

VISKASE COMPANIES, INC.

Financial report for the fiscal quarter ended June 30, 2018

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 June 30, 2018 (unaudited) December 31,
2017

Consolidated Statements of Operations for the three months and six months
ended June 30, 2018 and June 30, 2017 (unaudited)

Consolidated Statements of Comprehensive Income for the three months and
six months June 30, 2018 and June 30, 2017 (unaudited)

Consolidated Statements of Stockholders' Equity for the six months ended
June 30, 2018 (unaudited) and the year ended December 31, 2017

Consolidated Statements of Cash Flows for the six months ended
June 30, 2018 and March 31, 2017 (unaudited)

2. Notes to Consolidated Financial Statements

3. Management's Discussion and Analysis of Financial Condition and Results of
Operations



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Grant Thornton LLP
Grant Thornton Tower
171 N. Clark Street, Suite 200
Chicago, IL 60601-3370

T +1 312 856 0200
F +1 312 565 4719
www.GrantThornton.com

**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 operations, comprehensive income, changes in stockholders' equity, and cash flows, as of June 30, 2018, and for the three-month and six-month periods ended June 30, 2018 and 2017, 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

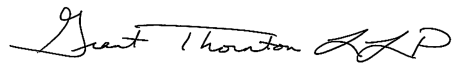
Our responsibility is to conduct our reviews in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries 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, 2017

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, 2017, and the related consolidated statements of operations, comprehensive loss, changes in stockholders' equity, and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated March 29, 2018. In our opinion, the accompanying condensed consolidated balance sheet of the Company as of December 31, 2017, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



Chicago, Illinois

August 6, 2018

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

| | June 30, 2018 | December 31, 2017 |
|---|---------------|-------------------|
| | (unaudited) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$46,085 | \$16,050 |
| Restricted cash | 1,160 | 1,544 |
| Receivables, net | 79,666 | 77,961 |
| Inventories | 99,312 | 91,589 |
| Other current assets | 37,585 | 39,444 |
| Total current assets | 263,808 | 226,588 |
| Property, plant and equipment | 355,766 | 349,809 |
| Less accumulated depreciation | (187,731) | (178,757) |
| Property, plant and equipment, net | 168,035 | 171,052 |
| Asset held for sale | - | 360 |
| Other assets, net | 18,548 | 18,606 |
| Intangible assets | 25,419 | 26,859 |
| Goodwill | 3,476 | 3,580 |
| Deferred income taxes | 33,543 | 35,091 |
| Total Assets | \$512,829 | \$482,136 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Short-term debt | \$2,750 | \$4,774 |
| Short-term portion of capital lease obligations | 521 | 481 |
| Accounts payable | 30,132 | 35,954 |
| Accrued liabilities | 32,121 | 38,047 |
| Total current liabilities | 65,524 | 79,256 |
| Long-term debt, net of current maturities | 265,638 | 269,915 |
| Capital lease obligations, net of current portion | 755 | 986 |
| Long-term liabilities | 9,793 | 10,138 |
| Accrued employee benefits | 76,933 | 78,415 |
| Deferred income taxes | 9,266 | 9,567 |
| Stockholders' equity: | | |
| Common stock, \$0.01 par value; 53,995,935 shares issued and 53,190,665 outstanding at June 30, 2018 and 37,329,269 shares issued and 36,523,999 outstanding at December 31, 2017 | 540 | 373 |
| Paid in capital | 82,731 | 32,786 |
| Retained earnings | 78,421 | 81,891 |
| Less 805,270 treasury shares, at cost | (298) | (298) |
| Accumulated other comprehensive loss | (76,188) | (80,749) |
| Total Viskase stockholders' equity | 85,206 | 34,003 |
| Deficit attributable to non-controlling interest | (286) | (144) |
| Total stockholders' equity | 84,920 | 33,859 |
| Total Liabilities and Stockholders' Equity | \$512,829 | \$482,136 |

See notes to consolidated financial statements.

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

| | 3 Months Ended June 30, 2018 | 3 Months Ended June 30, 2017 | 6 Months Ended June 30, 2018 | 6 Months Ended June 30, 2017 |
|---|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| NET SALES | \$104,083 | \$98,440 | \$201,079 | \$188,796 |
| Cost of sales | <u>79,087</u> | <u>74,365</u> | <u>156,266</u> | <u>142,255</u> |
| GROSS MARGIN | 24,996 | 24,075 | 44,813 | 46,541 |
| Selling, general and administrative | 14,418 | 14,808 | 29,283 | 30,264 |
| Amortization of intangibles | 425 | 396 | 846 | 762 |
| Restructing expense | <u>-</u> | <u>1,871</u> | <u>-</u> | <u>1,871</u> |
| OPERATING INCOME | 10,153 | 7,000 | 14,684 | 13,644 |
| Interest income | 142 | 25 | 170 | 38 |
| Interest expense | 4,075 | 3,328 | 7,588 | 6,544 |
| Other expense, net | <u>6,898</u> | <u>793</u> | <u>12,520</u> | <u>1,328</u> |
| (LOSS) INCOME BEFORE INCOME TAXES | (678) | 2,904 | (5,254) | 5,810 |
| Income tax (benefit) provision | <u>(22)</u> | <u>877</u> | <u>(1,642)</u> | <u>2,051</u> |
| NET (LOSS) INCOME | <u>(\$656)</u> | <u>\$2,027</u> | <u>(\$3,612)</u> | <u>\$3,759</u> |
| Less: net (loss) attributable to noncontrolling interests | <u>(67)</u> | <u>-</u> | <u>(142)</u> | <u>-</u> |
| Net (loss) income attributable to Viskase Companies, Inc | <u>(\$589)</u> | <u>\$2,027</u> | <u>(\$3,470)</u> | <u>\$3,759</u> |

See notes to consolidated financial statements.

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

| | 3 Months Ended June 30, 2018 | 3 Months Ended June 30, 2017 | 6 Months Ended June 30, 2018 | 6 Months Ended June 30, 2017 |
|---|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Net (loss) income | (\$656) | \$2,027 | (\$3,612) | \$3,759 |
| Other comprehensive income, net of tax | | | | |
| Pension liability adjustment | 380 | 1,210 | 8,343 | 2,410 |
| Foreign currency translation adjustment | (4,390) | 4,281 | (3,782) | 5,656 |
| Other comprehensive income, net of tax | (4,010) | 5,491 | 4,561 | 8,066 |
| Comprehensive income | <u>(\$4,666)</u> | <u>\$7,518</u> | <u>\$949</u> | <u>\$11,825</u> |
| Less: comprehensive (loss) attributable to noncontrolling | (67) | - | (142) | - |
| Net comprehensive income attributable to Viskase | <u>(\$4,599)</u> | <u>\$7,518</u> | <u>\$1,091</u> | <u>\$11,825</u> |

See notes to consolidated financial statements.

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

| | Common stock | Paid in capital | Treasury stock | Retained earnings | Accumulated other comprehensive loss | Total stockholders' equity | Non-controlling Interest | Total stockholders' equity |
|--|-----------------|--------------------|-------------------|----------------------|--|----------------------------------|-----------------------------|----------------------------------|
| Balance December 31, 2016 | \$373 | \$32,472 | (\$298) | \$85,832 | (\$88,652) | \$29,727 | \$ - | \$29,727 |
| Net loss | - | - | - | (4,097) | - | (4,097) | (144) | (4,241) |
| Foreign currency translation adjustment | - | - | - | - | 6,647 | 6,647 | - | 6,647 |
| Pension liability adjustment, net of tax | - | - | - | - | 1,256 | 1,256 | - | 1,256 |
| Cumulative-effect adjustment, net of tax adpoting ASU 2016-09 | - | - | - | 156 | - | 156 | - | 156 |
| Stock option exercise | - | 314 | - | - | - | 314 | - | 314 |
| Balance December 31, 2017 | \$373 | \$32,786 | (\$298) | \$81,891 | (\$80,749) | \$34,003 | (\$144) | \$33,859 |
| Net loss | - | - | - | (\$3,470) | - | (3,470) | (142) | (3,612) |
| Foreign currency translation adjustment | - | - | - | - | (3,782) | (3,782) | - | (3,782) |
| Pension liability adjustment, net of tax | - | - | - | - | 8,343 | 8,343 | - | 8,343 |
| Issuance of common stock | 167 | 49,833 | - | - | - | 50,000 | - | 50,000 |
| Stock option expense | - | 112 | - | - | - | 112 | - | 112 |
| Balance June 30, 2018 (unaudited) | \$540 | \$82,731 | (\$298) | \$78,421 | (\$76,188) | \$85,206 | \$ (286) | \$84,920 |

See notes to consolidated financial statements.

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

| | 6 Months Ended June 30, 2018 | 6 Months Ended June 30, 2017 |
|---|------------------------------------|------------------------------------|
| Cash flows from operating activities: | | |
| Net (loss) income | (\$3,612) | \$3,759 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation | 11,377 | 10,914 |
| Stock-based compensation | 112 | 112 |
| Amortization of intangibles | 846 | 762 |
| Amortization of deferred financing fees | 299 | 291 |
| Postretirement settlement charge | 7,613 | - |
| Non-cash interest | 132 | 213 |
| Loss (gain) on disposition of assets | 50 | 335 |
| Foreign currency transaction gain | - | (912) |
| Bad debt provision | 31 | 300 |
| Changes in operating assets and liabilities: | | |
| Receivables | (2,722) | (1,939) |
| Inventories | (8,961) | (7,350) |
| Other current assets | 1,547 | (2,735) |
| Other assets | 58 | (1,978) |
| Accounts payable | (5,250) | (1,490) |
| Accrued liabilities | (5,258) | 397 |
| Accrued employee benefits | (878) | 1,900 |
| Other | 2,274 | 2,862 |
| Total adjustments | 1,270 | 1,682 |
| Net cash (used in) provided by operating activities | (2,342) | 5,441 |
| Cash flows from investing activities: | | |
| Capital expenditures | (10,595) | (9,401) |
| Acquisition of businesses, net of cash acquired | - | (31,141) |
| Proceeds from disposition of assets | 14 | - |
| Net cash used in investing activities | (10,581) | (40,542) |
| Cash flows from financing activities: | | |
| Issuance of common stock | 50,000 | - |
| Deferred financing costs | (120) | (120) |
| Proceeds from revolving loan | - | 3,000 |
| Proceeds from restructured term loan | - | 7,716 |
| Repayment of capital lease | (263) | (259) |
| Repayment of short term debt | (6,399) | (1,375) |
| Net cash provided by financing activities | 43,218 | 8,962 |
| Effect of currency exchange rate changes on cash | (644) | 744 |
| Net increase (decrease) in cash, equivalents and restricted cash | 29,651 | (25,395) |
| Cash, equivalents and restricted cash at beginning of period | 17,594 | 41,192 |
| Cash, equivalents and restricted cash at end of period | \$47,245 | \$15,797 |
| Supplemental cash flow information: | | |
| Interest paid | \$7,076 | \$6,005 |
| Income taxes paid | \$1,066 | \$1,893 |

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 eleven 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.

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.

Change of Estimates in the Preparation of Financial Statements

During the first quarter of 2018, the Company has changed its estimate for amortization of unrecognized loss on its U.S. pension plan. The Company was amortizing the unrecognized loss based on average expected future service of participants. Since the plan is frozen, the Company has changed the amortization to be the average expected lifetime of all plan participants. The change in estimate has decreased our amortization of unrecognized loss from \$3,651 to \$1,036 for 2018.

Reclassifications

Certain prior period financial statement balances have been reclassified to conform to the current period presentation.

In connection with our adoption of Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2016-18, Restricted Cash, we decreased our net cash provided by financing activities for the six months ended June 30, 2017 by \$519. Cash, cash equivalents and restricted cash are now presented in total in the consolidated statement of cash flows.

In connection with our adoption of FASB issued ASU No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, the components of net periodic benefit cost other than the service cost component are included in the line item “other expense in the income statement. As a result, the Company has decreased our selling, general and administrative expense by \$890 and increased other expense by \$890 for the three months ended June 30, 2017 and \$1,780 for the six months ended June 30, 2017.

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. 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. 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 cost or net realizable value. Cost is determined by using the first-in, first-out ("FIFO") basis method.

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.

During 2017, the Company approved a restructuring plan in its European segment that included the marketing and sale of a certain fixed asset. The Company has approved a plan for sale and recorded the asset as Asset Held for Sale at year end. We have closed the sale of the asset in the second quarter of 2018.

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 lived 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 on at least an annual basis by applying a fair-value-based test. In evaluating the recoverability of the carrying value of goodwill, we must make assumptions

regarding the fair value of our reporting units, as defined under FASB ASC Topic 350. Goodwill impairment testing involves comparing the fair value of our reporting units to their carrying values. If the book value of the reporting unit exceeds its fair value, the goodwill of the reporting unit is considered to be impaired. The amount of impairment loss is equal to the excess of the book value of the goodwill over the fair value of goodwill. 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.

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 June 30, 2018 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 6.85% for 2018. The Company is using a long-term rate of return on French plan assets of 3.20% for 2018. 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 was using a discount rate of 3.86% for the first quarter of 2018 and then remeasured net periodic benefit cost with the settlement accounting on the plan and will use 4.15% for the remainder of 2018. The Company is using a weighted average discount rate of 1.74% on its non-U.S. pension plans for 2018.

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 2018 and 2017 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 June 30, 2018 future annual minimum purchases remaining under the agreement are \$2,131.

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. Management believes 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 March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarify the implementation guidance on principal versus agent considerations. 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 Company has adopted the provisions of ASU 2014-09 and ASU 2016-08 on January 1, 2018 using the modified retrospective application method.

Revenues are recognized at the time products are shipped to the customer (i.e. point in time), under F.O.B shipping point, customer pick up or F.O.B port terms. As such, the Company expects the adoptions of ASU 2014-09 and ASU 2016-08 will have no significant impact to the Company's financial position or results of operations and the disclosures required by these new standards are contained in Footnote 2.

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 Company adopted this guidance on January 1, 2018 with no impact on the Company's financial statements 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 adopted this guidance on January 1, 2018 with no 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 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 adopted this standard on January 1, 2018 using the retrospective application method. The adoption of this standard did not have an impact on our condensed consolidated statements 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 have adopted this guidance on January 1, 2018, with no impact 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. We have adopted this guidance on January 1, 2018.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles-Goodwill and Other" (Topic 350). This ASU modifies the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. An entity no longer will determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. Because the update will eliminate Step 2 from the goodwill impairment test, it should reduce the cost and complexity of evaluating goodwill for impairment. The Company has early adopted this ASU for interim or annual goodwill impairment tests performed on testing dates after January 1, 2018.

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. The Company has adopted the provisions of ASU 2017-07 on January 1, 2018 and has reclassified items other than service cost component to other income/expense in the statement of operations.

In August 2017, the FASB issued ASU 2017-12, Targeting Improvements to Accounting for Hedging Activities, which amends FASB ASC Topic 815, Derivatives and Hedging. This ASU includes amendments to existing guidance to better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. This ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which amends FASB ASC Topic 220, Income Statement - Reporting Comprehensive Income. This ASU allows a reclassification out of accumulated other comprehensive loss within equity for standard tax effects resulting from the Tax Cuts and Jobs Act and consequently, eliminates the stranded tax effects resulting from the Tax Cuts and Jobs Act. This ASU is effective for fiscal years beginning after December 15, 2018, and interim

periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

2. Revenue from Contracts with Customers

The Company's revenues are comprised of product sales. All revenue is recognized when the Company satisfies its performance obligation(s) under the contract (either implicit or explicit) by transferring the promised product to its customer when its customer obtains control of the product. A performance obligation is a promise in a contract to transfer a distinct product or service to a customer. A contract's transaction price is allocated to each distinct performance obligation. Substantially all of the Company's contracts have a single performance obligation, as the promise to transfer products is not separately identifiable from other promises in the contract and, therefore, not distinct.

Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring products or providing services. The nature of the Company's contracts gives rise to several types of variable consideration. As such, revenue is recorded net of estimated discounts, rebates and allowances. These estimates are based on historical experience, anticipated performance and the Company's best judgment at the time. Because of the Company's certainty in estimating these amounts, they are included in the transaction price of its contracts.

Sales, value add, and other taxes collected from customers and remitted to governmental authorities are accounted for on a net (excluded from revenues) basis.

Substantially all of the Company's revenue is from products transferred to customers at a point in time. The Company recognizes revenue at the point in time in which the customer obtains control of the product, which is generally when product title passes to the customer upon shipment. In certain cases, title does not transfer and revenue is not recognized until the customer has received the products at its physical location or at port.

The Company does not have significant contract assets or liabilities as of June 30, 2018 or December 31, 2017.

As of January 1, 2018, we increased accounts receivable by \$238, other current assets by \$28 and accrued liabilities by \$266 for product returns to reflect the value of inventory to be returned and to record a liability. Previously, product returns were recorded as a reduction to accounts receivable.

| | <u>December 31, 2017</u> | <u>Impact of Modified Retrospective Adoption of ASC 606</u> | <u>January 1, 2018 Post ASC 606 Adoption</u> |
|----------------------|--------------------------|---|--|
| Receivables, net | \$77,961 | \$238 | \$78,199 |
| Other current assets | 91,589 | 28 | \$91,617 |
| Accrued liabilities | 38,047 | 266 | \$38,313 |

At June 30, 2018, the amounts recorded for the adoption of ASC 606 are to increase accounts receivable by \$274, other current assets by \$28 and accrued liabilities by \$310 for product returns to reflect the value of inventory to be returned and to record a liability.

Neither product line nor regional location of sale significantly impacts nature, amount, timing or uncertainty of revenue and cash flows.

3. Cash and cash equivalents

| | <u>June 30, 2018</u> | <u>December 31, 2017</u> |
|---------------------------|----------------------|--------------------------|
| Cash and cash equivalents | \$46,085 | \$16,050 |
| Restricted cash | 1,160 | 1,544 |
| | <u>\$47,245</u> | <u>\$17,594</u> |

As of June 30, 2018 and December 31, 2017, cash held in foreign banks was \$11,509 and \$13,590, respectively.

As of June 30, 2018 and December 31, 2017, letters of credit in the amount of \$1,155 and \$1,544, respectively, were outstanding under facilities with a commercial bank, and were cash collateralized in a restricted account.

4. Inventory

Inventory consisted of:

| | <u>June 30, 2018</u> | <u>December 31, 2017</u> |
|-------------------|----------------------|--------------------------|
| Raw materials | \$20,608 | \$18,224 |
| Work in process | 43,910 | 40,194 |
| Finished products | 34,794 | 33,171 |
| | <u>\$99,312</u> | <u>\$91,589</u> |

5. Debt Obligations

| | <u>June 30, 2018</u> | <u>December 31, 2017</u> |
|---------------------------------|----------------------|--------------------------|
| Short-term debt: | | |
| Bank term loan | \$2,750 | \$2,750 |
| Restructured term loan | - | 2,024 |
| Total short-term debt | <u>2,750</u> | <u>4,774</u> |
| Long-term debt: | | |
| Bank term loan, net of discount | 258,257 | 259,403 |
| Revolving credit facility | - | 3,000 |
| Restructured term loan | 6,964 | 7,103 |
| Other | 417 | 409 |
| Total long-term debt | <u>265,638</u> | <u>269,915</u> |
| Total debt | <u>\$268,388</u> | <u>\$274,689</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.

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 June 30, 2018. The amended Revolving Credit Facility had no borrowings as of June 30, 2018 and \$3,000 at December 31, 2017.

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 June 30, 2018.

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 June 30, 2018, the interest rate was 5.58% on the Term Loan. The Term Loan has a contractual obligation to repay 1% annually that has been classified as short term debt. The maturity date on the Term Loan is 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. 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 8,111 or \$9,257. The Restructured Term Loan is due for repayment as follows: EUR 1,688 was paid 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 ⁽¹⁾ for each of the next five years are:

| | <u>2018 ⁽²⁾</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>Thereafter</u> |
|---------------------------|----------------------------|-----------------|------------------|-------------------|-------------|-------------------|
| Term Loan Facility | \$ 1,375 | \$ 2,750 | \$ 2,750 | \$ 255,750 | \$ - | \$ - |
| Revolving Credit Facility | - | - | - | - | - | - |
| Restructured Term Loan | - | - | 7,488 | - | - | - |
| Other | - | - | - | - | - | 938 |
| | <u>\$ 1,375</u> | <u>\$ 2,750</u> | <u>\$ 10,238</u> | <u>\$ 255,750</u> | <u>\$ -</u> | <u>\$ 938</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.

6. 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 June 30, 2018 and December 31, 2017.

| | <u>June 30, 2018</u> | <u>December 31, 2017</u> |
|--------------------------------|--------------------------|------------------------------|
| Building and improvements | \$453 | \$453 |
| Machinery and equipment | 3,638 | 3,665 |
| Less: Accumulated depreciation | <u>(2,815)</u> | <u>(2,651)</u> |
| | <u>\$1,276</u> | <u>\$1,467</u> |

The following is a schedule by years of minimum future lease payments as of June 30, 2018.

Year ending December 31,

| | |
|---|----------------|
| 2018 | \$271 |
| 2019 | 524 |
| 2020 | 513 |
| 2021 | 37 |
| 2022 | 10 |
| Thereafter | - |
| Total minimum payments required | <u>1,355</u> |
| Less amount representing interest | <u>(79)</u> |
| Present value of net minimum lease payments | <u>\$1,276</u> |

7. Accrued Liabilities

Accrued liabilities were comprised of:

| | June 30, 2018 | December 31, 2017 |
|------------------------------------|-----------------|-------------------|
| Compensation and employee benefits | \$13,225 | \$13,210 |
| Taxes payable | 8,255 | 13,606 |
| Accrued customer liabilities | 3,727 | 4,598 |
| Accrued interest payable | 68 | 89 |
| Restructuring reserve | 228 | 200 |
| Other | 6,618 | 6,344 |
| | <u>\$32,121</u> | <u>\$38,047</u> |

8. Goodwill and Intangible Assets, net

The Company currently has \$3,476 of goodwill with no impairment.

Intangible assets, net consists of the following:

| | June 30, 2018 | | |
|----------------------------------|----------------------------|-----------------------------|-----------------------|
| | Gross Carrying Value | Accumulated Amortization | Net Carrying Value |
| Definite live intangible assets: | | | |
| Customer relationships | \$20,449 | (\$1,532) | \$18,917 |
| Technologies | 2,445 | (291) | 2,154 |
| Patents/Trademarks | 9,405 | (5,247) | 4,158 |
| In-place leases | 212 | (22) | 190 |
| | <u>\$32,511</u> | <u>(\$7,092)</u> | <u>\$25,419</u> |

| | December 31, 2017 | | |
|----------------------------------|----------------------------|-----------------------------|-----------------------|
| | Gross Carrying Value | Accumulated Amortization | Net Carrying Value |
| Definite live intangible assets: | | | |
| Customer relationships | \$21,036 | (\$1,052) | \$19,984 |
| Technologies | 2,517 | (199) | 2,318 |
| Patents/Trademarks | 9,413 | (5,059) | 4,354 |
| In-place leases | 219 | (16) | 203 |
| | <u>\$33,185</u> | <u>(\$6,326)</u> | <u>\$26,859</u> |

Amortization expense associated with definite-lived intangible assets was \$846 and \$762 for the six months ended June 30, 2018 and 2017, respectively. We utilize the straight-line method of amortization, recognized over the estimated useful lives of the assets.

9. Income Taxes

The Company's continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. During the years ended December 31, 2017 and 2016, the Company recorded adjustments for interest of \$154 and \$311, respectively, and for penalties of \$(212) and \$123, respectively related to these unrecognized tax benefits. In total, as of December 31, 2017 and

2016, the Company has recorded a liability of interest of \$674 and \$520, respectively, and \$242 and \$454, respectively, for potential penalties.

Approximately \$11,855 of the total gross 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 substantially concluded all U.S. federal income tax matters for years through 2013. Substantially all material state and local and foreign income tax matters have been concluded for years through 2011. 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 \$100.

10. Retirement Plans

On March 15, 2018, the Company purchased an annuity contract for a preliminary amount of \$29,258 for approximately 1,043 participants in the U.S. defined benefit pension plan. The purchase of this annuity contract will lower our projected benefit obligation by \$27,850. The Company recognized a settlement charge of \$7,613 in Other expense related to the annuity purchase.

The Company has contributed \$553 to pension benefits in the U.S. during the six months ended June 30, 2018 and expects to contribute an additional \$2,529 during the remainder of the year.

The Company and its subsidiaries have defined contribution and defined benefit plans varying by country and subsidiary.

| | U.S. Pension Benefits | | Non U.S. Pension Benefits | |
|--------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | 3 Months Ended June 30 2018 | 3 Months Ended June 30 2017 | 3 Months Ended June 30 2018 | 3 Months Ended June 30 2017 |
| Component of net period benefit cost | | | | |
| Service cost | \$ - | \$ - | \$124 | \$140 |
| Interest cost | 1,276 | 1,666 | 115 | 101 |
| Expected return on plan assets | (1,374) | (1,927) | (11) | (17) |
| Amortization of prior service cost | - | - | 3 | - |
| Amortization of actuarial loss | 227 | 1,151 | 31 | 58 |
| | <u>\$ 129</u> | <u>\$ 890</u> | <u>\$262</u> | <u>\$282</u> |

| | U.S. Pension Benefits | | Non U.S. Pension Benefits | |
|--------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | 6 Months Ended June 30 2018 | 6 Months Ended June 30 2017 | 6 Months Ended June 30 2018 | 6 Months Ended June 30 2017 |
| Component of net period benefit cost | | | | |
| Service cost | \$ - | \$ - | \$248 | \$275 |
| Interest cost | 2,777 | 3,332 | 231 | 198 |
| Expected return on plan assets | (3,258) | (3,855) | (21) | (34) |
| Amortization of prior service cost | - | - | 7 | - |
| Amortization of actuarial loss | 581 | 2,303 | 63 | 113 |
| Settlement charge | 7,613 | - | - | - |
| | <u>\$ 7,713</u> | <u>\$ 1,780</u> | <u>\$528</u> | <u>\$552</u> |

All components of net period benefit cost except service cost are recorded in Other Expense in the Consolidated Statement of Operations.

11. 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.

12. 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 for the three months ended June 30, 2018 and June 30, 2017, and \$112 for the six months ended June 30, 2018 and June 30, 2017.

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, 2017 | 925,000 | \$4.45 |
| Granted | - | - |
| Exercised | - | - |
| Forfeited | - | - |
| Outstanding, June 30, 2018 | 925,000 | \$4.45 |

Vested and exercisable options as of June 30, 2018 were 525,000 with a weighted average share price of \$5.92.

13. 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 hierarchal 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.

14. Related-Party Transactions

As of June 30, 2018, Icahn Enterprises L.P. owned approximately 78.6% of our outstanding common stock. There were 14,564,832 shares of common stock purchased during the period ended June 30, 2018 as a result of our Rights Offering.

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 \$94 and \$87 for the six months ended June 30, 2018 and June 30, 2017. 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.

Icahn Enterprises L.P. was the lender on the Company's Revolving Credit Facility as of December 31, 2017. The Company paid Icahn Enterprises L.P. service, commitment fees and interest of \$66 and \$67 during the six months ended June 30, 2018 and June 30, 2017.

15. Business Segment Information and Geographic Area Information

The Company primarily manufactures and sells cellulosic food casings as its sole business segment. The Company's operations are viewed in geographic regions of 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:

| | 6 Months Ended June 30, 2018 | 6 Months Ended June, 2017 |
|------------------------|---------------------------------|------------------------------|
| Net sales by region | | |
| North America | \$98,408 | \$88,332 |
| South America | 22,226 | 25,946 |
| Europe | 92,227 | 86,494 |
| Asia | 21,834 | 16,854 |
| Other and eliminations | (33,616) | (28,830) |
| | <u>\$201,079</u> | <u>\$188,796</u> |

| | 6 Months Ended June 30, 2018 | 6 Months Ended June, 2017 |
|------------------|---------------------------------|------------------------------|
| Operating income | | |
| North America | \$8,275 | \$6,116 |
| South America | 171 | 2,942 |
| Europe | 2,420 | 846 |
| Asia | 3,818 | 3,740 |
| | <u>\$14,684</u> | <u>\$13,644</u> |

| | June 30, 2018 | December 31, 2017 |
|---------------------|------------------|-------------------|
| Identifiable assets | | |
| North America | \$219,773 | \$185,911 |
| South America | 73,738 | 73,647 |
| Europe | 179,912 | 179,048 |
| Asia | 39,406 | 43,530 |
| | <u>\$512,829</u> | <u>\$482,136</u> |

| | 6 Months Ended June 30, 2018 | 6 Months Ended June 30, 2017 |
|---------------------|---------------------------------|---------------------------------|
| Net Sales by market | | |
| Emerging | \$98,045 | \$92,070 |
| Mature | 103,034 | 96,726 |
| | <u>\$201,079</u> | <u>\$188,796</u> |

| | | |
|--------------------------------------|------------------|------------------|
| Net Sales from operations by country | | |
| United States | \$59,341 | \$58,335 |
| Brazil | 14,087 | 14,907 |
| Italy | 11,898 | 10,713 |
| Philippines | 10,756 | 8,468 |
| Germany | 14,162 | 13,102 |
| France | 6,547 | 4,723 |
| Poland | 6,010 | 5,010 |
| Other international | 78,278 | 73,538 |
| | <u>\$201,079</u> | <u>\$188,796</u> |

16. Changes in Accumulated Other Comprehensive Loss

| | Accrued Employee Benefits | Translation Adjustments | Total |
|--|---------------------------------|----------------------------|-------------------|
| Balance at December 31, 2017 | (\$50,483) | (\$30,266) | (\$80,749) |
| Other comprehensive (loss) income before reclassifications | - | (3,782) | (3,782) |
| Reclassifications from accumulated other comprehensive loss to earnings | 8,343 | - | 8,343 |
| Balance at June 30, 2018 | <u>(\$42,140)</u> | <u>(\$34,048)</u> | <u>(\$76,188)</u> |

| | Amounts Reclassified from Accumulated Other Comprehensive Loss | Affected Line Items in the Consolidation Statement of Operations and Comprehensive Loss |
|------------------------------------|---|---|
| Accrued Employee Benefits | | |
| Settlement charges | \$7,613 | Other Income/Expense |
| Amortization of net actuarial loss | 730 | Other Income/Expense |
| | <u>\$8,343</u> | |

17. Restructuring Charges

During the year ended December 31, 2017, the Company recognized a restructuring expense in our European segment of \$1,745, which we believe is our total cost for the plan. The costs relate to a restructuring of its Warsaw, Poland subsidiary operations to safeguard the Company's competitive environment in the European market. The plan involved the involuntary termination of approximately 13 employees for \$414 and an operating lease liability of \$1,331.

The following table provides details of our restructuring provisions.

| | June 30, 2018 | December 31, 2017 |
|-------------------|---------------|-------------------|
| Beginning balance | \$1,237 | \$3,210 |
| Provision | - | 1,745 |
| Payments | (205) | (3,718) |
| Translation | (72) | - |
| Ending balance | <u>\$960</u> | <u>\$1,237</u> |

18. Common Stock

On January 3, 2018, the Company completed a rights offering of 16,666,666 shares of common stock at \$3.00 per share. The Company plans to use the net proceeds of the offering to replenish working capital used for the acquisitions of Walsroder and Darmex and for other general corporate purposes, including acquisitions and capital expenditures.

As a result of the rights offering, Icahn Enterprises L.P. currently owns approximately 78.6% of our outstanding common stock.

19. Variable Interest Entity

The Company holds a variable interest in a joint venture for which the Company is the primary beneficiary. The joint venture, VE Netting, LLC, is a manufacturing, marketing and selling company of high quality netting solutions for the meat and poultry industry. VE Netting, LLC is a Delaware limited liability company with its principal place of business in Lombard, IL. The netting product will be manufactured under agreement by Viskase's affiliate located in Monterrey, Mexico.

Viskase's variable interest in the entity relates to the sales, operations, administrative and financial support to the entity through providing certain assets under agreement to be used by the entity. The Company agreed to contribute \$931 in cash and other considerations in forming the venture. In addition the Company could be required to contribute up to \$4,000 less the initial contribution during the course of the joint venture. The Company owns 50% equity in the entity. Based on a review of applicable guidance, this entity was consolidated beginning in September 2017. As a result of the consolidation, financial statements for the period ended December 31, 2017 were affected as follows: sales increased by \$31, net income decreased by \$289, total assets increased by \$1,291, and noncontrolling interests decreased by \$144. Due the evidence presented, Viskase has concluded it is the primary beneficiary.

As the primary beneficiary of the variable interest entity (VIE), the VIEs' assets, liabilities, and results of operations are included in the Company's consolidated financial statements as of, and for the period ended, December 31, 2017 and June 30, 2018. The other equity holders' interests are reflected in "Net loss attributable to noncontrolling interests" in the Consolidated Condensed Statements of Operations and "Noncontrolling interests" in the Consolidated Condensed Balance Sheets.

The following table summarizes the carrying amount of the VIEs' assets and liabilities included in the Company's Consolidated Balance Sheets at June 30, 2018 and December 31, 2017:

| | <u>June 30, 2018</u> | <u>December 31, 2017</u> |
|--|----------------------|--------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$44 | \$15 |
| Receivables, net | 5 | 26 |
| Inventories | 110 | 48 |
| Other current assets | 84 | 76 |
| Property, plant and equipment | 1,084 | 1,031 |
| Less: Accumulated depreciation | <u>(48)</u> | <u>(24)</u> |
| Property, plant and equipment, net | 1,036 | 1,007 |
| Deferred tax asset | 134 | 115 |
| Other assets | - | 4 |
| Total Assets | <u>\$1,413</u> | <u>\$1,291</u> |
| Current liabilities | <u>54</u> | <u>149</u> |
| Total Liabilities | <u>54</u> | <u>149</u> |
| Paid in capital | 1,931 | 1,431 |
| Retained earnings | <u>(572)</u> | <u>(289)</u> |
| Total Stockholder Equity | <u>1,359</u> | <u>1,142</u> |
| Total Liabilities and Stockholders' Equity | <u>1,413</u> | <u>1,291</u> |

All assets in the above table can only be used to settle obligations of the consolidated VIE. Liabilities are nonrecourse obligations. Amounts presented in the table above are adjusted for intercompany eliminations.

The following table summarizes the Statement of Operations of the VIE included in the Company's Consolidated Statement of Operations for the period ended June 30, 2018. The Statement of Operations for period ending June 30, 2017 is not presented since the joint venture was not formed until July of 2017.

| | <u>June 30, 2018</u> |
|-------------------------------------|----------------------|
| Net sales | \$12 |
| Cost of sales | 144 |
| Gross margin | <u>(132)</u> |
| Selling, general and administrative | <u>124</u> |
| Operating loss | (256) |
| Other expense | 27 |
| Loss before income taxes | <u>(283)</u> |
| Income tax benefit | <u>-</u> |
| Net loss | <u>(\$283)</u> |

20. Subsequent Events

Viskase evaluated its June 30, 2018 consolidated financial statements for subsequent events through August 6, 2018, the date the consolidated financial statements were available to be issued.

On July 18, 2018, the French affiliate of the Company entered into a Term Loan Agreement with Credit Industriel Et Commercial (“CIC”), providing for a €2,000 term loan (“CIC Term Loan”). The CIC Term Loan bears interest at 0.70% with a three year maturity. The CIC Term Loan has a contractual obligation to repay 8.33% of face value of the loan on a quarterly basis. The maturity date on the Term Loan is May 15, 2021. Prepayments on the CIC Term Loan are permitted with advance notice of 30 days. The Company plans to use the proceeds for a capital project of the subsidiary.

ITEM 3. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Company Overview

The Company operates in the casing product segment of the food industry. Viskase is a worldwide leader in the production and sale of cellulosic, fibrous and plastic casings for the processed meat and poultry industry. Viskase currently operates eleven manufacturing facilities, six distribution centers and three service centers throughout North America, Europe, South America and Asia. Viskase provides value-added support services relating to these products for some of the world's largest global consumer products companies. Viskase is one of the two largest worldwide producers of non-edible cellulosic casings for processed meats and one of the three largest manufacturers of non-edible fibrous casings.

Our net sales are driven by consumer demand for meat products and the level of demand for casings by processed meat manufacturers, as well as the average selling prices of our casings. Specifically, demand for our casings is dependent on population growth, overall consumption of processed meats and the types of meat products purchased by consumers. Average selling prices are dependent on overall supply and demand for casings and our product mix.

Our cellulose, fibrous and plastic casing extrusion operations are capital-intensive and are characterized by high fixed costs. Our finishing operations are labor intensive. The industry's operating results have historically been sensitive to the global balance of capacity and demand. The industry's extrusion facilities produce casings under a timed chemical process and operate continuously.

Our contribution margin varies with changes in selling price, input material costs, labor costs and manufacturing efficiencies. The total contribution margin increases as demand for our casings increases. Our financial results benefit from increased volume because we do not have to increase our fixed cost structure in proportion to increases in demand. For certain products, we operate at near capacity in our existing facilities. We regularly evaluate our capacity and projected market demand. We believe the current and planned cellulosic production capacity in our industry exceeds global demand, and will continue to do so in the near term.

Comparison of Results of Operations for Fiscal Quarters Ended June 30, 2018 and 2017.

The following discussion compares the results of operations for the fiscal quarter ended June 30, 2018 to the results of operations for the fiscal quarter and year to date ended June 30, 2017. We have provided the table below in order to facilitate an understanding of this discussion. The table (dollars in millions) is as follows:

| | 3 Months Ended June 30, 2018 | % Change over 2017 | 3 Months Ended June 30, 2017 |
|-------------------------------------|---------------------------------------|-----------------------|---------------------------------------|
| NET SALES | \$104.0 | 5.7% | \$98.4 |
| Cost of sales | 79.0 | 6.3% | 74.3 |
| Selling, general and administrative | 14.4 | -2.7% | 14.8 |
| Amortization of intangibles | 0.4 | - | 0.4 |
| Restructuring expense | - | NM | 1.9 |
| OPERATING INCOME | 10.2 | 45.7% | 7.0 |
| Interest expense, net of income | 3.8 | 15.2% | 3.3 |
| Other expense, net | 6.9 | 762.5% | 0.8 |
| Income tax (benefit) provision | - | NM | 0.8 |
| NET (LOSS) INCOME | <u>(\$0.5)</u> | NM | <u>\$2.1</u> |

NM= Not meaningful when comparing positive to negative numbers or to zero.

Quarter Ended June 30, 2018 Versus Quarter Ended June 30, 2017

Net Sales. Our net sales for the second quarter of 2018 were \$104.0 million, which represents an increase of \$5.6 million or 5.7% from the comparable prior quarter. Net sales increased \$3.2 million from higher volume and \$3.5 million due to favorable foreign currency translation, offset by a decrease of \$1.1 million due to lower price and mix.

Cost of Sales. Cost of sales for the second quarter 2018 increased 6.3% from the comparable prior year period. The increase is due to higher sales volume, lower production volume resulting in lower fixed cost absorption, input material and labor costs inflation, offset by lower cost related to acquisition synergies.

Selling, General and Administrative Expenses. We decreased selling, general and administrative expenses from \$14.8 million in the second quarter of 2017 to \$14.4 million in 2018. The decrease is mainly due to a one time settlement income of \$0.7 received by the Company.

Amortization of intangibles. The Company incurred an expense of \$0.4 million on the amortization of \$27.2 million of intangibles recognized with the acquisitions.

Operating Income. Operating income for the second quarter of 2018 was \$10.2 million, representing an increase of \$3.2 million from the prior year. The increase in operating income was primarily due to increased gross profit of \$1.0, lower selling, general and administrative cost of \$0.4 and no restructuring expense for 2018.

Interest Expense. Interest expense, net of interest income, for the second quarter of 2018 was \$3.8 million, representing an increase of \$0.5 million compared to 2017. The increase is a result of higher interest rate on our term loan.

Other Expense. Other expense for the second quarter of 2018 was approximately \$6.9 million, representing an increase of \$6.1 million over other expense of \$0.8 million in 2017. The increase is primarily due to higher expense income related to foreign currency translation.

Income Tax (Provision). During the second quarter of 2018, an income tax benefit of \$0.02 million was recognized on the loss before income taxes of \$0.6 million compared to income tax expense of \$0.9 million in 2017. The 2018 effective income tax rate is 43.0% compared to 36.4% for 2017.

Primarily as a result of the factors discussed above, net loss was (\$0.5) million compared to net income of \$2.9 million for the second quarter of 2017.

Comparison of Results of Operations for Six Months Ended June 30, 2018 and June 30, 2017.

The following discussion compares the results of operations for the fiscal six months ended June 30, 2018 to the results of operations for the fiscal six months ended June 30, 2017. We have provided the table below in order to facilitate an understanding of this discussion.

| | 6 Months Ended June 30, 2018 | % Change over 2017 | 6 Months Ended June 30, 2017 |
|-------------------------------------|---------------------------------------|-----------------------|---------------------------------------|
| NET SALES | \$201.0 | 6.5% | \$188.8 |
| Cost of sales | 156.3 | 9.9% | 142.2 |
| Selling, general and administrative | 29.3 | -3.3% | 30.3 |
| Amortization of intangibles | 0.8 | - | 0.8 |
| Restructuring expense | - | NM | 1.9 |
| OPERATING INCOME | 14.6 | 7.4% | 13.6 |
| Interest expense, net of income | 7.3 | 12.3% | 6.5 |
| Other expense, net | 12.5 | 861.5% | 1.3 |
| Income tax (benefit) provision | <u>(1.6)</u> | NM | <u>2.0</u> |
| NET (LOSS) INCOME | <u><u>(\$3.6)</u></u> | NM | <u><u>\$3.8</u></u> |

Net Sales. Our net sales for the first six months of 2018 were \$201.0 million, which represents an increase of \$12.2 million, or 6.5%, from the comparable prior year first six months. Net sales benefited \$5.6 million from an increase in volume and price, \$8.5 million due to foreign currency translation gain, and offset by a decrease of \$1.9 million due to lower price and mix.

Cost of Sales. Cost of sales for the first six months of 2018 increased 9.8%, or \$14.0, million from the comparable prior year first six months. The increase is due to higher sales volume, lower production volume resulting in lower fixed cost absorption, input material and labor costs inflation, offset by lower cost related to acquisition synergies.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased \$1.0 million for the first six months of 2018. The decrease is mainly due to a one time settlement income of \$0.7 received by the Company.

Operating Income. The operating income for the first six months of 2018 was \$14.7 million, representing an increase of \$1.1 million from the prior year first six months. The increase in the operating income resulted primarily from no restructuring events in 2018, offset by the decrease in gross profit of \$1.8 million offset by decreased selling, general and administrative expenses of \$1.0 million.

Interest Expense. Interest expense, net of interest income, for the first six months of 2018 was \$7.3 million, or an increase of \$0.8 compared to the prior year period. The increase is principally due to an increase in our interest rate on our long term borrowings.

Other Expense. Other expense of approximately \$12.5 million for the first six months of 2018 consists principally of expense related to foreign currency transaction and settlement charge on our U.S. pension plan compared to expense of \$1.3 million for the prior year period.

Income Tax Provision. During 2018, an income tax benefit of \$1.6 million was recognized on the loss before income taxes of \$5.3 million resulting principally from the income tax expense on the results of operations by our foreign subsidiaries.

Primarily as a result of the factors discussed above, our net loss for the first six months of 2018 was \$3.5 million compared to net income of \$3.8 million for the first six months of 2017.

Liquidity and Capital Resources

Cash and cash equivalents increased by \$29.7 million during the first six months of 2018. Net cash used in operating activities was \$2.2 million and net cash used in investing activities was \$10.5 million. Net cash provided by financing activities was \$43.2 million. Cash flows provided by operating activities were principally attributable to results from operations, offset by an increase in working capital. Our inventory needs and trade receivable needs have increased in recent years due to the growth of our foreign operations in the emerging markets. For certain of our non-U.S. customers, we have historically shipped finished products from our U.S. facilities. We recently implemented changes to our supply chain which resulted in transporting semi-finished products to one of our non-U.S. facilities, where the products are finished and then shipped to customers. As a result of this change, the semi-finished product remains in inventory for a longer period of time while it is being shipped from the U.S. to our non-U.S. facilities. This has resulted in an increase to our inventories and working capital. With respect to trade receivables, payment terms are longer in markets served from our facilities in Brazil and the Philippines than they are in the mature markets. As our business served from these facilities has increased, so has our trade receivables and working capital. Cash flows used in investing activities were principally attributable to capital expenditures. Cash flows provided by financing activities principally consisted of proceeds received from the Rights Offering offset by debt repayments under our Revolving Credit Facility, Restructured Term Loan, Term Loan and capital leases.

Our cash held in foreign banks was \$11.5 million (against a total cash balance of \$47.2 million) and \$11.5 million (against a total cash balance of \$15.8 million) as of June 30, 2018 and June 30, 2017, respectively. Any cash held by our foreign subsidiaries does not have a significant impact on our overall liquidity, but if we fail to generate sufficient cash through our domestic operations, our foreign operations could be a potential source of liquidity.

As of June 30, 2018 the Company had positive working capital of approximately \$197.2 million including restricted cash of \$1.3 million, with additional amounts available under its Revolving Credit Facility.

On November 14, 2007, the Company entered into a secured revolving credit facility (“Revolving Credit Facility”), which has been subsequently amended.

On January 30, 2014, the Company entered into an Amendment Agreement to the Revolving Credit Facility, together with an amended Loan Agreement, with Icahn Enterprises Holdings L.P. (“IEH”). 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 respect to the Revolving Credit Facility, extending the maturity date of the Revolving Credit Facility from January 30, 2017 to January 30, 2020. The amendment included a fee of \$125,000 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 June 30, 2018.

The Company had no borrowings and an additional \$25.0 million of availability under the amended Revolving Credit Facility as of June 30, 2018.

In its foreign operations, the Company has unsecured lines of credit with various banks providing approximately \$8.0 million of availability. There were no borrowings under the lines of credit at June 30, 2018.

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 million 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, 2018, the interest rate was 5.52% on the Term Loan. The Term Loan has a contractual obligation to repay 1% per year and this amount is carried as short term debt. The Term Loan has 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.

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.

On December 30, 2016, the Company entered into a Share and Asset Purchase Agreement to purchase all of the shares in CT Casings Beteiligungs GmbH and certain assets of Poly-clip Systems LLC. 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 €9.8 million ("Restructured Term Loan") or \$10.3 million. After reductions for post-closing adjustments, the balance on the Restructured Term Loan was €8.1 million or \$9.7 million as of December 31, 2017. The Restructured Term Loan is due for repayment as follows: €1.7 million was paid on January 10, 2018; and the balance of €6.4 million is due on January 10, 2020. The Restructured Term Loan bears no interest, and was recorded for a book value of €7.3 million using an imputed interest rate of 4%.

Pension and Postretirement Benefits

Our long-term pension and postretirement benefit liabilities totaled \$76.9 million at June 30, 2018.

Expected annual cash contributions for U.S. pension liabilities are expected to be (in millions):

| | 2018 | 2019 | 2020 | 2021 | 2022 |
|---------|--------|--------|--------|--------|--------|
| Pension | \$ 3.1 | \$ 6.6 | \$ 7.4 | \$ 6.7 | \$ 7.4 |

Contract Obligations

As of June 30, 2018, the aggregate maturities of debt(1) and leases for each of the next five years are (in millions):

| | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>Thereafter</u> |
|------------------------|---------------|---------------|----------------|-----------------|---------------|-------------------|
| Term Loan Facility | \$ 1.4 | \$ 2.8 | \$ 2.7 | \$ 255.8 | \$ - | \$ - |
| Restructured Term Loan | - | - | 7.5 | - | - | - |
| Capital Leases | 0.3 | 0.5 | 0.5 | - | - | - |
| Operating Leases | 2.4 | 4.8 | 4.9 | 4.9 | 2.5 | 13.8 |
| Other | - | - | - | - | - | 1.0 |
| | <u>\$ 4.1</u> | <u>\$ 8.1</u> | <u>\$ 15.6</u> | <u>\$ 260.7</u> | <u>\$ 2.5</u> | <u>\$ 14.8</u> |

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

Critical Accounting Policies

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. 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 net realizable value.

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 lived 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 on at least an annual basis by applying a fair-value-based test. In evaluating the recoverability of the carrying value of goodwill, we must make assumptions regarding the fair value of our reporting units, as defined under FASB ASC Topic 350. Goodwill impairment testing involves comparing the fair value of our reporting units to their carrying values. If the book value of the reporting unit exceeds its fair value, the goodwill of the reporting unit is considered to be impaired. The amount of impairment loss is equal to the excess of the book value of the goodwill over the fair value of goodwill. 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.

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, 2018 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 6.85% for 2018. The Company is using a long-term rate of return on French plan assets of 3.20% for 2018. 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 was using a discount rate of 3.86% for the first quarter of 2018 and then remeasured net periodic benefit cost with the settlement accounting on the plan and will use 4.15% for the remainder of 2018. The Company is using a weighted average discount rate of 1.74% on its non-U.S. pension plans for 2018.

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)

Other Comprehensive Income (Loss) Comprehensive income (loss) includes all other non-stockholder changes in equity. Changes in other comprehensive income (loss) in 2018 and 2017 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, customer pick up 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. Future annual minimum purchases remaining under the agreement are \$2.5 million at March 31, 2018.

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.

New Accounting Pronouncements

Please reference Footnote 1 in our Notes to Consolidated Financial Statements.

FORWARD-LOOKING STATEMENTS

This report includes “forward-looking statements.” Forward-looking statements are those that do not relate solely to historical fact. These statements relate to future events or our future financial performance and implicate known and unknown risks, uncertainties and other factors that may cause the actual results, performances or levels of activity of our business or our industry to be materially different from that expressed or implied by any such forward-looking statements. They include, but are not limited to, any statement that may predict, forecast, indicate or imply future results, performance, achievements or events. In some cases, you can identify forward-looking statements by use of words such as “believe,” “anticipate,” “expect,” “estimate,” “intend,” “project,” “plan,” “will,” “would,” “could,” “predict,” “propose,” “potential,” “may” or words or phrases of similar meaning. Statements concerning our financial position, business strategy and measures to implement that strategy, including changes to operations, competitive strengths, goals, plans, references to future success and other similar matters are forward-looking statements. Forward-looking statements may relate to, among other things:

our ability to meet liquidity requirements and to fund necessary capital expenditures;

the strength of demand for our products, prices for our products and changes in overall demand;

assessment of market and industry conditions and changes in the relative market shares of industry participants;

consumption patterns and consumer preferences;

the effects of competition and competitor responses to our products and services ;

our ability to realize operating improvements and anticipated cost savings;

pending or future legal proceedings and regulatory matters;

general economic conditions and their effect on our business;

changes in the cost or availability of raw materials and changes in energy prices or other costs;

pricing pressures for our products;

the cost of and compliance with environmental laws and other governmental regulations;

our results of operations for future periods;

our anticipated capital expenditures;

our ability to pay, and our intentions with respect to the payment of, dividends on shares of our capital stock;

our ability to protect our intellectual property;

economic and industry conditions affecting our customers and suppliers

our ability to identify, complete and integration acquisitions; and

our strategy for the future, including opportunities that may be presented to and/or pursued by us.

These forward-looking statements are not guarantees of future performance. Forward-looking statements are based on management's expectations that involve risks and uncertainties.