

**VISKASE COMPANIES, INC.**

Financial report for the fiscal quarter ended March 31, 2017

This report has been prepared in accordance with Section 5.04 of the Credit Agreement dated as of January 30, 2014 among Viskase Companies, Inc. (the "Company") and UBS AG, Stamford Branch as administrative agent and as collateral agent (the "Agent").

CONSOLIDATED FINANCIAL STATEMENTS OF VISKASE COMPANIES, INC. AND  
SUBSIDIARIES

1. Financial Statements:

Report of Independent Certified Public Accountants

Consolidated Balance Sheets as of March 31, 2017 (unaudited) and  
December 31, 2016

Consolidated Statements of Operations for the three months ended March 31,  
2017 and March 31, 2016 (unaudited)

Consolidated Statements of Comprehensive Income for the three months  
March 31, 2017 and March 31, 2016 (unaudited)

Consolidated Statements of Stockholders' Equity for the three months ended  
March 31, 2017 (unaudited) and the year ended December 31, 2016

Consolidated Statements of Cash Flows for the three months ended  
March 31, 2017 and March 31, 2016 (unaudited)

2. Notes to Consolidated Financial Statements (unaudited)



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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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**Board of Directors**  
**Viskase Companies, Inc.**

We have reviewed the accompanying condensed consolidated interim financial statements of Viskase Companies, Inc. (a Delaware corporation) and subsidiaries (the Company), which comprise the condensed consolidated balance sheet, and the related condensed consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows as of March 31, 2017, and for the three-month period ended March 31, 2017 and 2016, and the related notes to the interim financial statements.

### Management's responsibility

The Company's management is responsible for the preparation and fair presentation of the condensed consolidated interim financial statements in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with accounting principles generally accepted in the United States of America.

### Auditor's responsibility

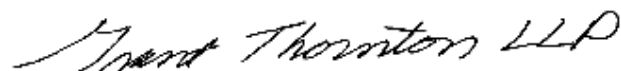
Our responsibility is to conduct our reviews in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements. Accordingly, we do not express such an opinion.

### Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated interim financial statements referred to above for them to be in accordance with accounting principles generally accepted in the United States of America.

Report on condensed consolidated balance sheet as of December 31, 2016

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of the Company as of December 31, 2016, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended; and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated March 31, 2017. In our opinion, the accompanying condensed consolidated balance sheet of the Company as of December 31, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



Chicago, Illinois  
May 15, 2017

**VISKASE COMPANIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(In Thousands, Except for Number of Shares)

	March 31, 2017	December 31, 2016
<b>ASSETS</b>	(unaudited)	
Current assets:		
Cash and cash equivalents	\$15,106	\$39,129
Restricted cash	1,758	2,063
Receivables, net	68,595	62,938
Inventories	85,202	72,279
Other current assets	33,652	28,361
Total current assets	204,313	204,770
Property, plant and equipment	327,106	308,841
Less accumulated depreciation	(159,489)	(153,554)
Property, plant and equipment, net	167,617	155,287
Other assets, net	20,976	11,463
Intangible assets	24,937	203
Goodwill	2,836	329
Deferred income taxes	52,113	51,386
Total Assets	\$472,792	\$423,438
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Short-term debt	\$4,556	\$2,750
Short-term portion of capital lease obligations	469	90
Accounts payable	27,048	28,582
Accrued liabilities	47,150	38,796
Total current liabilities	79,223	70,218
Long-term debt, net of current maturities	267,372	261,905
Capital lease obligations, net of current portion	1,163	61
Long-term liabilities	9,042	1,770
Accrued employee benefits	70,242	56,354
Deferred income taxes	8,331	326
Stockholders' equity:		
Common stock, \$0.01 par value; 37,329,269 shares issued and 36,523,999 outstanding at March 31, 2017 and December 31, 2016	373	373
Paid in capital	32,618	32,472
Retained earnings	87,720	85,832
Less 805,270 treasury shares, at cost	(298)	(298)
Accumulated other comprehensive loss	(82,994)	(85,575)
Total stockholders' equity	37,419	32,804
Total Liabilities and Stockholders' Equity	\$472,792	\$423,438

*See notes to consolidated financial statements.*

**VISKASE COMPANIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In Thousands)  
(Unaudited)

	3 Months Ended March 31, 2017	3 Months Ended March 31, 2016
NET SALES	\$90,356	\$77,496
Cost of sales	<u>67,890</u>	<u>61,001</u>
GROSS MARGIN	22,466	16,495
Selling, general and administrative	16,346	12,220
Amortization of intangibles	366	5
Restructuring expense	<u>-</u>	<u>1,858</u>
OPERATING INCOME	5,754	2,412
Interest income	13	2
Interest expense	3,216	3,121
Other (income), net	<u>(355)</u>	<u>(1,838)</u>
INCOME BEFORE INCOME TAXES	2,906	1,131
Income tax provision	<u>1,174</u>	<u>404</u>
NET INCOME	<u>\$1,732</u>	<u>\$727</u>

*See notes to consolidated financial statements.*

**VISKASE COMPANIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(In Thousands)  
(Unaudited)

	3 Months Ended March 31, 2017	3 Months Ended March 31, 2016
Net income	<u>\$1,732</u>	<u>\$727</u>
Other comprehensive income, net of tax		
Pension liability adjustment	1,206	2,123
Foreign currency translation adjustment	<u>1,375</u>	<u>2,303</u>
Other comprehensive income, net of tax	2,581	4,426
Comprehensive income	<u><u>\$4,313</u></u>	<u><u>\$5,153</u></u>

*See notes to consolidated financial statements.*

**VISKASE COMPANIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(In Thousands)

	Common stock	Paid in capital	Treasury stock	Retained earnings	Accumulated other comprehensive loss	Total stockholders' equity
Balance December 31, 2015	\$370	\$32,861	(\$298)	\$80,428	(\$80,050)	\$33,311
Net income	-	-	-	5,560	-	5,560
Foreign currency translation adjustment	-	-	-	-	(6,007)	(6,007)
Pension liability adjustment, net of tax	-	-	-	-	482	482
Stock option exercise	3	(389)	-	-	-	(386)
Balance December 31, 2016	\$373	\$32,472	(\$298)	\$85,988	(\$85,575)	\$32,960
Net income	-	-	-	1,732	-	1,732
Foreign currency translation adjustment	-	-	-	-	1,375	1,375
Pension liability adjustment, net of tax	-	-	-	-	1,206	1,206
Stock option expense/exercise	-	146	-	-	-	146
Balance March 31, 2017 (unaudited)	\$373	\$32,618	(\$298)	\$87,720	(\$82,994)	\$37,419

*See notes to consolidated financial statements.*



**VISKASE COMPANIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In Thousands)  
(Unaudited)

	3 Months Ended March 31, 2017	3 Months Ended March 31, 2016
Cash flows from operating activities:		
Net income	\$1,732	\$727
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	5,060	4,855
Stock-based compensation	56	-
Amortization of intangibles	366	5
Amortization of deferred financing fees	147	164
Increase in deferred tax	-	510
Non-cash interest	102	23
Loss on disposition of assets	2	15
Bad debt provision (recoveries)	94	384
Changes in operating assets and liabilities:		
Receivables	3,729	(941)
Inventories	(6,433)	(2,040)
Other current assets	(888)	(1,170)
Other assets	(2,636)	(1,536)
Accounts payable	(4,976)	(1,794)
Accrued liabilities	3,191	4,705
Accrued employee benefits	1,112	42
Other	2,543	(393)
Total adjustments	1,469	2,829
Net cash provided by operating activities	3,201	3,556
Cash flows from investing activities:		
Capital expenditures	(3,305)	(2,969)
Acquisition of businesses, net of cash acquired	(31,141)	-
Proceeds from disposition of assets	-	4
Net cash used in investing activities	(34,446)	(2,965)
Cash flows from financing activities:		
Deferred financing costs	(120)	(245)
Proceeds from restructured term loan	7,716	-
Repayment of capital lease	(143)	(49)
Repayment of short term debt	(687)	(827)
Restricted cash	305	(499)
Net cash used in financing activities	7,071	(1,620)
Effect of currency exchange rate changes on cash	151	327
Net (decrease) increase in cash and equivalents	(24,023)	(702)
Cash and equivalents at beginning of period	39,129	37,321
Cash and equivalents at end of period	\$15,106	\$36,619
Supplemental cash flow information:		
Interest paid	\$2,994	\$2,934
Income taxes paid	\$890	\$583

See notes to consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(In Thousands)  
(Unaudited)

## **1. Summary of Significant Accounting Policy**

### **Nature of Operations**

Viskase Companies, Inc. together with its subsidiaries (“we” or the “Company”) is a producer of non-edible cellulosic, fibrous and plastic casings used to prepare and package processed meat products, and provides value-added support services relating to these products, for some of the largest global consumer products companies. We were incorporated in Delaware in 1970. The Company operates twelve manufacturing facilities, six distribution centers and three service centers in North America, Europe, South America, and Asia and, as a result, is able to sell its products in nearly one hundred countries throughout the world.

### **Principles of Consolidation**

The consolidated financial statements include the accounts of the Company. Intercompany accounts and transactions have been eliminated in consolidation.

### **Reclassification**

Reclassifications have been made to the prior years’ financial statements to conform to the 2017 presentation.

### **Use of Estimates in the Preparation of Financial Statements**

The financial statements are prepared in accordance with generally accepted accounting principles (“GAAP”) in the United States of America and include the use of estimates and assumptions that affect a number of amounts included in the Company’s financial statements, including, among other things, pensions and other postretirement benefits and related disclosures, reserves for excess and obsolete inventory, allowance for doubtful accounts, and income taxes. Management bases its estimates on historical experience and other assumptions that we believe are reasonable. If actual amounts are ultimately different from previous estimates, the revisions are included in the Company’s results for the period in which the actual amounts become known. Historically, the aggregate differences, if any, between the Company’s estimates and actual amounts in any year have not had a significant effect on the Company’s consolidated financial statements.

### **Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Company considers cash equivalents to consist of all highly liquid debt investments purchased with an initial maturity of approximately three months or less. Due to the short-term nature of these instruments, the carrying values approximate the fair market value. Cash equivalents include \$160 and \$158 of short-term investments at March 31, 2017 and December 31, 2016, respectively. Of the cash held on deposit, essentially all of the cash balance was in excess of amounts insured by the Federal Deposit Insurance Corporation or other foreign provided bank insurance. The Company performs periodic evaluations of these institutions for relative credit standing and has not experienced any losses as a result of its cash concentration. Consequently, no significant concentrations of credit risk are considered to exist.

### **Receivables**

Trade accounts receivable are classified as current assets and are reported net of allowance for doubtful accounts and a reserve for returns. This estimated allowance is primarily based upon our evaluation of the financial condition of each customer, each customer’s ability to pay and historical write-offs.

### **Inventories**

Inventories are valued at the lower of first-in, first-out (“FIFO”) cost or market.

## **Property, Plant and Equipment**

The Company carries property, plant and equipment at cost, less accumulated depreciation. Property and equipment additions include acquisition of property and equipment and costs incurred for computer software purchased for internal use including related external direct costs of materials and services and payroll costs for employees directly associated with the project. Upon retirement or other disposition, cost and related accumulated depreciation are removed from the accounts, and any gain or loss is included in results of operations. Depreciation is computed on the straight-line method using a half year convention over the estimated useful lives of the assets ranging from (i) building and improvements - 10 to 32 years, (ii) machinery and equipment - 4 to 12 years, (iii) furniture and fixtures - 3 to 12 years, (iv) auto and trucks - 2 to 5 years, (v) data processing - 3 to 7 years and (vi) leasehold improvements - shorter of lease or useful life.

In the ordinary course of business, we lease certain equipment, consisting mainly of autos, and certain real property. Real property consists of manufacturing, distribution and office facilities.

## **Deferred Financing Costs**

Deferred financing costs are presented in the balance sheet as a direct deduction from the carrying amount of debt liability and amortized as expense using the effective interest rate method over the expected term of the related debt agreement. Amortization of deferred financing costs is classified as interest expense.

## **Intangible Assets and Goodwill**

The Company has recognized definite live intangible assets for patents and trademarks, customer relationships, technologies and in-place leases. The intangible assets are amortized on the straight-line method over an estimated weighted average useful life of 12 years for patents and trademarks, 20 years for customer relationships, 13 years for technologies and 14 years for in-place leases.

We evaluate the carrying value of goodwill annually and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances could include, but are not limited to: (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competition, or (3) an adverse action or assessment by a regulator. Goodwill impairment testing involves a two-step process. Step 1 compares the fair value of our reporting units to their carrying values. If the fair value of the reporting unit exceeds its carrying value, no further analysis is necessary. The reporting unit fair value is based upon consideration of various valuation methodologies, including guideline transaction multiples, multiples of current earnings, and projected future cash flows discounted at rates commensurate with the risk involved. If the carrying amount of the reporting unit exceeds its fair value, Step 2 must be completed to quantify the amount of impairment. Step 2 calculates the implied fair value of goodwill by deducting the fair value of all tangible and intangible assets, excluding goodwill, of the reporting unit, from the fair value of the reporting unit as determined in Step 1. The implied fair value of goodwill determined in this step is compared to the carrying value of goodwill. If the implied fair value of goodwill is less than the carrying value of goodwill, an impairment loss, equal to the difference, is recognized.

## **Long-Lived Assets**

The Company continues to evaluate the recoverability of long-lived assets including property, plant and equipment, trademarks and patents. Impairments are recognized when the expected undiscounted future operating cash flows derived from long-lived assets are less than their carrying value. If impairment is identified, valuation techniques deemed appropriate under the particular circumstances will be used to determine the asset's fair value. The loss will be measured based on the excess of carrying value over the determined fair value. The review for impairment is performed whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable.

## **Shipping and Handling**

The Company periodically bills customers for shipping charges. These amounts are included in net revenue, with the associated costs included in cost of sales.

### **Pensions and Other Postretirement Benefits**

The Company uses appropriate actuarial methods and assumptions in accounting for its defined benefit pension plans and non-pension postretirement benefits.

Actual results that differ from assumptions used are accumulated and amortized over future periods and, accordingly, generally affect recognized expense and the recorded obligation in future periods. Therefore, assumptions used to calculate benefit obligations as of the end of a fiscal year directly impact the expense to be recognized in future periods. The primary assumptions affecting the Company's accounting for employee benefits as of March 31, 2017 are as follows:

- Long-term rate of return on plan assets: The required use of the expected long-term rate of return on plan assets may result in recognized returns that are greater or less than the actual returns on those plan assets in any given year. Over time, however, the expected long-term rate of return on plan assets is designed to approximate actual earned long-term returns. The Company uses long-term historical actual return information, the mix of investments that comprise plan assets, and future estimates of long-term investment returns by reference to external sources to develop an assumption of the expected long-term rate of return on plan assets. The expected long-term rate of return is used to calculate net periodic pension cost. In determining its pension obligations, the Company is using a long-term rate of return on U.S. plan assets of 7.50% for 2017. The Company is using a long-term rate of return on French plan assets of 3.20% for 2017. The German pension plan has no assets.
- Discount rate: The discount rate is used to calculate future pension and postretirement obligations. The Company is using a Mercer Bond yield curve in determining its pension obligations. The Company is using a discount rate of 4.47% for 2017. The Company is using a weighted average discount rate of 1.71% on its non-U.S. pension plans for 2017.

### **Income Taxes**

Deferred tax assets and liabilities are measured using enacted tax laws and tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities due to a change in tax rates is recognized in income in the period that includes the enactment date. In addition, the amounts of any future tax benefits are reduced by a valuation allowance to the extent such benefits are not expected to be realized on a more likely than not basis. Interest and penalties related to unrecognized tax benefits are included as a component of tax expense.

### **Other Comprehensive Income (Loss)**

Comprehensive income (loss) includes all other non-stockholder changes in equity. Changes in other comprehensive income (loss) in 2017 and 2016 resulted from changes in foreign currency translation and minimum pension liability.

### **Revenue Recognition**

Revenues are recognized at the time products are shipped to the customer, under F.O.B shipping point or F.O.B port terms, which is the point at which title is transferred, the customer has the assumed risk of loss, and when payment has been received or collection is reasonably assured. Revenues are net of discounts, rebates and allowances. Viskase records all labor, raw materials, in-bound freight, plant receiving and purchasing, warehousing, handling and distribution costs as a component of costs of sales.

### **Acquisitions of Businesses**

We account for business combinations under the acquisition method of accounting (other than acquisitions of businesses under common control), which requires us to recognize separately from

goodwill the assets acquired and the liabilities assumed at their acquisition date fair values. While we use our best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, our estimates are inherently uncertain and subject to refinement.

Accounting for business combinations requires us to make significant estimates and assumptions, especially at the acquisition date including our estimates for intangible assets, contractual obligations assumed, pre-acquisition contingencies, and contingent consideration, where applicable. In valuing our acquisitions we estimate fair values based on industry data and trends and by reference to relevant market rates and transactions, and discounted cash flow valuation methods, among other factors. The discount rates used were commensurate with the inherent risks associated with each type of asset and the level and timing of cash flows appropriately reflect market participant assumptions. The primary items that generate goodwill include the value of the synergies between the acquired company and our existing businesses and the value of the acquired assembled workforce, neither of which qualifies for recognition as an intangible asset.

### **Financial Instruments**

The Company routinely enters into fixed price natural gas agreements which require us to purchase a portion of our natural gas each month at fixed prices. These fixed price agreements qualify for the “normal purchases” scope exception under derivative and hedging standards, therefore the natural gas purchases under these contracts were expensed as incurred and included within cost of sales. As of March 31, 2017, future annual minimum purchases remaining under the agreement are \$1,110.

The Company’s financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The carrying amounts of these financial assets and liabilities approximate fair value due to the short maturities of these instruments. The fair value of the Company’s revolving loans approximate the carrying value due to credit risk or current market rates, which approximate the effective interest rates on those instruments. The fair value of the Company’s Term Loan is estimated by discounting the future cash flow using the Company’s current borrowing rates for similar types and maturities of debt.

### **New Accounting Pronouncements**

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (“ASU 2014-09), Revenue from Contracts with Customers, which supersedes most of the current revenue recognition requirements. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers.

On July 9, 2015, the FASB board voted to defer the effective date to annual reporting periods beginning after December 15, 2018 and interim periods within annual periods beginning after December 15, 2019 (early adoption is permitted no earlier than the original effective date). The guidance permits the use of either a retrospective or cumulative effect transition method. In addition, the FASB issued other amendments during 2016 to FASB ASC Topic 606 that include implementation guidance to principal versus agent considerations, guidance to identifying performance obligations and licensing guidance and other narrow scope improvements. The Company is currently assessing the impact that adopting this new accounting guidance will have on the Company’s consolidated financial statements. We will adopt these new standards on January 1, 2018 using the modified retrospective application method.

In July 2015, the FASB issued ASU No. 2015-11, “Simplifying the Measurement of Inventory.” This update provides that an entity should measure inventory with the scope of the update at the lower of cost or net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The

amendments in this update are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. The adoption of this guidance will have an immaterial effect on our consolidated financial position, results of operations, comprehensive income, cash flows and disclosures.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. This new standard provides guidance on how entities measure certain equity investments and present changes in the fair value. This standard requires that entities measure certain equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income. ASU 2016-01 is effective for fiscal years beginning after December 31, 2017. The Company is currently evaluating the provisions of this guidance and assessing its impact on the Company's financial statements and disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires lessees to recognize a right of use asset and related lease liability for those leases classified as operating leases at the commencement date and have lease terms of more than 12 months. This topic retains the distinction between finance leases and operating leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those years, and must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is currently evaluating the provisions of this guidance and assessing its impact on the Company's financial statements and disclosures.

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation-Improvements to Employee Share-Based Payment Accounting (Topic 718), which involves several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Under the new standard, income tax benefits and deficiencies are to be recognized as income tax expense or benefit in the income statement and the tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity should also recognize excess tax benefits regardless of whether the benefit reduces taxes payable in the current period. Excess tax benefits should be classified along with other income tax cash flows as an operating activity. In regards to forfeitures, the entity may make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. The Company will be early adopt this ASU for fiscal years beginning after December 15, 2016 including interim periods. The adoption of this guidance did not have a material impact on our consolidated financial position, results of operations, comprehensive income, cash flows and disclosures.

In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments, which amends FASB ASC Topic 230, Statement of Cash Flows. This ASU seeks to reduce the diversity currently in practice by providing guidance on the presentation of eight specific cash flow issues in the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. We currently evaluating the impact of this guidance on our consolidated statement of cash flows.

In October 2016, the FASB issued ASU No. 2016-16, Intra-Entity Transfers of Assets Other Than Inventory, which amends FASB ASC Topic 740, Income Taxes. This ASU requires the recognition of income tax consequences of an intraentity transfer of an asset other than inventory when the transfer occurs. Current U.S. GAAP prohibits the recognition of current and deferred incomes taxes for an intra-entity asset transfer until the asset has been sold to an outside party. This ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial position, results of operations, comprehensive income, cash flows and disclosures.

In November 2016, the FASB issued ASU No. 2016-18, Restricted Cash, which amends FASB ASC Topic 230, Statement of Cash Flows. This ASU requires that the statement of cash flows explain the change during the period total cash, cash equivalents, and amounts generally described as

restricted cash or restricted cash equivalents. This ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial position, results of operations, comprehensive income, cash flows and disclosures.

In March 2017, the FASB issued ASU No. 2017-07, Retirement Benefits, which amends FASB ASC Topic 715, Compensation - Retirement Benefits. This ASU requires entities to present the service cost component of net periodic benefit cost in the same line item or items in the financial statements as other compensation costs arising from services rendered by the pertinent employees during the period. This ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial position, results of operations, comprehensive income, cash flows and disclosures.

## 2. Cash and cash equivalents

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Cash and cash equivalents	\$15,106	\$39,129
Restricted cash	<u>1,758</u>	<u>2,063</u>
	<u>\$16,864</u>	<u>\$41,192</u>

As of March 31, 2017 and December 31, 2016, cash held in foreign banks was \$13,425 and \$27,224, respectively.

As of March 31, 2017 and December 31, 2016, letters of credit in the amount of \$1,758 and \$2,063, respectively, were outstanding under facilities with a commercial bank, and were cash collateralized in a restricted account.

## 3. Inventory

Inventory consisted of:

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Raw materials	\$15,074	\$9,777
Work in process	36,990	34,249
Finished products	<u>33,138</u>	<u>28,253</u>
	<u>\$85,202</u>	<u>\$72,279</u>

## 4. Debt Obligations

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Short-term debt:		
Bank term loan	\$2,750	\$2,750
Restructured term loan	1,806	-
Total short-term debt	<u>4,556</u>	<u>2,750</u>
Long-term debt:		
Bank term loan, net of discount	260,942	261,578
Restructured term loan	6,090	-
Other	340	327
Total long-term debt	<u>267,372</u>	<u>261,905</u>
Total debt	<u>\$271,928</u>	<u>\$264,655</u>

#### Revolving Credit Facility

On January 30, 2014, the Company entered into an Amendment Agreement to the \$25,000 Revolving Credit Facility, together with an amended Loan Agreement, with Icahn Enterprises Holdings L.P. Drawings under the amended Revolving Credit Facility bear interest at daily three month LIBOR plus 2.0%. The amended Revolving Credit Facility also provides for an unused line fee of 0.375% per annum.

On March 1, 2016, the Company entered into the Tenth Amendment to the Loan and Security Agreement with Icahn Enterprises L.P., extending the maturity date of the Revolving Credit Facility from January 30, 2017 to January 30, 2020. The amendment included a fee of \$125 for the extension.

Indebtedness under the amended Revolving Credit Facility is secured by liens on substantially all of the Company's domestic and Mexican assets, with liens on (i) accounts, inventory, lockboxes, deposit accounts and investment property (the "ABL Priority Collateral") to be contractually senior to the liens securing the Term Loan (as hereafter defined) pursuant to an intercreditor agreement, (ii) real property, fixtures and improvements thereon, equipment and proceeds thereof (the "Fixed Asset Priority Collateral"), to be contractually subordinate to the liens securing the Term Loan pursuant to such intercreditor agreement, and (iii) all other assets, to be contractually pari passu with the liens securing the Term Loan pursuant to such intercreditor agreement. Our future direct or indirect material domestic subsidiaries are required to guarantee the obligations under the amended Revolving Credit Agreement, and to provide security by liens on their assets as described above.

The amended Revolving Credit Facility contains various covenants which restrict the Company's ability to, among other things, incur indebtedness, create liens on our assets, make investments, enter into merger, consolidation or acquisition transactions, dispose of assets (other than in the ordinary course of business), make certain restricted payments, enter into sale and leaseback transactions and transactions with affiliates, in each case subject to permitted exceptions. The amended Revolving Credit Facility also requires that we comply with certain financial covenants, including meeting a minimum EBITDA requirement and limitations on capital expenditures, in the event our usage of the Revolving Credit Facility exceeds 90% of the facility amount. The Company is in compliance with the Revolving Credit Facility covenants as of March 31, 2017. The amended Revolving Credit Facility had no borrowings as of March 31, 2017 and December 31, 2016.

In its foreign operations, the Company has unsecured lines of credit with various banks providing approximately \$8,000 of availability. There were no borrowings under the lines of credit at March 31, 2017.

#### Term Loan Facility

On January 30, 2014, the Company entered into a Credit Agreement with UBS AG, Stamford Branch ("UBS"), as Administrative Agent and Collateral Agent, and the Lenders parties thereto, providing for a \$275,000 senior secured covenant lite term loan facility ("Term Loan"). The Term Loan bears interest at a LIBOR Rate plus 3.25% (with the LIBOR Rate carrying a 1.00% floor or at a Base Rate equal to the sum of (1) the greatest of (a) the Prime Rate, (b) the Federal Funds Effective Rate plus 0.50%, (c)



one-month LIBOR plus 1.0%, or (d) 2.0%, plus (2) 2.25%). As of March 31, 2017, the interest rate was 4.40% on the Term Loan. The Term Loan has a 1% per annum amortization with a maturity date of January 30, 2021. The Term Loan is subject to certain additional mandatory prepayments upon asset sales, incurrence of indebtedness not otherwise permitted, and based upon a percentage of excess cash flow. Prepayments on the Term Loan may be made at any time, subject to a prepayment premium of 1% for certain prepayments during the first six months of the term.

Indebtedness under the Term Loan is secured by liens on substantially all of the Company's domestic and Mexican assets, with liens on (i) the Fixed Asset Priority Collateral, to be contractually senior to the liens securing the Revolving Credit Facility pursuant to the intercreditor agreement, (ii) the ABL Priority Collateral, to be contractually subordinate to the liens securing the Revolving Credit Facility pursuant to the intercreditor agreement, and (iii) all other assets, to be contractually pari passu with the liens securing the Revolving Credit Facility pursuant to the intercreditor agreement. Our future direct or indirect material domestic subsidiaries are required to guarantee the obligations under the Term Loan, and to provide security by liens on their assets as described above.

#### Restructured Term Loan

On December 30, 2016, the Company entered into a Share and Asset Purchase Agreement ("SAPA") to purchase all of the shares in CT Casings Beteiligungs GmbH ("Walsroder") and certain assets of Poly-clip Systems LLC ( see Footnote 17). As part of the consideration for the purchase, a former Seller shareholder loan was restructured and remained outstanding at the January 10, 2017 closing in the original amount of EUR 9,800 ("Restructured Term Loan") or \$10,330. After reductions for post-closing adjustments, the balance on the Restructured Term Loan was EUR 8,111 or \$8,550. The Restructured Term Loan is due for repayment as follows: EUR 1,688 is due on January 10, 2018; and the balance of EUR 6,423 is due on January 10, 2020. The Restructured Term Loan bears no interest, and was recorded for a book value of EUR 7,320 using an imputed interest rate of 4%.

#### Debt Maturity

The aggregate maturities of debt <sup>(1)</sup> for each of the next five years are:

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>Thereafter</u>
Term Loan Facility	\$ 2,062	\$ 2,750	\$ 2,750	\$ 2,750	\$ 255,750	\$ -
Restructured Term Loan	-	1,806	-	6,865	-	-
Other	-	-	-	-	-	860
	<u>\$ 2,062</u>	<u>\$ 4,556</u>	<u>\$ 2,750</u>	<u>\$ 9,615</u>	<u>\$ 255,750</u>	<u>\$ 860</u>

(1) The aggregate maturities of debt represent amounts to be paid at maturity and not the current carrying value of the debt.

(2) The amounts are for the remainder of the calendar year.

## **5. Capital Lease Obligations**

The Company has entered into capital lease obligations to acquire certain equipment and building improvements for its manufacturing facilities. The equipment leases have a term of 3 to 5 years and the building improvement lease has a term of 5 years. The Company has determined that automobiles leased by the Company are capital leases with an average term of 4 years. The depreciation of capital leases is included in depreciation expense.

The following is an analysis of leased property under capital leases by major classes as of March 31, 2017 and December 31, 2016.

	March 31, 2017	December 31, 2016
Building and improvements	\$453	\$453
Machinery and equipment	3,621	2,169
Less: Accumulated depreciation	<u>(2,450)</u>	<u>(2,454)</u>
	<u>\$1,624</u>	<u>\$168</u>

The following is a schedule by years of minimum future lease payments as of March 31, 2017.

Year ending December 31,

2017	\$381
2018	489
2019	447
2020	438
2021	-
Thereafter	<u>-</u>
Total minimum payments required	1,755
Less amount representing interest	<u>(123)</u>
Present value of net minimum lease payments	<u>\$1,632</u>

## 6. Accrued Liabilities

Accrued liabilities were comprised of:

	March 31, 2017	December 31, 2016
Compensation and employee benefits	\$20,423	\$14,153
Taxes payable	16,090	14,177
Accrued volume and sales rebates	1,365	1,305
Accrued interest payable	9	41
Accrued commissions	2,261	1,122
Restructuring reserve	2,142	3,210
Other	4,860	4,788
	<u>\$47,150</u>	<u>\$38,796</u>

## 7. Goodwill and Intangible Assets, net

The Company currently has \$2,836 of goodwill with no accumulated impairment.

Intangible assets, net consists of the following:

	March 31, 2017		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Definite live intangible assets:			
Customer relationships	\$18,752	(\$231)	\$18,521
Technologies	2,245	(45)	2,200
Patents/Trademarks	8,775	(4,749)	4,025
In-place leases	194	(3)	191
	<u>\$29,966</u>	<u>(\$5,029)</u>	<u>\$24,937</u>

	December 31, 2016		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Definite live intangible assets:			
Customer relationships	\$ -	\$ -	\$ -
Technologies	42	-	42
Patents/Trademarks	4,823	(4,662)	161
In-place leases	-	-	-
	<u>\$4,865</u>	<u>(\$4,662)</u>	<u>\$203</u>

Amortization expense associated with definite-lived intangible assets was \$366 and \$5 for the three months ended March 31, 2017 and 2016, respectively. We utilize the straight-line method of amortization, recognized over the estimated useful lives of the assets.

Acquisition during the three months ended March 31, 2017 allocated \$2,488 to goodwill and \$24,742 to definite-lived intangible assets amortized over a weighted average of 18 years.

## 8. Income Taxes

The Company's continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company recorded adjustments for interest and potential penalties related to these unrecognized tax benefits, and in total, as of March 31, 2017 and December 31, 2016, the Company has recorded a liability for interest and potential penalties of \$3,567 and \$972, respectively.

Approximately \$6,969 of the total unrecognized tax benefits represents the amount that, if recognized, would affect the effective income tax rate in future periods. The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of multiple state and foreign jurisdictions. The Company has been audited by the IRS through 2013 which resulted in no additional tax liability. The Company will continue to utilize net operating loss carryforwards from periods prior to 2010. Substantially all material state and local and foreign income tax matters have been concluded for years through 2011. U.S. federal income tax return for 2014 and 2015 is open for examination. Based on the expiration of the statute of limitations for certain jurisdictions, it is reasonably possible that the unrecognized tax benefits will decrease in the next twelve months by approximately \$489.

## 9. Pension and Postretirement

The Company has contributed \$86 to pension benefits in the U.S. during the three months ended March 31, 2017 and expects to contribute an additional \$455 during the remainder of the year.

	U.S. Pension Benefits		Non U.S. Pension Benefits	
	3 Months Ended March 31 2017	3 Months Ended March 31 2016	3 Months Ended March 31 2017	3 Months Ended March 31 2016
Component of net period benefit cost				
Service cost	\$ -	\$ -	\$135	\$103
Interest cost	1,666	1,773	98	51
Expected return on plan assets	(1,927)	(2,036)	(17)	(31)
Amortization of prior service cost	-	-	-	-
Amortization of actuarial loss	1,151	1,092	56	42
	<u>\$ 890</u>	<u>\$ 829</u>	<u>\$272</u>	<u>\$165</u>

## 10. Contingencies

The Company from time to time is involved in various other legal proceedings, none of which are expected to have a material adverse effect upon results of operations, cash flows or financial condition.

## 11. Stock-Based Compensation (Dollars in Thousands, Except Per Share Amounts)

Stock-based compensation cost is measured at the grant date based on fair value of the award and is recognized as an expense on a straight-line basis over the requisite service period, which is the vesting period. Included in net income is non-cash compensation expense of \$56 and \$0 for both the three months ended March 31, 2017 and March 31, 2016.

The fair values of the options granted during 2016 and 2013 were estimated on the date of grant using the binomial option pricing model. The assumptions used and the estimated fair values are as follows:

	2016	2013
Expected term	10 years	10 years
Expected stock volatility	4.38%	17.33%
Risk-free interest rate	2.45%	1.75%
Expected forfeiture rate	0.00%	0.00%
Fair value per option	\$1.12	\$0.51

In December 2016, the Company granted non-qualified stock options to its current chief executive officer for the purchase of 600,000 shares of its common stock under an employment agreement. Options were granted at the fair market value at date of grant and will vest one third each on December 31, 2017, December 31, 2018 and December 31, 2019. The options for the chief executive officer expire on December 31, 2026.

In April 2013, the Company granted non-qualified stock options to its current chief administrative officer for the purchase of 325,000 shares of its common stock under an employment agreement. Options were granted at the fair market value at date of grant and are fully vested. The options for the chief administrative officer expire on April 16, 2023.

The Company's outstanding options were:

	Shares Under Option	Weighted Average Exercise Price
Outstanding, December 31, 2016	925,000	\$4.45
Granted	-	-
Exercised	-	-
Forfeited	-	-
Outstanding, March 31, 2017	<u>925,000</u>	<u>\$4.45</u>

Vested and exercisable options as of March 31, 2017 were 325,000 with a weighted average share price of \$8.00.

## 12. Fair Value Measures

U.S. GAAP requires enhanced disclosures about investments and non-recurring non-financial assets and non-financial liabilities that are measured and reported at fair value and has established a hierarchical disclosure framework that prioritizes and ranks the level of market price observability used in measuring investments or non-financial assets and liabilities at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments and non-financial assets and/or liabilities measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 - Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments included in Level 1 include listed equities and listed derivatives. We do not adjust the quoted price for these investments, even in situations where we hold a large position.

Level 2 - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments that are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives. The inputs and assumptions of our Level 2 investments are derived from market observable sources including reported trades, broker/dealer quotes and other pertinent data.

Level 3 - Pricing inputs are unobservable for the investment and non-financial asset and/or liability and include situations where there is little, if any, market activity for the investment or non-financial asset and/or liability. The inputs into the determination of fair value require significant management judgment or estimation. Fair value is determined using comparable market transactions and other valuation methodologies, adjusted as appropriate for liquidity, credit, market and/or other risk factors.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and consideration of factors specific to the investment. Significant transfers, if any, between the levels within the fair value hierarchy are recognized at the beginning of the reporting period when changes in circumstances require such transfers.

## 13. Related-Party Transactions

As of March 31, 2017, Icahn Enterprises L.P. owned approximately 74.6% of our outstanding common stock. There were no shares of common stock purchased during the period ended March 31, 2017.

Insight Portfolio Group LLC (“Insight Portfolio Group”) is an entity formed and controlled by Mr. Icahn in order to maximize the potential buying power of a group of entities with which Mr. Icahn has a relationship in negotiating with a wide range of suppliers of goods, services and tangible and intangible property at negotiated rates.

On January 1, 2013, Viskase acquired a minority equity interest in Insight Portfolio Group and agreed to pay a portion of Insight Portfolio Group’s operating expenses, which is approximately \$92 and \$87 for the three months ended March 31, 2017 and March 31, 2016. A number of other entities with which Mr. Icahn has a relationship also acquired equity interests in Insight Portfolio Group and also agreed to pay certain of Insight Portfolio Group’s operating expenses in 2017.

During the periods ended March 31, 2017 and March 31, 2016, the Company purchased \$4 and \$11, respectively, in telecommunication services in the ordinary course of business from XO Communications, Inc., an affiliate of Icahn Enterprises L.P.

Icahn Enterprises L.P. was the lender on the Company’s Revolving Credit Facility as of March 31, 2017. The Company paid Icahn Enterprises L.P. service, commitment fees, interest and amendment fees of \$43 and \$149 during the periods ended March 31, 2017 and March 31, 2016.

#### 14. Business Segment Information and Geographic Area Information

The Company primarily manufactures and sells cellulosic food casings. The Company’s operations are primarily in North America, South America, Europe and Asia. Intercompany sales and charges (including royalties) have been reflected as appropriate in the following information. Certain items are maintained at the Company’s corporate headquarters and are not allocated geographically. They include most of the Company’s debt and related interest expense and income tax benefits.

Reporting Segment Information:

	<u>3 Months Ended March 31, 2017</u>	<u>3 Months Ended March 31, 2016</u>
Net sales by region		
North America	\$41,502	\$43,733
South America	12,501	10,119
Europe	41,864	28,906
Asia	7,746	7,999
Other and eliminations	<u>(13,257)</u>	<u>(13,261)</u>
	<u>\$90,356</u>	<u>\$77,496</u>
Operating income		
North America	\$936	\$1,519
South America	1,758	866
Europe	1,614	(898)
Asia	1,446	925
	<u>\$5,754</u>	<u>\$2,412</u>
	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Identifiable assets		
North America	\$188,406	\$204,660
South America	68,070	65,786
Europe	177,231	111,481
Asia	39,085	41,511
	<u>\$472,792</u>	<u>\$423,438</u>

	3 Months Ended March 31, 2017	3 Months Ended March 31, 2016
Net Sales by market		
Emerging	\$43,822	\$38,566
Mature	46,534	38,930
	<u>\$90,356</u>	<u>\$77,496</u>
Net Sales from operations by country		
United States	\$26,741	\$23,953
Brazil	7,582	5,718
Italy	5,080	5,453
Philippines	3,854	5,055
Germany	6,999	2,447
France	2,941	3,125
Poland	2,340	1,849
Other international	34,819	29,896
	<u>\$90,356</u>	<u>\$77,496</u>

#### 15. Changes in Accumulated Other Comprehensive Loss

	Accrued Employee Benefits	Translation Adjustments	Total
Balance at December 31, 2016	(\$51,739)	(\$33,836)	(\$85,575)
Other comprehensive income before reclassifications	24	1,375	1,399
Reclassifications from accumulated other comprehensive loss to earnings	1,182	-	1,182
Balance at March 31, 2017	<u>(\$50,533)</u>	<u>(\$32,461)</u>	<u>(\$82,994)</u>

	Amounts Reclassified from Accumulated Other Comprehensive Loss	Affected Line Items in the Consolidation Statement of Operations and Comprehensive Loss
Accrued Employee Benefits		
Amortization of net actuarial loss	\$1,182	Selling, general and administrative
	<u>\$1,182</u>	

#### 16. Restructuring Charges

During the first quarter of 2016, the Company recognized a restructuring expense of \$1,858. The costs relate to a Board-approved plan of restructuring of its French subsidiary operations to safeguard the Company's competitive environment in the European market. The Company will exit its French plastics, printing, and MP coating operations, along with a targeted downsizing of its production and overhead personnel.

The Company believes this will position us to be in an improved competitive position for the future in the European market.

The Company recognized a cost of \$543 related to the relocation of its North American finishing operations. The plan involved the involuntary termination of approximately 53 employees and will be completed in the second half of 2016. The restructuring expense includes an asset impairment of \$174.

The Company recognized a cost of \$2,286 related to the voluntary employee reduction of its North American headquarters during December 2016. The plan involved the voluntary termination of approximately 20 employees and will be completed throughout 2017.

The following table provides details of our restructuring provisions.

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Beginning balance	\$3,210	\$1,713
Provision	-	4,809
Payments/Impairments	<u>(1,068)</u>	<u>(3,312)</u>
Ending balance	<u>\$2,142</u>	<u>\$3,210</u>

## 17. Acquisitions

### *CT Casings Beteiligungs GmbH*

On January 10, 2017, the Company, through its indirect subsidiary, Viskase GmbH, completed the purchase of all of the shares of CT Casings Beteiligungs GmbH (“Walsroder”), certain outstanding shareholder loans to Walsroder, and certain casing assets of Poly-clip System LLC, for a total of €33,611 or \$34,616 paid cash and debt, subject to certain post-closing adjustments. The share purchase of Walsroder included acquisition of substantially all of the assets, and assumption of substantially all of the liabilities, of Walsroder. The Company completed the purchase to further enhance its production capabilities and product offerings in plastic and fibrous casings. The purchase was recorded using the purchase method of accounting on a provisional basis, as the accounting is still not completed during the measurement period. The allocation of the purchase price to the tangible and intangible assets acquired and liabilities assumed in connection with the acquisition was based on estimated fair values supported by third-party valuations. The Company acquired goodwill with the acquisition due to the value of the synergies between the acquired company and our existing businesses and the value of the acquired assembled workforce, neither of which qualifies for recognition as an intangible asset. The following summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition for EUR 25,500 in cash and EUR 8,111 in restructured term loan (see Footnote 4).



January 1, 2017

Cash	\$3,475
Accounts receivable	10,428
Inventories	5,975
Other current assets	4,321
Property, plant and equipment	13,871
Other assets	6,794
Intangible assets	24,742
Goodwill	2,488
Accounts payable	(3,169)
Accrued liabilities	(4,827)
Short term capital lease	(426)
Long term capital lease	(1,161)
Accrued employee benefits	(13,285)
Long-term liabilities	(7,098)
Deferred tax liability	(7,512)
	<hr/>
Total purchase price	<u><u>\$34,616</u></u>

Transaction costs related to the acquisition amounted to \$728 and were recorded as an expense in the statement of operations.

#### **18. Subsequent Events**

Viskase evaluated its March 31, 2017 consolidated financial statements for subsequent events through May 15, 2017, the date the consolidated financial statements were available to be issued. There were no subsequent events requiring disclosure identified.