

VISKASE COMPANIES, INC.

ANNUAL REPORT 2019

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 December 31, 2019 and 2018
 - Consolidated Statements of Operations for the years ended December 31, 2019, 2018 and 2017
 - Consolidated Statements of Comprehensive (Loss) Income for the years ended December 31, 2019, 2018 and 2017
 - Consolidated Statements of Stockholders' Equity for the years ended December 31, 2019, 2018 and 2017
 - Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017
 - Notes to Consolidated Financial Statements
2. Management's Discussion and Analysis of Financial Condition and Results of Operations (unaudited)

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Viskase Companies, Inc.

We have audited the accompanying consolidated financial statements of Viskase Companies, Inc. (a Delaware corporation) and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, comprehensive (loss) income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2019, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Viskase Companies, Inc. and subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2019 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of matter

As discussed in Note 1 to the consolidated financial statements, the Company has adopted new accounting guidance in the year ended December 31, 2019, related to the adoption to ASC 842, Leases. Our opinion is not modified with respect to this matter.

Emphasis of matter regarding going concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 25 to the consolidated financial statements, the Company has been delayed in refinancing its \$258 million term loan due January 2021 due to the Coronavirus outbreak. The Company's business plan for 2020, which is also described in Note 25, contemplates the refinancing of its bank credit agreement maturity occurring within 12 months of the date of our audit opinion to long-term arrangements. The Company's ability to achieve the refinancing of this indebtedness is uncertain, and the Company has stated that therefore substantial doubt exists about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.



Chicago, Illinois
May 1, 2020

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

	December 31, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$21,820	\$46,031
Restricted cash	1,153	1,159
Receivables, net	77,956	74,300
Inventories	99,821	92,525
Other current assets	43,617	40,348
Total current assets	244,367	254,363
Property, plant and equipment	384,290	368,484
Less accumulated depreciation	(222,495)	(198,452)
Property, plant and equipment, net	161,795	170,032
Right of use assets	34,062	-
Other assets, net	16,617	18,998
Intangible assets	22,471	24,317
Goodwill	3,376	3,428
Deferred income taxes	30,199	37,105
Total Assets	\$512,887	\$508,243
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	\$11,840	\$4,659
Accounts payable	35,038	33,053
Accrued liabilities	44,679	40,246
Short-term portion lease liabilities	6,128	500
Total current liabilities	97,685	78,458
Long-term debt, net of current maturities	255,865	266,814
Long-term liabilities	5,929	9,338
Accrued employee benefits	70,648	75,418
Deferred income taxes	3,991	6,526
Long-term lease liabilities	32,296	603
Stockholders' equity:		
Common stock, \$0.01 par value; 53,995,935 shares issued and 53,190,665 outstanding	540	540
Paid in capital	82,843	82,843
Retained earnings	41,415	67,699
Less 805,270 treasury shares, at cost	(298)	(298)
Accumulated other comprehensive loss	(77,435)	(79,276)
Total Viskase stockholders' equity	47,065	71,508
Deficit attributable to non-controlling interest	(592)	(422)
Total stockholders' equity	46,473	71,086
Total Liabilities and Stockholders' Equity	\$512,887	\$508,243

See notes to consolidated financial statements.

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

	Year Ended December 31, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017
NET SALES	\$384,872	\$395,329	\$391,978
Cost of sales	<u>311,644</u>	<u>315,764</u>	<u>296,100</u>
GROSS MARGIN	73,228	79,565	95,878
Selling, general and administrative	53,704	56,426	58,440
Amortization of intangibles	1,619	1,664	1,556
Asset impairment charge	951	149	1,832
Restructuring expense	<u>9,224</u>	<u>8,862</u>	<u>1,745</u>
OPERATING INCOME	7,730	12,464	32,305
Interest income	275	519	85
Interest expense, net	16,498	15,821	13,217
Other expense, net	<u>8,875</u>	<u>15,701</u>	<u>3,004</u>
(LOSS) INCOME BEFORE INCOME TAXES	(17,368)	(18,539)	16,169
Income tax provision (benefit)	<u>7,749</u>	<u>(4,069)</u>	<u>20,410</u>
NET LOSS	<u>(\$25,117)</u>	<u>(\$14,470)</u>	<u>(\$4,241)</u>
Less: net loss attributable to noncontrolling interests	<u>(170)</u>	<u>(278)</u>	<u>(144)</u>
Net loss attributable to Viskase Companies, Inc	<u>(\$24,947)</u>	<u>(\$14,192)</u>	<u>(\$4,097)</u>
WEIGHTED AVERAGE COMMON SHARES			
- BASIC	<u>53,190,665</u>	<u>53,007,515</u>	<u>36,523,999</u>
PER SHARE AMOUNTS:			
EARNINGS PER SHARE			
- BASIC	<u>(\$0.47)</u>	<u>(\$0.27)</u>	<u>(\$0.11)</u>
WEIGHTED AVERAGE COMMON SHARES			
- DILUTED	<u>53,190,665</u>	<u>53,007,515</u>	<u>36,523,999</u>
PER SHARE AMOUNTS:			
EARNINGS PER SHARE			
- DILUTED	<u>(\$0.47)</u>	<u>(\$0.27)</u>	<u>(\$0.11)</u>

See notes to consolidated financial statements.

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

	Year Ended December 31, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017
Net loss	<u>(\$25,117)</u>	<u>(\$14,470)</u>	<u>(\$4,241)</u>
Other comprehensive (loss) income, net of tax			
Pension liability adjustment	1,738	6,095	1,256
Foreign currency translation adjustment	<u>(1,234)</u>	<u>(4,622)</u>	<u>6,647</u>
Other comprehensive income, net of tax	504	1,473	7,903
Comprehensive (loss) income	<u>(\$24,613)</u>	<u>(\$12,997)</u>	<u>\$3,662</u>
Less: comprehensive (loss) attributable to noncontrolling interests	<u>(170)</u>	<u>(278)</u>	<u>(144)</u>
Net comprehensive (loss) income attributable to Viskase Companies, Inc	<u>(\$24,443)</u>	<u>(\$12,719)</u>	<u>\$3,806</u>

See notes to consolidated financial statements.

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

	Common stock	Paid in capital	Treasury stock	Retained earnings	Accumulated other comprehensive loss	Total stockholders' equity	Non-controlling Interest	Total stockholders' equity
Balance December 31, 2016	\$373	\$32,472	(\$298)	\$85,832	(\$88,652)	\$29,727	\$0	\$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 resulting from adopting ASU 2016-09	-	-	-	156	-	156	-	156
Stock option expense	-	314	-	-	-	314	-	314
Balance December 31, 2017	\$373	\$32,786	(\$298)	\$81,891	(\$80,749)	\$34,003	(\$144)	\$33,859
Net loss	-	-	-	(14,192)	-	(14,192)	(278)	(14,470)
Foreign currency translation adjustment	-	-	-	-	(4,622)	(4,622)	-	(4,622)
Pension liability adjustment, net of tax	-	-	-	-	6,095	6,095	-	6,095
Issuance of common stock	167	49,833	-	-	-	50,000	-	50,000
Stock option expense	-	224	-	-	-	224	-	224
Balance December 31, 2018	\$540	\$82,843	(\$298)	\$67,699	(\$79,276)	\$71,508	\$ (422)	\$71,086
Net loss	-	-	-	(24,947)	-	(24,947)	(170)	(25,117)
Foreign currency translation adjustment	-	-	-	-	(1,234)	(1,234)	-	(1,234)
Pension liability adjustment, net of tax	-	-	-	-	1,738	1,738	-	1,738
Elimination of stranded tax effects within AOCI resulting from tax reform	-	-	-	(1,337)	1,337	-	-	-
Balance December 31, 2019	\$540	\$82,843	(\$298)	\$41,415	(\$77,435)	\$47,065	(\$592)	\$46,473

See notes to consolidated financial statements.

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

	Year Ended December 31, 2019	Year Ended December 31, 2018	Year Ended December 31, 2017
Cash flows from operating activities:			
Net loss	(\$25,117)	(\$14,470)	(\$4,241)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	25,745	24,749	23,662
Stock-based compensation	-	224	224
Amortization of deferred financing fees	641	550	597
Deferred income taxes	3,819	(7,241)	15,423
Postretirement settlement charge	-	7,381	-
Loss on disposition/impairment of assets	477	57	2,043
Bad debt and accounts receivable provision	2,401	128	348
Non-cash interest on term loans	350	486	480
Changes in operating assets and liabilities:			
Receivables	(5,912)	2,386	(594)
Inventories	(6,462)	(2,564)	(6,759)
Other current assets	(3,133)	(1,306)	(8,694)
Accounts payable	2,208	(2,076)	2,054
Accrued current liabilities	4,626	3,243	(2,406)
Accrued employee benefits	(1,391)	(1,738)	1,263
Other assets	2,343	(392)	(266)
Other long term liabilities	(289)	(436)	1,237
Other	181	12	(668)
Total adjustments	<u>25,604</u>	<u>23,463</u>	<u>27,944</u>
Net cash provided by operating activities	487	8,993	23,703
Cash flows from investing activities:			
Capital expenditures	(17,679)	(24,609)	(25,674)
Acquisition of businesses, net of cash acquired	-	-	(31,141)
Proceeds from disposition of assets	516	19	308
Net cash used in investing activities	<u>(17,163)</u>	<u>(24,590)</u>	<u>(56,507)</u>
Cash flows from financing activities:			
Issuance of common stock	-	50,000	-
Deferred financing costs	(140)	(120)	(120)
Proceeds from long-term debt	-	4,637	10,716
Repayment of short-term debt	(4,600)	(8,160)	(2,750)
Repayment of capital lease	(431)	(491)	(476)
Net cash (used in) provided by financing activities	<u>(5,171)</u>	<u>45,866</u>	<u>7,370</u>
Effect of currency exchange rate changes on cash	<u>(2,370)</u>	<u>(673)</u>	<u>1,836</u>
Net (decrease) increase in cash and equivalents	(24,217)	29,596	(23,598)
Cash, equivalents and restricted cash at beginning of period	<u>47,190</u>	<u>17,594</u>	<u>41,192</u>
Cash, equivalents and restricted cash at end of period	<u><u>\$22,973</u></u>	<u><u>\$47,190</u></u>	<u><u>\$17,594</u></u>
Supplemental cash flow information:			
Interest paid less capitalized interest	\$15,295	\$14,797	\$12,169
Income taxes paid	\$1,874	\$4,238	\$7,820

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar Amounts In Thousands)

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 ten manufacturing facilities 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.

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.

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.

Our estimates of the useful lives of finite-lived intangible assets consider judgments regarding the future effects of obsolescence, demand, competition and other economic factors. We conduct impairment tests when events or changes in circumstances indicate that the carrying value of these finite-lived assets may not be recoverable. Undiscounted cash flow analyses are used to determine if an impairment exists. If an impairment is determined to exist, the loss is calculated based on the estimated fair value of the assets.

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 December 31, 2019 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 5.85% for 2019. The Company is using a long-term rate of return on French plan assets of 3.20% for 2019. 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 3.38% for 2019. The Company is using a weighted average discount rate of 1.70% on its non-U.S. pension plans for 2019.

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 (Loss) Income

Comprehensive (loss) income includes all other non-stockholder changes in equity. Changes in other comprehensive (loss) income in 2019 and 2018 resulted from changes in foreign currency translation and minimum pension liability.

Revenue Recognition

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.

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 December 31, 2019, future annual minimum purchases remaining under the agreement are \$2,437.

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.

Leases

As discussed below, on January 1, 2019, we adopted FASB ASC Topic 842, Leases, using the modified retrospective approach, which does not require the application of this Topic to periods prior to January 1, 2019. The guidance under Topic 842 significantly impacts our presentation of financial condition and disclosures, but did not have significant impact to our results of operations. We now have a material amount reported as a right of use ("ROU") asset and lease liability related to operating leases reported on our balance sheet. Financing leases under current U.S. GAAP are classified and accounted for in substantially the same manner as capital leases under prior U.S. GAAP and therefore, we do not distinguish between financing leases and capital leases unless the context requires. The determination of whether an arrangement is or contains a lease occurs at inception. We have elected the practical expedient to include both the lease component and the non-lease component as a single component when accounting for each lease and calculating the resulting lease liability and ROU asset. The following is our accounting policy for leases in which we are the lessee.

Leases are classified as either operating or financing by the lessee depending on whether the lease terms provide for control of the underlying asset to be transferred to the lessee. When control transfers to the lessee, we classify the lease as a financing lease. All other leases are recorded as operating leases. Effective January 1, 2019, for all leases with an initial lease term in excess of twelve months, we record a right-of-use asset with a corresponding liability in our balance sheet. We have elected the practical expedient for all leases less than 12 months to not record a ROU asset or corresponding lease liability. Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at commencement of the lease based on the present value of lease payments over the lease term. Right-of-use assets are adjusted for any lease payments made on or before commencement of the lease, less any lease incentives received.

The lease liability represents future lease payments for lease and non-lease components discounted for present value. Lease payments that may be included in the lease liability include fixed payments, variable lease payments that are based on an index or rate and payments for penalties for terminating the lease if the lessee is reasonably certain to utilize a termination option, among others. Certain of our leases contain rent escalation clauses that are specifically stated in the lease and these are included in the calculation of the lease liability. Variable lease payments for lease and non-lease components which

are not based on an index or rate are excluded from the calculation of the lease liability and are recognized in the statement of operations during the period incurred.

We utilize discount rates to determine the net present value of our gross lease obligations when calculating the lease liability and related ROU asset. In cases in which the rate implicit in the lease is readily determinable, we utilize that discount rate for purposes of the net present value calculation. In most cases, our lease agreements do not have a discount rate that is readily determinable and therefore we utilize an estimate of our incremental borrowing rate. Our incremental borrowing rate is determined at lease commencement or lease modification and represents the rate of interest we would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. For adoption of the new standard, the rate was determined at the adoption date.

The lease term is determined by taking into account the initial period as stated in the lease contract and adjusted for any renewal options that the company is reasonably certain to exercise as well as any period of time that the lessee has control of the space before the stated initial term of the lease. If we determine that we are reasonably certain to exercise a termination option, the lease term is then adjusted to account for the expected termination date.

Operating lease expense is recorded as a single expense recognized on a straight-line basis over the lease term. Financing lease expense consists of interest expense on the financing lease liability and amortization of the right-of-use financing lease asset on a straight-line basis over the lease term.

New Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which supersedes FASB ASC Topic 840, Leases. This ASU requires the recognition of right-of-use assets and lease liabilities by lessees for those leases classified as operating leases under previous guidance. In addition, among other changes to the accounting for leases, this ASU retains the distinction between finance leases and operating leases. The classification criteria for distinguishing between financing leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases under previous guidance. Furthermore, quantitative and qualitative disclosures, including disclosures regarding significant judgments made by management, will be required. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The amendments in this ASU should be applied using a modified retrospective approach. Early application is permitted. In addition, in July 2018, the FASB issued ASU No. 2018-11, Leases (Topic 842), which provides an additional (and optional) transition method to adopt the new leases standard. Also, upon adoption we elected the practical expedients related to leases that commenced before the effective date, where the Company need not reassess; whether any expired or expiring contracts are or contain leases, the lease classification for any expired or existing leases, or initial direct costs for any existing leases. We adopted the new leases standards using the modified retrospective approach option effective January 1, 2019. No adjustment to prior period presentation and disclosure were required. The most significant impact related to the recognition of right-of-use assets and lease liabilities in the consolidated balance sheets for long-term operating leases. The aggregate impact was the recognition of operating lease right-of-use assets of \$35,114 and liabilities of \$39,045 and financing lease right-of-use assets and liabilities of \$991 as of January 1, 2019.

In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments, which amends FASB ASC Topic 326, Financial Instruments - Credit Losses. This ASU requires financial assets measured at amortized cost to be presented at the net amount to be collected and broadens the information, including forecasted information incorporating more timely information, that an entity must consider in developing its expected credit loss estimate for assets measured. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early application is permitted for fiscal years beginning after December 15, 2018. We are currently evaluating the impact of this standard 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. The

Company has elected to record the reclassification. This ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Company early adopted this ASU on January 1, 2019 with an adjustment to Retained Earnings from Accumulated Other Comprehensive Loss for \$1,337 for the income tax effects related to the Tax Cuts and Jobs Act.

In August 2018, the FASB issued ASU 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract, which amends FASB ASC Subtopic 350-40, Intangibles-Goodwill and Other-Internal-Use Software. This ASU adds certain disclosure requirements related to implementation costs incurred for internal-use software and cloud computing arrangements. The amendment aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). This ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The amendments in this ASU should be applied either using a retrospective or prospective approach. Early adoption is permitted. We are currently evaluating the impact of this standard on our consolidated financial statements.

2. Cash and cash equivalents

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Cash and cash equivalents	\$21,820	\$46,031
Restricted cash	<u>1,153</u>	<u>1,159</u>
	<u>\$22,973</u>	<u>\$47,190</u>

As of December 31, 2019, and December 31, 2018, cash held in foreign banks was \$15,358 and \$18,282, respectively.

As of December 31, 2019, and December 31, 2018, letters of credit in the amount of \$985 were outstanding under facilities with a commercial bank, and were cash collateralized in a restricted account.

3. Receivables, net

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Accounts receivable, gross	\$81,570	\$75,344
Less allowance for doubtful accounts	(3,614)	(1,044)
	<u>\$77,956</u>	<u>\$74,300</u>

	<u>December 31, 2019</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Beginning balance	\$1,044	\$1,182	\$857
Provision (recoveries)	2,401	128	348
Write-offs	(11)	-	(24)
Other and translation	<u>180</u>	<u>(266)</u>	<u>1</u>
Ending balance	<u>\$3,614</u>	<u>\$1,044</u>	<u>\$1,182</u>

4. Inventories

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Raw materials	\$15,841	\$19,351
Work in process	59,036	41,442
Finished products	<u>24,944</u>	<u>31,732</u>
	<u>\$99,821</u>	<u>\$92,525</u>

5. Property, Plant and Equipment, Net

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Land and improvements	\$1,940	\$1,948
Buildings and improvements	45,314	43,644
Machinery and equipment	324,287	304,206
Construction in progress	<u>12,749</u>	<u>18,686</u>
	<u>\$384,290</u>	<u>\$368,484</u>

Accumulated depreciation

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Land and improvements	\$400	\$375
Buildings and improvements	19,188	16,966
Machinery and equipment	<u>202,907</u>	<u>181,111</u>
	<u>\$222,495</u>	<u>\$198,452</u>

6. Other Assets

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Other taxes receivable	\$8,564	\$10,907
Indemnification asset	6,793	6,793
Other	<u>1,260</u>	<u>1,298</u>
	<u>\$16,617</u>	<u>\$18,998</u>

7. Accrued Liabilities

Accrued liabilities were comprised of:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Compensation and employee benefits	\$7,597	\$7,925
Taxes payable	15,887	12,602
Accrued volume and sales rebates	5,107	4,106
Accrued interest payable	14	8
Restructuring reserve	10,217	9,515
Other	5,857	6,090
	<u>\$44,679</u>	<u>\$40,246</u>

8. Debt Obligations

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Short-term debt:		
Bank term loan	\$2,750	\$2,750
Europe bank loans	1,875	1,909
Restructured term loan	7,215	-
Total short-term debt	<u>11,840</u>	<u>4,659</u>
Long-term debt:		
Bank term loan, net of discount	255,075	257,237
Europe bank loans	375	2,291
Restructured term loan	-	6,857
Other	415	429
Total long-term debt	<u>255,865</u>	<u>266,814</u>
Total debt	<u>\$267,705</u>	<u>\$271,473</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 June 30, 2019, the Company entered into the Eleventh Amendment to the Loan and Security Agreement with Icahn Enterprises L.P., extending the maturity date of the Revolving Credit Facility from January 30, 2020 to January 30, 2021 and amending the maximum revolver amount to \$45,000.

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 December 31, 2019. The amended Revolving Credit Facility had no borrowings as of December 31, 2019 and December 31, 2018.

In its foreign operations, the Company has unsecured lines of credit with various banks providing approximately \$7,250 of availability. There were no borrowings under the lines of credit at December 31, 2019 and December 31, 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 December 31, 2019, the interest rate was 5.19% 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 Polyclip 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 was paid in full 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%.

Europe Bank Loan

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.

On December 2, 2018, the French affiliate of the Company entered into a second 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 0.75% with a two year maturity. The CIC Term Loan has a contractual obligation to repay 12.50% of face value of the loan on a quarterly basis. The maturity date on the Term Loan is October 5, 2020. Prepayments on the CIC Term Loan are permitted with advance notice of 30 days.

Debt Maturity

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

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>Thereafter</u>
Term Loan Facility	\$ 2,750	\$255,750	\$ -	\$ -	\$ -	\$ -
Europe Bank Loan	1,875	375	-	-	-	-
Restructured Term Loan	7,215	-	-	-	-	-
Other	-	-	-	-	-	903
	<u>\$ 11,840</u>	<u>\$256,125</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 903</u>

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

9. Leases

We have operating and finance (formerly capital) leases primarily for real estate, equipment and vehicles. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants. Right-of-use assets and related liabilities are recorded on the balance sheet for leases with an initial term in excess of twelve months

Right-of-use assets and lease liabilities are as follows:

	<u>December 31, 2019</u>
Operating Leases:	
Right-of-use assets	\$ 34,062
Lease liabilities	37,850
Financing Leases:	
Right-of-use assets (property, plant and equipment, net)	572
Lease liabilities (debt)	574

Upon adoption of the new lease standard, the Company reclassified \$1,358 of lease incentive liability, \$1,286 of deferred rent liability and \$1,024 of lease restructuring liability to ROU assets.

The following is an analysis of leased property under financing (formerly capital) leases by major classes as of December 31, 2019 and 2018.

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Building and improvements	\$453	\$453
Machinery and equipment	3,599	3,625
Less: Accumulated depreciation	<u>(3,480)</u>	<u>(2,975)</u>
	<u>\$572</u>	<u>\$1,103</u>

Additional information with respect to our operating and finance leases as of December 31, 2019 is presented below.

	<u>Operating</u>	<u>Finance</u>
Weighted average remaining lease term (years)	11.67	1.39
Weighted average discount rate	7.43%	5.54%

Lease expense consists of the following:

	<u>December 31, 2019</u>
Operating lease rent expense	<u>\$ 5,979</u>
Financing Leases:	
Amortization of right-of-use assets	454
Interest expense on lease liabilities	46
	<u>\$ 500</u>

Cash flow information related to leases is as follows:

	<u>December 31, 2019</u>
Cash Paid For Amounts Included in the Measurement of Lease Liabilities:	
Cash used in operating activities (operating leases)	\$ 5,631
Cash used in operating activities (financing leases)	519
Cash used in financing activities (financing leases)	-
Supplemental Cash Flow Information:	
Right-of-use assets obtained in exchange for lease obligations (operating leases)	\$ 2,471
Right-of-use assets obtained in exchange for lease obligations (financing leases)	-
Re-measurement of lease liabilities	-

Maturities of operating and financing lease liabilities as of December 31, 2019 are as follows:

<u>Year</u>	<u>Operating Leases</u>	<u>Financing Leases</u>
2020	\$ 5,615	\$ 513
2021	5,623	39
2022	5,410	47
2023	5,112	11
2024	4,797	-
Thereafter	31,089	-
Total lease payments	57,646	610
Less: discounted interest	(19,796)	(36)
	<u>\$ 37,850</u>	<u>\$ 574</u>

12. Retirement Plans

On March 15, 2018, the Company purchased an annuity contract for a preliminary amount of \$29,258. The contract was finalized on September 26, 2018 for a final amount of \$28,403 which affected 1,034 participants in the U.S. defined benefit pension plan. The purchase of this annuity contract will lower our projected benefit obligation by \$28,403. The Company recognized a settlement charge of \$7,381 in Other expense related to the annuity purchase.

The Company has contributed \$3,885 to pension benefits in the U.S. during the year ended December 31, 2019.

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

The Company's operations in the United States, France, and Germany historically offered defined benefit retirement plans ("Plan") to their employees. Most of these benefits have been terminated, resulting in various reductions in liabilities and curtailment gains.

Included in accumulated other comprehensive loss, net of tax is \$41,313 as of December 31, 2019. The the following amounts not yet recognized in net periodic benefit cost:

	<u>U.S. Pension Benefits</u>	<u>Non U.S. Pension Benefits</u>
Net actuarial loss	(\$33,636)	(2,712)
Prior service credit	3	(156)

Amounts included in other comprehensive loss expected to be recognized as a component of net periodic benefit cost for the year ending December 31, 2020 are:

	<u>U.S. Pension Benefits</u>	<u>Non U.S. Pension Benefits</u>
Net actuarial loss	(\$1,025)	(\$75)

The measurement date for all defined benefit plans is December 31. The year-end status of the plans is as follows:

	<u>U.S. Pension Benefits</u>		<u>Non U.S. Pension Benefits</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Change in benefit obligation:				
Projected benefit obligation at beginning of year	\$121,483	\$160,671	\$24,780	\$26,981
Service cost	-	-	411	489
Interest cost	5,181	5,328	436	457
Actuarial loss (gain)	8,661	(8,968)	2,220	(1,395)
Benefits paid	(6,480)	(7,145)	(611)	(573)
Plan settlements	-	(28,403)	-	-
Liability (Gain)/Loss due to Curtailment	-	-	(1,367)	-
Net increase in obligation due to acquisition	-	-	-	-
Currency translation	-	-	(468)	(1,179)
Estimated benefit obligation at end of year	<u>\$128,845</u>	<u>\$121,483</u>	<u>\$25,401</u>	<u>\$24,780</u>

Change in plan assets:				
Fair value of plan assets at beginning of year	\$75,852	\$113,918	\$1,322	\$1,343
Actual return on plan assets	15,078	(5,701)	37	40
Employer contribution	3,885	3,183	611	97
Benefits paid	(6,480)	(7,145)	(611)	(97)
Plan settlements	-	(28,403)	-	-
Currency translation	-	-	(24)	(61)
Fair value of plan assets at end of year	<u>\$88,335</u>	<u>\$75,852</u>	<u>\$1,335</u>	<u>\$1,322</u>
Unfunded status of the plan	<u>(\$40,510)</u>	<u>(\$45,631)</u>	<u>(\$24,066)</u>	<u>(\$23,458)</u>

	<u>U.S. Pension Benefits</u>		<u>Non U.S. Pension Benefits</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Amounts recognized in statement of financial position:				
Current liabilities	(\$74)	(\$74)	(\$503)	(\$159)
Noncurrent liabilities	<u>(40,436)</u>	<u>(45,557)</u>	<u>(23,563)</u>	<u>(23,340)</u>
Net amount recognized	<u>(\$40,510)</u>	<u>(\$45,631)</u>	<u>(\$24,066)</u>	<u>(\$23,499)</u>

The funded status of these pension plans as a percentage of the projected benefit obligation was 58% in 2019 compared to 53% in 2018.

	<u>U.S. Pension Benefits</u>		<u>Non U.S. Pension Benefits</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Projected benefit obligation	\$128,845	\$121,483	\$25,401	\$24,780
Fair value of plan assets	\$88,335	\$75,852	\$1,335	\$1,322

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.

Components of net periodic benefit cost for the years ended December 31:

	U.S. Pension Benefits			Non U.S. Pension Benefits		
	2019	2018	2017	2019	2018	2017
Component of net period benefit cost						
Service cost	\$ -	\$ -	\$ -	\$406	\$503	\$640
Interest cost	5,181	5,328	6,663	431	470	428
Expected return on plan assets	(4,310)	(5,128)	(7,709)	(39)	(40)	(72)
Amortization of prior service cost		-	-	12	13	-
Amortization of actuarial loss	1,284	1,034	4,605	48	120	237
Settlement loss recognized		7,381	-	-	-	-
	<u>\$2,155</u>	<u>\$8,615</u>	<u>\$3,559</u>	<u>\$858</u>	<u>\$1,066</u>	<u>\$1,233</u>

Weighted average assumptions used to determine the benefit obligation and net periodic benefit cost as of December 31:

	U.S. Pension Benefits		Non U.S. Pension Benefits	
	2019	2018	2019	2018
Discount rate	3.38%	4.41%	1.70%	1.78%
Expected return on plan assets	5.85%	5.85%	3.20%	3.20%
Rate of compensation increase	N/A	N/A	2.58%	2.67%

The Company evaluates its discount rate assumption annually as of December 31 for each of its retirement-related benefit plans. The Company is using a Mercer bond model for determining its U.S. pension benefits. The Company is using a weighted average discount rate of 1.70% on its non-U.S. pension plans for 2019.

The Company's expected return on plan assets is evaluated annually based upon a study which includes a review of anticipated future long-term performance of individual asset classes, and consideration of the appropriate asset allocation strategy to provide for the timing and amount of benefits included in the projected benefit obligation. While the study gives appropriate consideration to recent fund performance and historical returns, the assumption is primarily a long-term prospective rate.

The Company's overall investment strategy is to achieve growth through a mix of approximately 75% of investments for long-term growth and 25% for near-term benefit payments with a wide diversification of asset types, fund strategies, and fund managers. The target allocations for plan assets are 65% equity securities, 5% hedge funds and 25% to fixed income investments. Equity securities primarily include investments in large-cap, mid-cap and small-cap companies primarily located in the United States and international developed markets. Fixed income securities include corporate bonds of companies from diversified industries, mortgage-backed securities, and U.S. Treasuries. Other types of investments include investments in hedge funds that follow several different strategies.

Plan management uses the following methods and significant assumptions to estimate fair value of investments.

Money market – overnight bank deposits and money market mutual funds maintaining at all times \$1.00 Net Asset Value (“NAV”).

US Government and agency obligations – U.S. Treasury bonds, notes and other government obligations.

Exchange traded funds – marketable securities tracking asset baskets traded on active markets.

Mutual funds - Valued at the net asset value (“NAV”) of shares or units held by the Plan at year-end which is obtained from an active market or at share or unit prices provided by the fund manager with significant observable inputs.

Hedge funds - Value provided by the administrator of the fund. The pricing for these funds is provided monthly by the fund to determine the quoted price.

Common stocks - marketable corporate equity securities traded on active markets.

The fair values of the Company’s pension plan asset allocation at December 31, 2019 and 2018, by asset category are as follows:

	Fair Value Measurement at December 31, 2019			
	Quoted Prices in Active Markets for Identical Assets Total	Significant Observable Inputs (Level 1)	Significant Unobservable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market	\$3,342	\$3,342	\$ -	\$ -
US Government and agency obligations	2,747	1,008	1,739	-
Exchange traded funds	18,348	18,348	-	-
Mutual funds	28,216	26,355	1,861	-
Common stocks	26,619	26,619	-	-
Total Assets in the fair value hierarchy	79,272	\$75,672	\$3,600	\$0
Investments measured at NAV (a)	10,398			
Investments at fair value	\$89,670			

	Fair Value Measurement at December 31, 2018			
	Quoted Prices in Active Markets for Identical Assets Total	Significant Observable Inputs (Level 1)	Significant Unobservable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market	\$3,224	\$3,224	\$ -	\$ -
US Government and agency obligations	2,497	879	1,618	-
Exchange traded funds	16,551	16,551	-	-
Mutual funds	24,318	22,355	1,963	-
Common stocks	20,785	20,785	-	-
Total Assets in the fair value hierarchy	67,375	\$63,794	\$3,581	\$ -
Investments measured at NAV (a)	9,799			
Investments at fair value	\$77,174			

(a) Hedge funds are measured at fair value using the NAV per share practical expedient, and therefore have not been classified in the fair value hierarchy.

The following table provides a summary of the estimated benefit payments for the postretirement plans for the next five fiscal years individually and for the following five fiscal years in the aggregate.

	U.S.	Non U.S
2020	\$7,532	\$540
2021	7,695	627
2022	7,768	657
2023	7,882	697
2024	8,005	883
Thereafter	39,470	4,740

The Company's expected contribution for the 2020 fiscal year is \$700 with an additional \$9,321 deferred to 2021 under the CARE Act for the U.S. pension plan. There is no funding requirement for non U.S. pension plans.

Savings Plans

The Company also has defined contribution savings and similar plans for eligible employees, which vary by subsidiary. The Company's aggregate contributions to these plans are based on eligible employee contributions and certain other factors. The Company expense for these plans was \$1,012, \$1,050 and \$998 in 2019, 2018 and 2017, respectively.

International Plans

The Company maintains various pension and statutory separation pay plans for its European employees. The expense, not including the French and German pension plan, in 2019, 2018, and 2017 was \$285, \$382 and \$572, respectively. As of their most recent valuation dates, for those plans where vested benefits exceeded plan assets, the actuarially computed value of vested benefits exceeded those plans' assets by approximately \$4,560.

13. Capital Stock, Treasury Stock and Paid in Capital

Authorized shares of preferred stock (\$0.01 par value per share) and common stock (\$0.01 par value per share) for the Company are 50,000,000 shares and 100,000,000 shares, respectively.

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.

In 2004, the Company purchased 805,270 shares of its common stock from the underwriter for a purchase price of \$298. The common stock has been accounted for as treasury stock.

14. Income Taxes

Income tax provision (benefit) consisted of:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current			
Domestic	\$83	\$139	\$274
Foreign	<u>3,847</u>	<u>3,033</u>	<u>4,713</u>
Total current	3,930	3,172	4,987
Deferred			
Domestic	(303)	(394)	15,842
Foreign	<u>4,122</u>	<u>(6,847)</u>	<u>(419)</u>
Total deferred	3,819	(7,241)	15,423
Total	<u>\$7,749</u>	<u>(\$4,069)</u>	<u>\$20,410</u>

The reconciliation of income tax provision (benefit) attributable to earnings differed from the amounts computed by applying the U.S. Federal statutory income tax rate to earnings by the following amounts:

Income (loss) before income taxes:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Domestic	(\$895)	(\$1,340)	\$1,572
Foreign	<u>(16,473)</u>	<u>(17,199)</u>	<u>14,597</u>
Total	<u>(\$17,368)</u>	<u>(\$18,539)</u>	<u>\$16,169</u>

Computed income tax (benefit) provision	(\$3,647)	(\$3,893)	\$5,659
State and local taxes, net of federal tax	(225)	(26)	(62)
Foreign taxes, net	(2,281)	(2,650)	(442)
Valuation allowance	9,344	(97)	612
Uncertain tax positions - (benefit) expense	867	(108)	(1,419)
Foreign exchange impact	264	953	167
Permanent differences, net	2,047	1,459	(235)
Tax reform items	-	(527)	16,146
Revaluation of deferreds	867	302	276
Other, net	<u>513</u>	<u>518</u>	<u>(292)</u>
Total income tax (benefit) expense	<u>\$7,749</u>	<u>(\$4,069)</u>	<u>\$20,410</u>

Computed income tax (benefit) provision	21.0%	21.0%	35.0%
State and local taxes, net of federal tax	1.3%	0.1%	-0.4%
Foreign taxes, net	13.1%	14.3%	-2.7%
Valuation allowance	-53.8%	0.5%	3.8%
Uncertain tax positions - expense (benefit)	-5.0%	0.6%	-8.8%
Foreign exchange impact	-1.5%	-5.1%	1.0%
Permanent differences, net	-11.8%	-7.9%	-1.5%
Tax reform items	0.0%	2.8%	99.9%
Revaluation of deferreds	-5.0%	-1.6%	1.7%
Other, net	<u>-3.0%</u>	<u>-2.8%</u>	<u>-1.8%</u>
Effective income tax rate	<u>-44.6%</u>	<u>21.9%</u>	<u>126.2%</u>

Statutory federal rate	21.0%	21.0%	35.0%
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Temporary differences and net operating loss carryforwards that give rise to a significant portion of deferred tax assets and liabilities for 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Deferred tax asset		
Provisions not currently deductible	\$8,004	\$6,288
Inventory basis differences	4,939	4,186
Stock options	41	151
Pension and healthcare	12,410	13,263
Net operating loss carryforwards	26,528	25,920
Lease liability	9,465	-
Foreign exchange and other	300	-
Valuation allowance	<u>(10,354)</u>	<u>(1,184)</u>
Total deferred tax asset	<u>\$51,333</u>	<u>\$48,624</u>
Deferred tax liability		
Property, plant, and equipment	(\$8,831)	(\$9,745)
Intangible asset	(6,829)	(7,481)
Right of use assets	(9,465)	-
Foreign exchange and other	-	(819)
Total deferred tax liability	<u>(\$25,125)</u>	<u>(\$18,045)</u>
	<u>\$26,208</u>	<u>\$30,579</u>

The net deferred tax asset (liability) is classified in the balance sheet as follows:

	<u>2019</u>	<u>2018</u>
Non-current deferred tax assets	\$30,199	\$37,105
Non-current deferred tax liability	<u>(3,991)</u>	<u>(6,526)</u>
Non-current deferred tax assets, net	<u>\$26,208</u>	<u>\$30,579</u>

A valuation allowance is provided when it is more likely than not that some portion or all of the net deferred tax assets will not be realized. Management believes that it is more likely than not that its net deferred tax assets will be realized based on the weight of positive evidence and future income except with respect to the loss in Poland, Brazil and a portion of the state loss in the US. The Company has a valuation allowance for Brazil December 31, 2019 and December 31, 2018 of \$9,506 and \$0, respectively. The Company has a valuation allowance for Viskase Poland at December 31, 2019 and December 31, 2018 of \$376 and \$685, respectively. The Company has a valuation allowance in the U.S. at December 31, 2019 and December 31, 2018 of \$471 and \$473, respectively. The Company has gross U.S. federal net operating loss carryforwards at December 31, 2019 and December 31, 2018 of \$58,485 and \$69,381, respectively, with amounts beginning to expire in 2024. The Company has gross net operating loss carryforwards in Brazil at December 31, 2019 and December 31, 2018 of \$11,498 and \$8,315, respectively and has an unlimited carryforward period. The Company has gross net operating loss carryforwards in Poland at December 31, 2019 and December 31, 2018 of \$4,268 and \$4,429, respectively and has a five year carryforward period. The Company has gross net operating loss carryforwards in France at December 31, 2019 and December 31, 2018 of \$11,927 and \$8,510, respectively and has an unlimited carryforward period. The Company has gross net operating loss carryforwards in Viskase Germany at December 31, 2019 and December 31, 2018 of \$2,372 and \$1,770 for Income Tax and Trade Tax. The Company has gross net operating loss carryforwards in CT Casings at December 31, 2019 and December 31, 2018 of \$14,836 and \$403 for Income Tax and Trade Tax. Germany has an unlimited carryforward period on Trade Tax.

The Company joins in filing a United States consolidated Federal income tax return including all of its domestic subsidiaries.

Uncertainty in Income Taxes

The uncertain tax positions as of December 31, 2019 totaled \$17,443. The following table summarizes the activity related to the unrecognized tax benefits.

<u>(in thousands)</u>	<u>2019</u>	<u>2018</u>
Unrecognized tax benefits as of January 1	\$11,677	\$11,855
Increases in positions taken in a prior period	-	-
Decreases in positions taken in a prior period	(12)	(28)
Increases in positions taken in a current period	5,803	-
Increases due to currency translation	55	-
Decreases due to currency translation	-	(21)
Decreases due to lapse of statute of limitations	(80)	(129)
<u>Unrecognized tax benefits as of December 31</u>	<u>\$17,443</u>	<u>\$11,677</u>

In 2019, the Company recognized an approximate net increase of \$5,767 to the reserves for uncertain tax positions. The majority of the increase in the reserve is mainly due to the increase of reserves in France and Germany.

Approximately \$17,400 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 2015. Substantially all material state and local and foreign income tax matters have been concluded for years through 2012. 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 \$300.

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, 2019 and 2018, the Company recorded adjustments for interest of \$965 and (\$4), respectively, and for penalties of \$(1) and \$(68), respectively related to these unrecognized tax benefits. In total, as of December 31, 2019 and 2018, the Company has recorded a liability of interest of \$1,635 and \$670, respectively, and \$173 and \$174, respectively, for potential penalties.

15. Goodwill and Intangible Assets, net

The Company currently has \$3,376 of goodwill with no impairment.

Goodwill consists of the following:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Beginning balance	\$3,428	\$3,580
Translation	(52)	(152)
Gross carrying amount, December 31st	<u>\$3,376</u>	<u>\$3,428</u>

Intangible assets, net consists of the following:

	December 31, 2019		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Definite live intangible assets:			
Customer relationships	\$19,704	(\$2,955)	\$16,749
Technologies	2,357	(494)	1,863
Patents/Trademarks	9,626	(5,927)	3,699
In-place leases	204	(44)	160
	<u>\$31,891</u>	<u>(\$9,420)</u>	<u>\$22,471</u>

	December 31, 2018		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Definite live intangible assets:			
Customer relationships	\$20,083	(\$2,002)	\$18,081
Technologies	2,402	(378)	2,024
Patents/Trademarks	9,482	(5,448)	4,034
In-place leases	208	(30)	178
	<u>\$32,175</u>	<u>(\$7,858)</u>	<u>\$24,317</u>

Amortization expense associated with definite-lived intangible assets was \$1,619 and \$1,664 for 2019 and 2018, respectively. We utilize the straight-line method of amortization, recognized over the estimated useful lives of the assets.

The estimated future amortization expense for our definite-lived intangible assets is as follows:

2020	\$1,620
2021	1,620
2022	1,620
2023	1,620
2024	1,620
Total thereafter	<u>14,371</u>
Total amortization	<u>\$22,471</u>

16. 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.

17. Stock-based compensation (Dollars in Thousands, except Per Share Amount)

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 \$0 for the year ended December 31, 2019 and \$224 for the years ended December 31, 2018 and 2017.

The fair values of the options granted during 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:

	<u>2013</u>
Expected term	10 years
Expected stock volatility	17.33%
Risk-free interest rate	1.75%
Expected forfeiture rate	0.00%
Fair value per option	\$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. As a result of the termination of the chief executive officer on October 3, 2019, the stock options granted expired at the commencement of business on that date pursuant to the terms of the stock option plan. Stock option expense for the unvested portion of this grant was reversed in October 2019.

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	Weighted Average Remaining Contractual Life	Weighted Average Grant-Date Fair Value
Outstanding, December 31, 2017	925,000	\$ 4.45	93 months	\$ 0.91
<i>Vested and exercisable at Dec. 31, 2017</i>	<i>525,000</i>	<i>\$ 5.92</i>	<i>81 months</i>	<i>\$ 0.74</i>
Granted	-	\$ -	-	-
Exercised	-	\$ -	-	-
Forfeited	-	\$ -	-	-
Outstanding, December 31, 2018	925,000	\$ 4.45	81 months	\$ 0.91
<i>Vested and exercisable at Dec. 31, 2018</i>	<i>725,000</i>	<i>\$ 4.98</i>	<i>77 months</i>	<i>\$ 0.85</i>
Granted	-	\$ -	-	-
Exercised	-	\$ -	-	-
Forfeited	600,000	\$ -	-	-
Outstanding, December 31, 2019	325,000	\$ 8.00	41 months	\$ 0.51
<i>Vested and exercisable at Dec. 31, 2019</i>	<i>325,000</i>	<i>\$ 8.00</i>	<i>41 months</i>	<i>\$ 0.51</i>

Vested and exercisable options as of December 31, 2019 were 325,000 with a weighted average share price of \$8.00.

18. Research and Development Costs

Research and development costs are expensed as incurred and totaled \$4,882, \$5,808 and \$4,947 for 2019, 2018, and 2017, respectively.

19. Related-Party Transactions

As of December 31, 2019, Icahn Enterprises L.P. owned approximately 78.6% of our outstanding common stock.

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 \$189 and \$189 for the year ended 2019 and 2018. A number of other entities with which Mr. Icahn has a relationship also acquired equity interests in Insight Portfolio Group and agreed to pay certain of Insight Portfolio Group's operating expenses in 2019.

In December 2019, Insight advised us that it was shutting down its services effective January 1, 2020. Supplier contracts coordinated through Insight will remain in effect through their individual terms. Effective February 10, 2020, the Company withdrew as a member of Insight and assigned its interests in Insight to another Delaware limited liability company.

Icahn Enterprises L.P. was the lender on the Company's Revolving Credit Facility as of December 31, 2019. The Company paid Icahn Enterprises L.P. service, commitment fees and interest of \$154 and \$114 for the year ended 2019 and 2018.

20. 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:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net sales			
North America	\$191,548	\$193,135	\$183,771
South America	39,780	46,541	52,715
Europe	168,086	175,594	178,502
Asia	47,535	43,571	39,032
Other and eliminations	<u>(62,077)</u>	<u>(63,512)</u>	<u>(62,042)</u>
	<u>\$384,872</u>	<u>\$395,329</u>	<u>\$391,978</u>
Operating income			
North America	\$9,972	\$17,491	\$13,799
South America	(2,618)	(813)	5,210
Europe	(7,232)	(12,079)	3,991
Asia	<u>7,608</u>	<u>7,865</u>	<u>9,305</u>
	<u>\$7,730</u>	<u>\$12,464</u>	<u>\$32,305</u>

Net Sales by country			
United States	\$118,749	\$115,575	\$109,357
Brazil	21,280	27,928	32,233
Italy	23,894	24,052	23,132
Germany	28,000	28,229	28,445
France	11,476	12,569	12,220
Philippines	22,191	21,549	18,682
Poland	12,086	11,450	10,664
Other international	<u>147,196</u>	<u>153,977</u>	<u>157,245</u>
	<u>\$384,872</u>	<u>\$395,329</u>	<u>\$391,978</u>

21. Interest Expense, Net

Net interest expense consisted of:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Interest expense	\$16,498	\$15,821	\$13,293
Less Capitalized interest	-	-	(76)
Interest expense, net	<u>\$16,498</u>	<u>\$15,821</u>	<u>\$13,217</u>

22. Changes in Accumulated Other Comprehensive Loss

	<u>Accrued Employee Benefits</u>	<u>Translation Adjustments</u>	<u>Total</u>
Balance at December 31, 2018	(\$44,388)	(\$34,888)	(\$79,276)
Other comprehensive (loss) before reclassifications	394	(1,234)	(840)
Reclassifications from accumulated other comprehensive loss to earnings	<u>1,344</u>	<u>-</u>	<u>1,344</u>
Other comprehensive income (loss), net of tax	1,738	(1,234)	504
Elimination of stranded tax effects resulting from tax legislation	<u>1,337</u>	<u>-</u>	<u>1,337</u>
Balance at December 31, 2019	<u>(\$41,313)</u>	<u>(\$36,122)</u>	<u>(\$77,435)</u>

	<u>Amounts Reclassified from Accumulated Other Comprehensive Loss</u>	<u>Affected Line Items in the Consolidation Statement of Operations and Comprehensive Loss</u>
Accrued Employee Benefits		
Settlement charges	-	Other Income/Expense
Amortization of net actuarial loss	<u>1,344</u>	Other Income/Expense
	<u>\$1,344</u>	

23. Restructuring Charges

During the year ended December 31, 2018, the Company recognized a restructuring expense in our European segment of \$8,862, which we believe is our statutory cost for the plan. During 2019, the Company recognized an additional \$9,224 in expense for the final approved restructuring plans. The costs relate to a restructuring of its French and German subsidiary operations to safeguard the Company's competitive environment in the European market. The plan will involve the involuntary termination of approximately 150 employees, the closure of our European sales office and relocation of part of our finishing operation. The Company has also opened a European shared service center with the consolidation of corporate jobs in this market.

The following table provides details of our restructuring provisions.

	December 31, 2019	December 31, 2018
Beginning balance	\$9,515	\$1,237
Provision	9,224	8,862
Payments	(7,778)	(381)
ASC 842 adoption	(310)	-
Translation	(434)	(203)
Ending balance	\$10,217	\$9,515

24. 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.

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, 2019 and December 31, 2018. The other equity holders' interests are reflected in "Net loss attributable to noncontrolling interests" in the Consolidated Statements of Operations and "Noncontrolling interests" in the Consolidated Balance Sheets.

The following table summarizes the carrying amount of the VIEs' assets and liabilities included in the Company's Consolidated Balance Sheets at December 31, 2019 and December 31, 2018:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$14	\$28
Receivables, net	139	49
Inventories	211	232
Other current assets	148	45
Property, plant and equipment	1,237	1,205
Less: Accumulated depreciation	<u>(260)</u>	<u>(136)</u>
Property, plant and equipment, net	977	1,069
Deferred tax asset	115	115
Other assets	<u>26</u>	<u>20</u>
Total Assets	<u>\$1,630</u>	<u>\$1,558</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities	<u>634</u>	<u>221</u>
Total Liabilities	<u>634</u>	<u>221</u>
Paid in capital	2,181	2,181
Retained earnings	<u>(1,185)</u>	<u>(844)</u>
Total Stockholder Equity	<u>996</u>	<u>1,337</u>
Total Liabilities and Stockholders' Equity	<u>\$1,630</u>	<u>\$1,558</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 December 31, 2019 and December 31, 2018.

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Net sales	\$380	\$90
Cost of sales	<u>438</u>	<u>384</u>
Gross margin	(58)	(294)
Selling, general and administrative	<u>187</u>	<u>223</u>
Operating loss	(245)	(517)
Other expense	<u>96</u>	<u>38</u>
Loss before income taxes	(341)	(555)
Income tax benefit	<u>-</u>	<u>-</u>
Net loss	<u>(\$341)</u>	<u>(\$555)</u>

25. Going Concern

The Company's financial statements are prepared using accounting principles generally accepted in the United States of America applicable to a going concern which contemplates the realization of assets and liquidation of liabilities in the normal course of business. While the Company has sufficient operating income to fund normal operations, the ability of the Company to continue as a going concern is dependent on the Company obtaining adequate refinancing of its Term B loan before its maturity in January 2021.

In order to continue as a going concern, the Company will need, among other things, additional capital resources. Management's plan to obtain such resources for the Company include traditional financing, such as loans; sales of equity instruments; and obtaining capital from significant stockholders sufficient to meet its debt obligations.

Most recently, from the beginning of 2020, the global spread of a novel coronavirus pandemic, also known as COVID-19, has delayed the proposed refinancing arranged by the Company. We fully expect the refinancing will be completed before the maturity of our Term B facility. However, there is no assurance that the Company will be able to obtain sufficient additional funds to refinance these maturities occurring within 12 months of the date of the issuance of our financials or that such funds, if available, will be obtainable on terms satisfactory to the Company, and therefore substantial doubt exists about the Company's ability to continue as a going concern.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the liquidation of liabilities in the normal course of business.

26. Subsequent Events

Viskase evaluated its December 31, 2019 consolidated financial statements for subsequent events through May 1, 2020, the date the consolidated financial statements were available to be issued.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States. As a result, the Company has implemented a COVID-19 response plan which has phased responses to levels of severity and locality of the virus. With these measures in place the Company does not believe there will be a material impact on its operations.

The Company's operations and associated supply chain have been deemed essential by governing bodies in its countries of operations, therefore, there are no restrictions to prevent employees from working. Its supplies are mainly domestic, but certain items are sourced internationally. We have not experienced any cross-border restrictions that have impacted the Company, and none of its sales are expected to be impacted by cross-border restrictions. While the disruption is currently expected to be temporary, there is uncertainty around the duration. Therefore, while the Company has not experienced this matter negatively impacting its business, results of operations, and financial position, the related financial impact cannot be reasonably estimated at this time. The Company has seen a positive impact on order volume at this time and expect the longer the duration the more uncertain the overall impact. As a result, the Company and its Parent are monitoring the situation as it unfolds and adjusting measures as needed.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Unaudited)

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 ten manufacturing facilities 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 is in balance with global demand.

Comparison of Results of Operations for Years Ended December 31, 2019, 2018 and 2017.

The following discussion compares the results of operations for the fiscal year ended December 31, 2019 to the results of operations for the fiscal year ended December 31, 2018, and compares the results of operations for the fiscal year ended December 31, 2018 to the results of operations for the fiscal year ended December 31, 2017. We have provided the table below in order to facilitate an understanding of this

discussion. The table shows our results of operations (in millions) for the 2019, 2018 and 2017 fiscal years.

	Year Ended Dec <u>31, 2019</u>		Year Ended Dec <u>31, 2018</u>		Year Ended Dec <u>31, 2017</u>
NET SALES	\$384.9	-2.6%	\$395.3	0.8%	\$392.0
Cost of sales	311.6	-1.3%	315.8	6.7%	296.1
Selling, general and administrative	53.7	-4.8%	56.4	-3.4%	58.4
Amortization of intangibles	1.6	-5.9%	1.7	6.2%	1.6
Asset impairment	1.0	900.0%	0.1	-94.4%	1.8
Restructuring expense	9.2	3.4%	8.9	423.5%	1.7
OPERATING INCOME	7.7	-37.9%	12.4	-61.7%	32.4
Interest expense, net of income	16.2	5.9%	15.3	16.8%	13.1
Other expense, net	8.9	-43.3%	15.7	423.3%	3.0
Income tax provision (benefit)	<u>7.7</u>	NM	<u>(4.1)</u>	NM	<u>20.4</u>
NET LOSS	<u>(\$25.1)</u>	74.3%	<u>(\$14.4)</u>	242.9%	<u>(\$4.2)</u>

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

2019 Versus 2018

Net Sales. Our net sales for 2019 were \$384.9 million, which represents an decrease of \$10.4 million or 2.6% from the prior year. Net sales decreased \$3.9 million from volume, \$7.5 million due to foreign currency translation offset by an increase of \$1.0 million due to price and mix.

Cost of Sales. Cost of sales for 2019 decreased 1.3% from the comparable prior year period. The decrease is due to lower volume, business interruption claim and lower absorption of manufacturing costs at our plants.

Selling, General and Administrative Expenses. We decreased selling, general and administrative expenses from \$56.4 million in 2018 to \$53.7 million in 2019. The decrease is mainly due to lower costs with the restructuring plan offset by one time expenses related to strategic alternatives.

Amortization of Intangibles. The Company incurred an expense of \$1.6 million on the amortization of intangibles recognized with the acquisitions.

Asset Impairment Charge. The Company incurred an asset impairment charge of \$1.0 million in 2019 related to the write down of certain high cost production machinery taken out of service.

Restructuring Expense. Restructuring expense of \$9.2 million during of 2019 and \$8.9 million in 2018 resulted from the planned partial relocation of our manufacturing operation in Thaon, France and a downsizing of our facility in Bomlitz, Germany. The plan involved the involuntary termination of approximately 150 employees. The Company anticipates an annual savings of \$10.0 million per year when the plan is fully implemented.

Operating Income. Operating income for 2019 was \$7.7 million, representing an decrease of \$4.7 million from the prior year. The decrease in operating income was primarily due to lower gross profit due to manufacturing performance and the resulting lower sales volume, plus the asset impairment charge.

Interest Expense. Interest expense, net of interest income, for 2019 was \$16.2 million, representing an increase of \$0.9 million compared to 2018. The increase is a result of a higher interest rate on our Term loan.

Other Expense. Other expense for 2019 was approximately \$8.9 million, representing a decrease of \$6.8 million over 2018. The decrease is primarily due to one time expense related to pension settlement accounting in 2018.

Income Tax Provision. During 2019, an income tax expense of \$7.7 million was recognized on the loss before income taxes of \$17.4 million compared to income tax benefit of \$4.1 million in 2018. The 2019 effective income tax rate was (44.6%) compared to (18.9%) for 2018. The Company's 2018 income tax expense and rate differ from the amount of income tax determined by applying the U.S. Federal income tax rate to pre-tax income primarily as a result of a \$9.5 million increase for a valuation allowance against a Brazilian deferred tax asset.

Primarily as a result of the factors discussed above, net loss was (\$25.1) million compared to net loss of \$(14.4) million for 2018.

2018 Versus 2017

Net Sales. Our net sales for 2018 were \$395.3 million, which represents an increase of \$3.3 million or 0.8% from the prior year. Net sales decreased \$3.1 million from volume, \$0.6 million due to price and mix offset by an increase of \$7.0 million due to foreign currency translation.

Cost of Sales. Cost of sales for 2018 increased 6.7% from the comparable prior year period. The increase is due to higher raw material and labor costs, plus lower absorption of manufacturing costs at our plants.

Selling, General and Administrative Expenses. We decreased selling, general and administrative expenses from \$58.4 million in 2017 to \$56.4 million in 2018. The decrease is mainly due to favorable settlement of open claims, lower employee expenses and lower costs associated with the prior acquisitions.

Amortization of Intangibles. The Company incurred an expense of \$1.7 million on the amortization of intangibles recognized with the acquisitions.

Asset Impairment Charge. The Company incurred an asset impairment charge of \$0.1 million in 2018 related to the write down of certain production supplies taken out of service.

Restructuring Expense. Restructuring expense of \$8.9 million during of 2018 resulted from the planned partial relocation of our manufacturing operation in Thaon, France and a downsizing of our facility in Bomlitz, Germany. The plan involved the involuntary termination of approximately 150 employees. The Company anticipates an annual savings of \$10.0 million per year when the plan is fully implemented.

Restructuring expense of \$1.7 million during of 2017 resulted from the closure of our manufacturing operation in Warsaw, Poland. The plan involved the involuntary termination of approximately 13 employees and included an operating lease liability of \$1.3 million. The Company anticipates an annual savings of \$0.6 million per year when the plan is fully implemented and a similar cash flow savings when the Warsaw facility is subleased.

Operating Income. Operating income for 2018 was \$12.4 million, representing an decrease of \$20.0 million from the prior year. The decrease in operating income was primarily due to lower gross profit and an increase in restructuring expense.

Interest Expense. Interest expense, net of interest income, for 2018 was \$15.3 million, representing an increase of \$2.2 million compared to 2017. The increase is a result of a higher interest rate on our Term loan and a new capital lease from an acquisition.

Other Expense. Other expense for 2018 was approximately \$15.7 million, representing an increase of \$12.7 million over 2017. The increase is primarily due to higher expense related to pension settlement accounting and loss foreign currency translation.

Income Tax Provision. During 2018, an income tax benefit of \$4.1 million was recognized on the loss before income taxes of \$18.5 million compared to income tax expense of \$20.4 million in 2017. The 2018 effective income tax rate was (18.9%) compared to 126.2% for 2017. The Company's 2017 income tax expense and rate differ from the amount of income tax determined by applying the U.S. Federal income tax rate to pre-

tax income primarily as a result of a \$5.5 million increase for a valuation allowance against a Brazilian deferred tax asset.

Primarily as a result of the factors discussed above, net loss was (\$14.4) million compared to net loss of \$(4.2) million for 2017.

Liquidity and Capital Resources

Cash and cash equivalents decreased by \$24.2 million during 2019. Net cash provided by operating activities was \$0.1 million and net cash used in investing activities was \$17.6 million. Net cash used in financing activities was \$5.2 million. Cash flows used in operating activities were principally attributable to results from operations, offset by an increase in working capital. Our inventory increased during 2018 due to soft market demand not forecasted by the Company and certain production related issues in our operations. These issues are reflected in our reduced sales volume for the year. Cash flows used in investing activities were principally attributable to capital expenditures. Cash flows used in financing activities principally consisted of by debt repayments under our Europe Bank Loan, Term Loan and capital leases.

Our cash held in foreign banks was \$15.4 million (against a total cash balance of \$23.0 million) and \$18.3 million (against a total cash balance of \$47.2 million) as of December 31, 2019 and December 31, 2018, 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 December 31, 2019 the Company had positive working capital of approximately \$146.7 million including restricted cash of \$1.2 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 June 30, 2019, the Company entered into the Eleventh Amendment to the Loan and Security Agreement with Icahn Enterprises L.P., extending the maturity date of the Revolving Credit Facility from January 30, 2020 to January 30, 2021 and amending the maximum revolver amount to \$45,000.

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 December 31, 2019.

The Company had no borrowings and an additional \$45.0 million of availability under the amended Revolving Credit Facility as of December 31, 2019.

In its foreign operations, the Company has unsecured lines of credit with various banks providing approximately \$5.5 million of availability. There were no borrowings under the lines of credit at December 31, 2019.

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 December 31, 2019, the interest rate was 5.19% 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, please reference Going Concern Footnote 25. 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. 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 was paid 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 \$70.8 million at December 31, 2019.

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

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Pension	\$ 0.7	\$ 13.8	\$ 6.6	\$ 7.5	\$ 7.4

Contract Obligations

As of December 31, 2019, the aggregate maturities of debt(1), leases and purchase commitments for each of the next five years are (in millions):

	2020	2021	2022	2023	2024	Thereafter
Term Loan Facility	\$ 2.8	\$ 255.8	\$ -	\$ -	\$ -	\$ -
Europe Bank Loan	1.9	0.4	-	-	-	-
Restructured Term Loan	7.2	0.0	-	-	-	-
Operating Leases	5.6	5.6	5.4	5.1	4.8	31.1
Other	-	-	-	-	-	0.9
	<u>\$ 17.5</u>	<u>\$ 261.8</u>	<u>\$ 5.4</u>	<u>\$ 5.1</u>	<u>\$ 4.8</u>	<u>\$ 32.0</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 December 31, 2019 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 5.85% for 2019. The Company is using a long-term rate of return on French plan assets of 3.20% for 2019. 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 3.38% for 2019. The Company is using a weighted average discount rate of 1.70% on its non-U.S. pension plans for 2019.

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 2019 and 2018 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 \$2.4 million at December 31, 2019.

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.