CASTLE A M & CO
Form 10-Q
May 15, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For Quarterly Period Ended March 31, 2017
or
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission File Number: 1-5415

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

Maryland	36-0879160
(State or other jurisdiction of incorporation of organization)	(I.R.S. Employer Identification No.)
1420 Kensington Road, Suite 220, Oak Brook, Illinois	60523
(Address of principal executive offices)	(Zip Code)

Registrant's telephone, including area code (847) 455-7111

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

The number of shares outstanding of the registrant’s common stock as of May 1, 2017 was 32,486,039 shares.

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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements (unaudited)
Amounts in thousands, except par value and per share data
A.M. Castle & Co.
Condensed Consolidated Balance Sheets

	As of March 31, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$16,245	$ 35,624
Accounts receivable, less allowances of $1,797 and $1,945, respectively	80,704	64,385
Inventories	158,637	146,603
Prepaid expenses and other current assets	14,027	10,141
Income tax receivable	152	433
Total current assets	269,765	257,186
Intangible assets, net	2,571	4,101
Prepaid pension cost	9,219	8,501
Deferred income taxes	410	381
Other noncurrent assets	8,299	9,449
Property, plant and equipment:		
Land	2,071	2,070
Buildings	37,368	37,341
Machinery and equipment	127,960	125,836
Property, plant and equipment, at cost	167,399	165,247
Accumulated depreciation	(118,513)	(115,537)
Property, plant and equipment, net	48,886	49,710
Total assets	$339,150	$ 329,328
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$52,604	$ 33,083
Accrued and other current liabilities	23,790	19,854
Income tax payable	95	209
Current portion of long-term debt	75	137
Total current liabilities	76,564	53,283
Long-term debt, less current portion	287,101	286,459
Deferred income taxes	139	—
Build-to-suit liability	12,528	12,305
Other noncurrent liabilities	5,677	5,978
Pension and postretirement benefit obligations	6,336	6,430
Commitments and contingencies (Note 13)		
Stockholders' deficit:		
Preferred stock, $0.01 par value—9,988 shares authorized (including 400 Series B Junior Preferred, $0.00 par value); no shares issued and outstanding at March 31, 2017 and December 31, 2016	—	—
Common stock, $0.01 par value—60,000 shares authorized; 32,768 shares issued and 32,482 outstanding at March 31, 2017 and 32,768 shares issued and 32,566 outstanding at December 31, 2016	327	327
Additional paid-in capital	245,065	244,825

Accumulated deficit	(266,783)	(253,291)
Accumulated other comprehensive loss	(26,725)	(25,939)
Treasury stock, at cost—286 shares at March 31, 2017 and 202 shares at December 31, 2016	(1,079)	(1,049)
Total stockholders’ deficit	(49,195)	(35,127)
Total liabilities and stockholders’ deficit	$339,150	$ 329,328

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

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

	Three Months Ended March 31,	
	2017	2016
Net sales	$135,926	$163,848
Costs and expenses:		
Cost of materials (exclusive of depreciation and amortization)	101,037	133,758
Warehouse, processing and delivery expense	18,719	23,403
Sales, general and administrative expense	14,486	17,437
Restructuring expense	128	11,718
Depreciation and amortization expense	3,864	4,393
Total costs and expenses	138,234	190,709
Operating loss	(2,308)	(26,861)
Interest expense, net	10,736	10,369
Financial restructuring expense	877	—
Unrealized loss on embedded debt conversion option	146	—
Debt restructuring loss, net	—	7,075
Other (income) expense, net	(512)	1,145
Loss from continuing operations before income taxes and equity in earnings of joint venture	(13,555)	(45,450)
Income tax benefit	(63)	(335)
Loss from continuing operations before equity in earnings of joint venture	(13,492)	(45,115)
Equity in earnings of joint venture	—	311
Loss from continuing operations	(13,492)	(44,804)
Income from discontinued operations, net of income taxes	—	7,934
Net loss	$(13,492)	$(36,870)
Basic and diluted earnings (loss) per common share:		
Continuing operations	$(0.42)	$(1.90)
Discontinued operations	—	0.34
Net basic and diluted loss per common share	$(0.42)	$(1.56)
Comprehensive loss:		
Net loss	$(13,492)	$(36,870)
Change in unrecognized pension and postretirement benefit costs, net of tax	214	456
Foreign currency translation adjustments, net of tax	(1,000)	611
Comprehensive loss	$(14,278)	$(35,803)

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

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

	Three Months Ended March 31, 2017	2016
Operating activities:		
Net loss	$(13,492)	$(36,870)
Less: Income from discontinued operations, net of income taxes	—	7,934
Loss from continuing operations	(13,492)	(44,804)
Adjustments to reconcile loss from continuing operations to net cash used in operating activities of continuing operations:		
Depreciation and amortization	3,864	4,393
Amortization of deferred gain	(16)	(56)
Amortization of deferred financing costs and debt discount	1,410	2,439
Debt restructuring loss	—	7,075
Loss from lease termination	—	4,539
Unrealized loss on embedded debt conversion option	146	—
(Gain) loss on sale of property, plant and equipment	(2)	1,774
Unrealized gain on commodity hedges	—	(263)
Unrealized foreign currency transaction gain	(527)	(61)
Equity in earnings of joint venture	—	(311)
Share-based compensation expense	154	202
Deferred income taxes	(734)	—
Other, net	223	—
Changes in assets and liabilities:		
Accounts receivable	(15,164)	(9,979)
Inventories	(10,285)	26,563
Prepaid expenses and other current assets	(3,938)	(2,129)
Other noncurrent assets	2,635	(173)
Prepaid pension costs	(718)	(122)
Accounts payable	15,281	4,073
Income tax payable and receivable	144	504
Accrued and other current liabilities	3,652	8,902
Pension and postretirement benefit obligations and other noncurrent liabilities	(171)	968
Net cash (used in) from operating activities of continuing operations	(17,538)	3,534
Net cash used in operating activities of discontinued operations	—	(5,219)
Net cash used in operating activities	(17,538)	(1,685)
Investing activities:		
Capital expenditures	(1,096)	(1,238)
Proceeds from sale of property, plant and equipment	2	467
Change in cash collateralization of letters of credit	45	—
Net cash used in investing activities of continuing operations	(1,049)	(771)
Net cash from investing activities of discontinued operations	—	53,570
Net cash (used in) from investing activities	(1,049)	52,799
Financing activities:		
Proceeds from long-term debt	—	287,113
Repayments of long-term debt	(78)	(331,196)
Payments of debt restructuring costs	—	(7,075)
Payments of debt issue costs	(911)	—

Payments of build-to-suit liability	—	(462)
Net cash used in financing activities	(989)	(51,620)
Effect of exchange rate changes on cash and cash equivalents	197	124
Net change in cash and cash equivalents	(19,379)	(382)

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

	Three Months Ended March 31,	
	2017	2016
Cash and cash equivalents - beginning of year	35,624	11,100
Cash and cash equivalents - end of period	$16,245	$10,718

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
The condensed consolidated financial statements included herein have been prepared by A. M. Castle & Co. and subsidiaries (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”). The Condensed Consolidated Balance Sheet at December 31, 2016 is derived from the audited financial statements at that date. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the SEC. In the opinion of management, the unaudited statements included herein contain all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of financial results for the interim period. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016. The 2017 interim results reported herein may not necessarily be indicative of the results of the Company’s operations for the full year.
The accompanying consolidated financial statements have been prepared on the basis of the Company continuing as a going concern for a reasonable period of time. The Company's principal source of liquidity is cash flows from operations. The Company's plan indicates that it will have sufficient cash flows from its operations to continue as a going concern. The Company's ability to have sufficient cash flows to continue as a going concern is based on plans that rely on certain underlying assumptions and estimates that may differ from actual results. On April 6, 2017, the Company and certain of its subsidiaries entered into a restructuring support agreement with certain of their creditors. The agreement contemplates the financial restructuring of the debt and equity of the Company and the subsidiaries. Refer to Note 14 - Subsequent Events.
(2) New Accounting Standards
Standards Updates Adopted
Effective January 1, 2017, the Company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2016-09, "Improvements to Employee Share-Based Payment Accounting," which simplifies several aspects of the accounting for employee share-based payment transactions. Under ASU No. 2016-09, a company recognizes all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement, eliminating the notion of the additional paid-in capital pool and significantly reducing the complexity and cost of accounting for excess tax benefits and tax deficiencies. For interim reporting purposes, excess tax benefits and tax deficiencies are considered discrete items in the reporting period in which they occur and are not included in the estimate of an entity’s annual effective tax rate. ASU No. 2016-09 further eliminates the requirement to defer recognition of an excess tax benefit until the benefit is realized through a reduction to taxes payable. The adoption of ASU No. 2016-09 did not have a material impact on the Company's consolidated financial statements.
Standards Updates Issued Not Yet Effective
In March 2017, the FASB issued ASU 2017-07, "Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." Under the new guidance, employers must present the service cost component of the net periodic benefit cost in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. In addition, only the service cost component will be eligible for capitalization in assets. The other components of net periodic benefit cost must be reported separately from the line item(s) that includes the service cost component and outside of any subtotal of operating income, if one is presented. Employers will have to disclose the line(s) used to present the other components of net periodic benefit cost, if the components are not presented separately in the income statement. The guidance on the income statement presentation of the components of net periodic benefit cost must be applied retrospectively, while the guidance limiting the capitalization of net periodic benefit cost in assets to the service cost component must be applied prospectively. For public business entities, the guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those years. Early adoption is permitted as of the beginning of an annual period for which interim financial statements have not been issued. The Company is currently

evaluating the impact the adoption of ASU No. 2017-07 will have on its consolidated financial statements.
In 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

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and cash payments are presented and classified in the statement of cash flows under Topic 230. The amendments in ASU No. 2016-15 address eight specific cash flow issues and apply to all entities that are required to present a statement of cash flows under Topic 230. The provisions of ASU No. 2016-15 must be applied retrospectively to all periods presented with limited exceptions. For public companies, the amendments in ASU No. 2016-15 are effective for fiscal years beginning after December 15, 2017, and interim periods within those years. Early adoption is permitted, including adoption in an interim period. The Company does not expect the adoption of ASU No. 2016-15 to have a material impact on its consolidated financial statements.

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

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," related to revenue recognition. The underlying principle of the new standard 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. The ASU permits the use of either the retrospective or modified retrospective (cumulative-effect) transition method of adoption. ASU No. 2015-14, "Deferral of the Effective Date," was issued in August 2015 to defer the effective date of ASU No. 2014-09 for public companies until annual reporting periods beginning after December 15, 2017. Early adoption is permitted for annual reporting periods beginning after December 15, 2016. In 2016, the FASB issued ASU No. 2016-08, “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net),” ASU No. 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing,” ASU No. 2016-12, "Revenue from Contracts with Customers (Topic 606), Narrow-Scope Improvements and Practical Expedients," and ASU No. 2016-20, "Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers," which provide supplemental adoption guidance and clarification to ASU No. 2014-09. ASU No. 2016-08, ASU No. 2016-10, ASU No. 2016-12 and ASU No. 2016-20 must be adopted concurrently with the adoption of ASU No. 2014-09. The Company continues to evaluate the impact of these ASU's on its consolidated financial statements and disclosures, and plans to adopt these ASU's in the first quarter of 2018 using the modified retrospective transition method.

(3) Discontinued Operation

On March 15, 2016, the Company completed the sale of substantially all the assets of its wholly-owned subsidiary, Total Plastics, Inc. ("TPI") for $55,070 in cash, subject to customary working capital adjustments. Under the terms of the sale, $1,500 of the purchase price was placed into escrow pending adjustment based upon the final calculation of the working capital at closing. The sale resulted in preliminary pre-tax and after-tax gains of $4,217 and $2,994, respectively, for the three months ended March 31, 2016. The Company and the buyer agreed to the final working capital adjustment during the third quarter of 2016, which resulted in the full escrowed amount being returned to the buyer. The sale ultimately resulted in pre-tax and after-tax gains of $2,003 and $1,306, respectively, for the year ended December 31, 2016.

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Summarized results of the discontinued operation for the three months ended March 31, 2016 were as follows:

	Three Months Ended March 31, 2016
Net sales	$29,680
Cost of materials	21,027
Operating costs and expenses	7,288
Interest expense[(a)]	333
Income from discontinued operations before income taxes	$1,032
Income tax expense benefit [(b)]	(3,908)
Gain on sale of discontinued operations, net of income taxes	2,994
Income from discontinued operations, net of income taxes	$7,934

[(a)] Interest expense was allocated to the discontinued operation based on the debt that was required to be paid as a result of the sale of TPI.
[(b)] Income tax benefit for the three months ended March 31, 2016 includes $4,207 reversal of valuation allowance resulting from the sale of TPI.

Earnings (Loss) Per Share
Diluted earnings (loss) per common share is computed by dividing income (loss) by the weighted average number of shares of common stock outstanding plus outstanding common stock equivalents. Common stock equivalents consist of employee and director stock options, restricted stock awards, other share-based payment awards, and contingently issuable shares related to the Company’s 7.0% Convertible Senior Notes due December 15, 2017 (the "Convertible Notes") and the Company's 5.25% Convertible Senior Secured Notes due December 30, 2019 (the "New Convertible Notes"), which are included in the calculation of weighted average shares outstanding using the treasury stock method, if dilutive. Refer to Note 7 - Debt for further description of the Convertible Notes and New Convertible Notes.

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The following table is a reconciliation of the basic and diluted earnings (loss) per common share calculations:

	Three Months Ended March 31,	
	2017	2016
Numerator:		
Loss from continuing operations	$(13,492)	$(44,804)
Income from discontinued operations, net of income taxes	—	7,934
Net loss	$(13,492)	$(36,870)
Denominator:		
Weighted average common shares outstanding	32,303	23,625
Effect of dilutive securities:		
Outstanding common stock equivalents	—	—
Denominator for diluted earnings (loss) per common share	32,303	23,625