months of the current year, pricing has increased for virtually all of the Company's products with double-digit percentage increases compared to the same period last year for most of the Company's highest selling products including all carbon and alloy products and SBQ bar.

Overall tons sold per day increased 0.7% in the nine months ended September 30, 2018 (Successor) compared to the same period in the prior year. The increase was primarily the result of continuing sales volume increases in most carbon and alloy products, as well as aluminum and stainless products, partially offset by sales volume decreases in carbon and alloy plate and SBQ bar.

Cost of Materials

Cost of materials (exclusive of depreciation and amortization) was \$331.8 million in the nine months ended September 30, 2018 (Successor), compared to \$31.5 million in the period September 1, 2017 through September 30, 2017 (Successor) and \$266.5 million in the period January 1, 2017 through August 31, 2017 (Predecessor). The \$33.8 million, or 11.3% increase between the nine month periods is due mainly to sales volume increases and an increase

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in product mill pricing through the first nine months of 2018 resulting from higher market demand for metals and higher commodity pricing. Higher mill pricing resulting from the announced imposition of tariffs by the U.S. on imports of steel and aluminum from certain countries continues to impact the material cost of each ton sold, as it has throughout 2018.

Cost of materials (exclusive of depreciation and amortization) was 74.7% as a percent of net sales in the nine months ended September 30, 2018 (Successor) compared to 75.3% in the nine months ended September 30, 2017 (Predecessor). Although the Company's selling prices on products sold to customers increased in the nine months ended September 30, 2018 (Successor) compared to the nine months ended September 30, 2017 (Predecessor), the Company recognized a similar increase in the material cost of each ton sold in the period. The primary contributor to the lower cost of materials (exclusive of depreciation and amortization) as a percent of net sales in the nine months ended September 30, 2018 (Successor) compared to the nine months ended September 30, 2017 (Predecessor) was the elimination of some lower margin sales in the first nine months of the current year as compared to the same period last year, as well as the negative impacts of the Company's bankruptcy proceedings on gross material margins in the prior year period.

Operating Costs and Expenses and Operating Loss

Operating costs and expenses in the nine months ended September 30, 2018 (Successor) and in the periods September 1, 2017 through September 30, 2017 (Successor) and January 1, 2017 through August 31, 2017 (Predecessor) were as follows:

(Dollar amounts in millions)	Successor		Predecessor		Favorable/(Unfavorable)	
	Nine Months Ended September 30, 2018	September 1, 2017 through September 30, 2017 As Adjusted*	January 1, 2017 Through August 31, 2017 As Adjusted*	Nine Month \$ Change	Nine Month % Change	
Warehouse, processing and delivery expense	\$62.6	\$ 6.0	\$ 50.2	\$ (6.4)	(11.4)	%
Sales, general and administrative expense	50.4	5.1	40.8	\$ (4.5)	(9.8)	%
Restructuring expense	—	—	0.6	\$ 0.6	n/a	
Depreciation and amortization expense	7.0	0.5	10.2	\$ 3.7	34.6	%
Total operating costs and expenses	\$120.0	\$ 11.6	\$ 101.8	\$ (6.6)	(5.8)	%

* Adjusted due to the adoption of ASU No. 2017-07, "Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." See Note 3 - New Accounting Standards to the Notes to the Condensed Consolidated Financial Statements for additional information. Operating costs and expenses increased by \$6.6 million from \$11.6 million in the period September 1, 2017 through September 30, 2017 (Successor) and \$101.8 million in the period January 1, 2017 through August 31, 2017 (Predecessor) to \$120.0 million in the nine months ended September 30, 2018 (Successor).

Warehouse, processing and delivery expense increased by \$6.4 million primarily as a result of higher payroll and benefits costs, as well as higher warehouse and freight costs attributable to an increase in fuel prices and labor costs. Sales, general and administrative expense increased by \$4.5 million mainly as a result of higher payroll and benefits costs.

Depreciation and amortization expense decreased by \$3.7 million due to lower depreciation expense in the nine months ended September 30, 2018 (Successor) from a lower depreciable base of property, plant and equipment as a result of fresh-start accounting, and no amortization of intangible assets.

Operating loss in the nine months ended September 30, 2018 (Successor) was \$7.4 million compared to \$1.4 million in the period September 1, 2017 through September 30, 2017 (Successor) and \$14.4 million in the period January 1, 2017 through August 31, 2017 (Predecessor).

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Other Income and Expense, Income Taxes and Net Loss

See Note - 3 New Accounting Standards to the Notes to the Condensed Consolidated Financial Statements for further discussion of amounts reclassified in prior year financial statements as a result of the adoption of ASU No. 2017-07. Interest expense was \$24.0 million in the nine months ended September 30, 2018 (Successor) compared to \$1.8 million in the period September 1, 2017 through September 30, 2017 (Successor) and \$26.6 million in the period January 1, 2017 through August 31, 2017 (Predecessor). Interest expense in the nine months ended September 30, 2018 (Successor) included the interest cost component of net periodic benefit cost of \$3.7 million. Interest expense in the periods September 1, 2017 through September 30, 2017 (Successor) and January 1, 2017 through August 31, 2017 (Predecessor) included the interest cost component of net periodic benefit cost of \$0.4 million and \$3.2 million, respectively. The Company has significantly reduced its debt and contractual interest burden from what it had been in the prepetition periods resulting in significantly lower interest expense from debt in the nine months ended September 30, 2018 (Successor) compared to the same period last year. Offsetting this decrease, interest expense for the period January 1, 2017 through the Effective Date of August 31, 2017 excludes approximately \$4.1 million of contractual interest expense associated with the Pre-Bankruptcy Secured Notes and Pre-Bankruptcy Convertible Notes. Effective on the bankruptcy Petition Date, the Company discontinued recording interest expense on outstanding prepetition debt classified as LSTC.

Financial restructuring expense of \$7.0 million in the period January 1, 2017 through August 31, 2017 (Predecessor) was mostly comprised of legal and other professional fees incurred prior to filing the chapter 11 bankruptcy petitions in connection with the financial restructuring of the debt and equity of the Company.

Other income, net was \$7.1 million in the nine months ended September 30, 2018 (Successor) compared to \$2.8 million in the period September 1, 2017 through September 30, 2017 (Successor) and \$8.4 million in the period January 1, 2017 through August 31, 2017 (Predecessor). Included in other income, net in the nine months ended September 30, 2018 (Successor) was net pension benefit of \$5.9 million. Included in other income, net in the periods September 1, 2017 through September 30, 2017 (Successor) and January 1, 2017 through August 31, 2017 (Predecessor) were net pension benefits of \$0.7 million and \$4.9 million, respectively. The remaining other income, net for the comparative periods is comprised mostly of foreign currency transaction gains. The Company recorded a foreign currency transaction gain of \$1.2 million in the nine months ended September 30, 2018 (Successor) compared to a foreign currency transaction gain of \$2.1 million in the period September 1, 2017 through September 30, 2017 (Successor) and \$3.6 million in the period January 1, 2017 through August 31, 2017 (Predecessor).

Reorganization items, net for the nine months ended September 30, 2017 (Predecessor) was an expense of \$74.5 million and relates to expenses and income directly associated with the chapter 11 proceedings and incurred during the pendency of the Company's Chapter 11 Cases. The balance for the period January 1, 2017 through August 31, 2017 is comprised of a gain on extinguishment of debt of \$90.0 million and a gain on fresh-start revaluation of \$16.6 million. Offsetting these gains are \$10.3 million related to the write-off of debt issuance costs and discounts related to the Pre-Bankruptcy Secured Notes and the Pre-Bankruptcy Convertible Notes, prepayment penalties and debt related fees of \$13.2 million, professional fees of \$7.3 million and key employee incentive plan expense of \$1.2 million.

Loss before income taxes was \$24.3 million in the nine months ended September 30, 2018 (Successor). Loss before income taxes in the period September 1, 2017 through September 30, 2017 (Successor) was \$0.5 million. The Company had income before income taxes of \$34.8 million in the period January 1, 2017 through August 31, 2017 (Predecessor). Included in the income before income taxes in the period January 1, 2017 through August 31, 2017 (Predecessor) was financial restructuring expense of \$7.0 million and the gain related to reorganization items, net of \$74.5 million.

The Company recorded income tax benefit of \$4.0 million in the nine months ended September 30, 2018 (Successor) compared to an income tax expense of \$0.3 million in the period September 1, 2017 through September 30, 2017 (Successor) and an income tax benefit of \$1.4 million in the period January 1, 2017 through August 31, 2017 (Predecessor). The Company's effective tax rate is expressed as income tax expense as a percentage of loss before income taxes. The effective tax rate in the nine months ended September 30, 2018 (Successor) was 16.5% compared to (53.5)% in the period September 1, 2017 through September 30, 2017 (Successor) and (4.0)% in the period January 1, 2017 through August 31, 2017 (Predecessor), respectively. The change in the effective tax rate between periods

resulted from changes in the geographic mix and timing of income or losses, the impact of the U.S. federal corporate tax rate reduction in connection with the Tax Act, and the inclusion of foreign earnings under IRC Section 951A. Net loss was \$20.3 million in the nine months ended September 30, 2018 (Successor) and \$0.8 million for the period September 1, 2017 through September 30, 2017 (Successor). Net income of \$36.2 million for the period January 1, 2017 through August 31, 2017 (Predecessor) includes the gain of \$74.5 million from reorganization items, net.

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Liquidity and Capital Resources

Cash and cash equivalents increased (decreased) as follows:

(Dollar amounts in millions)	Successor		Predecessor
	Nine Months Ended September 30, 2018	September 1, 2017 Through September 30, 2017	January 1, 2017 Through August 31, 2017
Net cash used in operating activities	\$(24.6)	\$ (6.6)	\$ (50.3)
Net cash (used in) from investing activities	(4.9)	(0.9)	5.3
Net cash from financing activities	25.9	8.4	18.6
Effect of exchange rate changes on cash and cash equivalents	(0.1)	0.1	0.9
Net change in cash and cash equivalents	\$(3.7)	\$ 1.1	\$ (25.6)

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

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

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

Higher accounts receivable at September 30, 2018 (Successor) compared to year-end 2017 resulted in a cash flow use of \$15.3 million in the nine months ended September 30, 2018 (Successor). Higher accounts receivable at both September 30, 2017 (Successor) and August 31, 2017 (Predecessor) compared to year-end 2016 (Predecessor) resulted in \$3.7 million and \$6.1 million of cash flow use, respectively. Average receivable days outstanding was 53.9 days in the nine months ended September 30, 2018 compared to 52.2 days for the nine months ended September 30, 2017.

Higher inventory levels at September 30, 2018 (Successor) compared to year-end 2017 resulted in a cash flow use of \$14.3 million in the nine months ended September 30, 2018 (Successor). Higher inventory levels at both September 30, 2017 (Successor) and August 31, 2017 (Predecessor) compared to year-end 2016 (Predecessor) used \$0.8 million and \$2.7 million of cash, respectively. Average days sales in inventory was 131.5 days for the nine months ended September 30, 2018 compared to 140.1 days for the nine months ended September 30, 2017. The decrease in average days sales in inventory is primarily the result of improved inventory management.

Increases in total accounts payable and accrued and other current liabilities compared to year-end 2017 resulted in a \$10.7 million cash flow source in the nine months ended September 30, 2018 (Successor). Increases in accounts payable and accrued and other current liabilities were a \$0.8 million and \$2.6 million cash flow source in the periods September 1, 2017 through September 30, 2017 (Successor) and January 1, 2017 through August 31, 2017 (Predecessor), respectively. Accounts payable days outstanding was 42.8 days for the nine months ended September 30, 2018 compared to 40.7 days for the same period last year.

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

(Dollar amounts in millions)	Successor		Working Capital Increase (Decrease)
	September 30, 2018	December 31, 2017	
Working capital	\$209.3	\$ 191.9	\$ 17.4
Cash and cash equivalents	7.4	11.1	(3.7)
Accounts receivable	89.3	74.4	14.9
Inventories	167.9	154.5	13.4
Accounts payable	50.4	41.8	(8.6)
Accrued and other current liabilities	16.9	13.9	(3.0)

Approximately \$2.6 million of the Company's consolidated cash and cash equivalents balance of \$7.4 million at September 30, 2018 (Successor) resided in the United States.

Net cash used in investing activities of \$4.9 million during the nine months ended September 30, 2018 (Successor) and \$0.9 million in the period September 1, 2017 through September 30, 2017 (Successor) is mostly attributable to cash paid for capital expenditures in the respective periods. Net cash from investing activities of \$5.3 million in the period January 1, 2017 through August 31, 2017 (Predecessor) is mainly due to a \$7.5 million reduction in the cash collateralization requirements of outstanding letters of credit offset by cash paid for capital expenditures of \$2.9 million in the period. Management expects capital expenditures to range from \$6.5 million to \$7.5 million for the full-year 2018.

During the nine months ended September 30, 2018 (Successor), net cash from financing activities of \$25.9 million was mainly attributable to net proceeds from borrowings under the Company's Expanded ABL Credit Agreement offset by net repayments of short-term borrowings under the Company's foreign line of credit and a payment of \$0.9 million made in connection with the Company's build-to-suit liability associated with its warehouse in Janesville, WI. During the period September 1, 2017 through September 30, 2017 (Successor), net cash from financing activities of \$8.4 million was mainly attributable to borrowings under the Company's ABL Credit Agreement. Finally, during the period January 1, 2017 through August 31, 2017 (Predecessor), net cash from financing activities of \$18.6 million was mainly attributable to proceeds and repayments of debt in connection with the Company's bankruptcy proceedings (see below), as well as net proceeds from short-term borrowings under the Company's foreign line of credit. Offsetting these net cash proceeds were a payment of \$3.0 million made in connection with the Company's build-to-suit liability associated with its warehouse in Janesville, WI.

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

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

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

shareholders. Borrowings under the Expanded Credit Facility will mature on February 28, 2022.

Subject to certain exceptions and permitted encumbrances, the obligations under the Expanded Credit Facility are secured by a first priority security interest in substantially all of the assets of each of the Borrowers and certain of their foreign subsidiaries. The proceeds of the advances under the Expanded Credit Facility may only be used to (i) pay certain fees and expenses to the Agent and the lenders under the Expanded Credit Facility, (ii) provide for Borrowers'

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working capital needs and reimburse drawings under letters of credit, (iii) repay the obligations under the Debtor-in-Possession Revolving Credit and Security Agreement dated as of June 10, 2017, by and among the Company, the lenders party thereto, and PNC, and certain other existing indebtedness, and (iv) provide for the Borrowers' capital expenditure needs, in accordance with the Expanded ABL Credit Agreement.

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

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

Under the Expanded ABL Credit Agreement, the maximum borrowing capacity of the Revolving A Credit Facility is based on the Company's borrowing base calculation. As of September 30, 2018 (Successor), the weighted average advance rates used in the borrowing base calculation are 85.0% on eligible accounts receivable and 70.5% on eligible inventory.

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

The Company's Expanded ABL Credit Agreement contains a springing financial maintenance covenant requiring the Company to maintain a Fixed Charge Coverage Ratio of 1.0 to 1.0 in any covenant testing period when the Company's cash liquidity (as defined in the Expanded Credit Facility Agreement, inclusive of certain cash balances in North America) is less than \$12.5 million for five consecutive days. The Company was not in a covenant testing period as of and for the period ended September 30, 2018 (Successor).

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

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

Maximum borrowing capacity	\$ 125.0
Letters of credit and other reserves	(2.5)
Current maximum borrowing capacity	122.5
Current borrowings	(111.0)

Additional unrestricted borrowing capacity \$ 11.5

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

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

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

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

The Company must use the net proceeds of material sales of collateral, which proceeds are not used for other permissible purposes, to make an offer of repurchase to holders of the Second Lien Notes. Indebtedness for borrowings under the Second Lien Notes Indenture is subject to acceleration upon the occurrence of specified defaults or events of default, including failure to pay principal or interest, the inaccuracy of any representation or warranty of any obligor under the Second Lien Notes, failure by an obligor under the Second Lien Notes to perform certain covenants, the invalidity or impairment of the Indenture Agent's lien on its collateral or of any applicable guarantee, and certain adverse bankruptcy-related and other events.

Interest on the Second Lien Notes accrues at the rate of 5.00% if paid in cash and at the rate of 7.00% if paid in kind. Pursuant to the terms of the Second Lien Notes Indenture, the Company is currently paying interest on the Second Lien Notes in kind.

In July 2017, the Company's French subsidiary entered into a local credit facility under which it may borrow against 100% of the eligible accounts receivable factored, with recourse, up to 6.5 million Euros, subject to factoring fees and floating Euribor or LIBOR interest rates, plus a 1.0% margin. The French subsidiary utilizes the local credit facility to support its operating cash needs. As of as of September 30, 2018 (Successor), the French subsidiary has borrowings of \$5.1 million under the credit facility.

Interest expense in the three and nine months ended September 30, 2018 (Successor) was \$8.7 million and \$24.0 million, respectively, of which \$1.8 million and \$4.8 million, respectively, was cash interest.

As of as of September 30, 2018 (Successor), the Company had \$2.5 million of irrevocable letters of credit outstanding.

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

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Critical Accounting Policies

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

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Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

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

(b) Changes in Internal Control over Financial Reporting

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

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Part II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

Item 6. Exhibits

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

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Exhibit Index

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

Exhibit No. Description

10.1*	<u>Form of Performance Unit Award Agreement</u>
31.1	<u>CEO Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002</u>
31.2	<u>CFO Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002</u>
32.1	<u>CEO and CFO Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document

* Management contract or compensatory plan or arrangement

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SIGNATURE

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

A. M. Castle & Co.
(Registrant)

Date: November 13, 2018 By: /s/ Edward M. Quinn

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