TREDEGAR CORP
Form 10-Q
August 01, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-10258

Tredegar Corporation
(Exact Name of Registrant as Specified in Its Charter)

| | |
|---|---|
| Virginia | 54-1497771 |
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |
| 1100 Boulders Parkway Richmond, Virginia | 23225 |
| (Address of Principal Executive Offices) | (Zip Code) |

Registrant's Telephone Number, Including Area Code: (804) 330-1000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
The number of shares of Common Stock, no par value, outstanding as of July 26, 2018: 33,192,177

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.
Tredegar Corporation
Consolidated Balance Sheets
(In Thousands, Except Share Data)
(Unaudited)

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $62,321 | $36,491 |
| Accounts and other receivables, net of allowance for doubtful accounts and sales returns of $3,026 in 2018 and $3,304 in 2017 | 128,301 | 120,135 |
| Income taxes recoverable | 5,572 | 32,080 |
| Inventories | 84,890 | 86,907 |
| Prepaid expenses and other | 8,776 | 8,224 |
| Total current assets | 289,860 | 283,837 |
| Property, plant and equipment, at cost | 772,222 | 770,892 |
| Less accumulated depreciation | (554,926 ) | (547,801 ) |
| Net property, plant and equipment | 217,296 | 223,091 |
| Investment in kaléo (cost basis of $7,500) | 68,000 | 54,000 |
| Identifiable intangible assets, net | 38,225 | 40,552 |
| Goodwill | 128,205 | 128,208 |
| Deferred income taxes | 3,946 | 16,636 |
| Other assets | 8,957 | 9,419 |
| Total assets | $754,489 | $755,743 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | $121,266 | $108,391 |
| Accrued expenses | 40,192 | 42,433 |
| Total current liabilities | 161,458 | 150,824 |
| Long-term debt | 123,000 | 152,000 |
| Pension and other postretirement benefit obligations, net | 94,335 | 98,837 |
| Deferred income taxes | — | 2,123 |
| Other noncurrent liabilities | 8,287 | 8,179 |
| Total liabilities | 387,080 | 411,963 |
| Commitments and contingencies (Notes 1 and 13) | | |
| Shareholders' equity: | | |
| Common stock, no par value (issued and outstanding - 33,189,073 shares at June 30, 2018 and 33,017,422 shares at December 31, 2017) | 37,654 | 34,747 |
| Common stock held in trust for savings restoration plan (72,170 shares at June 30, 2018 and 71,309 shares at December 31, 2017) | (1,544 ) | (1,528 ) |
| Accumulated other comprehensive income (loss): | | |
| Foreign currency translation adjustment | (95,083 ) | (86,178 ) |
| Gain on derivative financial instruments | (731 ) | 459 |
| Pension and other post-retirement benefit adjustments | (85,727 ) | (90,950 ) |
| Retained earnings | 512,840 | 487,230 |

| | | |
|---|---|---|
| Total shareholders’ equity | 367,409 | 343,780 |
| Total liabilities and shareholders’ equity | $754,489 | $755,743 |

See accompanying notes to financial statements.

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Tredegar Corporation
Consolidated Statements of Income
(In Thousands, Except Per Share Data)
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues and other items: | | | | |
| Sales | $263,759 | $247,347 | $522,470 | $468,372 |
| Other income (expense), net | 5,857 | 34,735 | 14,089 | 38,022 |
| | 269,616 | 282,082 | 536,559 | 506,394 |
| Costs and expenses: | | | | |
| Cost of goods sold | 210,667 | 195,286 | 413,856 | 375,047 |
| Freight | 8,440 | 7,912 | 17,229 | 16,218 |
| Selling, general and administrative | 20,946 | 21,184 | 42,775 | 41,133 |
| Research and development | 4,646 | 5,014 | 8,957 | 9,572 |
| Amortization of identifiable intangibles | 1,025 | 1,652 | 2,054 | 2,893 |
| Pension and postretirement benefits | 2,578 | 2,632 | 5,156 | 5,264 |
| Interest expense | 1,577 | 1,642 | 3,221 | 2,822 |
| Asset impairments and costs associated with exit and disposal activities, net of adjustments | 468 | (271) | 590 | 293 |
| Total | 250,347 | 235,051 | 493,838 | 453,242 |
| Income before income taxes | 19,269 | 47,031 | 42,721 | 53,152 |
| Income taxes | 4,547 | 2,827 | 9,834 | 5,246 |
| Net income | $14,722 | $44,204 | $32,887 | $47,906 |
| | | | | |
| Earnings per share: | | | | |
| Basic | $0.45 | $1.34 | $1.00 | $1.45 |
| Diluted | $0.44 | $1.34 | $1.00 | $1.45 |
| Shares used to compute earnings per share: | | | | |
| Basic | 33,074 | 32,961 | 33,028 | 32,941 |
| Diluted | 33,108 | 33,051 | 33,048 | 32,999 |
| Dividends per share | $0.11 | $0.11 | $0.22 | $0.22 |

See accompanying notes to financial statements.

Tredegar Corporation
Consolidated Statements of Comprehensive Income (Loss)
(In Thousands)
(Unaudited)

| | Three Months Ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Net income | $14,722 | $44,204 |
| Other comprehensive income (loss): | | |
| Foreign currency translation adjustment (net of tax of $0 in 2018 and tax of $173 in 2017) | (10,811 ) | (1,958 ) |
| Derivative financial instruments adjustment (net of tax of $164 in 2018 and tax benefit of $248 in 2017) | (905 ) | (412 ) |
| Amortization of prior service costs and net gains or losses (net of tax of $761 in 2018 and tax of $1,111 in 2017) | 2,611 | 1,950 |
| Other comprehensive income (loss) | (9,105 ) | (420 ) |
| Comprehensive income (loss) | $5,617 | $43,784 |

| | Six Months Ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Net income | $32,887 | $47,906 |
| Other comprehensive income (loss): | | |
| Unrealized foreign currency translation adjustment (net of tax of $0 in 2018 and tax of $230 in 2017) | (8,905 ) | 2,674 |
| Derivative financial instruments adjustment (net of tax of $20 in 2018 and tax benefit of $24 in 2017) | (1,190 ) | (38 ) |
| Amortization of prior service costs and net gains or losses (net of tax of $1,523 in 2018 and tax of $2,222 in 2017) | 5,223 | 3,900 |
| Other comprehensive income (loss) | (4,872 ) | 6,536 |
| Comprehensive income (loss) | $28,015 | $54,442 |

See accompanying notes to financial statements.

Tredegar Corporation
Consolidated Statements of Cash Flows
(In Thousands)
(Unaudited)

| | Six Months Ended June 30, 2018 | | 2017 | |
|---|---|---|---|---|
| Cash flows from operating activities: | | | | |
| Net income | $ 32,887 | | $ 47,906 | |
| Adjustments for noncash items: | | | | |
| Depreciation | 14,688 | | 15,993 | |
| Amortization of identifiable intangibles | 2,054 | | 2,893 | |
| Deferred income taxes | 8,996 | | 2,000 | |
| Accrued pension and post-retirement benefits | 5,156 | | 5,264 | |
| (Gain)/loss on investment in kaléo accounted for under the fair value method | (14,000 | ) | (24,800 | ) |
| (Gain)/loss on asset impairments and divestitures | — | | 50 | |
| Net (gain)/loss on disposal of assets | (109 | ) | 307 | |
| Changes in assets and liabilities, net of effects of acquisitions and divestitures: | | | | |
| Accounts and other receivables | (15,205 | ) | (20,197 | ) |
| Inventories | (810 | ) | (7,261 | ) |
| Income taxes recoverable/payable | 26,277 | | (6,120 | ) |
| Prepaid expenses and other | (2,057 | ) | 735 | |
| Accounts payable and accrued expenses | 13,879 | | 6,178 | |
| Pension and postretirement benefit plan contributions | (2,912 | ) | (2,106 | ) |
| Other, net | 2,926 | | 1,126 | |
| Net cash provided by operating activities | 71,770 | | 21,968 | |
| Cash flows from investing activities: | | | | |
| Capital expenditures | (14,528 | ) | (26,692 | ) |
| Acquisition | — | | (87,110 | ) |
| Return of escrowed funds relating to acquisition | 4,250 | | — | |

| | | | | |
|---|---|---|---|---|
| earn-out | | | | |
| Proceeds from the sale of assets and other | 1,095 | | 95 | |
| Net cash used in investing activities | (9,183 | ) | (113,707 | ) |
| Cash flows from financing activities: | | | | |
| Borrowings | 28,000 | | 148,750 | |
| Debt principal payments | (57,000 | ) | (56,500 | ) |
| Dividends paid | (7,293 | ) | (7,268 | ) |
| Proceeds from exercise of stock options and other | 926 | | 695 | |
| Net cash provided by (used in) financing activities | (35,367 | ) | 85,677 | |
| Effect of exchange rate changes on cash | (1,390 | ) | 577 | |
| Increase (decrease) in cash and cash equivalents | 25,830 | | (5,485 | ) |
| Cash and cash equivalents at beginning of period | 36,491 | | 29,511 | |
| Cash and cash equivalents at end of period | $ 62,321 | | $ 24,026 | |

See accompanying notes to financial statements.

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Tredegar Corporation
Consolidated Statement of Shareholders' Equity
(In Thousands, Except Share and Per Share Data)
(Unaudited)

| | Common Stock | Retained Earnings | Trust for Savings Restoration Plan | Accumulated Other Comprehensive Income (Loss) Foreign Currency Translation | Gain (Loss) on Derivative Financial Instruments | Pension & Other Post-retirement Benefit Adjustment | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|
| Balance at January 1, 2018 | $34,747 | $487,230 | $ (1,528 ) | $(86,178) | $ 459 | $ (90,950 ) | $ 343,780 |
| Net income | — | 32,887 | — | — | — | — | 32,887 |
| Other comprehensive income (loss): | | | | | | | |
| Foreign currency translation adjustment (net of tax of $0) | — | — | — | (8,905 ) | — | — | (8,905 ) |
| Derivative financial instruments adjustment (net of tax of $20) | — | — | — | — | (1,190 ) | — | (1,190 ) |
| Amortization of prior service costs and net gains or losses (net of tax of $1,523) | — | — | — | — | — | 5,223 | 5,223 |
| Cash dividends declared ($0.22 per share) | — | (7,293 ) | — | — | — | — | (7,293 ) |
| Stock-based compensation expense | 1,981 | — | — | — | — | — | 1,981 |
| Issued upon exercise of stock options & other | 926 | — | — | — | — | — | 926 |
| Tredegar common stock purchased by trust for savings restoration plan | — | 16 | (16 ) | — | — | — | — |
| Balance at June 30, 2018 | $37,654 | $512,840 | $ (1,544 ) | $(95,083) | $ (731 ) | $ (85,727 ) | $ 367,409 |

See accompanying notes to financial statements.

TREDEGAR CORPORATION
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)

1. In the opinion of management, the accompanying consolidated financial statements of Tredegar Corporation and its subsidiaries ("Tredegar," "the Company," "we," "us" or "our") contain all adjustments necessary to state fairly, in all materia respects, Tredegar's consolidated financial position as of June 30, 2018, the consolidated results of operations for the three and six months ended June 30, 2018 and 2017, the consolidated cash flows for the six months ended June 30, 2018 and 2017, and the consolidated changes in shareholders' equity for the six months ended June 30, 2018. All such adjustments, unless otherwise detailed in the notes to the consolidated interim financial statements, are deemed to be of a normal, recurring nature.

The Company operates on a calendar fiscal year except for the Aluminum Extrusions segment, which operates on a 52/53-week fiscal year basis. As such, the fiscal second quarter for 2018 and 2017 for this segment references 13-week periods ended June 24, 2018 and June 25, 2017, respectively. The Company does not believe the impact of reporting the results of this segment as stated above is material to the consolidated financial results.

The financial position data as of December 31, 2017 that is included herein was derived from the audited consolidated financial statements provided in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 ("2017 Form 10-K") but does not include all disclosures required by United States generally accepted accounting principles ("GAAP"). These financial statements should be read in conjunction with the consolidated financial statements and related notes included in the 2017 Form 10-K. The results of operations for the three and six months ended June 30, 2018, are not necessarily indicative of the results to be expected for the full year. Certain prior year balances have been reclassified to conform with current year presentation (see Note 14 for additional detail).

Revenue Recognition. Revenue from the sale of products, which is shown net of estimated sales returns and allowances, is recognized at a point in time when control has passed to the customer. Control passes to the customer generally when the customer takes physical possession or when title passes if defined separately in the sales agreement. Amounts billed to customers related to freight are classified as sales in the accompanying consolidated statements of income. The cost of freight is classified as a separate line in the accompanying consolidated statements of income. Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction between Tredegar and its customers (such as value-added taxes) are accounted for on a net basis and therefore excluded from revenues. See Note 11 for disaggregation of revenue by segment and type.

As of June 30, 2018 and December 31, 2017, Accounts receivable and other receivables, net, were $128.3 million and $120.1 million, respectively, made up of the following:

| (In thousands) | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Customer receivables | $126,598 | $113,556 |
| Other accounts and notes receivable | 4,729 | 9,883 |
| Total accounts and other receivables | 131,327 | 123,439 |
| | (3,026 ) | (3,304 ) |

| | | |
|---|---|---|
| Less: Allowance for bad debts and sales returns | | |
| Total accounts and other receivables, net | $128,301 | $120,135 |

For the three and six months ended June 30, 2018, the Company had no material bad-debt expense and there were no material contract assets, contract liabilities or deferred contract costs recorded on the Consolidated Balance Sheet as of June 30, 2018. Payment terms start from the date of satisfaction of the performance obligation and vary from COD (cash on delivery) to 120 days. The Company’s contracts generally include one performance obligation, which is satisfied at a point in time.

For the three months and six months ended June 30, 2018, revenue recognized from performance obligations related to prior periods (for example, changes in transaction price), was not material.

Revenue expected to be recognized in any future period related to remaining performance obligations, excluding i) revenue pertaining to contracts that have an original expected duration of one year or less, ii) contracts where revenue

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is recognized as invoiced and iii) variable consideration related to unsatisfied performance obligations, is not expected to materially impact the Company's financial results.

2. On February 15, 2017, Bonnell Aluminum acquired 100% of the stock of Futura Industries Corporation ("Futura") on a net debt-free basis for approximately $92 million. The amount actually funded in cash at the transaction date was approximately $87 million, which was net of preliminary closing adjustments for working capital and seller transaction-related obligations assumed and subsequently paid by Bonnell Aluminum. In addition, the Company was refunded $5 million in the first quarter of 2018 since Futura did not meet certain performance requirements for the 2017 fiscal year ("Earnout Provision"). The acquisition, which was funded using Tredegar's existing revolving credit facility, was treated as an asset purchase for U.S. federal income tax purposes.

The net purchase price for financial reporting purposes was set at approximately $82.9 million, which includes adjustments for the fair value of the Earnout Provision of $4.3 million and the net settlement of certain post-closing adjustments of $0.1 million. Adjustments to the purchase price were made retrospectively as if the accounting had been completed on the acquisition date. Based upon management's valuation of the fair value of tangible and intangible assets acquired (net of cash acquired) and liabilities assumed, the allocation of the purchase price was as follows:

| | |
|---|---|
| (In Thousands) | |
| Accounts receivable | $6,680 |
| Inventories | 10,342 |
| Prepaid expenses and other current assets | 240 |
| Property, plant & equipment | 32,662 |
| Identifiable intangible assets: | |
| Customer relationships | 24,000 |
| Trade names | 6,700 |
| Trade payables & accrued expenses | (8,135) |
| Total identifiable net assets | 72,489 |
| Adjusted Net Purchase Price | 82,860 |
| Goodwill | $10,371 |

The goodwill and other intangible asset balances associated with this acquisition are deductible for U.S. federal income tax purposes on a straight-line basis over a period of approximately 15 years. For financial reporting purposes, customer relationships are being amortized over 12 years and trade names are being amortized over 13 years. Goodwill is not subject to amortization for financial reporting purposes.

3. Plant shutdowns, asset impairments, restructurings and other items are shown in the net sales and operating profit by segment table in Note 10 and are also included in "Asset impairments and costs associated with exit and disposal activities, net of adjustments" in the consolidated statements of income, unless otherwise noted below.

Plant shutdowns, asset impairments, restructurings and other items in the second quarter of 2018 include:

- Pretax charges of $0.6 million related to estimated excess costs associated with the ramp-up of new product offerings and additional expenses related to strategic capacity expansion projects by PE Films (included in "Cost of goods sold" in the consolidated statements of income); and
- Pretax charges of $0.7 million associated with the shutdown of PE Films' manufacturing facility in Shanghai, China, which consists of severance and other employee-related accrued costs of $0.4 million, accelerated depreciation of $0.1 million (included in "Cost of goods sold" in the consolidated statements of income) and other facility consolidation-related expenses of $0.2 million.

Plant shutdowns, asset impairments, restructurings and other items in the first six months of 2018 include:

-

Pretax charges of $1.5 million related to estimated excess costs associated with the ramp-up of new product offerings and additional expenses related to strategic capacity expansion projects by PE Films (included in “Cost of goods sold” in the consolidated statements of income);

- Pretax charges of $0.3 million for professional fees associated with the Terphane Limitada worthless stock deduction, the impairment of assets of Flexible Packaging Films and determining the effect of the new U.S.

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federal income tax law (included in “Selling, general and administrative expenses” in the consolidated statements of income); and

- Pretax charges of $0.7 million associated with the shutdown of PE Films’ manufacturing facility in Shanghai, China, which consists of severance and other employee-related accrued costs of $0.4 million, accelerated depreciation of $0.1 million (included in “Cost of goods sold” in the consolidated statements of income) and other facility consolidation-related expenses of $0.2 million.

Plant shutdowns, asset impairments, restructurings and other items in the second quarter of 2017 include:

- Pretax income of $11.9 million related to the settlement of an escrow arrangement established upon the acquisition of Terphane in 2011 (included in “Other income (expense), net” in the consolidated statements of income). In settling the escrow arrangement, the Company assumed the risk of the claims (and associated legal fees) against which the escrow previously secured the Company. While the ultimate amount of such claims is unknown, the Company believes that it is reasonably possible that it could be liable for some portion of these claims, and currently estimates the amount of such future claims at approximately $3.5 million;
- Pretax charges of $1.0 million related to estimated excess costs associated with the ramp-up of new product offerings and additional expenses related to strategic capacity expansion projects by PE Films of $0.9 million and by Bonnell of $0.1 million (included in “Cost of goods sold” in the consolidated statements of income);
- Pretax income of $0.9 million related to the explosion that occurred in the second quarter of 2016 at the aluminum extrusions manufacturing facility in Newnan, Georgia, for the expected recovery of excess production costs of $0.6 million incurred in 2016 and $0.3 million incurred in the first quarter of 2017 for which recovery from insurance carriers was not previously considered to be reasonably assured (included in “Cost of goods sold” in the consolidated statements of income);
- Pretax income of $0.7 million related to the fair valuation of an earnout provision from the acquisition of Futura (included in “Other income (expense), net” in the consolidated statements of income);
- Pretax charges of $0.6 million associated with a business development project (included in “Selling, general and administrative expense” in the consolidated statements of income); and
- Pretax charges of $0.3 million associated with the consolidation of domestic PE Films’ manufacturing facilities, which consists of facility consolidation-related expenses of $0.2 million and accelerated depreciation of $0.1 million (included in “Cost of goods sold” in the consolidated statements of income), offset by pretax income of $0.3 million related to a reduction of severance and other employee-related accrued costs.

Plant shutdowns, asset impairments, restructurings and other items in the first six months of 2017 include:

- Pretax income of $11.9 million related to the settlement of an escrow arrangement established upon the acquisition of Terphane in 2011 (included in “Other income (expense), net” in the consolidated statements of income). In settling the escrow arrangement, the Company assumed the risk of the claims (and associated legal fees) against which the escrow previously secured the Company. While the ultimate amount of such claims is unknown, the Company believes that it is reasonably possible that it could be liable for some portion of these claims, and currently estimates the amount of such future claims at approximately $3.5 million;
- Pretax charges of $3.3 million related to the acquisition of Futura, i) associated with accounting adjustments of $1.7 million made to the value of inventory sold by Aluminum Extrusions after its acquisition of Futura (included in “Cost of goods sold” in the consolidated statements of income), ii) acquisition costs of $1.5 million and, iii) integration costs of $0.1 million (included in “Selling, general and administrative expenses” in the consolidated statements of income), offset by pretax income of $0.7 million related to the fair valuation of an earnout provision (included in “Other income (expense), net” in the consolidated statements of income);
- Pretax charges of $2.8 million related to estimated excess costs associated with the ramp-up of new product offerings and additional expenses related to strategic capacity expansion projects by PE Films of $2.4 million and by Aluminum Extrusions of $0.4 million (included in “Cost of goods sold” in the consolidated statements of income);
- Pretax income of $0.5 million related to the explosion that occurred in the second quarter of 2016 at the aluminum extrusions manufacturing facility in Newnan, Georgia, which includes the expected recovery of excess production costs of $0.6 million incurred in 2016 for which recovery from insurance carriers was not

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previously considered to be reasonably assured (included in "Cost of goods sold" in the consolidated statements of income), partially offset by legal and consulting fees of $0.1 million (included in "Selling, general and administrative expenses" in the consolidated statements of income).

- Pretax charges of $0.7 million associated with the consolidation of domestic PE Films' manufacturing facilities, which consists of asset impairments of $0.1 million, accelerated depreciation of $0.2 million (included in "Cost of goods sold" in the consolidated statements of income) and other facility consolidation-related expenses of $0.4 million ($0.3 million included in "Cost of goods sold" in the consolidated statements of income), offset by pretax income of $0.1 million related to a reduction of severance and other employee-related accrued costs;
- Pretax charges of $0.3 million related to expected future environmental costs at the aluminum extrusions manufacturing facility in Carthage, Tennessee (included in "Cost of goods sold" in the consolidated statements of income);
- Pretax charges of $0.9 million associated with a business development project (included in "Selling, general and administrative expense" in the consolidated statements of income); and
- Pretax charges of $0.3 million for severance and other employee-related costs associated with restructurings in Corporate.

Results in the second quarter and first six months of 2018 include unrealized gains of $5.8 million ($4.5 million after taxes) and $14.0 million ($10.9 million after taxes), respectively, compared to unrealized gains of $21.5 million ($15.7 million after taxes) and $24.8 million ($18.2 million after taxes) in the second quarter and first six months of 2017, respectively, on the Company's investment in kaleo, Inc. ("kaléo"), which is accounted for under the fair value method (included in "Other income (expense), net" in the consolidated statements of income). An unrealized loss on the Company's investment in the Harbinger Capital Partners Special Situations Fund, L.P. ("Harbinger Fund") of $0.1 million was recognized in the second quarter and first six months of 2018 (included in "Other income (expense), net" in the consolidated statements of income) (none in 2017). See Note 7 for additional information on investments.

In June 2018, the Company announced plans to close its facility in Shanghai, China, which primarily produces plastic films used as components for personal care products ("Shanghai transition"). Production is expected to cease at this plant by the end of 2018. The Company expects to recognize costs associated with exit and disposal activities of $7.1 million comprised of: (i) retention, severance and related costs ($3.6 million), (ii) customer-related costs ($1.1 million), and (iii) legal, asset disposal and other cash costs ($2.4 million). In addition, the Company expects non-cash asset write-offs and accelerated depreciation of $0.9 million. Net annual cash savings from consolidating operations is expected of $1.7 million. Proceeds from expected property disposals are uncertain. The Company anticipates that these activities, including property disposals, will require 12-18 months to execute, and the costs are expected to be incurred during this period.

Total expenses associated with the Shanghai transition were $0.7 million in the second quarter of 2018 ($0.6 million included in "Asset impairments and costs associated with exit and disposal activities, net of adjustments" and $0.1 million included in "Cost of goods sold" in the consolidated statements of income). Cash expenditures were $0.1 million in the second quarter of 2018.

A reconciliation of the beginning and ending balances of accrued expenses associated with exit and disposal activities and charges associated with asset impairments and reported as "Asset impairments and costs associated with exit and disposal activities, net of adjustments" in the consolidated statements of income for the six months ended June 30, 2018 is as follows:

| (In thousands) | Severance (a) | Asset Impairments | Other (b) | Total |
|---|---|---|---|---|
| Balance at January 1, 2018 | $ 627 | $ — | $ 476 | $ 1,103 |
| Changes in 2018: | | | | |
| Charges | 685 | — | 22 | 707 |
| Cash spent | (846 ) | — | (268 ) | (1,114 ) |
| Charges against assets | — | 117 | — | 117 |
| Reversed to income | | (117 ) | | (117 ) |
| Balance at June 30, 2018 | $ 466 | $ — | $ 230 | $ 696 |

(a) Severance cash spent includes severance payments associated with the consolidation of North American PE Films manufacturing facilities.
(b) Other primarily includes other restructuring costs associated with Aluminum Extrusions.

4. The components of inventories are as follows:

| (In thousands) | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Finished goods | $ 23,986 | $ 20,281 |
| Work-in-process | 12,420 | 11,958 |
| Raw materials | 29,591 | 35,909 |
| Stores, supplies and other | 18,893 | 18,759 |
| Total | $ 84,890 | $ 86,907 |

5. Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding. Diluted earnings per share is computed by dividing net income by the weighted average common and potentially dilutive common equivalent shares outstanding, determined as follows:

| (In thousands) | Three Months Ended June 30, 2018 | Three Months Ended June 30, 2017 | Six Months Ended June 30, 2018 | Six Months Ended June 30, 2017 |
|---|---|---|---|---|
| Weighted average shares outstanding used to compute basic earnings per share | 33,074 | 32,961 | 33,028 | 32,941 |
| Incremental dilutive shares attributable to stock options and restricted stock | 34 | 90 | 20 | 58 |
| Shares used to compute diluted earnings per share | 33,108 | 33,051 | 33,048 | 32,999 |

Incremental shares attributable to stock options and restricted stock are computed under the treasury stock method using the average market price during the related period. For the three and six months ended June 30, 2018, average out-of-the-money options to purchase shares that were excluded from the calculation of incremental shares attributable to stock options and restricted stock were 215,903 and 264,868, respectively. For the three and six months ended

June 30, 2017, average out-of-the-money options to purchase shares that were excluded from the calculation of incremental shares attributable to stock options and restricted stock were 416,941 and 340,268, respectively.

6. The following table summarizes the after-tax changes in accumulated other comprehensive income (loss) for the six months ended June 30, 2018:

| (In thousands) | Foreign currency translation adjustment | Gain (loss) on derivative financial instruments | Pension and other post-retirement benefit adjustments | Total |
|---|---|---|---|---|
| Beginning balance, January 1, 2018 | $(86,178) | $ 459 | $ (90,950) | $(176,669) |
| Other comprehensive income (loss) before reclassifications | (8,905) | (829) | — | (9,734) |
| Amounts reclassified from accumulated other comprehensive income (loss) | — | (361) | 5,223 | 4,862 |
| Net other comprehensive income (loss) - current period | (8,905) | (1,190) | 5,223 | (4,872) |
| Ending balance, June 30, 2018 | $(95,083) | $ (731) | $ (85,727) | $(181,541) |

The following table summarizes the after-tax changes in accumulated other comprehensive income (loss) for the six months ended June 30, 2017:

| (In Thousands) | Foreign currency translation adjustment | Gain (loss) on derivative financial instruments | Pension and other post-retirement benefit adjustments | Total |
|---|---|---|---|---|
| Beginning balance, January 1, 2017 | $(93,970) | $ 863 | $ (90,127) | $(183,234) |
| Other comprehensive income (loss) before reclassifications | 2,674 | 335 | — | 3,009 |
| Amounts reclassified from accumulated other comprehensive income (loss) | — | (373) | 3,900 | 3,527 |
| Net other comprehensive income (loss) - current period | 2,674 | (38) | 3,900 | 6,536 |
| Ending balance, June 30, 2017 | $(91,296) | $ 825 | $ (86,227) | $(176,698) |

Reclassifications of balances out of accumulated other comprehensive income (loss) into net income for the three months ended June 30, 2018 are summarized as follows:

| (In Thousands) | Amount reclassified from other comprehensive income (loss) | Location of gain (loss) reclassified from accumulated other comprehensive income (loss) to net income (loss) |
|---|---|---|
| Gain (loss) on derivative financial instruments: | | |
| Aluminum future contracts, before taxes | $ 712 | Cost of sales |
| Foreign currency forward contracts, before taxes | (378) | Selling, general & administrative |
| Foreign currency forward contracts, before taxes | 16 | Cost of sales |
| Total, before taxes | 350 | |
| Income tax expense (benefit) | 142 | Income taxes |
| Total, net of tax | $ 208 | |
| Amortization of pension and other post-retirement benefits: | | |
| Actuarial gain (loss) and prior service costs, before taxes | $ (3,372) | (a) |
| Income tax expense (benefit) | (761) | Income taxes |
| Total, net of tax | $ (2,611) | |

(a) This component of accumulated other comprehensive income (loss) is included in the computation of net periodic pension cost (see Note 9 for additional detail).

Reclassifications of balances out of accumulated other comprehensive income (loss) into net income for the six months ended June 30, 2018 are summarized as follows:

| (In thousands) | Amount reclassified from other comprehensive income (loss) | Location of gain (loss) reclassified from accumulated other comprehensive income (loss) to net income (loss) |
|---|---|---|
| Gain (loss) on derivative financial instruments: | | |
| Aluminum future contracts, before taxes | $ 944 | Cost of sales |
| Foreign currency forward contracts, before taxes | (419 ) | Selling, general & administrative |
| Foreign currency forward contracts, before taxes | 31 | Cost of sales |
| Total, before taxes | 556 | |
| Income tax expense (benefit) | 195 | Income taxes |
| Total, net of tax | $ 361 | |
| Amortization of pension and other post-retirement benefits: | | |
| Actuarial gain (loss) and prior service costs, before taxes | $ (6,746 ) | (a) |
| Income tax expense (benefit) | (1,523 ) | Income taxes |
| Total, net of tax | $ (5,223 ) | |

(a) This component of accumulated other comprehensive income (loss) is included in the computation of net periodic pension cost (see Note 9 for additional detail).

Reclassifications of balances out of accumulated other comprehensive income (loss) into net income for the three months ended June 30, 2017 are summarized as follows:

| (In Thousands) | Amount reclassified from other comprehensive income (loss) | Location of gain (loss) reclassified from accumulated other comprehensive income (loss) to net income (loss) |
|---|---|---|
| Gain (loss) on derivative financial instruments: | | |
| Aluminum future contracts, before taxes | $ 321 | Cost of sales |
| Foreign currency forward contracts, before taxes | 16 | Cost of sales |
| Total, before taxes | 337 | |
| Income tax expense (benefit) | 125 | Income taxes |
| Total, net of tax | $ 212 | |
| Amortization of pension and other post-retirement benefits: | | |
| Actuarial gain (loss) and prior service costs, before taxes | $ (3,061 ) | (a) |
| Income tax expense (benefit) | (1,111 ) | Income taxes |
| Total, net of tax | $ (1,950 ) | |

(a) This component of accumulated other comprehensive income (loss) is included in the computation of net periodic pension cost (see Note 9 for additional detail).

Reclassifications of balances out of accumulated other comprehensive income (loss) into net income for the six months ended June 30, 2017 are summarized as follows:

| (In thousands) | Amount reclassified from other comprehensive income (loss) | Location of gain (loss) reclassified from accumulated other comprehensive income (loss) to net income (loss) |
|---|---|---|
| Gain (loss) on derivative financial instruments: | | |
| Aluminum future contracts, before taxes | $ 554 | Cost of sales |
| Foreign currency forward contracts, before taxes | 31 | Cost of sales |
| Total, before taxes | 585 | |
| Income tax expense (benefit) | 212 | Income taxes |
| Total, net of tax | $ 373 | |
| Amortization of pension and other post-retirement benefits: | | |
| Actuarial gain (loss) and prior service costs, before taxes | $ (6,122 ) | (a) |
| Income tax expense (benefit) | (2,222 ) | Income taxes |
| Total, net of tax | $ (3,900 | |