HORMEL FOODS CORP /DE/
Form 10-Q
September 08, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended July 30, 2017

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ___________________________________ to ____

Commission File Number: 1-2402

HORMEL FOODS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	41-0319970
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1 Hormel Place Austin, Minnesota	55912-3680

(Address of principal executive offices) (Zip Code)

(507) 437-5611

(Registrant s telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

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. _X_ YES ___ NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). _X_ YES ___ NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer _X_
Non-accelerated filer __ (Do not check if a smaller reporting company)
Accelerated filer__
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 _X_ No

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	**Outstanding at September 8, 2017**	
Common Stock	$.01465 par value	527,828,196
Common Stock Non-Voting	$.01 par value	-0-

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands, except share and per share amounts)

	July 30, 2017 (Unaudited)	October 30, 2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 633,341	$ 415,143
Accounts receivable	549,011	591,310
Inventories	1,013,214	985,683
Income taxes receivable	-	18,282
Prepaid expenses	17,096	13,775
Other current assets	4,433	5,719
TOTAL CURRENT ASSETS	2,217,095	2,029,912
DEFERRED INCOME TAXES	-	6,223
GOODWILL	1,822,671	1,834,497
OTHER INTANGIBLES	882,717	903,258
PENSION ASSETS	98,893	68,901
INVESTMENTS IN AND RECEIVABLES FROM AFFILIATES	248,129	239,590
OTHER ASSETS	184,364	182,237
PROPERTY, PLANT AND EQUIPMENT		
Land	46,847	67,557
Buildings	757,190	805,858
Equipment	1,665,520	1,675,549
Construction in progress	152,217	218,351
Less: Allowance for depreciation	(1,567,678)	(1,661,866)
Net property, plant and equipment	1,054,096	1,105,449
TOTAL ASSETS	$ 6,507,965	$ 6,370,067

See Notes to Consolidated Financial Statements

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HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands, except share and per share amounts)

	July 30, 2017 (Unaudited)	October 30, 2016
LIABILITIES AND SHAREHOLDERS INVESTMENT		
CURRENT LIABILITIES		
Accounts payable	$ 421,170	$ 481,826
Accrued expenses	71,284	82,145
Accrued workers compensation	24,842	36,612
Accrued marketing expenses	77,151	119,583
Employee related expenses	188,327	251,433
Taxes payable	1,990	4,331
Interest and dividends payable	93,007	77,266
TOTAL CURRENT LIABILITIES	877,771	1,053,196
LONG-TERM DEBT less current maturities	250,000	250,000
PENSION AND POST-RETIREMENT BENEFITS	529,107	522,356
OTHER LONG-TERM LIABILITIES	88,336	93,109
DEFERRED INCOME TAXES	9,571	-
SHAREHOLDERS INVESTMENT		
Preferred stock, par value $.01 a share authorized 160,000,000 shares; issued none		
Common stock, non-voting, par value $.01 a share authorized 400,000,000 shares; issued none		
Common stock, par value $.01465 a share authorized 1,600,000,000 shares; issued 527,739,696 shares July 30, 2017 issued 528,483,868 shares October 30, 2016	7,732	7,742
Additional paid-in capital	-	-
Accumulated other comprehensive loss	(291,964)	(296,303)
Retained earnings	5,033,945	4,736,567
HORMEL FOODS CORPORATION SHAREHOLDERS INVESTMENT	4,749,713	4,448,006
NONCONTROLLING INTEREST	3,467	3,400
TOTAL SHAREHOLDERS INVESTMENT	4,753,180	4,451,406
TOTAL LIABILITIES AND SHAREHOLDERS INVESTMENT	$ 6,507,965	$ 6,370,067

See Notes to Consolidated Financial Statements

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HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	July 30, 2017	July 24, 2016	July 30, 2017	July 24, 2016
Net sales	$ 2,207,375	$ 2,302,376	$ 6,674,911	$ 6,895,283
Cost of products sold	1,754,966	1,827,091	5,183,302	5,335,628
GROSS PROFIT	452,409	475,285	1,491,609	1,559,655
Selling, general and administrative	176,660	206,876	567,886	627,968
Goodwill impairment charge	-	-	-	991
Equity in earnings of affiliates	3,956	6,381	27,376	27,449
OPERATING INCOME	279,705	274,790	951,099	958,145
Other income and expense:				
Interest and investment income	1,376	2,474	6,643	3,920
Interest expense	(3,057)	(3,147)	(9,106)	(9,583)
EARNINGS BEFORE INCOME TAXES	278,024	274,117	948,636	952,482
Provision for income taxes	95,473	78,341	319,896	306,155
NET EARNINGS	182,551	195,776	628,740	646,327
Less: Net earnings attributable to noncontrolling interest	43	122	159	215
NET EARNINGS ATTRIBUTABLE TO HORMEL FOODS CORPORATION	$ 182,508	$ 195,654	$ 628,581	$ 646,112
NET EARNINGS PER SHARE:				
BASIC	$ 0.35	$ 0.37	$ 1.19	$ 1.22
DILUTED	$ 0.34	$ 0.36	$ 1.17	$ 1.19
WEIGHTED-AVERAGE SHARES OUTSTANDING:				
BASIC	528,165	529,660	528,487	529,473
DILUTED	538,814	542,163	539,504	542,890
DIVIDENDS DECLARED PER SHARE:	$ 0.170	$ 0.145	$ 0.510	$ 0.435

See Notes to Consolidated Financial Statements

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HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	July 30, 2017	**July 24, 2016**	**July 30, 2017**	**July 24, 2016**
NET EARNINGS	$ 182,551	$ 195,776	$ 628,740	$ 646,327
Other comprehensive income (loss), net of tax:				
Foreign currency translation	4,143	(2,960)	(3,037)	(4,681)
Pension and other benefits	3,314	(835)	9,961	2,705
Deferred hedging	(170)	5,017	(2,677)	3,069
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	7,287	1,222	4,247	1,093
COMPREHENSIVE INCOME	189,838	196,998	632,987	647,420
Less: Comprehensive income attributable to noncontrolling interest	143	40	67	1
COMPREHENSIVE INCOME ATTRIBUTABLE TO HORMEL FOODS CORPORATION	$ 189,695	$ 196,958	$ 632,920	$ 647,419

See Notes to Consolidated Financial Statements

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HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS INVESTMENT

(in thousands, except per share amounts)

(Unaudited)

	Hormel Foods Corporation Shareholders						
	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total Shareholders Investment
Balance at October 25, 2015	$ 7,741	$ -	$ -	$ 4,216,125	$ (225,668)	$ 3,195	$ 4,001,393
Net earnings				890,052		465	890,517
Other comprehensive loss					(70,635)	(260)	(70,895)
Purchases of common stock		(87,885)					(87,885)
Stock-based compensation expense	1		17,828				17,829
Exercise of stock options/nonvested shares	35		7,476				7,511
Shares retired	(35)	87,885	(25,304)	(62,546)			-
Declared cash dividends $0.58 per share				(307,064)			(307,064)
Balance at October 30, 2016	$ 7,742	$ -	$ -	$ 4,736,567	$ (296,303)	$ 3,400	$ 4,451,406
Net earnings				628,581		159	628,740
Other comprehensive income (loss)					4,339	(92)	4,247
Purchases of common stock		(94,487)					(94,487)
Stock-based compensation expense	1		13,866				13,867
Exercise of stock options/nonvested shares	29		18,881				18,910
Shares retired	(40)	94,487	(32,747)	(61,700)			-
Declared cash dividends $0.51 per share				(269,503)			(269,503)
Balance at July 30, 2017	$ 7,732	$ -	$ -	$ 5,033,945	$ (291,964)	$ 3,467	$ 4,753,180

See Notes to Consolidated Financial Statements

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HORMEL FOODS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	July 30, 2017	**July 24, 2016**
OPERATING ACTIVITIES		
Net earnings	$ 628,740	$ 646,327
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	89,930	89,996
Amortization of intangibles	6,191	6,524
Goodwill impairment charge	-	991
Equity in earnings of affiliates, net of dividends	(7,855)	(2,905)
Provision for deferred income taxes	11,359	4,428
Gain on property/equipment sales and plant facilities	1,283	138
Non-cash investment activities	(3,790)	(1,247)
Stock-based compensation expense	13,867	16,091
Excess tax benefit from stock-based compensation	(24,859)	(39,190)
Changes in operating assets and liabilities, net of acquisitions:		
Decrease in accounts receivable	18,348	47,767
Increase in inventories	(72,598)	(60,579)
(Increase) decrease in prepaid expenses and other current assets	(22,333)	6,603
Decrease in pension and post-retirement benefits	(6,370)	(26,266)
Decrease in accounts payable and accrued expenses	(166,509)	(105,466)
Increase in net income taxes payable	46,069	38,474
NET CASH PROVIDED BY OPERATING ACTIVITIES	511,473	621,686
INVESTING ACTIVITIES		
Proceeds from sale of business	135,944	110,149
Acquisitions of businesses/intangibles	-	(281,655)
Purchases of property/equipment	(118,511)	(165,828)
Proceeds from sales of property/equipment	2,532	2,590
(Increase) decrease in investments, equity in affiliates, and other assets	(1,154)	6,865
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	18,811	(327,879)
FINANCING ACTIVITIES		
Proceeds from short-term debt	-	145,000
Principal payments on short-term debt	-	(185,000)
Dividends paid on common stock	(256,341)	(219,744)
Share repurchase	(94,487)	(44,976)
Proceeds from exercise of stock options	14,337	9,233
Excess tax benefit from stock-based compensation	24,859	39,190
NET CASH USED IN FINANCING ACTIVITIES	(311,632)	(256,297)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(454)	(5,152)
INCREASE IN CASH AND CASH EQUIVALENTS	218,198	32,358
Cash and cash equivalents at beginning of year	415,143	347,239
CASH AND CASH EQUIVALENTS AT END OF QUARTER	$ 633,341	$ 379,597

See Notes to Consolidated Financial Statements

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HORMEL FOODS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE A GENERAL

Basis of Presentation

The accompanying unaudited consolidated financial statements of Hormel Foods Corporation (the Company) have been prepared in accordance with generally accepted accounting principles for interim financial information, and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the interim period are not necessarily indicative of the results that may be expected for the full year. The balance sheet at October 30, 2016, has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes included in the Company s Annual Report on Form 10-K for the fiscal year ended October 30, 2016. Fiscal 2017 is a 52-week year as compared with fiscal 2016, which was 53 weeks, with the additional week occurring in the fourth quarter.

Reclassifications

Certain reclassifications of previously reported amounts have been made to conform to the current year presentation. The reclassifications had no impact on net earnings or operating cash flows as previously reported.

Assets Held for Sale

The Company classifies assets as held for sale when management approves and commits to a formal plan of sale with the expectation the sale will be completed within one year. The net assets of the business held for sale are then recorded at the lower of their current carrying value or the fair market value, less costs to sell. See additional discussion regarding the Company s assets held for sale in Note E.

Investments

The Company maintains a rabbi trust to fund certain supplemental executive retirement plans and deferred income plans. Under the plans, the participants can defer certain types of compensation and elect to receive a return on the deferred amounts based on the changes in fair value of various investment options, primarily a variety of mutual funds. The Company has corporate-owned life insurance policies on certain participants in the deferred compensation plans. The cash surrender value of the policies is included in other assets on the Consolidated Statements of Financial Position. The securities held by the trust are classified as trading securities. Therefore, unrealized gains and losses associated with these investments are included in the Company s earnings. Securities held by the trust generated gains of $1.5 million and $4.8 million for the third quarter and nine months ended July 30, 2017, respectively, compared to gains of $1.2 million and $2.4 million for the third quarter and nine months ended July 24, 2016.

Supplemental Cash Flow Information

Non-cash investment activities presented on the Consolidated Statements of Cash Flows primarily consist of unrealized gains or losses on the Company s rabbi trust. The noted investments are included in other assets on the Consolidated Statements of Financial Position. Changes in the value of these investments are included in the Company s net earnings and are presented in the Consolidated Statements of Operations as either interest and investment income (loss) or interest expense, as appropriate.

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Guarantees

The Company enters into various agreements guaranteeing specified obligations of affiliated parties. The Company s guarantees either terminate in one year or remain in place until such time as the Company revokes the agreement. The Company currently provides revocable standby letters of credit totaling $4.0 million to guarantee obligations that may arise under workers compensation claims of an affiliated party. This potential obligation is not reflected in the Company s Consolidated Statements of Financial Position.

New Accounting Pronouncements

In May 2014, the FASB issued ASC 606, *Revenue from Contracts with Customers*. This topic converges the guidance within U.S. generally accepted accounting principles (GAAP) and international financial reporting standards and supersedes ASC 605, *Revenue Recognition*. The new standard requires companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions which were not previously addressed comprehensively, and improve guidance for multiple-element arrangements. On July 8, 2015, the FASB approved a one-year deferral of the effective date. The new guidance is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period, and early adoption is permitted for annual reporting periods beginning after December 15, 2016. The updated guidance is to be applied either retrospectively or by using a cumulative effect adjustment. The Company expects to adopt the provisions of this new accounting standard at the beginning of fiscal year 2019, and is currently assessing the impact on its consolidated financial statements with a focus on arrangements with customers.

In April 2015, the FASB updated the guidance within ASC 835, *Interest*. The update provides guidance on simplifying the presentation of debt issuance costs. The amendments require debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The updated guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, with early adoption permitted. The Company retrospectively adopted the new provisions of this accounting standard at the beginning of fiscal year 2017, and adoption did not have a material impact on its consolidated financial statements.

In May 2015, the FASB updated the guidance within ASC 820, *Fair Value Measurements and Disclosures*. The update provides guidance on the disclosures for investments in certain entities that calculate net asset value (NAV) per share (or its equivalent). The amendments remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share (or its equivalent) as a practical expedient. The updated guidance is to be applied retrospectively and is effective for annual reporting periods beginning after December 15, 2015, and interim periods within those fiscal years, with early adoption permitted. The Company adopted the new provisions of this accounting standard at the beginning of fiscal year 2017, and adoption did not have a material impact on its consolidated financial statements.

In February 2016, the FASB updated the guidance within ASC 842, *Leases*. The update requires lessees to put most leases on their balance sheets while recognizing expenses on their income statements in a manner similar to current U.S. GAAP. The guidance also eliminates current real estate-specific provisions for all entities. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The updated guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted and the modified retrospective method is to be applied. The Company expects to adopt the provisions of this new accounting standard at the beginning of fiscal year 2020, and is currently assessing the impact on its consolidated financial statements.

In March 2016, the FASB updated the guidance within ASC 718, *Compensation Stock Compensation.* The update simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The updated guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted in any interim or annual period, with adjustments reflected as of the beginning of the fiscal year. The Company expects to adopt the provisions of this new accounting

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standard at the beginning of fiscal year 2018, and is currently assessing the impact on its consolidated financial statements.

In June 2016, the FASB updated the guidance within ASC 326, *Financial Instruments Credit Losses*. The update provides guidance on the measurement of credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The amendments replace the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to explain credit loss estimates. The updated guidance is to be applied on a modified retrospective approach and is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for all entities for fiscal years beginning after December 15, 2018, and interim periods therein. The Company is currently assessing the timing and impact of adopting the updated provisions.

In August 2016, the FASB updated the guidance within ASC 230, *Statement of Cash Flows*. The update makes eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. The updated guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted provided all amendments are adopted in the same period. The guidance requires application using a retrospective transition method. The Company is currently assessing the timing and impact of adopting the updated provisions.

In October 2016, the FASB updated the guidance within ASC 740, *Income Taxes*. The updated guidance requires the recognition of the income tax consequences of an intra-entity asset transfer, other than transfers of inventory, when the transfer occurs. For intra-entity transfers of inventory, the income tax effects will continue to be deferred until the inventory has been sold to a third party. The updated guidance is effective for reporting periods beginning after December 15, 2017, with early adoption permitted only within the first interim period of a fiscal year. The guidance is required to be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company is currently assessing the timing and impact of adopting the updated provisions.

In January 2017, the FASB updated the guidance within ASC 350, *Intangibles Goodwill and Other*. The updated guidance eliminates the second step of the two-step impairment test. The updated guidance modifies the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. An impairment charge should be made if a reporting unit s carrying amount exceeds its fair value, limited to the amount of goodwill allocated to that reporting unit. The updated guidance is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The updated guidance is required to be adopted on a prospective basis. The Company is currently assessing the timing and impact of adopting the updated provisions.

In March 2017, the FASB updated the guidance within ASC 715, *Compensation Retirement Benefits*. The updated guidance requires an employer to report the service cost component of net periodic pension cost and net periodic postretirement benefit cost in the same line item or items as other compensation costs. The updated guidance also requires the other components of net periodic pension cost and net periodic postretirement benefit cost to be presented in the income statement separately from the service cost component and outside income from operations. Additionally, only the service cost component is eligible for capitalization, when applicable. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The updated guidance should be applied retrospectively for the presentation of the service cost component and other components of net benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net benefit cost. The Company is currently assessing the timing and impact of adopting the updated provisions.

In August 2017, the FASB updated the guidance within ASC 815, *Derivatives and Hedging*. The updated guidance expand an entity s ability to hedge nonfinancial and financial risk components and reduce complexity in fair value hedges of interest rate risk. The guidance eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The guidance also eases certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of

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hedge effectiveness. Entities will apply the amendments to cash flow and net investment hedge relationships that exist on the date of adoption using a modified retrospective approach. The presentation and disclosure requirements apply prospectively. The updated guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those years. Early adoption is permitted in any interim or annual period. The Company is currently assessing the timing and impact of adopting the updated provisions.

NOTE B ACQUISITIONS

On August 22, 2017, subsequent to the end of the third quarter, the Company acquired Cidade do Sol (Ceratti) for a preliminary purchase price of approximately $104.0 million, subject to customary working capital adjustments. The transaction was funded by the Company with cash on hand.

Ceratti is a growing, branded, value-added meats company in Brazil offering more than 70 products in 15 categories including authentic meats such as mortadella, sausage, and salami for Brazilian retail and foodservice markets under the popular *Ceratti*® brand. The acquisition of the *Ceratti*® brand allows the Company to establish a full in-country presence in the fast-growing Brazilian market with a premium brand.

Operating results for this acquisition will be included in the Company s Consolidated Statements of Operations from the date of acquisition and will be reflected in the International & Other segment.

On August 16, 2017, subsequent to the end of the third quarter, the Company acquired Fontanini Italian Meats and Sausages (Fontanini), a branded foodservice business, from Capitol Wholesale Meats, Inc. for a purchase price of $425.0 million, subject to customary working capital adjustments. The transaction provides a cash flow benefit resulting from the amortization of the tax basis of assets, the net present value of which is approximately $90.0 million. The transaction was funded by the Company with cash on hand and by utilizing short-term financing.

Fontanini specializes in authentic Italian meats and sausages, as well as a variety of other premium meat products, including pizza toppings and meatballs, and allows the Company to expand its foodservice business.

Operating results for this acquisition will be included in the Company s Consolidated Statements of Operations from the date of acquisition and will be reflected in the Refrigerated Foods segment.

On May 26, 2016, the Company acquired Justin s, LLC (Justin s) for a final purchase price of $280.9 million. The transaction provides a cash flow benefit resulting from the amortization of the tax basis of assets, the net present value of which is approximately $70.0 million. The purchase price was funded by the Company with cash on hand and by utilizing short-term financing. Primary assets acquired include goodwill of $186.4 million and intangibles of $89.9 million.

Justin s is a pioneer in nut butter-based snacking and this acquisition allows the Company to enhance its presence in the specialty natural and organic nut butter category, complementing the Company s *SKIPPY* peanut butter products.

Operating results for this acquisition are included in the Company s Consolidated Statements of Operations from the date of acquisition and are reflected in the Grocery Products segment.

NOTE C INVENTORIES

Principal components of inventories are:

(in thousands)	July 30, 2017	October 30, 2016
Finished products	$ 580,835	$ 553,634
Raw materials and work-in-process	261,926	253,662
Materials and supplies	170,453	178,387
Total	$ 1,013,214	$ 985,683

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NOTE D GOODWILL AND INTANGIBLE ASSETS

The carrying amounts of goodwill for the nine months ended July 30, 2017, are presented in the table below. There were no changes to the carrying amount of goodwill in the third quarter of fiscal 2017. The reduction during the first nine months is due to the sale of Farmer John on January 3, 2017. See additional discussion regarding the Company s assets held for sale in Note E.

(in thousands)	Grocery Products	Refrigerated Foods	JOTS	Specialty Foods	International & Other	Total
Balance as of October 30, 2016	$ 508,800	$ 584,443	$ 203,214	$ 373,782	$ 164,258	$ 1,834,497
Goodwill sold	-	(11,826)	-	-	-	(11,826)
Balance as of July 30, 2017	$ 508,800	$ 572,617	$ 203,214	$ 373,782	$ 164,258	$ 1,822,671

The gross carrying amount and accumulated amortization for definite-lived intangible assets are presented in the table below.

	July 30, 2017		October 30, 2016	
(in thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer lists/relationships	$ 85,440	$ (23,931)	$ 88,240	$ (20,737)
Formulas and recipes	1,950	(1,943)	1,950	(1,796)
Other intangibles	3,100	(1,918)	3,520	(1,677)
Total	$ 90,490	$ (27,792)	$ 93,710	$ (24,210)

Amortization expense was $2.1 million and $6.2 million for the third quarter and nine months ended July 30, 2017, respectively, compared to $2.5 million and $6.5 million for the third quarter and nine months ended July 24, 2016.

Estimated annual amortization expense for the five fiscal years after October 30, 2016, is as follows:

(in millions)	
2017	$ 8.1
2018	7.6
2019	7.4
2020	7.4
2021	7.4

The carrying amounts for indefinite-lived intangible assets are presented in the table below.

(in thousands)	July 30, 2017	October 30, 2016
Brands/tradenames/trademarks	$ 819,835	$ 825,774
Other intangibles	184	7,984
Total	$ 820,019	$ 833,758

NOTE E ASSETS HELD FOR SALE

At the end of fiscal year 2016, the Company was actively marketing Clougherty Packing, LLC, parent company of Farmer John and Saag s Specialty Meats, along with PFFJ, LLC, farm operations in California, Arizona, and Wyoming (Farmer John). Through this process, the Company identified the specific assets and liabilities to be sold and allocated goodwill based on the relative fair values of the assets held for sale and the assets that would be retained by the Company. In November 2016, the Company entered into an agreement for the sale and the transaction closed on January 3, 2017. The purchase price was $145 million in cash. The assets held for sale were

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reported within the Company s Refrigerated Foods segment. The assets held for sale were not material to the Company s annual net sales, net earnings, or earnings per share.

Amounts classified as assets and liabilities held for sale on October 30, 2016, were presented on the Company s Consolidated Statement of Financial Position within their respective accounts, and include the following:

Assets held for sale (in thousands)		
Current assets	$	80,861
Goodwill		12,703
Intangibles		14,321
Property, plant and equipment		74,812
Total assets held for sale	$	182,697
Liabilities held for sale (in thousands)		
Total current liabilities held for sale	$	44,066

NOTE F PENSION AND OTHER POST-RETIREMENT BENEFITS

Net periodic benefit cost for pension and other post-retirement benefit plans consists of the following:

	Pension Benefits							
	Three Months Ended				Nine Months Ended			
(in thousands)	July 30, 2017		July 24, 2016		July 30, 2017		July 24, 2016	
Service cost	$	7,564	$	6,645	$	22,692	$	20,005
Interest cost		13,565		13,674		40,697		41,030
Expected return on plan assets		(22,734)		(21,716)		(68,202)		(65,071)
Amortization of prior service cost		(750)		(1,037)		(2,250)		(3,169)
Recognized actuarial loss		6,542		4,787		19,625		13,958
Curtailment gain		-		(4,438)		-		(4,438)
Net periodic cost	$	4,187	$	(2,085)	$	12,562	$	2,315

	Post-retirement Benefits							
	Three Months Ended				Nine Months Ended			
(in thousands)	July 30, 2017		July 24, 2016		July 30, 2017		July 24, 2016	
Service cost	$	275	$	317	$	824	$	950
Interest cost		2,871		3,236		8,613		9,708
Amortization of prior service cost		(1,069)		(1,050)		(3,206)		(3,151)
Recognized actuarial loss		598		392		1,825		1,176
Net periodic cost	$	2,675	$	2,895	$	8,056	$	8,683

During the third quarter of fiscal 2017, the Company made discretionary contributions of $16.1 million to fund its pension plans, compared to discretionary contributions of $25.7 million during the third quarter of fiscal 2016. The curtailment gain recognized in the third quarter of fiscal 2016 is due to plan amendments related to the sale of Diamond Crystal Brands (DCB).

NOTE G DERIVATIVES AND HEDGING

The Company uses hedging programs to manage price risk associated with commodity purchases. These programs utilize futures contracts to manage the Company s exposure to price fluctuations in the commodities markets. The Company has determined its programs which are designated as hedges are highly effective in offsetting the changes in fair value or cash flows generated by the items hedged.

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Cash Flow Hedges: The Company utilizes corn and lean hog futures to offset price fluctuations in the Company s future direct grain and hog purchases. The financial instruments are designated and accounted for as cash flow hedges, and the Company measures the effectiveness of the hedges at least quarterly. Effective gains or losses related to these cash flow hedges are reported in accumulated other comprehensive loss (AOCL) and reclassified into earnings, through cost of products sold, in the period or periods in which the hedged transactions affect earnings. Any gains or losses related to hedge ineffectiveness are recognized in the current period cost of products sold. The Company typically does not hedge its grain exposure beyond the next two upcoming fiscal years and its hog exposure beyond the next fiscal year. As of July 30, 2017, and October 30, 2016, the Company had the following outstanding commodity futures contracts that were entered into to hedge forecasted purchases:

	Volume	
Commodity	**July 30, 2017**	**October 30, 2016**
Corn	12.1 million bushels	22.4 million bushels
Lean hogs	0.1 million cwt	-

As of July 30, 2017, the Company has included in AOCL, hedging gains of $4.9 million (before tax) relating to these positions, compared to gains of $9.2 million (before tax) as of October 30, 2016. The Company expects to recognize the majority of these gains over the next 12 months.

Fair Value Hedges: The Company utilizes futures to minimize the price risk assumed when forward priced contracts are offered to the Company s commodity suppliers. The intent of the program is to make the forward priced commodities cost nearly the same as cash market purchases at the date of delivery. The futures contracts are designated and accounted for as fair value hedges, and the Company measures the effectiveness of the hedges at least quarterly. Changes in the fair value of the futures contracts, along with the gain or loss on the hedged purchase commitment, are marked-to-market through earnings and are recorded on the Consolidated Statements of Financial Position as a current asset and liability, respectively. Effective gains or losses related to these fair value hedges are recognized through cost of products sold in the period or periods in which the hedged transactions affect earnings. Any gains or losses related to hedge ineffectiveness are recognized in the current period cost of products sold. As of July 30, 2017, and October 30, 2016, the Company had the following outstanding commodity futures contracts designated as fair value hedges:

	Volume	
Commodity	**July 30, 2017**	**October 30, 2016**
Corn	3.9 million bushels	3.6 million bushels
Lean hogs	0.4 million cwt	0.2 million cwt

Other Derivatives: The Company holds certain futures and options contract positions as part of a merchandising program and to manage the Company s exposure to fluctuations in commodity markets. The Company has not applied hedge accounting to these positions.

As of July 30, 2017, and October 30, 2016, the Company had the following outstanding futures and options contracts related to these programs:

	Volume	
Commodity	**July 30, 2017**	**October 30, 2016**
Corn	0.3 million bushels	4.0 million bushels
Soybean meal	-	11,000 tons

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Fair Values: The fair values of the Company s derivative instruments (in thousands) as of July 30, 2017, and October 30, 2016, were as follows:

	Location on Consolidated Statements of Financial Position	Fair Value (1) July 30, 2017	Fair Value (1) October 30, 2016
Asset Derivatives:			
Derivatives Designated as Hedges:			
Commodity contracts	Other current assets	$ 1,109	$ (194)
Derivatives Not Designated as Hedges:			
Commodity contracts	Other current assets	19	144
Total Asset Derivatives		$ 1,128	$ (50)

(1) Amounts represent the gross fair value of derivative assets and liabilities. The Company nets the derivative assets and liabilities for each of its hedging programs, including cash collateral, when a master netting arrangement exists between the Company and the counterparty to the derivative contract. The amount or timing of cash collateral balances may impact the classification of the derivative in the Consolidated Statements of Financial Position. See Note L Fair Value Measurements for a discussion of these net amounts as reported in the Consolidated Statements of Financial Position.

Derivative Gains and Losses: Gains or losses (before tax, in thousands) related to the Company s derivative instruments for the third quarter ended July 30, 2017, and July 24, 2016, were as follows:

	Gain/(Loss) Recognized in AOCL (Effective Portion) (1) Three Months Ended		Location on Consolidated Statements	Gain/(Loss) Reclassified from AOCL into Earnings (Effective Portion) (1) Three Months Ended		Gain/(Loss) Recognized in Earnings (Ineffective Portion) (2) (4) Three Months Ended	
Cash Flow Hedges:	**July 30, 2017**	**July 24, 2016**	**of Operations**	**July 30, 2017**	**July 24, 2016**	**July 30, 2017**	**July 24, 2016**
Commodity contracts	$ 1,490	$ 7,702	Cost of products sold	$ 1,758	$ (346)	$ (22)	$ (14,277)

	Location on Consolidated	Gain/(Loss) Recognized in Earnings (Effective Portion) (3) Three Months Ended	Gain/(Loss) Recognized in Earnings (Ineffective Portion) (2) (5) Three Months Ended

Fair Value Hedges:	Statements of Operations	July 30, 2017	July 24, 2016	July 30, 2017	July 24, 2016
Commodity contracts	Cost of products sold	$ (730)	$ (1)	$ 51	$ 4,658

Derivatives Not Designated as Hedges:	Location on Consolidated Statements of Operations	Gain/(Loss) Recognized in Earnings Three Months Ended	
		July 30, 2017	July 24, 2016
Commodity contracts	Cost of products sold	$ 9	$ (244)

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Derivative Gains and Losses: Gains or losses (before tax, in thousands) related to the Company s derivative instruments for the nine months ended July 30, 2017, and July 24, 2016, were as follows:

Cash Flow Hedges:	**Gain/(Loss) Recognized in AOCL (Effective Portion)** (1) **Nine Months Ended July 30, 2017**	**Gain/(Loss) Recognized in AOCL (Effective Portion)** (1) **Nine Months Ended July 24, 2016**	**Location on Consolidated Statements of Operations**	**Gain/(Loss) Reclassified from AOCL into Earnings (Effective Portion)** (1) **Nine Months Ended July 30, 2017**	**Gain/(Loss) Reclassified from AOCL into Earnings (Effective Portion)** (1) **Nine Months Ended July 24, 2016**	**Gain/(Loss) Recognized in Earnings (Ineffective Portion)** (2) (4) **Nine Months Ended July 30, 2017**	**Gain/(Loss) Recognized in Earnings (Ineffective Portion)** (2) (4) **Nine Months Ended July 24, 2016**
Commodity contracts	$ 703	$ 3,234	Cost of products sold	$ 4,980	$ (1,690)	$ 17	$ (14,255)

Fair Value Hedges:	**Location on Consolidated Statements of Operations**	**Gain/(Loss) Recognized in Earnings (Effective Portion)** (3) **Nine Months Ended July 30, 2017**	**Gain/(Loss) Recognized in Earnings (Effective Portion)** (3) **Nine Months Ended July 24, 2016**	**Gain/(Loss) Recognized in Earnings (Ineffective Portion)** (2) (5) **Nine Months Ended July 30, 2017**	**Gain/(Loss) Recognized in Earnings (Ineffective Portion)** (2) (5) **Nine Months Ended July 24, 2016**
Commodity contracts	Cost of products sold	$ (1,321)	$ 1,905	$ 52	$ 4,419

Derivatives Not Designated as Hedges:	**Location on Consolidated Statements of Operations**	**Gain/(Loss) Recognized in Earnings Nine Months Ended July 30, 2017**	**Gain/(Loss) Recognized in Earnings Nine Months Ended July 24, 2016**
Commodity contracts	Cost of products sold	$ (228)	$ (674)

(1) Amounts represent gains or losses in AOCL before tax. See Note I Accumulated Other Comprehensive Loss or the Consolidated Statements of Comprehensive Income for the after-tax impact of these gains or losses on net earnings.

(2) There were no gains or losses excluded from the assessment of hedge effectiveness during the third quarter or first nine months. Due to market volatility, the Company temporarily suspended the use of the special hedge accounting exemption for its JOTS corn futures contracts in the third quarter of fiscal 2016 due to ineffectiveness. During the time of suspension, all gains or losses related to these contracts were recorded in earnings as incurred.

(3) Amounts represent losses on commodity contracts designated as fair value hedges that were closed during the third quarter or the first nine months, which were offset by a corresponding gain on the underlying hedged purchase commitment. Additional gains or losses related to changes in the fair value of open commodity contracts, along with the offsetting gain or loss on the hedged purchase commitment, are also marked-to-market through earnings with no impact on a net basis.

(4) There were no gains or losses resulting from the discontinuance of cash flow hedges during the third quarter or the first nine months.

(5) There were no gains or losses recognized as a result of a hedged firm commitment no longer qualifying as a fair value hedge during the third quarter or first nine months.

NOTE H INVESTMENTS IN AND RECEIVABLES FROM AFFILIATES

The Company accounts for its majority-owned operations under the consolidation method. Investments in which the Company owns a minority interest, and for which there are no other indicators of control, are accounted for under the equity or cost method. These investments, along with any related receivables from affiliates, are included in the Consolidated Statements of Financial Position as investments in and receivables from affiliates.

Investments in and receivables from affiliates consists of the following:

(in thousands)	Segment	% Owned		July 30, 2017		October 30, 2016
MegaMex Foods, LLC	Grocery Products	50%	$	184,470	$	180,437
Foreign Joint Ventures	International & Other	Various (26-40%)		63,659		59,153
Total			$	248,129	$	239,590

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Equity in earnings of affiliates consists of the following:

		Three Months Ended		Nine Months Ended	
(in thousands)	Segment	July 30, 2017	July 24, 2016	July 30, 2017	July 24, 2016
MegaMex Foods, LLC	Grocery Products	$ 2,528	$ 5,039	$ 20,715	$ 20,812
Foreign Joint Ventures	International & Other	1,428	1,342	6,661	6,637
Total		$ 3,956	$ 6,381	$ 27,376	$ 27,449

Dividends received from affiliates for the three and nine months ended July 30, 2017, were $7.0 million and $19.5 million, respectively, compared to $10.0 million and $24.5 million dividends received for the three and nine months ended July 24, 2016.

The Company recognized a basis difference of $21.3 million associated with the formation of MegaMex Foods, LLC, of which $14.6 million is remaining as of July 30, 2017. This difference is being amortized through equity in earnings of affiliates.

NOTE I ACCUMULATED OTHER COMPREHENSIVE LOSS

Components of accumulated other comprehensive loss are as follows:

(in thousands)	Foreign Currency Translation	Pension & Other Benefits	Deferred Gain (Loss) - Hedging	Accumulated Other Comprehensive Loss
Balance at April 30, 2017	$ (12,477)	$ (289,905)	$ 3,231	$ (299,151)
Unrecognized gains (losses)				
Gross	4,043	-	1,490	5,533
Tax effect	-	-	(559)	(559)
Reclassification into net earnings				
Gross	-	5,321(1)	(1,758)(2)	3,563
Tax effect	-	(2,007)	657	(1,350)
Net of tax amount	4,043	3,314	(170)	7,187
Balance at July 30, 2017	$ (8,434)	$ (286,591)	$ 3,061	$ (291,964)

(in thousands)	Foreign Currency Translation	Pension & Other Benefits	Deferred Gain (Loss) - Hedging	Accumulated Other Comprehensive Loss
Balance at October 30, 2016	$ (5,489)	$ (296,552)	$ 5,738	$ (296,303)

Unrecognized gains (losses)				
Gross	(2,945)	-	703	(2,242)
Tax effect	-	-	(265)	(265)
Reclassification into net earnings				
Gross	-	15,994(1)	(4,980)(2)	11,014
Tax effect	-	(6,033)	1,865	(4,168)
Net of tax amount	(2,945)	9,961	(2,677)	4,339
Balance at July 30, 2017	$ (8,434)	$ (286,591)	$ 3,061	$ (291,964)

(1) Included in the computation of net periodic cost (see Note F Pension and Other Post-Retirement Benefits for additional details).

(2) Included in cost of products sold in the Consolidated Statements of Operations.

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NOTE J INCOME TAXES

The amount of unrecognized tax benefits, including interest and penalties, is recorded in other long-term liabilities. If recognized as of July 30, 2017, and July 24, 2016, $20.3 million and $18.4 million, respectively, would impact the Company s effective tax rate. The Company includes accrued interest and penalties related to uncertain tax positions in income tax expense. Interest and penalties included in income tax expense for the third quarter and first nine months of fiscal 2017 was $0.1 million and $0.2 million, respectively, compared to $0.1 million expense and $0.3 million benefit for the comparable quarter and first nine months of fiscal 2016. The amount of accrued interest and penalties at July 30, 2017, and July 24, 2016, associated with unrecognized tax benefits was $2.8 million and $3.0 million, respectively.

The Company is regularly audited by federal and state taxing authorities. The United States Internal Revenue Service (I.R.S.) concluded its examination of fiscal year 2015 in the first quarter of fiscal 2017. The Company has elected to participate in the Compliance Assurance Process (CAP) for fiscal years 2016 and 2017. The objective of CAP is to contemporaneously work with the I.R.S. to achieve federal tax compliance and resolve all or most of the issues prior to filing of the tax return. The Company may elect to continue participating in CAP for future tax years; the Company may withdraw from the program at any time.

The Company is in various stages of audit by several state taxing authorities on a variety of fiscal years, as far back as 2011. While it is reasonably possible that one or more of these audits may be completed within the next 12 months and that the related unrecognized tax benefits may change, based on the status of the examinations it is not possible to reasonably estimate the effect of any amount of such change to previously recorded uncertain tax positions.

NOTE K STOCK-BASED COMPENSATION

The Company issues stock options and nonvested shares as part of its stock incentive plans for employees and non-employee directors. The Company s policy is to grant options with the exercise price equal to the market price of the common stock on the date of grant. Options typically vest over four years and expire ten years after the date of the grant. The Company recognizes stock-based compensation expense ratably over the shorter of the requisite service period or vesting period. The fair value of stock-based compensation granted to retirement-eligible individuals is expensed at the time of grant.

A reconciliation of the number of options outstanding and exercisable (in thousands) as of July 30, 2017, and changes during the nine months then ended, is as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value

Outstanding at October 30, 2016	31,998	$ 16.05		
Granted	2,360	33.58		
Exercised	2,935	10.17		
Forfeited	36	9.35		
Outstanding at July 30, 2017	31,387	$ 17.93	4.8 years	$ 518,421
Exercisable at July 30, 2017	25,228	$ 14.54	3.9 years	$ 496,814

The weighted-average grant date fair value of stock options granted and the total intrinsic value of options exercised (in thousands) during the third quarter and first nine months of fiscal years 2017 and 2016, are as follows. There were no stock options granted during the third quarter of fiscal year 2017.

	Three Months Ended		Nine Months Ended		
	July 30, 2017	July 24, 2016	July 30 2017	July 24, 2016	
Weighted-average grant date fair value	$ -	$ 7.46	$ 6.41	$ 7.82	
Intrinsic value of exercised options	$ 12,385	$ 7,895	$ 73,473	$ 135.1	$136.5
Average interest rate	2.0 %	2.0 %			
Fixed-rate and other debt:					
Average outstanding debt balance	$ —	$ —			
Average interest rate	n/a	n/a			
Total debt:					
Average outstanding debt balance	$ 135.1	$ 136.5			
Average interest rate	2.0 %	2.0 %			

Income Taxes. The effective income tax rate from continuing operations was a negative 38.5% in 2015 compared with 20.7% in 2014. The effective tax rate for 2015 was significantly lower due to the non-deductible goodwill impairment charge of $44.5 million associated with the acquisition of Terphane. Income taxes from continuing operations in 2014 included the recognition of a tax benefit for a portion of the Company’s capital loss carryforwards of $4.9 million. As a result of changes in the underlying basis of certain foreign subsidiaries, income taxes from continuing operations in 2014 also included an adjustment of $2.2 million to reverse previously accrued deferred tax liabilities arising from changes in tax basis due to foreign currency translation adjustments and unremitted earnings. Factors impacting the effective tax rate for 2015 and 2014 are further detailed in the effective income tax rate reconciliation provided in Note 17 of the Notes to Financial Statements.

Identifiable Assets. A summary of identifiable assets for the year ended December 31, 2015 versus 2014 is provided below:

(In thousands)	Year Ended December 31		
	2015	2014	Variance
PE Films	$270,236	$283,606	$(13,370)
Flexible Packaging Films	146,253	262,604	(116,351)
Aluminum Extrusions	136,935	143,328	(6,393)
Subtotal	553,424	689,538	(136,114)
General corporate	25,680	49,032	(23,352)
Cash and cash equivalents	44,156	50,056	(5,900)
Total	$623,260	$788,626	$(165,366)

Identifiable assets in PE Films decreased at December 31, 2015 from December 31, 2014 primarily due to lower accounts receivable and inventories as a result of lower sales volume and lower property, plant and equipment and intangible asset balances as a result of changes in the value of the U.S. dollar relative to foreign currencies, partially offset by current year capital expenditures. Identifiable assets in Flexible Packaging Films decreased at December 31, 2015 from December 31, 2014 primarily due to the write off of $44.5 million of goodwill from the Terphane acquisition, lower accounts receivable and inventories as a result of lower sales volume, a reduction in property, plant and equipment and intangible asset balances as a result of changes in the value of the U.S. dollar relative to foreign currencies, partially offset by capital expenditures. Identifiable assets in Aluminum Extrusions decreased at December 31, 2015 from December 31, 2014 primarily due to lower accounts receivable balances as a result of the timing of collections. Identifiable assets in General Corporate decreased at December 31, 2015 from December 31, 2014 primarily due to a decrease in the value of the Company's investment in kaléo.

Segment Analysis. A summary of operating results for 2015 versus 2014 for each of the Company’s reporting segments is shown below.

PE Films

A summary of operating results for PE Films is provided below:

(In thousands, except percentages)	Year Ended December 31 2015	2014	Favorable/ (Unfavorable) % Change
Sales volume (pounds)	160,283	175,203	(8.5)%
Net sales	$385,550	$464,339	(17.0)%
Operating profit from ongoing operations	$48,275	$60,971	(20.8)%

Net sales in 2015 decreased by $78.8 million versus 2014, primarily due to lower volume ($46.3 million), mainly from lost business and product transitions, and the unfavorable impact from the change in the U.S. dollar value of currencies for operations outside of the U.S. ($25.9 million).

Sales volume in 2015 declined as a result of the wind down of shipments for certain personal care materials due to various product transitions and lost business, primarily with PE Films’ largest customer. In addition, efforts to consolidate domestic manufacturing facilities in PE Films commenced in the third quarter of 2015. This restructuring project is not expected to be completed until the second half of 2017, and once complete, annual pre-tax cash cost savings are expected to be approximately $5-6 million. The table below summarizes the pro forma operating profit from ongoing operations for 2015 and 2014, had the impact of the events noted in the Restructuring section in the Executive Summary been fully realized in each period:

(In Thousands)	Year Ended December 31, 2015	2014
Operating profit from ongoing operations, as reported	$48,275	$60,971
Contribution to operating profit from ongoing operations associated with lost business:		
Certain babycare elastic films sold in North America	—	2,106
Product transitions & other lost business before restructurings & fixed costs reduction	13,349	22,686
Operating profit from ongoing operations net of the impact of business that will be fully eliminated in future periods	34,926	36,179
Estimated future benefit of North American facility consolidation	5,200	5,200
Pro forma estimated operating profit from ongoing operations	$40,126	$41,379

Net sales associated with lost business and product transitions that have yet to be fully eliminated were approximately $38.5 million and $84.5 million in 2015 and 2014, respectively.

Net of the impact of product transitions and lost business, pro forma estimated operating profit from ongoing operations in 2015 decreased by $1.3 million versus 2014 due to the following:

- An increase in volume of over 6% and a favorable mix for surface protection films ($4.2 million);
- A decrease in volume for polyethylene overwrap films and other personal care materials ($2.4 million);
- The favorable lag in the pass-through of average resin costs of $1.3 million in 2015 versus a negative $0.1 million in 2014;
- An increase in foreign currency translation and transaction losses ($3.7 million); and
- Other factors including higher research and development costs partially offset by lower depreciation.

Capital Expenditures and Depreciation & Amortization

Capital expenditures in PE Films were $21.2 million in 2015 compared to $17.0 million in 2014. Depreciation expense was $15.4 million in 2015 and $21.1 million in 2014 as certain assets became fully depreciated. Amortization expense was $0.1 million in 2015 and $0.3 million in 2014.

Flexible Packaging Films

A summary of operating results for Flexible Packaging Films, which excludes the goodwill impairment charge discussed below, is provided below:

(In thousands, except percentages)	Year Ended December 31 2015	2014	Favorable/ (Unfavorable) % Change
Sales volume (pounds)	82,347	72,064	14.3 %
Net sales	$105,332	$114,348	(7.9)%
Operating profit (loss) from ongoing operations	$5,453	$(2,917)	-

Net sales in 2015 decreased 7.9% versus 2014 primarily due to competitive pricing pressures and the pass-through to customers of lower raw material costs, partially offset by a 14.3% increase in sales volume.

Operating profit (loss) from ongoing operations improved from a loss of $2.9 million in 2014 to income of $5.5 million in 2015 ($8.4 million improvement), primarily due to the following:

- An improvement of $1.4 million in 2015 versus 2014 due to lower general, sales and administration costs of $1.2 million and operating efficiencies of $0.9 million, partially offset by lower margins of $0.7 million primarily from competitive pricing pressures;
- Foreign currency transaction gains associated with U.S. dollar denominated export sales in Brazil of $3.5 million in 2015 versus $0.5 million in 2014;
- The estimated lag in the pass through of lower raw material costs of $1.0 million in 2015 (none in 2014);
- Net refunds of $1.6 million in 2015 as a result of the reinstatement by the U.S. in the third quarter of 2015 of the Generalized System of Preferences (GSP) program allowing for duty-free shipment of Terphane's products to the U.S. versus duties paid of $1.1 million in 2014; and
- The favorable settlement of certain loss contingencies of $0.6 million in 2015 versus $0.3 million in 2014.

Capital Expenditures, Depreciation & Amortization and Goodwill Impairment Charge

Capital expenditures were $3.5 million in 2015 compared to $21.8 million in 2014. Capital expenditures in 2014 included $17 million for the capacity expansion project at a manufacturing facility in Cabo de Santo Agostinho, Brazil. Depreciation expense was $6.8 million in 2015 and $5.8 million in 2014. Amortization expense was $2.9 million in 2015 and $3.5 million in 2014.

During the third quarter of 2015, the Company performed a goodwill impairment assessment related to Flexible Packaging Films. This review was undertaken as a result of the continued competitive pressures related to ongoing unfavorable economic conditions in Flexible Packaging Films' primary market of Brazil and excess global industry capacity. The assessment resulted in a full write-off of the goodwill of $44.5 million associated with the acquisition of Terphane.

Aluminum Extrusions

A summary of operating results for Aluminum Extrusions is provided below:

(In thousands, except percentages)	Year Ended December 31 2015	2014	Favorable/ (Unfavorable) % Change
Sales volume (pounds)	170,045	153,843	10.5 %
Net sales	$375,457	$344,346	9.0 %
Operating profit from ongoing operations	$30,432	$25,664	18.6 %

Net sales in 2015 increased in comparison to 2014 primarily due to higher sales volume in all major markets, offset by a decrease in average selling prices. Higher sales volume had a favorable impact of $40.6 million in 2015 compared to 2014. The decrease in average selling prices, which reduced net sales by $9.5 million, were mainly due to lower aluminum costs and mix changes.

Operating profit from ongoing operations in 2015 increased $4.8 million primarily as a result of higher volume partially offset by new hire costs and other production inefficiencies that occurred in the first three quarters of 2015.

Capital Expenditures and Depreciation & Amortization

Capital expenditures for Aluminum Extrusions were $8.1 million in 2015 compared to $6.1 million in 2014. Depreciation expense was $8.7 million in 2015 compared to $8.3 million in 2014. Amortization expense was $1.0 million in 2015 and $1.6 million in 2014.

Financial Condition

Assets and Liabilities

Tredegar's management continues to focus on improving working capital management, and measures such as days sales outstanding ("DSO"), days inventory outstanding ("DIO") and days payables outstanding ("DPO") are used by the Company to evaluate changes in working capital. Significant changes in assets and liabilities from continuing operations from December 31, 2015 to December 31, 2016 are summarized below:

- Accounts and other receivables increased $3.2 million (3.4%).
- Accounts and other receivables in PE Films increased by $0.8 million due mainly to the timing of cash receipts and slower collections. DSO (represents trailing 12 months net sales divided by a rolling 12-month average of accounts and other receivables balances) was approximately 45.7 days in 2016 and 42.7 days in 2015.
- Accounts and other receivables in Flexible Packaging Films increased by $0.2 million primarily due to the impact of the change in the value of the U.S. dollar relative to the Brazilian real. DSO was approximately 51.8 days in 2016 and 68.9 days in 2015.
- Accounts and other receivables in Aluminum Extrusions increased by $2.0 million primarily due to the timing of cash receipts. DSO was approximately 43.3 days in 2016 and 45.1 days in 2015.
- Inventories increased $0.7 million (1.1%).
- Inventories in PE Films decreased by $0.3 million primarily due to lower storeroom and shop supply balances and the timing of shipments at the end of the year. DIO (represents trailing 12 months costs of goods sold calculated on a first-in, first-out basis divided by a rolling 12-month average of inventory balances calculated on the first-in, first-out basis) was approximately 52.2 days in 2016 and 48.3 days in 2015.
- Inventories in Flexible Packaging Films increased by $0.1 million primarily due to the impact of the change in the value of the U.S. dollar relative to the Brazilian real. DIO was approximately 77.0 days in 2016 and 81.6 days in 2015.
- Inventories in Aluminum Extrusions increased by $1.0 million primarily due to higher sales volume and the timing of shipments at the end of the year. DIO was approximately 26.5 days in 2016 and 29.8 days in 2015.
- Net property, plant and equipment increased $29.4 million (12.7%) due primarily to capital expenditures of $45.5 million and changes in the value of the U.S. dollar relative to the Brazilian Real of $12.9 million, partially offset by depreciation of $28.5 million.
- Goodwill and other intangibles decreased by $1.6 million (1.1%) primarily due to amortization expense of $4.0 million, partially offset by changes in the value of the U.S. dollar relative to the Brazilian real of $2.3 million.
- Accounts payable decreased by $2.8 million (3.3%).
- Accounts payable in PE Films decreased by $3.4 million primarily due to the timing of payments at the end of the year. DPO (represents trailing 12 months costs of goods sold calculated on a first-in, first-out basis divided by a rolling 12-month average of accounts payable balances) was approximately 38.5 days in 2016 and 39.0 days in 2015.
- Accounts payable in Flexible Packaging Films increased by $3.7 million, the timing of payments and the impact of the change in the U.S. dollar value of currencies for operations outside the U.S. DPO was approximately 39.5 days in 2016 and 34.2 days in 2015.

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- Accounts payable in Aluminum Extrusions decreased by $1.9 million, primarily due to the timing of payments. DPO was approximately 45.4 days in 2016 and 48.0 days in 2015.
- Accrued expenses increased by $5.0 million (14.8%) from December 31, 2015 due to higher employee benefit accruals, higher stock-based benefit obligations and deferred revenue related to the startup of a new production line.
- Other noncurrent liabilities decreased by $5.8 million (5.2%) from December 31, 2015, primarily due to a reduction in the accrued pension liability.
- Net noncurrent deferred income tax liabilities in excess of noncurrent deferred tax assets increased by $1.9 million primarily due to numerous changes between years in the balance of the components shown in the December 31, 2016 and 2015 schedule of deferred income tax assets and liabilities provided in Note 17 of the Notes to Financial Statements. The Company had a current income tax receivable of $7.5 million at December 31, 2016 compared to $0.4 million at December 31, 2015. The change is primarily due to timing of tax payments and anticipated refunds of credits available for carryback to prior years.

On March 1, 2016, the Company entered into a new five-year, $400 million secured revolving credit agreement that expires on March 1, 2021 ("revolving credit agreement"), replacing the previous $350 million unsecured revolving credit agreement. Net capitalization and indebtedness as defined under the revolving credit agreement as of December 31, 2016 were as follows:

Net Capitalization and Indebtedness as of December 31, 2016
(In Thousands)

Net capitalization:	
Cash and cash equivalents	$29,511
Debt:	
$400 million revolving credit agreement maturing March 1, 2021	95,000
Other debt	—
Total debt	95,000
Debt net of cash and cash equivalents	65,489
Shareholders' equity	310,783
Net capitalization	$376,272
Indebtedness as defined in revolving credit agreement:	
Total debt	$95,000
Face value of letters of credit	2,685
Capital lease	255
Other	250
Indebtedness	$98,190

The credit spread and commitment fees charged on the unused amount under our revolving credit agreement at various indebtedness-to-adjusted EBITDA levels are as follows:

Pricing Under Revolving Credit Agreement (Basis Points)

Indebtedness-to-Adjusted EBITDA Ratio	Credit Spread Over LIBOR	Commitment Fee
> 3.5x but <= 4.0x	250	45
> 3.0x but <= 3.5x	225	40
> 2.0x but <= 3.0x	200	35
> 1.0x but <= 2.0x	175	30
<= 1.0x	150	25

At December 31, 2016, the interest rate on debt under the revolving credit agreement existing at that date was priced at one-month LIBOR plus the applicable credit spread of 175 basis points. Under the revolving credit agreement, borrowings are permitted up to $400 million, and approximately $185.0 million was available to borrow at December 31, 2016, based upon the most restrictive covenants.

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As of December 31, 2016, Tredegar is in compliance with all financial covenants outlined in its revolving credit agreement. Noncompliance with any of the debt covenants may have a material adverse effect on financial condition or liquidity in the event such noncompliance cannot be cured or should the Company be unable to obtain a waiver from the lenders. Renegotiation of the covenant(s) through an amendment to the revolving credit agreement may effectively cure the noncompliance, but may have an effect on financial condition or liquidity depending upon how the amended covenant is renegotiated.

The computations of adjusted EBITDA, adjusted EBIT, the leverage ratio and interest coverage ratio as defined in the revolving credit agreement are presented below along with the related most restrictive covenants. Adjusted EBITDA and adjusted EBIT as defined in the revolving credit agreement are not intended to represent net income or cash flow from operations as defined by GAAP and should not be considered as either an alternative to net income or to cash flow.

Computations of Adjusted EBITDA, Adjusted EBIT, Leverage Ratio and Interest Coverage Ratio as Defined in the Revolving Credit Agreement Along with Related Most Restrictive Covenants

As of and for the Twelve Months Ended December 31, 2016 (In Thousands)

Computations of adjusted EBITDA and adjusted EBIT as defined in revolving credit agreement for the twelve months ended December 31, 2016:	
Net income	$24,466
Plus:	
After-tax losses related to discontinued operations	—
Total income tax expense for continuing operations	3,217
Interest expense	3,806
Depreciation and amortization expense for continuing operations	32,472
All non-cash losses and expenses, plus cash losses and expenses not to exceed $10,000, for continuing operations that are classified as unusual, extraordinary or which are related to plant shutdowns, asset impairments and/or restructurings (cash-related of $6,742)	8,645
Charges related to stock option grants and awards accounted for under the fair value-based method	56
Losses related to the application of the equity method of accounting	—
Losses related to adjustments in the estimated fair value of assets accounted for under the fair value method of accounting	—
Minus:	
After-tax income related to discontinued operations	—
Total income tax benefits for continuing operations	—
Interest income	(261)
All non-cash gains and income, plus cash gains and income in excess of $10,000, for continuing operations that are classified as unusual, extraordinary or which are related to plant shutdowns, asset impairments and/or restructurings	—
Income related to changes in estimates for stock option grants and awards accounted for under the fair value-based method	—
Income related to the application of the equity method of accounting	—
Income related to adjustments in the estimated fair value of assets accounted for under the fair value method of accounting	(1,600)
Plus cash dividends declared on investments accounted for under the equity method of accounting	—
Plus or minus, as applicable, pro forma EBITDA adjustments associated with acquisitions and asset dispositions	—
Adjusted EBITDA as defined in revolving credit agreement	70,801
Less: Depreciation and amortization expense for continuing operations (including pro forma for acquisitions and asset dispositions)	(32,472)
Adjusted EBIT as defined in revolving credit agreement	$38,329
Computations of leverage and interest coverage ratios as defined in revolving credit agreement at December 31, 2016:	
Leverage ratio (indebtedness-to-adjusted EBITDA)	1.39x
Interest coverage ratio (adjusted EBIT-to-interest expense)	10.07x
Most restrictive covenants as defined in revolving credit agreement:	
Maximum permitted aggregate amount of dividends that can be paid by Tredegar during the term of the revolving credit agreement ($100,000 plus 50% of net income generated for each quarter beginning January 1, 2016)	$112,233
Maximum leverage ratio permitted	4.00x
Minimum interest coverage ratio permitted	2.50x

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Tredegar is obligated to make future payments under various contracts as set forth below:

	Payments Due by Period						
(In Millions)	2017	2018	2019	2020	2021	Remainder	Total
Debt:							
Principal payments	$—	$—	$—	$—	$95.0	$ —	$95.0
Estimated interest expense	2.5	2.5	2.5	2.5	0.4	—	10.4
Estimated contributions required (1) :							
Defined benefit plans	5.5	8.9	12.1	10.3	10.5	28.1	75.4
Other postretirement benefits	0.5	0.5	0.5	0.5	0.5	2.5	5.0
Capital expenditure commitments	12.0	—	—	—	—	—	12.0
Leases	2.4	2.2	2.0	2.0	1.5	1.1	11.2
Estimated obligations relating to uncertain tax positions (2)						3.4	3.4
Other (3)	3.8	2.1	—	—	—	—	5.9
Total	$26.7	$16.2	$17.1	$15.3	$107.9	$ 35.1	$218.3

(1) Estimated minimum required contributions for defined benefit plans and benefit payments for other postretirement plans are based on actuarial estimates using current assumptions for discount rates, long-term rate of return on plan assets, rate of compensation increases and health care cost trends. The expected defined benefit plan contribution estimates for 2017 through 2026 were determined under provisions of the Pension Protection Act of 2006 using the preliminary assumptions chosen by Tredegar for the 2017 plan year. Tredegar has determined that it is not practicable to present defined benefit contributions and other postretirement benefit payments beyond 2026.

(2) Amounts for which reasonable estimates about the timing of payments cannot be made are included in the remainder column.

(3) Includes contractual severance and other miscellaneous contractual arrangements.

From time to time, the Company enters into transactions with third parties in connection with the sale of assets or businesses in which it agrees to indemnify the buyers or third parties involved in the transaction, or the sellers or third parties involved in the transaction agree to indemnify Tredegar, for certain liabilities or risks related to the assets or business. Also, in the ordinary course of business, the Company may enter into agreements with third parties for the sale of goods or services that may contain indemnification provisions. In the event that an indemnification claim is asserted, liability for indemnification would be subject to an assessment of the underlying facts and circumstances under the terms of the applicable agreement. Further, any indemnification payments may be limited or barred by a monetary cap, a time limitation, or a deductible or basket. For these reasons, the Company is unable to estimate the maximum potential amount of the potential future liability under the indemnity provisions of these agreements. Tredegar does, however, accrue for losses for any known contingent liability, including those that may arise from indemnification provisions, when future payment is probable and the amount is reasonably estimable. The Company discloses contingent liabilities if the probability of loss is reasonably possible and material.

At December 31, 2016, Tredegar had cash and cash equivalents of $29.5 million, including funds held in locations outside the U.S. of $23.8 million. Tredegar’s policy is to accrue U.S. federal income taxes on unremitted earnings of all foreign subsidiaries where required. Prior to the second quarter of 2016, deferred U.S. federal income taxes had not been recorded for the undistributed earnings for Terphane Ltda. because the Company had intended to permanently reinvest these earnings. Due to concerns about the current political and economic conditions in Brazil, Terphane Ltda. has begun making cash distributions to the Company. During 2016, Terphane Ltda. paid dividends totaling $13.3 million to the Company. Because of the accumulation of significant losses related to foreign currency translations at Terphane Ltda., there were no unrecorded deferred tax liabilities associated with the U.S. federal income taxes and foreign withholding taxes on Terphane Ltda.’s undistributed earnings as of December 31, 2016 and December 31, 2015.

The Company believes that existing borrowing availability, current cash balances and cash flow from operations will be sufficient to satisfy working capital, capital expenditure and dividend requirements for at least the next twelve months.

Shareholders’ Equity

At December 31, 2016, Tredegar had 32,933,807 shares of common stock outstanding and a total market capitalization of $790.4 million, compared with 32,682,162 shares of common stock outstanding and a total market capitalization of $445.1 million at December 31, 2015.

Tredegar did not repurchase any shares on the open market in 2016, 2015 or 2014 under its approved share repurchase program.

Cash Flows

The discussion in this section supplements the information presented in the Consolidated Statements of Cash Flows. Cash flows for discontinued operations have not been separately disclosed in the consolidated statements of cash flows.

Cash provided by operating activities was $48.9 million in 2016 compared with $74.3 million in 2015. The decrease is due primarily to lower earnings in PE Films and changes in working capital (higher accounts receivable and income taxes recoverable) (see the Assets and Liabilities section for discussion of changes in working capital).

Cash used in investing activities was $42.0 million in 2016 compared with $31.4 million in 2015. Cash used in investing activities in 2016 primarily includes capital expenditures of $45.5 million.

Net cash flow used by financing activities was $23.7 million in 2016, which is primarily due to net payments on the revolving credit agreement of $9.0 million, the payment of regular quarterly dividends of $14.5 million (44 cents per share) and debt financing costs related to the refinancing of the revolving credit agreement of $2.6 million, partially offset by the proceeds from the exercise of stock options and other financing activities of $2.3 million.

Cash provided by operating activities was $74.3 million in 2015 compared with $51.2 million in 2014. The increase is due primarily to normal volatility of working capital components and higher earnings, after adjusting for two large, non-cash charges: $44.5 million goodwill impairment charge at Terphane and $20.5 million write down of an investment in kaléo.

Cash used in investing activities was $31.4 million in 2015 compared with $38.3 million in 2014. Cash used in investing activities in 2015 primarily consists of capital expenditures of $32.8 million. Cash used in investing activities in 2014 primarily consists of capital expenditures of $44.9 million, partially offset by proceeds from the sale of a portion of investment property in Alleghany and Bath Counties, Virginia ($4.5 million).

Net cash flow used by financing activities was $44.2 million in 2015, which is primarily due to net payments on the existing revolving credit agreement of $33.3 million and the payment of regular quarterly dividends of $13.7 million (42 cents per share) partially offset by the proceeds from the exercise of stock options and other financing activities of $2.9 million.

Quantitative and Qualitative Disclosures about Market Risk

Tredegar has exposure to the volatility of interest rates, polyethylene, polypropylene and polyester resin prices, PTA and MEG prices, aluminum ingot and scrap prices, energy prices, foreign currencies and emerging markets. See the Assets and Liabilities section regarding interest rate exposures related to borrowings under the revolving credit agreement.

Changes in polyethylene resin prices, and the timing of those changes, could have a significant impact on profit margins in PE Films. Changes in polyester resin, PTA and MEG prices, and the timing of those changes, could have a significant impact on profit margins in Flexible Packaging Films. Profit margins in Aluminum Extrusions are sensitive to fluctuations in aluminum ingot and scrap prices as well as natural gas prices (natural gas is the principal energy source used to operate its casting furnaces). There is no assurance of the Company’s ability to pass through higher raw material and energy costs to its customers.

See the Executive Summary and the Results of Continuing Operations sections for discussion regarding the impact of the lag in the pass-through of resin price changes.

The volatility of average quarterly prices of low density polyethylene resin in the U.S. (a primary raw material for PE Films products) is shown in the chart below:
Source: Quarterly averages computed by Tredegar using monthly data provided by IHS, Inc. In January 2015, IHS reflected a 21 cents per pound non-market adjustment based on their estimate of the growth of discounts in prior periods. The 4th quarter 2014 average rate of $1.09 per pound is shown on a pro forma basis as if the non-market adjustment was made in the fourth quarter of 2014.
Polyethylene resin prices in Europe, Asia and South America have exhibited similar long-term trends. The price of resin is driven by several factors, including supply and demand and the price of oil, ethylene and natural gas. To address fluctuating resin prices, PE Films has index-based pass-through raw material cost agreements for the majority of its business. However, under certain agreements, changes in resin prices are not passed through for an average period of 90 days (see the Executive Summary and the Results of Continuing Operations sections for more information). Pricing on the remainder of the business is based upon raw material costs and supply/demand dynamics within the markets that the Company competes.
Polyester resins, MEG and PTA used by Flexible Packaging Films in Brazil are primarily purchased domestically, with other sources available, mostly from Asia and the U.S. Given the nature of these products as commodities, pricing is derived from Asian pricing indexes. The volatility of the average quarterly prices for polyester fibers in Asia, which is representative of polyester resin (a primary raw material for polyester film products) prices, is shown in the chart below:
Source: Quarterly averages computed by Tredegar using monthly data from CMAI Global Index data.

The volatility of average quarterly prices of PTA and MEG in Asia (raw materials used in the production of polyester resins produced by Flexible Packaging Films) is shown in the chart below:

Source: Quarterly averages computed by Tredegar using monthly data from CMAI Global Index data.
In the normal course of business, Aluminum Extrusions enters into fixed-price forward sales contracts with certain customers for the sale of fixed quantities of aluminum extrusions at scheduled intervals. In order to hedge its exposure to aluminum price volatility (see the chart below) under these fixed-price arrangements, which generally have a duration of not more than 12 months, the Company enters into a combination of forward purchase commitments and futures contracts to acquire or hedge aluminum, based on the scheduled deliveries. See Note 9 of the Notes to Financial Statements for more information. The volatility of quarterly average aluminum prices is shown in the chart below:
Source: Quarterly averages computed by Tredegar using daily Midwest average prices provided by Platts.
From time-to-time, Aluminum Extrusions hedges a portion of its exposure to natural gas price volatility by entering into fixed-price forward purchase contracts with its natural gas suppliers. The Company estimates that, in an unhedged situation, every $1 per mmBtu per month change in the market price of natural gas has an $81,000 impact on the continuing monthly operating profit for U.S. operations in Aluminum Extrusions. There is an energy surcharge for Aluminum Extrusions in the U.S. that is applied when the previous quarter's NYMEX natural gas average settlement price is in excess of $8.85 per mmBtu.

The volatility of quarterly average natural gas prices is shown in the chart below:
Source: Quarterly averages computed by Tredegar using monthly NYMEX settlement prices.
Tredegar sells to customers in foreign markets through its foreign operations and through exports from U.S. plants. The percentage of sales and total assets for manufacturing operations related to foreign markets for 2016, 2015 and 2014 are as follows:

Tredegar Corporation—Continuing Operations
Percentage of Net Sales and Total Assets Related to Foreign Markets

	2016			2015			2014		
	% of Total Net Sales *		% Total Assets - Foreign Oper-ations *	% of Total Net Sales *		% Total Assets - Foreign Oper-ations *	% of Total Net Sales *		% Total Assets - Foreign Oper-ations *
	Exports From U.S.	Foreign Oper-ations		Exports From U.S.	Foreign Oper-ations		Exports From U.S.	Foreign Oper-ations	
Canada	6	—	—	5	—	—	5	—	—
Europe	1	10	6	1	10	5	1	12	5
Latin America	—	11	21	—	10	20	—	11	27
Asia	9	3	6	9	3	7	8	4	4
Total % exposure to foreign markets	16	24	33	15	23	32	14	27	36

* The percentages for foreign markets are relative to Tredegar’s consolidated net sales and total assets from continuing operations.

Tredegar attempts to match the pricing and cost of its products in the same currency and generally view the volatility of foreign currencies (see trends for the Euro, Brazilian Real and Chinese Yuan in the chart on pages 42-43) and emerging markets, and the corresponding impact on earnings and cash flow, as part of the overall risk of operating in a global environment. Exports from the U.S. are generally denominated in U.S. Dollars. The Company’s foreign currency exposure on income from continuing foreign operations relates to the Euro, the Chinese Yuan, the Hungarian Forint, the Brazilian Real and the Indian Rupee.

PE Films is generally able to match the currency of its sales and costs for its product lines. For flexible packaging films produced in Brazil, while selling prices and key raw material costs are principally determined in U.S. Dollars, they are impacted by local economic conditions, including the value of the Brazilian Real in U.S. Dollars and local supply and demand factors. Certain production costs, such as conversion costs and other fixed costs, are priced in Brazilian Real, and adversely impacted by high inflation levels in Brazil. Moreover, the value of the Brazilian Real when compared to the U.S. Dollar is impacted by many variables, including inflation differentials between the U.S. and Brazil. In general, local currency inflationary cost increases in Brazil will be offset when converting to U.S. Dollars by decreases in the value of the Brazilian Real relative to the U.S. Dollar that is related to high Brazil inflation versus low U.S. inflation. Accordingly, because of the many volatile economic variables at play in Brazil, it is not practical to isolate to one measure the economic impact on Flexible Packaging Films' operating profit of changes in the U.S. Dollar value of the Brazilian Real.

Tredegar estimates that the change in the value of foreign currencies relative to the U.S. Dollar on PE Films had an unfavorable impact on operating profit from ongoing operations in PE Films of $0.3 million in 2016 compared to 2015, an unfavorable impact on operating profit from ongoing operations of $3.7 million in 2015 compared with 2014, a favorable impact of $0.7 million in 2014 compared with 2013.

Trends for the Euro are shown in the chart below:

Source: Quarterly averages computed by Tredegar using daily closing data provided by Bloomberg.

Trends for the Brazilian Real and Chinese Yuan are shown in the chart below:
Source: Quarterly averages computed by Tredegar using daily closing data provided by Bloomberg.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See discussion of Quantitative and Qualitative Disclosures about Market Risk in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See the Index to Financial Statements and Supplementary Data for references to the report of the independent registered public accounting firm, the consolidated financial statements and selected quarterly financial data.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Pursuant to Rule 13a-15(b) under the Exchange Act, Tredegar carried out an evaluation, with the participation of its management, including its principal executive officer and principal financial officer, of the effectiveness of disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the principal executive officer and principal financial officer concluded that the Company’s disclosure controls and procedures are effective to ensure that information required to be disclosed by Tredegar in the reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Management’s Report on Internal Control Over Financial Reporting

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Tredegar’s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of published financial statements in accordance with U.S. generally accepted accounting principles and includes policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorization of our management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the consolidated financial statements.

Internal control over financial reporting includes the controls themselves, monitoring (including internal auditing practices) and actions taken to correct deficiencies as identified.

Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of the Company’s consolidated financial statements would be prevented or detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework 2013 issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on this evaluation under the framework in Internal Control — Integrated Framework 2013, Tredegar’s management concluded that the Company’s internal control over financial reporting was effective as of December 31, 2016.

The effectiveness of Tredegar’s internal control over financial reporting as of December 31, 2016 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included on page 48.

Changes in Internal Control Over Financial Reporting

There has been no change in Tredegar’s internal control over financial reporting during the quarter ended December 31, 2016, that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information concerning directors and persons nominated to become directors of Tredegar to be included in the Proxy Statement under the headings “Election of Directors” and “Tredegar’s Board of Directors” is incorporated herein by reference.

The information concerning corporate governance to be included in the Proxy Statement under the headings “Board Meetings, Meetings of Non-Management Directors and the Board Committees” and “Corporate Governance” is incorporated herein by reference.

The information to be included in the Proxy Statement under the heading “Section 16(a) Beneficial Ownership Reporting Compliance” is incorporated herein by reference.

Set forth below are the names, ages and titles of the Company’s executive officers:

Name	Age	Title
John D. Gottwald	62	President and Chief Executive Officer
D. Andrew Edwards	58	Vice President and Chief Financial Officer
Michael W. Giancaspro	62	Vice President, Business Processes and Corporate Development
Michael J. Schewel	63	Vice President, General Counsel and Corporate Secretary

John D. Gottwald. Mr. Gottwald was elected President and Chief Executive Officer on August 18, 2015. From June 26, 2015 until August 17, 2015, he served as interim President and Chief Executive Officer. He previously served as the Company’s President and Chief Executive Officer from March 1, 2006 until January 31, 2010, and as the Company’s Chairman of the Board from September 2001 until February 2008. Mr. Gottwald also served as the Company’s President and Chief Executive Officer from July 1989 until September 2001.

D. Andrew Edwards. Mr. Edwards was elected Vice President and Chief Financial Officer effective July 20, 2015. He previously served as the Chief Financial Officer of United Sporting Companies, Inc., a wholesale distributor of outdoor sporting goods, from February 2013 until July 2015 and as Vice President, Controller and Chief Accounting Officer of Owens & Minor, Inc., a distributor of acute medical products, from April 2010 to February 2013 and as Acting Chief Financial Officer of Owens & Minor, Inc. from March 2012 to February 2013. Mr. Edwards also served as Vice President, Finance, of Owens & Minor, Inc. from December 2009 until April 2010. Mr. Edwards previously served as the Company’s Vice President, Chief Financial Officer and Treasurer from August 2003 to December 2009 and as the Company’s Vice President, Finance from November 1998 to August 2003. Mr. Edwards also served as the Company’s Treasurer from May 1997 to December 2009 and as the Company’s Controller from October 1992 until July 2000.

Michael W. Giancaspro. Mr. Giancaspro was elected Vice President, Business Processes and Corporate Development, effective October 1, 2015. He previously was President of Turnaround Strategies LLC, a business turnaround consulting practice, from 2006 until 2015. He served as part of the Company’s initial senior management team in 1989, and as a Vice President of the Company from 1992 until 2000 and from 2003 until 2005.

Michael J. Schewel. Mr. Schewel was elected Vice President, General Counsel and Corporate Secretary effective May 9, 2016. He was previously partner with the law firm of McGuire Woods, LLP from 1986 until May 2016, except for four years from 2002 until 2006 when he served as Secretary of Commerce and Trade for the Commonwealth of Virginia.

Tredegar has adopted a Code of Conduct that applies to all of its directors, officers and employees (including its chief executive officer, chief financial officer and principal accounting officer) and has posted the Code of Conduct on its website. All amendments to or waivers from any provision of the Company’s Code of Conduct applicable to the chief executive officer, chief financial officer and principal accounting officer will be disclosed on the Company’s website. The Company’s internet address is www.tredegar.com.

Item 11. EXECUTIVE COMPENSATION

The information to be included in the Proxy Statement under the headings “Compensation of Directors,” “Board Meetings, Meetings of Non-Management Directors and Board Committees—Executive Compensation Committee Interlocks and Insider Participation,” “Compensation Discussion and Analysis,” “Executive Compensation Committee Report” and “Compensation of Executive Officers” is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information to be included in the Proxy Statement under the heading “Stock Ownership” is incorporated herein by reference. The following table summarizes information with respect to equity compensation plans under which securities are authorized for issuance as of December 31, 2016.

Plan Category	Column (a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Column (b) Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Column (c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans, Excluding Securities Reflected in Column (a)
Equity compensation plans approved by security holders	946,703	$ 21.67	2,748,000
Equity compensation plans not approved by security holders	—	—	—
Total	946,703	$ 21.67	2,748,000

* Includes performance stock units that give the holder the right to receive shares of Tredegar common stock upon the satisfaction of certain performance criteria.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information to be included in the Proxy Statement under the headings “Certain Relationships and Related Transactions”, “Tredegar’s Board of Directors” and “Board Meetings, Meetings of Non-Management Directors and Board Committees” is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following is incorporated herein by reference:

- Information on accounting fees and services to be included in the Proxy Statement under the heading “Audit Fees;” and
- Information on the Audit Committee’s procedures for pre-approving certain audit and non-audit services to be included in the Proxy Statement under the heading “Board Meetings, Meetings of Non-Management Directors and Board Committees—Audit Committee Matters.”

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) List of documents filed as a part of the report:

(1) Financial statements:

Tredegar Corporation

Index to Financial Statements and Supplementary Data

(2) Financial statement schedules:

None.

(3) Exhibits:

See Exhibit Index on pages 91-93.

Report of Independent Registered Public Accounting Firm
To the Board of Directors and Shareholders of
Tredegar Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income (loss), cash flows and shareholders' equity present fairly, in all material respects, the financial position of Tredegar Corporation and its subsidiaries at December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Richmond, Virginia
February 22, 2017

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CONSOLIDATED BALANCE SHEETS
Tredegar Corporation and Subsidiaries

December 31 (In Thousands, Except Share Data)	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	$29,511	$44,156
Accounts and other receivables, net of allowance for doubtful accounts and sales returns of $3,102 in 2016 and $3,746 in 2015	97,388	94,217
Income taxes recoverable	7,518	360
Inventories	66,069	65,325
Prepaid expenses and other	7,738	6,946
Total current assets	208,224	211,004
Property, plant and equipment, at cost:		
Land and land improvements	11,294	10,953
Buildings	126,064	120,544
Machinery and equipment	660,272	623,181
Total property, plant and equipment	797,630	754,678
Less accumulated depreciation	(536,905)	(523,363)

Net property, plant and equipment	260,725	231,315
Goodwill and other intangibles	151,423	153,072
Other assets and deferred charges	30,790	27,869
Total assets	$651,162	$623,260
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$81,342	$84,148
Accrued expenses	38,647	33,653
Total current liabilities	119,989	117,801
Long-term debt	95,000	104,000
Deferred income taxes	21,110	18,656
Other noncurrent liabilities	104,280	110,055
Total liabilities	340,379	350,512
Commitments and contingencies (Notes 3, 16 and 19)		
Shareholders' equity:		
Common stock (no par value):		
Authorized 150,000,000 shares;		
Issued and outstanding—32,933,807 shares in 2016 and 32,682,162 in 2015 (including restricted	32,007	29,467

stock)		
Common stock held in trust for savings restoration plan (69,622 shares in 2016 and 67,726 in 2015)	(1,497)	(1,467)
Accumulated other comprehensive income (loss):		
Foreign currency translation adjustment	(93,970)	(112,807)
Gain (loss) on derivative financial instruments	863	(373)
Pension and other postretirement benefit adjustments	(90,127)	(95,539)
Retained earnings	463,507	453,467
Total shareholders' equity	310,783	272,748
Total liabilities and shareholders' equity	$651,162	$623,260

See accompanying notes to financial statements.

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CONSOLIDATED STATEMENTS OF INCOME
Tredegar Corporation and Subsidiaries

Years Ended December 31	2016	2015	2014
(In Thousands, Except Per-Share Data)			
Revenues and other:			
Sales	$828,341	$896,177	$951,826
Other income (expense), net	2,381	(20,113)	(6,697)
	830,722	876,064	945,129
Costs and expenses:			
Cost of goods sold	668,626	725,459	778,113
Freight	29,069	29,838	28,793
Selling, general and administrative	75,754	71,911	69,526
Research and development	19,122	16,173	12,147
Amortization of intangibles	3,978	4,073	5,395
Interest expense	3,806	3,502	2,713
Asset impairments and costs associated with exit and disposal activities	2,684	3,850	3,026
Goodwill impairment charge	—	44,465	—
Total	803,039	899,271	899,713
Income (loss) from continuing operations before income taxes	27,683	(23,207)	45,416
Income taxes	3,217	8,928	9,387
Income (loss) from continuing operations	24,466	(32,135)	36,029
Income (loss) from discontinued operations, net of tax	—	—	850
Net income (loss)	$24,466	$(32,135)	$36,879
Earnings (loss) per share:			
Basic:			
Continuing operations	$0.75	$(0.99)	$1.12
Discontinued operations	—	—	0.02
Net income (loss)	$0.75	$(0.99)	$1.14
Diluted:			
Continuing operations	$0.75	$(0.99)	$1.11
Discontinued operations	—	—	0.02
Net income (loss)	$0.75	$(0.99)	$1.13

See accompanying notes to financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Tredegar Corporation and Subsidiaries

Years Ended December 31 (In Thousands, Except Per-Share Data)	2016	2015	2014
Net income (loss)	$24,466	$(32,135)	$36,879
Other comprehensive income (loss):			
Unrealized foreign currency translation adjustment (net of tax benefit of $729 in 2016, tax benefit of $890 in 2015 and tax benefit of $2,396 in 2014)	18,837	(65,537)	(28,065)
Derivative financial instruments adjustment (net of tax of $727 in 2016, tax benefit of $550 in 2015 and tax benefit of $112 in 2014)	1,236	(1,029)	(109)
Pension & other post-retirement benefit adjustments			
Net gains (losses) and prior service costs (net of tax benefit of $1,874 in 2016, tax benefit of $226 in 2015 and tax benefit of $22,445 in 2014)	(3,288)	(2,176)	(38,730)
Amortization of prior service costs and net gains or losses (net of tax of $4,398 in 2016, tax of $5,823 in 2015 and tax of $3,582 in 2014)	8,700	10,218	6,997
Other comprehensive income (loss)	25,485	(58,524)	(59,907)
Comprehensive income (loss)	$49,951	$(90,659)	$(23,028)

See accompanying notes to financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS
Tredegar Corporation and Subsidiaries

Years Ended December 31	2016	2015	2014
(In Thousands)			
Cash flows from operating activities:			
Net income (loss)	$24,466	$(32,135)	$36,879
Adjustments for noncash items:			
Depreciation	28,494	30,909	35,423
Amortization of intangibles	3,978	4,073	5,395
Goodwill impairment charge	—	44,465	—
Deferred income taxes	(3,689)	(10,523)	(11,489)
Accrued pension and postretirement benefits	11,047	12,521	6,974
(Gain) loss on an investment accounted for under the fair value method	(1,600)	20,500	(2,000)
Loss on asset impairments	1,436	403	993
(Gain) loss on sale of assets	(220)	(11)	(1,031)
Gain from insurance recoveries	(1,634)	—	—
Changes in assets and liabilities:			
Accounts and notes receivables	92	9,180	(18,696)
Inventories	1,127	1,137	(8,803)
Income taxes recoverable/payable	(7,061)	(1,849)	(906)
Prepaid expenses and other	(1,914)	(1,256)	496
Accounts payable and accrued expenses	161	(2,455)	5,554
Pension and postretirement benefit plan contributions	(8,061)	(2,709)	(3,108)
Other, net	2,250	2,006	5,554
Net cash provided by operating activities	48,872	74,256	51,235
Cash flows from investing activities:			
Capital expenditures	(45,457)	(32,831)	(44,898)
Net proceeds from the sale of investment property	—	—	4,500
Insurance proceeds from cast house explosion	1,156	—	—
Proceeds from the sale of assets and other	2,308	1,416	2,125
Net cash used in investing activities	(41,993)	(31,415)	(38,273)

Cash flows from financing activities:			
Borrowings	96,750	107,000	116,000
Debt principal payments	(105,750)	(140,250)	(117,750)
Dividends paid	(14,456)	(13,725)	(11,007)
Debt financing costs	(2,606)	(78)	(29)
Proceeds from exercise of stock options and other	2,313	2,858	410
Net cash used in financing activities	(23,749)	(44,195)	(12,376)
Effect of exchange rate changes on cash	2,225	(4,546)	(3,147)
Decrease in cash and cash equivalents	(14,645)	(5,900)	(2,561)
Cash and cash equivalents at beginning of period	44,156	50,056	52,617
Cash and cash equivalents at end of period	$29,511	$44,156	$50,056
Supplemental cash flow information:			
Interest payments	$3,074	$3,508	$3,320
Income tax payments (refunds), net	$15,406	$20,118	$20,890

See accompanying notes to financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Tredegar Corporation and Subsidiaries

	Common Stock				Accumulated Other Comprehensive Income (Loss)			
(In Thousands, Except Share and Per-Share Data)	Shares	Amount	Retained Earnings	Trust for Savings Restora-tion Plan	Foreign Currency Trans-lation	Gain (Loss) on Derivative Financial Instruments	Pension & Other Post-retirement Benefit Adjust.	Total Share-holders' Equity
Balance at January 1, 2014	32,305,145	$20,641	$473,729	$ (1,418)	$(19,205)	$ 765	$(71,848)	$402,664
Net income	—	—	36,879	—	—	—	—	36,879
Foreign currency translation adjustment (net of tax benefit of $2,396)	—	—	—	—	(28,065)	—	—	(28,065)
Derivative financial instruments adjustment (net of tax benefit of $112)	—	—	—	—	—	(109)	—	(109)
Net gains or losses and prior service costs (net of tax benefit of $22,445)	—	—	—	—	—	—	(38,730)	(38,730)
Amortization of prior service costs and net gains or losses (net of tax of $3,582)	—	—	—	—	—	—	6,997	6,997
Cash dividends declared ($0.34 per share)	—	—	(11,007)	—	—	—	—	(11,007)
Stock-based compensation expense	85,129	3,224	—	—	—	—	—	3,224
Issued upon exercise of stock options (including related income tax benefit of $3) & other	31,808	499	—	—	—	—	—	499
Shareholder Rights Plan redemption	—	—	(323)	—	—	—	—	(323)
Tredegar common stock purchased by trust for savings restoration plan	—	—	22	(22)	—	—	—	—
Balance at December 31, 2014	32,422,082	24,364	499,300	(1,440)	(47,270)	656	(103,581)	372,029
Net loss	—	—	(32,135)	—	—	—	—	(32,135)
Foreign currency translation adjustment (net of tax benefit of $890)	—	—	—	—	(65,537)	—	—	(65,537)
	—	—	—	—	—	(1,029)	—	(1,029)

Derivative financial instruments adjustment (net of tax benefit of $550)								
Net gains or losses and prior service costs (net of tax benefit of $226)	—	—	—	—	—	—	(2,176)	(2,176)
Amortization of prior service costs and net gains or losses (net of tax of $5,823)	—	—	—	—	—	—	10,218	10,218
Cash dividends declared ($0.42 per share)	—	—	(13,725)					(13,725)
Stock-based compensation expense	118,440	3,435	—	—	—	—	—	3,435
Issued upon exercise of stock options (including related income tax of $302) & other	141,640	1,668	—	—	—	—	—	1,668
Tredegar common stock purchased by trust for savings restoration plan	—	—	27	(27)	—	—	—	—
Balance at December 31, 2015	32,682,162	29,467	453,467	(1,467)	(112,807)	(373)	(95,539)	272,748
Net income	—	—	24,466	—	—	—	—	24,466
Foreign currency translation adjustment (net of tax benefit of $729)	—	—	—	—	18,837	—	—	18,837
Derivative financial instruments adjustment (net of tax of $727)	—	—	—	—	—	1,236	—	1,236
Net gains or losses and prior service costs (net of tax benefit of $1,874)	—	—	—	—	—	—	(3,288)	(3,288)
Amortization of prior service costs and net gains or losses (net of tax of $4,398)	—	—	—	—	—	—	8,700	8,700
Cash dividends declared ($0.44 per share)	—	—	(14,456)	—	—	—	—	(14,456)
Stock-based compensation expense	127,169	1,461	—	—	—	—	—	1,461
Issued upon exercise of stock options (including related income tax of $1,109) & other	124,476	1,079	—	—	—	—	—	1,079
Tredegar common stock purchased by trust for savings restoration plan	—	—	30	(30)	—	—	—	—
	32,933,807	$32,007	$463,507	$ (1,497)	$(93,970)	$ 863	$(90,127)	$310,783

Balance at December 31,
2016
See accompanying notes to financial statements.

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NOTES TO FINANCIAL STATEMENTS
Tredegar Corporation and Subsidiaries
1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Organization and Nature of Operations. Tredegar Corporation and subsidiaries (collectively “Tredegar,” “the Company,” “we,” “us” or “our”) are primarily engaged in the manufacture of polyethylene films, polyester films and aluminum extrusions. See Notes 10 and 18 regarding restructurings and Note 3 regarding discontinued operations.
Basis of Presentation. The consolidated financial statements include the accounts and operations of Tredegar and all of its majority-owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation. On February 12, 2008, Tredegar sold its aluminum extrusions business in Canada. All historical results for this business have been reflected as discontinued operations in these financial statements; however, cash flows for discontinued operations have not been separately disclosed in the consolidated statements of cash flows. See Note 3 regarding discontinued operations.
The preparation of financial statements in conformity with United States (“U.S.”) generally accepted accounting principles (“GAAP”) requires Tredegar to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.
Tredegar has historically reported two business segments: Film Products and Aluminum Extrusions. In the third quarter of 2015, the Company divided Film Products into two separate operating segments: PE Films and Flexible Packaging Films. All historical results for PE Films and Flexible Packaging Films have been separately presented to conform with the new presentation of segments. See Note 5 regarding business segments.
Certain amounts for the prior years have been reclassified to conform to current year presentation.
Fiscal Year End. The Company operates on a calendar fiscal year except the Aluminum Extrusions segment, which operates on a 52/53-week fiscal year basis. References to Aluminum Extrusions for 2016, 2015 and 2014 relate to the 52-week fiscal years ended December 26, 2016, December 27, 2015 and December 28, 2014, 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.
Foreign Currency Translation. The financial statements of subsidiaries located outside the U.S., where the local currency is the functional currency, are translated into U.S. Dollars using exchange rates in effect at the period end for assets and liabilities and average exchange rates during each reporting period for results of operations. Adjustments resulting from the translation of these financial statements are reflected as a separate component of shareholders’ equity. There are no operating subsidiaries located outside the U.S. where the U.S. Dollar is the functional currency. Transaction and remeasurement gains or losses included in income were losses of $3.6 million, $4.0 million and $1.5 million in 2016, 2015 and 2014, respectively. These amounts do not include the effects between reporting periods that exchange rate changes have on income of the locations outside the U.S. that result from translation into U.S. Dollars.
Cash and Cash Equivalents. Cash and cash equivalents consist of cash on hand in excess of daily operating requirements and highly liquid investments with original maturities of three months or less. At December 31, 2016 and 2015, Tredegar had cash and cash equivalents of $29.5 million and $44.2 million, respectively, including funds held in locations outside the U.S. of $23.8 million and $27.7 million, respectively.
The Company’s policy permits investment of excess cash in marketable securities that have the highest credit ratings and maturities of less than one year. The primary objectives of the policy are safety of principal and liquidity.
Accounts and Other Receivables. Accounts receivable are stated at the amount invoiced to customers less allowances for doubtful accounts and sales returns. Accounts receivable are non-interest bearing and arise from the sale of product to customers under typical industry trade terms. Notes receivable are not significant. Past due amounts are determined based on established terms and charged-off when deemed uncollectible. The allowance for doubtful accounts is determined based on an assessment of probable losses taking into account past due amounts, customer credit profile, historical experience and current economic conditions. Other receivables include value-added taxes related to certain foreign subsidiaries and other miscellaneous receivables due within one year.
Inventories. Inventories are stated at the lower of cost or market, with cost determined on the last-in, first-out (“LIFO”) basis, the weighted average cost or the first-in, first-out basis. Cost elements included in work-in-process and finished

goods inventories are raw materials, direct labor and manufacturing overhead. Finished goods, work in process, raw materials and

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supplies, stores and other inventory are reviewed to determine if inventory quantities are in excess of forecasted usage or if they have become obsolete.

Property, Plant and Equipment. Accounts include costs of assets constructed or purchased, related delivery and installation costs and interest incurred on significant capital projects during their construction periods. Expenditures for renewals and betterments also are capitalized, but expenditures for repairs and maintenance are expensed as incurred. The cost and accumulated depreciation applicable to assets retired or sold are removed from the respective accounts, and gains or losses thereon are included in income.

Capital expenditures for property, plant and equipment include capitalized interest. Capitalized interest included in capital expenditures for property, plant and equipment was $0.3 million, $0.4 million and $1.1 million in 2016, 2015 and 2014, respectively.

Depreciation is computed primarily by the straight-line method based on the estimated useful lives of the assets that, except for isolated exceptions, range from 5 to 40 years for buildings and land improvements and 2 to 20 years for machinery and equipment.

Investments in Private Entities with Less Than or Equal to 50% Voting Ownership Interest. The Company accounts for its investments in private entities where its voting ownership is less than or equal to 50% based on the facts and circumstances surrounding the investment. Investments are required to be accounted for under the consolidation method in situations where Tredegar is the primary beneficiary of a variable interest entity. The primary beneficiary is the party that has a controlling financial interest in a variable interest entity. The Company is deemed to have a controlling financial interest if it has (i) the power to direct activities of the variable interest entity that most significantly impact its economic performance and (ii) the obligation to absorb losses or the right to receive benefits from the variable interest entity that could potentially be significant to its operations.

If the Company is not deemed to be the primary beneficiary in an investment in a variable interest entity then it selects either: (i) the fair value method or (ii) either (a) the cost method if it does not have significant influence over operating and financial policies of the investee or (b) the equity method if it does have significant influence.

For those investments measured at fair value, GAAP requires disclosure of the level within the fair value hierarchy in which fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3).

Goodwill and Other Intangibles. The excess of the purchase price over the fair value of identifiable net assets of acquired companies is allocated to goodwill. The Company assesses goodwill for impairment when events or circumstances indicate that the carrying value may not be recoverable or, at a minimum, on an annual basis (December 1st of each year). The Company's significant operating units in PE Films include Personal Care and Surface Protection. There are two operating units in Aluminum Extrusions, Bonnell Aluminum and AACOA. Each of these reporting units has separately identifiable operating net assets (operating assets including goodwill and intangible assets net of operating liabilities).

The Company recorded a goodwill impairment charge of $44.5 million ($44.5 million after taxes) to write off the goodwill associated with Flexible Packaging Films in the third quarter of 2015. See Note 8 for additional details.

The Company estimates the fair value of its reporting units using discounted cash flow analysis and comparative enterprise value-to-EBITDA (earnings before interest, taxes, depreciation and amortization) multiples. Goodwill of the PE Films operating units, Personal Care and Surface Protection, was tested for impairment at the annual testing date, with the estimated fair value of these reporting units exceeding the carrying value of their net assets by approximately 30% and 48%, respectively, at December 1, 2016. The goodwill of the Aluminum Extrusions reporting unit was tested for impairment at the annual testing date. All goodwill in Aluminum Extrusions is associated with the October 2012 acquisition of AACOA, Inc. ("AACOA"). The estimated fair value of this reporting unit substantially exceeded the carrying value of its net assets at December 1, 2016.

Indefinite-lived intangible assets are assessed for impairment when events or circumstances indicate that the carrying value may not be recoverable, or, at a minimum, on an annual basis (December 1st of each year). The Company estimates the fair value of its trade names using a relief-from-royalty method that relies upon a corresponding discounted cash flow analysis. The indefinite-lived intangible assets of Flexible Packaging Films were tested for impairment at the annual testing date, with the estimated fair value of these reporting units exceeding the carrying value of their net assets by approximately 20% at December 1, 2016. For AACOA, the indefinite-lived intangible assets were tested for impairment at the annual testing date, with the estimated fair value substantially exceeding the carrying value of the net assets.

Additional disclosure of Tredegar goodwill and other intangible assets is included in Note 8.
Impairment of Long-Lived Assets. The Company reviews long-lived assets for possible impairment when events indicate that an impairment may exist. For assets that are held and used in operations, if events indicate that an asset may be impaired, the Company estimates the future unlevered pre-tax cash flows expected to result from the use of the asset and its eventual disposition. Assets are grouped for this purpose at the lowest level for which there are identifiable and independent cash flows. If the sum of these undiscounted pre-tax cash flows is less than the carrying amount of the asset, an impairment loss is calculated. Measurement of the impairment loss is the amount by which the carrying amount exceeds the estimated fair value of the asset group.
Assets that are held for sale are reported at the lower of their carrying amount or estimated fair value less cost to sell, with an impairment loss recognized for any write-down required.
Pension Costs and Postretirement Benefit Costs Other than Pensions. Pension costs and postretirement benefit costs other than pensions are accrued over the period employees provide service to Tredegar. Liabilities and expenses for pension plans and other postretirement benefits are determined using actuarial methodologies and incorporate significant assumptions, including the rate used to discount the future estimated liability, the long-term rate of return on plan assets, and several assumptions relating to the employee workforce. The Company recognizes the funded status of its pension and other postretirement plans in the accompanying consolidated balance sheets. Tredegar’s policy is to fund its pension plans at amounts not less than the minimum requirements of the Employee Retirement Income Security Act (“ERISA”) of 1974 and to fund postretirement benefits other than pensions when claims are incurred.
Revenue Recognition. Revenue from the sale of products, which is shown net of estimated sales returns and allowances, is recognized when title has passed to the customer, the price of the product is fixed and determinable, and collectability is reasonably assured. Amounts billed to customers related to freight have been classified as sales in the accompanying consolidated statements of income. The cost of freight has been 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.
Research & Development (“R&D”) Costs. R&D costs are expensed as incurred and include primarily salaries, wages, employee benefits, equipment depreciation, facility costs and the cost of materials consumed relating to R&D efforts. R&D costs include a reasonable allocation of indirect costs.
Income Taxes. Income taxes are recognized during the period in which transactions enter into the determination of income for financial reporting purposes, with deferred income taxes being provided at enacted statutory tax rates on the differences between the financial reporting and tax bases of assets and liabilities (see Note 17). Tredegar’s policy is to accrue U.S. federal income taxes to the extent required under GAAP on unremitted earnings of all foreign subsidiaries. Prior to the second quarter of 2016, deferred U.S. federal income taxes had not been recorded for the undistributed earnings for Terphane Ltda. because the Company had intended to permanently reinvest these earnings. Due to concerns about the current political and economic conditions in Brazil, Terphane Ltda. has begun making cash distributions to the Company. During 2016, Terphane Ltda. paid dividends totaling $13.3 million to the Company. Because of the accumulation of significant losses related to foreign currency translations at Terphane Ltda., there were no unrecorded deferred tax liabilities associated with the U.S. federal income taxes and foreign withholding taxes on Terphane Ltda.’s undistributed earnings as of December 31, 2016 and December 31, 2015.
A valuation allowance is recorded in the period when the Company determines that it is more likely than not that all or a portion of deferred tax assets may not be realized. The establishment and removal of a valuation allowance requires the Company to consider all positive and negative evidence and make a judgmental decision regarding the amount of valuation allowance required as of a reporting date. The benefit of an uncertain tax position is included in the accompanying financial statements when the Company determines that it is more likely than not that the position will be sustained, based on the technical merits of the position, if the taxing authority examines the position and the dispute is litigated. This determination is made on the basis of all the facts, circumstances and information available as of the reporting date.
Earnings Per Share. Basic earnings per share is computed using the weighted average number of shares of common stock outstanding. Diluted earnings per share is computed using the weighted average common and potentially

dilutive common equivalent shares outstanding, determined as follows:

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	2016	2015	2014
Weighted average shares outstanding used to compute basic earnings per share	32,761,793	32,578,116	32,302,108
Incremental shares attributable to stock options and restricted stock	13,279	—	251,746
Shares used to compute diluted earnings per share	32,775,072	32,578,116	32,553,854

Incremental shares attributable to stock options and restricted stock are computed using the average market price during the related period. The Company had a net loss from continuing operations in 2015, so there is no dilutive impact for such shares. If the Company had reported net income from continuing operations in 2015, average out-of-the-money options to purchase shares that would have been excluded from the calculation of incremental shares attributable to stock options and restricted stock were 881,513. The 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 128,200 in 2016 and 320,849 in 2014.

Stock-Based Employee Compensation Plans. Compensation expense is recorded on all share-based awards based upon its calculated fair value over the requisite service period using the graded-vesting method. The fair value of stock option awards was estimated as of the grant date using the Black-Scholes options-pricing model. The fair value of restricted stock awards was estimated as of the grant date using the closing stock price on that date.

The assumptions used in this model for valuing Tredegar stock options granted in 2014 (no grants in 2015 and 2016) were as follows:

	2014	
Dividend yield	1.3	%
Weighted average volatility percentage	43.5	%
Weighted average risk-free interest rate	2.0	%
Holding period (years):		
Officers	6.0	
Management	5.0	
Weighted average exercise price at date of grant (also weighted average market price at date of grant):		
Officers	$22.49	
Management	$22.33	

The dividend yield is the actual dividend yield on Tredegar’s common stock at the date of grant, which the Company believes is a reasonable estimate of the expected yield during the holding period. The expected volatility is based on the historical volatility of Tredegar’s common stock using a sequential period of historical data equal to the expected holding period of the option. The Company has no reason to believe that future volatility for this period is likely to differ from the past. The assumed risk-free interest rate is based on observed interest rates (zero coupon U.S. Treasury debt securities) appropriate for the expected holding period. The expected holding period and forfeiture assumptions are based on historical experience. Estimated forfeiture assumptions are reviewed through the vesting period. Adjustments are made if actual forfeitures differ from previous estimates. The cumulative effect of a change in estimated forfeitures is recognized in the period of the change.

Tredegar stock options granted during 2014 (no grants in 2015 and 2016), and related estimated fair value at the date of grant, are as follows:

	2014
Stock options granted (number of shares):	
Officers	87,820
Management	93,656
Total	181,476
Estimated weighted average fair value of options per share at date of grant:	
Officers	$ 9.21
Management	$ 7.60
Total estimated fair value of stock options granted (in thousands)	$ 1,521

Additional disclosure of Tredegar stock options is included in Note 13.

Financial Instruments. Tredegar uses derivative financial instruments for the purpose of hedging aluminum price volatility and currency exchange rate exposures that exist as part of transactions associated with ongoing business operations. The Company's derivative financial instruments are designated as and qualify as cash flow hedges and are recognized in the accompanying balance sheet at fair value. A change in the fair value of the derivative that is highly effective and that is designated and qualifies as a cash flow hedge is recorded in other comprehensive income. Gains and losses reported in other comprehensive income (loss) are reclassified to earnings in the periods in which earnings are affected by the variability of cash flows of the hedged transaction. Such gains and losses are reported on the same line as the underlying hedged item, and the cash flows related to financial instruments are classified in the consolidated statements of cash flows in a manner consistent with those of the transactions being hedged. Any hedge ineffectiveness (which represents the amount by which the changes in the fair value of the derivative exceed the variability in the cash flows of the forecasted transaction) is recorded in current period earnings. The amount of gains and losses recognized for hedge ineffectiveness were not material in 2016, 2015 and 2014.

The Company's policy requires that it formally document all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also formally assesses (both at the hedge's inception and on an ongoing basis) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. When it is determined that a derivative is not (or has ceased to be) highly effective as a hedge, the Company discontinues hedge accounting prospectively.

As a policy, Tredegar does not engage in speculative or leveraged transactions, nor does it hold or issue financial instruments for trading purposes. Additional disclosure of the utilization of derivative hedging instruments is included in Note 9.

Comprehensive Income (Loss). Comprehensive income (loss) is defined as net income or loss as adjusted by other comprehensive income or loss items. Other comprehensive income (loss) includes changes in foreign currency translation adjustments, unrealized gains and losses on derivative financial instruments, prior service costs and net gains or losses from pension and other postretirement benefit plans arising during the period and amortization of these prior service costs and net gain or loss adjustments, all recorded net of deferred income taxes.

The following table summarizes the after-tax changes in accumulated other comprehensive income (loss) for the year ended December 31, 2016:

(In Thousands)	Foreign currency translation adjustment	Gain (loss) on derivative financial instruments	Pension and other post-retirement benefit adjustments	Total
Beginning balance, January 1, 2016	$(112,807)	$ (373)	$ (95,539)	$(208,719)
Other comprehensive income (loss) before reclassifications	18,837	247	(3,288)	15,796
Amounts reclassified from accumulated other comprehensive income (loss)	—	989	8,700	9,689
Net other comprehensive income (loss) - current period	18,837	1,236	5,412	25,485
Ending balance, December 31, 2016	$(93,970)	$ 863	$ (90,127)	$(183,234)

The following table summarizes the after-tax changes in accumulated other comprehensive income (loss) for the year ended December 31, 2015:

(In Thousands)	Foreign currency translation adjustment	Gain (loss) on derivative financial instruments	Pension and other post-retirement benefit adjustments	Total
Beginning balance, January 1, 2015	$(47,270)	$ 656	$ (103,581)	$(150,195)
Other comprehensive income (loss) before reclassifications	(65,537)	(3,221)	(2,176)	(70,934)
Amounts reclassified from accumulated other comprehensive income (loss)	—	2,192	10,218	12,410
Net other comprehensive income (loss) - current period	(65,537)	(1,029)	8,042	(58,524)
Ending balance, December 31, 2015	$(112,807)	$ (373)	$ (95,539)	$(208,719)

Reclassifications of balances out of accumulated other comprehensive income (loss) into net income during 2016 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	$ (1,630	)	Cost of sales
Foreign currency forward contracts, before taxes	62		Cost of sales
Total, before taxes	(1,568	)	
Income tax expense (benefit)	(579	)	Income taxes
Total, net of tax	$ (989	)	
Amortization of pension and other post-retirement benefits:			
Actuarial gain (loss) and prior service costs, before taxes	$ (13,098	)	(a)
Income tax expense (benefit)	(4,398	)	Income taxes
Total, net of tax	$ (8,700	)	

(a) This component of accumulated other comprehensive income is included in the computation of net periodic pension cost (see Note 14 for additional detail).

Reclassifications of balances out of accumulated other comprehensive income (loss) into net income during 2015 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
Gain (loss) on derivative financial instruments:			
Aluminum future contracts, before taxes	$ (3,538	)	Cost of sales
Foreign currency forward contracts, before taxes	62		Cost of sales
Total, before taxes	(3,476	)	
Income tax expense (benefit)	(1,284	)	Income taxes
Total, net of tax	$ (2,192	)	
Amortization of pension and other post-retirement benefits:			
Actuarial gain (loss) and prior service costs, before taxes	$ (16,041	)	(a)
Income tax expense (benefit)	(5,823	)	Income taxes
Total, net of tax	$ (10,218	)	

(a) This component of accumulated other comprehensive income is included in the computation of net periodic pension cost (see Note 14 for additional detail).

Reclassifications of balances out of accumulated other comprehensive income (loss) into net income during 2014 are summarized as follows:

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(In Thousands)	Amount reclassified from other comprehensive income (loss)	Location of gain (loss) reclassified from accumulated other comprehensive income (loss) to net income
Gain (loss) on derivative financial instruments:		
Aluminum future contracts, before taxes	$ 631	Cost of sales
Foreign currency forward contracts, before taxes	16	Cost of sales
Total, before taxes	647	
Income tax expense (benefit)	244	Income taxes
Total, net of tax	$ 403	
Amortization of pension and other post-retirement benefits:		
Actuarial gain (loss) and prior service costs, before taxes	$ (10,579)	(a)
Income tax expense (benefit)	(3,582)	Income taxes
Total, net of tax	$ (6,997)	

(a) This component of accumulated other comprehensive income is included in the computation of net periodic pension cost (see Note 14 for additional detail).

Recently Issued Accounting Standards. In May 2014, the Financial Accounting Standards Board ("FASB") and International Accounting Standards Board ("IASB") issued their converged standard on revenue recognition. The revised revenue standard contains principles that an entity will apply to direct the measurement of revenue and timing of when it is recognized. The core principle of the guidance is that the recognition of revenue should depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods and services. To achieve that core principle, an entity will utilize a principle-based five-step approach model. The converged standard also includes more robust disclosure requirements which will require entities to provide sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In March 2016, amended guidance was issued regarding clarifying the implementation guidance on principal versus agent considerations and in April 2016, clarifying guidance was issued relating to identifying performance obligations and licensing implementation. The effective date of this revised standard is for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is permitted as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that annual reporting period. The converged standard can be adopted either retrospectively or through the use of a practical expedient. The Company continues to assess the impact of this standard. The Company has a team in place to analyze the impact of standard, and the related guidance issued, across all revenue streams to evaluate the impact of the new standard on revenue contracts. This includes reviewing current accounting policies and practices to identify potential differences that would result from applying the requirements under the new standard. In 2016, the Company made progress on contract reviews and expects to complete the contract evaluations and validate results in the first half of 2017. The Company has also started evaluating the new disclosure requirements and expects to complete its evaluations of the impacts of the accounting and disclosure requirements on its business processes, controls and systems by the end of the third quarter of 2017. Full implementation will be completed by the end of 2017. The Company is still evaluating the method of adoption of the standard, which will occur in the first quarter of 2018.

In July 2015, the FASB issued new guidance for the measurement of inventories. Inventories within the scope of the revised guidance should be measured at the lower of cost or net realizable value. The previous guidance dictated that inventory should be measured at the lower of cost or market, with market being either replacement cost, net realizable value or net realizable value less an approximation of normal profit margin. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. Subsequent measurement is unchanged for inventories measured using LIFO or the retail inventory method. The new guidance is effective for fiscal years beginning after December 31, 2016, including the interim periods within those fiscal years. The amendments should be applied prospectively, with early adoption permitted. The Company will adopt the new guidance in the first quarter of 2017, and the adoption of this guidance is not expected to have a material impact on the consolidated financial statements.

In January 2016, the FASB issued amended guidance associated with accounting for equity investments measured at fair value. The amended guidance requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amended guidance also requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition, the amendments in this update eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities and the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public business entities. The amended guidance is effective for fiscal years beginning after December 31, 2017, including the interim periods within those fiscal years. The amendments should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption of the update. Early adoption is permitted under limited, specific circumstances. The Company is still assessing the impact of this amended guidance.

In February 2016, the FASB issued a revised standard on lease accounting. Lessees will need to recognize virtually all of their leases on the balance sheet, by recording a right-of-use asset and lease liability. The revised standard requires additional analysis of the components of a transaction to determine if a right-to-use asset is embedded in the transaction that needs to be treated as a lease. Substantial additional disclosures are also required by the revised standard. The revised standard is effective for fiscal years beginning after December 31, 2018, including the interim periods within those fiscal years. The revised standard should be applied on a modified retrospective approach or through the use of a practical expedient, with early adoption permitted. The Company is still assessing the impact of this revised standard.

In March 2016, the FASB issued amended guidance to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The updated guidance is effective for fiscal years beginning after December 31, 2016, including the interim periods within those fiscal years. The Company will adopt the new guidance in the first quarter of 2017. Under the new guidance, excess tax benefits related to equity compensation will be recognized in "Income taxes" in the consolidated statements of income rather than in "Common stock" in the consolidated balance sheets and will be applied on a prospective basis. If these amounts had been included in the consolidated statements of income in previous years, net income would have been reduced by $1.1 million in 2016, and the net loss would have increased $0.3 million in 2015 (no impact in 2014). Changes to the statements of cash flows related to the classification of excess tax benefits and employee taxes paid for share-based payment arrangements will be implemented on a retrospective basis. The Company does not expect further impacts from the guidance.

In June 2016, the FASB issued new accounting guidance that will require the earlier recognition of credit losses on loans and other financial instruments based on an expected loss model, replacing the incurred loss model that is currently in use. Under the new guidance, an entity will measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. The expected loss model will apply to loans and leases, unfunded lending commitments, held-to-maturity (HTM) debt securities and other debt instruments measured at amortized cost and accounts receivable. The new guidance is effective for fiscal years beginning after December 31, 2019, including the interim periods within those fiscal years, with early adoption allowed for fiscal years beginning after December 31, 2018. The new guidance must be applied on a modified retrospective basis, with a cumulative effect adjustment recorded to opening retained earnings. The Company is not expecting to be materially impacted by this new guidance.

In October 2016, the FASB issued guidance that requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, and should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings at the beginning period of adoption. Early adoption is permitted in the first interim period of an annual reporting period for which financial statements have not been issued. The Company is currently evaluating the impact of adopting this guidance.

In January 2017, the FASB issued guidance to assist with evaluating when a set of transferred assets and activities (collectively, the "set") is a business and provides a screen to determine when a set is not a business. Under the new guidance, when substantially all of the fair value of gross assets acquired (or disposed of) is concentrated in a single identifiable asset, or group of similar assets, the assets acquired would not represent a business. Also, to be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to produce outputs. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, and should be applied on a prospective basis to any transactions occurring within the period of adoption. Early adoption is permitted for interim or annual periods in which the financial statements have not been issued. The Company is currently evaluating the impact of adopting this guidance.

In January 2017, the FASB issued amended guidance that eliminates the requirement to determine the fair value of individual assets and liabilities of a reporting unit to measure goodwill impairment. Under the amendments in the new guidance, goodwill impairment testing will be performed by comparing the fair value of the reporting unit with its carrying amount and recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The new standard is effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2019, and should be applied on a prospective basis. Early adoption is permitted for annual or interim goodwill impairment testing performed after January 1, 2017. The Company is currently evaluating the impact of adopting this guidance.

2 SUBSEQUENT EVENTS

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 pursuant to a Stock Purchase Agreement, dated as of February 1, 2017. The acquisition, which was funded using Tredegar's existing revolving credit facility, will be treated as an asset purchase for U.S. federal income tax purposes.

Futura, headquartered in Clearfield, Utah, with a national sales presence and particular strength in the western U.S., designs and manufactures a wide range of extruded aluminum products for a number of industries and end markets, including branded flooring trims and TSLOTS™, as well as OEM (original equipment manufacturer) components for truck grills, solar panels, fitness equipment and other applications. As a result of this transaction, Futura is now a wholly-owned subsidiary of Tredegar and will operate as a division of Aluminum Extrusions, and its results of operations will be included in Tredegar's consolidated financial statements from the date of acquisition.

3 DISCONTINUED OPERATIONS

On February 12, 2008, the Company sold its aluminum extrusions business in Canada for $25.0 million. In 2014, accruals for indemnifications under the purchase agreement related to environmental matters were adjusted, resulting in income from discontinued operations of $0.9 million ($0.9 million net of tax). The historical results for this business, including any subsequent adjustments for contractual indemnifications, have been reflected as discontinued operations; however, cash flows for discontinued operations have not been separately disclosed in the consolidated statements of cash flows.

4 INVESTMENTS

In August 2007 and December 2008, Tredegar made an aggregate investment of $7.5 million in kaleo, Inc. ("kaléo"), a privately held specialty pharmaceutical company dedicated to building innovative solutions for serious and life-threatening medical conditions. The mission of kaléo is to provide products that empower patients to confidently take control of their medical conditions. Tredegar's ownership interest on a fully diluted basis was approximately 19% at December 31, 2016, and the investment is accounted for under the fair value method. At the time of the initial investment, the Company elected the fair value option over the equity method of accounting since its investment objectives were similar to those of venture capitalists, which typically do not have controlling financial interests.

In 2009, kaléo licensed exclusive rights to sanofi-aventis U.S. LLC ("Sanofi") to commercialize an epinephrine auto-injector in the U.S. and Canada. Sanofi began manufacturing and distributing the epinephrine auto-injector, under the names Auvi-Q® in the U.S. and Allerject® in Canada, in 2013. On October 28, 2015, Sanofi announced a voluntary recall of all Auvi-Q and Allerject epinephrine injectors that were on the market. In January 2017, kaléo announced that it would recommence sales of Auvi-Q in the U.S. starting in February 2017.

At December 31, 2016 and 2015, the estimated fair value of the Company's investment (also the carrying value, which is included in "Other assets and deferred charges" in the consolidated balance sheets) was $20.2 million and $18.6 million, respectively. The Company recognized an unrealized gain on its investment in kaléo of $1.6 million ($1.2 million after taxes) in 2016. The change in the estimated fair value of the Company's holding in kaléo in 2016 was primarily related to favorable adjustments in the fair value for the passage of time as anticipated cash flows associated with achieving product development and commercialization milestones are discounted at 45% for their high degree of risk.

The Company recognized a net unrealized loss of $20.5 million ($15.7 million after taxes) in 2015 that primarily related to the adverse impact of the product recall noted above.

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The Company recognized an unrealized gain of $2.0 million ($1.0 million after taxes) in 2014 that primarily related to favorable adjustments in the fair value for the passage of time as anticipated cash flows associated with achieving product development and commercialization milestones were discounted at 45% for their high degree of risk and the impact of reducing the weighted average cost of capital used to discount cash flow projections from 55% after kaléo commercialized a second product, partially offset by unfavorable adjustments in the fair value due to a reassessment of the amount and timing of estimated cash flows associated with kaléo's commercialized products.
Unrealized gains (losses) associated with this investment are included in "Other income (expense), net" in the consolidated statements of income and separately stated in the segment operating profit table in Note 5 of the Notes to Financial Statements. Subsequent to its most recent investment (December 15, 2008), and until the next round of financing, the Company believes fair value estimates are based upon Level 3 inputs since there is no secondary market for its ownership interest. Accordingly, until the next round of financing or any other significant financial transaction, value estimates will primarily be based on assumptions relating to the reintroduction of the Auvi-Q product, meeting product development and commercialization milestones, cash flow projections (projections of development and commercialization milestone payments, sales, costs, expenses, capital expenditures and working capital investment) and discounting of these factors for their high degree of risk. If kaléo does not meet its development and commercialization milestones or there are indications that the amount or timing of its projected cash flows or related risks are unfavorable versus the most recent valuation, or a new round of financing or other significant financial transaction indicates a lower enterprise value, then the Company's estimate of the fair value of its ownership interest in kaléo is likely to decline. Adjustments to the estimated fair value of this investment will be made in the period upon which such changes can be quantified.
In addition to the impact on valuation of the possible changes in assumptions, Level 3 inputs and projections from changes in business conditions, the fair market valuation of Tredegar's interest in kaléo is sensitive to changes in the weighted average cost of capital used to discount cash flow projections for the high degree of risk associated with meeting development and commercialization milestones as anticipated. The weighted average cost of capital used in the fair market valuation of the Company's interest in kaléo was 45% at both December 31, 2016 and 2015. At December 31, 2016, the effect of a 500 basis point decrease in the weighted average cost of capital assumption would have further increased the fair value of Tredegar's interest in kaléo by approximately $6 million, and a 500 basis point increase in the weighted average cost of capital assumption would have decreased the fair value of the Company's interest by approximately $5 million.
Had the Company not elected to account for its investment under the fair value method, it would have been required to use the equity method of accounting. The condensed balance sheets for kaléo at December 31, 2016 and 2015 and related condensed statements of operations for the last three years ended December 31, 2016, as reported to the Company by kaléo, are provided below:

	December 31,			December 31,	
(In Thousands)	2016	2015		2016	2015
Assets:			Liabilities & Equity:		
Cash & cash equivalents	$102,329	$91,844			
Restricted cash	31	8,182	Current liabilities	$50,134	$10,261
Other current assets	15,391	9,070	Long-term debt, net	143,380	142,696
Property & equipment	13,011	8,453	Other noncurrent liabilities	822	552
Other long-term assets	472	2,903	Equity	(63,102)	(33,057)
Total assets	$131,234	$120,452	Total liabilities & equity	$131,234	$120,452

	2016	2015	2014
Revenues & Expenses:			
Revenues	$56,188	$35,731	$21,156

Cost of goods sold	(15,428)	(14,147)	(3,801)
Expenses and other, net (a)	(71,548)	(63,042)	(48,447)
Income tax (expense) benefit	(35)	(481)	8,100
Net income (loss)	$(30,823)	$(41,939)	$(22,992)

(a) “Expenses and other, net” includes selling, general and administrative expense, research and development expense, gain on contract termination, interest expense and other income (expense), net. Excluding the gain on contract termination, “Expenses and other, net” would have been a net deduction of $89.6 million in 2016.

The audited financial statements and accompanying footnotes of kaléo as of December 31, 2016 and 2015 and for the years ended December 31, 2016, 2015 and 2014 have been included as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2016 filed with the Securities and Exchange Commission.
On April 2, 2007, Tredegar invested $10.0 million in Harbinger Capital Partners Special Situations Fund, L.P. (the "Harbinger Fund"), a private investment fund that is subject to limitations on withdrawal. There is no secondary market for interests in the fund. The Company's investment in the Harbinger Fund, which represents less than 1% of its total partnership capital, is accounted for under the cost method. Unrealized losses on the Company's investment in the Harbinger Fund (included in "Other income (expense), net" in the consolidated statements of income) were $0.8 million ($0.4 million after taxes) in 2014 (none in 2015 and 2016), as a result of a reduction in the estimated fair value of the investment that is not expected to be temporary. The December 31, 2016 and 2015 carrying values in the consolidated balance sheets (included in "Other assets and deferred charges") were $1.7 million and $1.7 million, respectively. The carrying value at December 31, 2016 reflected Tredegar's cost basis in its investment in Harbinger, net of total withdrawal proceeds received and unrealized losses. Withdrawal proceeds were $0.1 million in 2015 and $0.2 million in 2014 (none in 2016). The timing and amount of future installments of withdrawal proceeds was not known as of December 31, 2016. There were no realized gains or losses associated with the investment in the Harbinger Fund in 2016, 2015 and 2014. Gains on the Company's investment in the Harbinger Fund, if any, will be recognized when the amounts expected to be collected from withdrawal from the investment are known, which will likely be when cash in excess of the remaining carrying value is received. Losses will be recognized if management believes it is probable that future withdrawal proceeds will not exceed the remaining carrying value.
Tredegar has investment property in Alleghany and Bath County, Virginia. In 2016, the Company recorded an unrealized loss on this investment property of $1.0 million ($0.7 million after taxes) as a reduction in the estimated fair value of our investment that is not expected to be temporary. The Company realized a gain (included in "Other income (expense), net" in the consolidated statements of income) of $1.2 million ($0.8 million after taxes) on a sale of a portion of this investment property in 2014. The Company's carrying value in this investment property (included in "Other assets and deferred charges" on the consolidated balance sheets) was $1.6 million at December 31, 2016 and $2.6 million at December 31, 2015.

5 BUSINESS SEGMENTS

Tredegar has historically reported two business segments: Film Products and Aluminum Extrusions. In the third quarter of 2015, the Company divided Film Products into two separate reportable segments: PE Films and Flexible Packaging Films. PE Films is comprised of the following operating segments: personal care materials, surface protection films, and LED lighting products. Flexible Packaging Films is comprised of the Company's polyester films business, Terphane Holdings LLC ("Terphane"), which was acquired by Film Products in October 2011. Therefore, the Company's business segments are now PE Films, Flexible Packaging Films and Aluminum Extrusions. All historical results for PE Films and Flexible Packaging Films have been separately presented to conform with the new presentation of segments.
Information by business segment and geographic area for the last three years is provided below. There were no accounting transactions between segments and no allocations to segments. Net sales (sales less freight) and operating profit from ongoing operations are the measures of sales and operating profit used by the chief operating decision maker (Tredegar's President and Chief Executive Officer) for purposes of assessing performance. PE Films' net sales to The Procter & Gamble Company ("P&G") totaled $129.1 million in 2016, $163.9 million in 2015 and $220.8 million in 2014. These amounts include plastic film sold to others that convert the film into materials used with products manufactured by P&G.

Net Sales (In Thousands)	2016	2015	2014
PE Films	$331,146	$385,550	$464,339
Flexible Packaging Films	108,028	105,332	114,348
	360,098	375,457	344,346

Aluminum Extrusions			
Total net sales	799,272	866,339	923,033
Add back freight	29,069	29,838	28,793
Sales as shown in consolidated statements of income	$828,341	$896,177	$951,826

Operating Profit (In Thousands)	2016	2015	2014
PE Films:			
Ongoing operations	$26,312	$48,275	$60,971
Plant shutdowns, asset impairments, restructurings and other (a)	(4,602)	(4,180)	(12,236)
Flexible Packaging Films:			
Ongoing operations	1,774	5,453	(2,917)
Plant shutdowns, asset impairments, restructurings and other (a)	(214)	(185)	(591)
Goodwill impairment charge	—	(44,465)	—
Aluminum Extrusions:			
Ongoing operations	37,794	30,432	25,664
Plant shutdowns, asset impairments, restructurings and other (a)	(741)	(708)	(976)
Total	60,323	34,622	69,915
Interest income	261	294	588
Interest expense	3,806	3,502	2,713
Gain (loss) on investment accounted for under the fair value method (a)	1,600	(20,500)	2,000
Gain on sale of investment property (a)	—	—	1,208
Unrealized loss on investment	1,032	—	—

property (a)			
Stock option-based compensation expense	56	483	1,272
Corporate expenses, net (a)	29,607	33,638	24,310
Income (loss) from continuing operations before income taxes	27,683	(23,207)	45,416
Income taxes (a)	3,217	8,928	9,387
Income (loss) from continuing operations	24,466	(32,135)	36,029
Income (loss) from discontinued operations (a)	—	—	850
Net income (loss)	$24,466	$(32,135)	$36,879

Identifiable Assets

(In Thousands)	2016	2015
PE Films	$278,558	$270,236
Flexible Packaging Films	156,836	146,253
Aluminum Extrusions	147,639	136,935
Subtotal	583,033	553,424
General corporate (b)	38,618	25,680
Cash and cash equivalents (d)	29,511	44,156
Total	$651,162	$623,260

	Depreciation and Amortization			Capital Expenditures		
(In Thousands)	2016	2015	2014	2016	2015	2014
PE Films	$ 13,653	$ 15,480	$ 21,399	$25,759	$21,218	$17,000
Flexible Packaging Films	9,505	9,697	9,331	3,391	3,489	21,806
Aluminum Extrusions	9,173	9,698	9,974	15,918	8,124	6,092
Subtotal	32,331	34,875	40,704	45,068	32,831	44,898
General corporate	141	107	114	389	—	—
Total	$ 32,472	$ 34,982	$ 40,818	$45,457	$32,831	$44,898

See footnotes on page 68.

Net Sales by Geographic Area (d)

(In Thousands)	2016	2015	2014
United States	$475,734	$528,881	$542,395
Exports from the United States to:			
Asia	73,220	75,383	72,597
Canada	45,683	45,290	47,391
Europe	7,348	9,809	10,874
Latin America	5,561	3,464	3,116
Operations outside the United States:			
Brazil	90,571	89,829	97,954
The Netherlands	54,352	53,211	74,329
Hungary	24,207	32,612	39,457
China	14,390	18,919	26,109
India	8,206	8,941	8,811
Total (c)	$799,272	$866,339	$923,033

	Identifiable Assets by Geographic Area (d)		Property, Plant & Equipment, Net by Geographic Area (d)	
(In Thousands)	2016	2015	2016	2015
United States (b)	$367,406	$351,115	$ 118,661	$ 104,380
Operations outside the United States:				
Brazil	139,163	126,478	91,553	78,845
China	29,751	34,409	23,759	27,563
Hungary	20,610	14,798	15,117	8,135
The Netherlands	19,484	19,372	5,784	6,224
India	6,619	7,252	4,670	5,234
General corporate (b)	38,618	25,680	1,181	934
Cash and cash equivalents (d)	29,511	44,156	n/a	n/a
Total	$651,162	$623,260	$ 260,725	$ 231,315

Net Sales by Product Group

(In Thousands)	2016	2015	2014
PE Films:			
Personal care materials	$238,213	$287,768	$367,451
Surface protection films	84,013	90,197	90,129
LED lighting products &	8,920	7,585	6,759

other films			
Subtotal	331,146	385,550	464,339
Flexible Packaging Films	108,028	105,332	114,348
Aluminum Extrusions:			
Nonresidential building & construction	212,863	221,363	200,707
Consumer durables	39,293	41,835	44,897
Automotive	34,700	30,250	22,272
Machinery & equipment	20,872	18,102	26,907
Distribution	20,506	18,659	15,318
Residential building & construction	20,252	22,737	21,470
Electrical	11,612	22,511	12,775
Subtotal	360,098	375,457	344,346
Total	$799,272	$866,339	$923,033

See footnotes on page 68 and a reconciliation of net sales to sales as shown in the Consolidated Statements of Income on page 65.

(a) See Notes 1, 3, 4 and 18 for more information on losses associated with plant shutdowns, asset impairments and restructurings, unusual items, gains or losses from sale of assets, gains or losses on an investment accounted for under the fair value method and other items.

(b) The balance sheets include the funded status of each of the Company's defined benefit pension and other postretirement plans. The funded status of the Company's defined benefit pension plan was a net liability of $88.6 million and $93.2 million as of December 31, 2016 and 2015, respectively. See Note 14 for more information on the Company's pension and other postretirement plans.

(c) The difference between total consolidated sales as reported in the consolidated statements of income and segment, geographic and product group net sales reported in this note is freight of $29.1 million in 2016, $29.8 million in 2015 and $28.8 million in 2014.

(d) Information on exports and foreign operations are provided on the previous page. Cash and cash equivalents includes funds held in locations outside the U.S. of $23.8 million and $27.7 million at December 31, 2016 and 2015, respectively. Export sales relate almost entirely to PE Films. Operations outside the U.S. in The Netherlands, Hungary, China and India also relate to PE Films. Operations in Brazil are primarily related to Flexible Packaging Films, but also include PE Films operations. Sales from locations in The Netherlands and Hungary are primarily to customers located in Europe. Sales from locations in China (Guangzhou and Shanghai) are primarily to customers located in China, but also include other customers in Asia.

6 ACCOUNTS AND OTHER RECEIVABLES

Accounts and other receivables consist of the following:

(In Thousands)	2016	2015
Trade, less allowance for doubtful accounts and sales returns of $3,102 in 2016 and $3,746 in 2015	$91,109	$90,028
Other	6,279	4,189
Total	$97,388	$94,217

A reconciliation of the beginning and ending balances of the allowance for doubtful accounts and sales returns for the three years ended December 31, 2016 is as follows:

(In Thousands)	2016	2015	2014
Balance, beginning of year	$3,746	$2,610	$3,327
Charges to expense	1,410	3,387	1,344
Recoveries	(32)	(7)	(1,654)
Write-offs and settlements	(2,167)	(1,970)	(153)
Foreign exchange and other	145	(274)	(254)
Balance, end of year	$3,102	$3,746	$2,610

7 INVENTORIES

Inventories consist of the following:

(In Thousands)	2016	2015

Finished goods	$16,215	$13,935
Work-in-process	8,590	9,249
Raw materials	23,733	22,149
Stores, supplies and other	17,531	19,992
Total	$66,069	$65,325

Inventories stated on the LIFO basis amounted to $16.4 million at December 31, 2016 and $13.5 million at December 31, 2015, which were below replacement costs by $15.3 million at December 31, 2016 and $13.4 million at December 31, 2015. During 2016 certain PE Films inventories accounted for on a LIFO basis increased, which resulted in cost of goods sold being stated at above replacement costs by $0.9 million and, during 2015 and 2014, certain PE Films inventories accounted for on a LIFO basis declined, which resulted in cost of goods sold being stated at below replacement costs by $0.4 million and $1.0 million, respectively.

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8 GOODWILL AND OTHER INTANGIBLE ASSETS

The components of goodwill and other intangibles at December 31, 2016 and 2015, and related amortization periods for continuing operations are as follows:

(In Thousands)	2016	2015	Amortization Periods
Goodwill	$117,822	$117,839	Not amortized
Other identifiable intangibles (a):			
Customer relationships (cost basis of $26,021 in 2016 and $23,766 in 2015)	14,844	15,620	10-12 years
Proprietary technology (cost basis of $17,366 in 2016 and $16,738 in 2015)	7,582	9,037	Not more than 15 years
Trade names	11,175	10,576	Indefinite life
Total carrying value of other intangibles	33,601	35,233	
Total carrying value of goodwill and other intangibles	$151,423	$153,072	

(a) Other identifiable intangibles also includes non-compete agreements, which have been fully amortized. These identifiable intangible assets, which have a cost basis of $4.2 million, were previously amortized over 2 years.

A reconciliation of the beginning and ending balance of goodwill for each of the two years in the period ended December 31, 2016 is as follows:

(In Thousands)	PE Films	Flexible Packaging Films	Aluminum Extrusions (1)	Total
Net carrying value of goodwill at January 1, 2015	$104,160	$ 51,831	$ 13,696	$169,687
Goodwill impairment charge	—	(44,465)	—	(44,465)
Increase (decrease) due to foreign currency translation	(17)	(7,366)	—	(7,383)
	104,143	—	13,696	117,839

Net carrying value of goodwill at December 31, 2015				
Increase (decrease) due to foreign currency translation	(17)	—	—	(17)
Net carrying value of goodwill at December 31, 2016	$104,126	$—	$ 13,696	$117,822

(1) Goodwill balance is net of accumulated impairment losses of $30.6 million.

The Company recorded a goodwill impairment charge of $44.5 million ($44.5 million after taxes) for goodwill associated with Flexible Packaging Films in 2015. This impairment charge represented the entire amount of goodwill associated with the Flexible Packaging Films segment. The operations of Flexible Packaging Films were adversely impacted by competitive pressures that were primarily related to unfavorable economic conditions in its primary market of Brazil and excess global capacity in the industry. The Company's assessment of future prospects and timing of a recovery under these conditions indicated that its enterprise value was less than $120 million (Flexible Packaging Films' net assets excluding goodwill), the minimum value needed to have avoided a full write-off of its goodwill.

Amortization expense for continuing operations over the next five years is expected to be as follows:

Year	Amount (In Thousands)
2017	$ 4,007
2018	3,873
2019	3,473
2020	3,473
2021	3,360

9 FINANCIAL INSTRUMENTS

Tredegar uses derivative financial instruments for the purpose of hedging margin exposure from fixed-price forward sales contracts in Aluminum Extrusions and currency exchange rate exposures that exist as part of ongoing business operations (primarily in PE Films). These derivative financial instruments are designated as and qualify as cash flow hedges and are

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recognized in the consolidated balance sheet at fair value. The fair value of derivative instruments recorded on the consolidated balance sheets are based upon Level 2 inputs. If individual derivative instruments with the same counterparty can be settled on a net basis, the Company records the corresponding derivative fair values as a net asset or net liability.

In the normal course of business, Aluminum Extrusions enters into fixed-price forward sales contracts with certain customers for the future sale of fixed quantities of aluminum extrusions at scheduled intervals. In order to hedge margin exposure created from the fixing of future sales prices relative to volatile raw material (aluminum) costs, Aluminum Extrusions enters into a combination of forward purchase commitments and futures contracts to acquire or hedge aluminum, based on the scheduled purchases for the firm sales commitments. The fixed-price firm sales commitments and related hedging instruments generally have durations of not more than 12 months, and the notional amount of aluminum futures contracts that hedged future purchases of aluminum to meet fixed-price forward sales contract obligations was $8.0 million (9.6 million pounds of aluminum) at December 31, 2016 and $16.6 million (18.9 million pounds of aluminum) at December 31, 2015.

The table below summarizes the location and gross amounts of aluminum derivative contract fair values (Level 2) in the consolidated balance sheets as of December 31, 2016 and 2015:

(In Thousands)	December 31, 2016 Balance Sheet Account	Fair Value	December 31, 2015 Balance Sheet Account	Fair Value
Derivatives Designated as Hedging Instruments				
Asset derivatives: Aluminum futures contracts	Prepaid expenses and other	$308	Accrued expenses	$44
Liability derivatives: Aluminum futures contracts	Prepaid expenses and other	$(37)	Accrued expenses	$(1,797)
Derivatives Not Designated as Hedging Instruments				
Asset derivatives: Aluminum futures contracts	Prepaid expenses and other	$—	Accrued expenses	$—
Liability derivatives: Aluminum futures contracts	Prepaid expenses and other	$—	Accrued expenses	$—
Net asset (liability)		$271		$(1,753)

In the event that a counterparty to an aluminum fixed-price forward sales contract chooses not to take delivery of its aluminum extrusions, the customer is contractually obligated to compensate Aluminum Extrusions for any losses on the related aluminum futures and/or forward contracts through the date of cancellation. The offsetting asset and liability positions included in the table above are associated with the unwinding of aluminum futures contracts due to such cancellations.

Tredegar used future fixed Euro-denominated contractual payments for equipment purchased as part of its multi-year capacity expansion project at the Flexible Packaging Films manufacturing facility in Cabo de Santo Agostinho, Brazil. The Company used fixed rate Euro forward contracts with various settlement dates through February 2014 to hedge exchange rate exposure on these obligations. The Company did not have any fixed rate forward contracts with outstanding notional amounts as of December 31, 2016 and 2015.

Tredegar receives Euro-based royalty payments relating to its operations in Europe. From time to time Tredegar uses zero-cost collar currency options to hedge a portion of its exposure to changes in cash flows due to variability in U.S. Dollar and Euro exchange rates. There were no outstanding notional amounts on these collars at December 31, 2016 and 2015 as there were no derivatives outstanding related to the hedging of royalty payments with currency options.

The counterparties to the Company’s forward purchase commitments are major aluminum brokers and suppliers, and the counterparties to aluminum futures contracts are major financial institutions. Fixed-price forward sales contracts are only made available to the best and most credit-worthy customers. The counterparties to Tredegar’s foreign currency futures and zero-cost collar contracts are major financial institutions.

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The pretax effect on net income (loss) and other comprehensive income (loss) of derivative instruments classified as cash flow hedges and described in the previous paragraphs for years ended December 31, 2016, 2015, and 2014 is summarized in the tables below:

(In Thousands)	Cash Flow Derivative Hedges					
	Aluminum Futures Contracts			Foreign Currency Forwards and Options		
Years Ended December 31,	2016	2015	2014	2016	2015	2014
Amount of pre-tax gain (loss) recognized in other comprehensive income	$394	$(5,055)	$ 542	$ —	$ —	$ (120)
Location of gain (loss) reclassified from accumulated other comprehensive income into net income (effective portion)	Cost of sales	Cost of sales	Cost of sales	Cost of sales	Cost of sales	Cost of sales
Amount of pre-tax gain (loss) reclassified from accumulated other comprehensive income to net income (effective portion)	$(1,630)	$(3,538)	$ 631	$ 62	$ 62	$ 16

Gains and losses on the ineffective portion of derivative instruments or derivative instruments that were not designated as hedging instruments were not material in 2016, 2015 and 2014. For the years ended December 31, 2016, 2015 and 2014, unrealized net losses from hedges that were discontinued were not material. As of December 31, 2016, the Company expected $0.2 million of unrealized after-tax gains on derivative instruments reported in accumulated other comprehensive income to be reclassified to earnings within the next 12 months.

10 ACCRUED EXPENSES

Accrued expenses consist of the following:

(In Thousands)	2016	2015
Vacation	$8,254	$7,155
Incentive compensation	5,530	3,883
Payrolls, related taxes and medical and other benefits	5,519	4,762
Workers' compensation and disabilities	3,732	3,036
Accrued utilities	2,126	2,048
Environmental liabilities (current)	2,100	1,713
Accrued severance	1,976	1,908
Accrued freight	1,612	1,111
Customer rebates	842	2,032
Derivative contract liability	—	1,753
Other	6,956	4,252
Total	$38,647	$33,653

A reconciliation of the beginning and ending balances of accrued expenses associated with asset impairments and costs associated with exit and disposal activities for each of the three years in the period ended December 31, 2016 is as follows:

(In Thousands)	Severance	Asset Impairments	Other (a)	Total
Balance at January 1, 2014	$ 331	$ —	$ 356	$687
For the year ended December 31, 2014:				
Charges	2,668	227	131	3,026
Cash spend	(2,753)	—	(286)	(3,039)
Charges against assets	—	(227)	—	(227)
Balance at December 31, 2014	246	—	201	447
For the year ended December 31, 2015:				
Charges	2,568	403	879	3,850
Cash spend	(1,352)	—	(675)	(2,027)
Charges against assets	—	(403)	—	(403)
Balance at December 31, 2015	1,462	—	405	1,867
For the year ended December 31, 2016:				
Charges	1,535	603	546	2,684
Cash spend	(1,143)	—	(397)	(1,540)
Charges against assets	—	(603)	—	(603)
Balance at December 31, 2016	$ 1,854	$ —	$ 554	$2,408

(a) Other includes other shutdown-related costs associated with the consolidation of domestic PE Films manufacturing facilities and the shutdown of the Company's aluminum extrusions manufacturing facility in Kentland, Indiana.

See Note 18 for more information on plant shutdowns, asset impairments and restructurings of continuing operations.

11 DEBT AND CREDIT AGREEMENTS

On March 1, 2016, Tredegar entered into a $400 million five-year, secured revolving credit facility ("Credit Agreement"), with an option to increase that amount by $50 million. The Credit Agreement replaced the Company's previous $350 million five-year, unsecured revolving credit facility that was due to expire on April 17, 2017. In connection with the refinancing, the Company borrowed $107 million under the Credit Agreement, which was used, together with available cash on hand, to repay all indebtedness under the previous revolving credit facility.

Borrowings under the Credit Agreement bear an interest rate of LIBOR plus a credit spread and commitment fees charged on the unused amount under the Credit Agreement at various indebtedness-to-adjusted EBITDA levels as follows:

Pricing Under Credit Revolving Agreement (Basis Points)

Indebtedness-to-Adjusted EBITDA Ratio	Credit Spread Over LIBOR	Commitment Fee
> 3.5x but <= 4.0x	250	45
> 3.0x but <=	225	40

3.5x > 2.0x but	200	35
<= 3.0x > 1.0x but	175	30
<= 2.0x <= 1.0x	150	25

At December 31, 2016, the interest cost on debt borrowed under the Credit Agreement was priced at one-month LIBOR plus the applicable credit spread of 175 basis points.
The most restrictive covenants in the Credit Agreement include:
• Maximum indebtedness-to-adjusted EBITDA (“Leverage Ratio:) of 4.00x;

- Minimum adjusted EBIT-to-interest expense of 2.50x; and
- Maximum aggregate distributions to shareholders over the term of the Credit Agreement of $100,000 plus, beginning with the fiscal quarter ended March 31, 2016, 50% of net income and, at a Leverage Ratio of equal to or greater than 3.00x, a limitation on such payments for the succeeding quarter at the greater of (i) $4 million and (ii) 50% of consolidated net income for the most recent fiscal quarter, and, at a Leverage Ratio of equal to or greater than 3.50x, the prevention of such payments for the succeeding quarter unless the fixed charge coverage ratio is equal to or greater than 1.20x.

The Credit Agreement is secured by substantially all of the Company's and its domestic subsidiaries' assets, including equity in certain material first-tier foreign subsidiaries.

At December 31, 2016, based upon the most restrictive covenants within the Credit Agreement, available credit under the Credit Agreement was approximately $185.0 million. Total debt due and outstanding at December 31, 2016 is summarized below:

Debt Due and Outstanding at
December 31, 2016
(In Thousands)

Year Due	Credit Agreement	Other	Total Debt Due
2017	$ —	$ —	$ —
2018	—	—	—
2019	—	—	—
2020	—	—	—
2021	95,000	—	95,000
Total	$ 95,000	$ —	$ 95,000

Tredegar believes that it was in compliance with all of its debt covenants as of December 31, 2016. Noncompliance with any of the debt covenants may have a material adverse effect on financial condition or liquidity in the event such noncompliance cannot be cured or should the Company be unable to obtain a waiver from the lenders. Renegotiation of the covenant through an amendment to the Credit Agreement may effectively cure the noncompliance, but may have an effect on financial condition or liquidity depending upon how the covenant is renegotiated.

12 SHAREHOLDER RIGHTS AGREEMENT

Pursuant to the Second Amended and Restated Rights Agreement (the "Rights Agreement"), dated as of November 18, 2013, with Computershare Trust Company, N.A., as Rights Agent, one purchase right (a "Right") was attached to each outstanding share of Tredegar's common stock. Each Right entitled the registered holder to purchase from Tredegar one one-hundredth of a share of Tredegar's Series A Participating Cumulative Preferred Stock at an exercise price of $150, subject to adjustment (the "Purchase Price"). Unless otherwise noted in the Rights Agreement, the Rights would have become exercisable, if not earlier redeemed, only if a person or group (i) acquires beneficial ownership of 20% or more of the outstanding shares of the Company's common stock or (ii) commences, or publicly discloses an intention to commence, a tender offer or exchange offer that would result in beneficial ownership by a person or group of 20% or more of the outstanding shares of the Company's common stock.

On February 19, 2014, Tredegar's Board of Directors authorized the termination of the Rights Agreement and the redemption of all of the outstanding Rights, at a redemption price of $.01 per Right to be paid in cash to shareholders of record as of the close of business on March 3, 2014, with the payment date of such redemption price to be on March 7, 2014. The corresponding redemption payment of $0.3 million was made in 2014.

13 STOCK OPTION AND STOCK AWARD PLANS

Tredegar has one equity incentive plan under which stock options may be granted to purchase a specified number of shares of common stock at a price no lower than the fair market value on the date of grant and for a term not to exceed 10 years. Employee options granted in 2012 and thereafter ordinarily vest over a four-year period, with a quarter of the options granted vesting on each year on the grant date anniversary. The option plan also permits the grant of stock appreciation rights (“SARs”), stock, restricted stock, stock unit awards and incentive awards. Restricted stock grants ordinarily vest three years

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from the date of grant based upon continued employment. Stock unit awards vest upon the achievement of certain performance targets. No SARs have been granted since 1992 and none are currently outstanding.

A summary of stock options outstanding at December 31, 2016, 2015 and 2014, and changes during those years, is presented below:

	Number of Options	Option Exercise Price/Share Range			Weighted Average
Outstanding at January 1, 2014	1,046,800	$14.06	to	$30.01	$ 19.06
Granted	181,476	19.84	to	22.49	22.41
Forfeited and Expired	(22,581)	15.80	to	24.84	21.42
Exercised	(41,575)	15.80	to	19.84	17.55
Outstanding at December 31, 2014	1,164,120	14.06	to	30.01	19.59
Granted	—	—	to	—	—
Forfeited and Expired	(60,207)	17.13	to	30.01	22.30
Exercised	(222,400)	14.06	to	19.84	16.34
Outstanding at December 31, 2015	881,513	17.13	to	30.01	20.22
Granted	—	—	to	—	—
Forfeited and Expired	(246,394)	17.13	to	30.01	18.90
Exercised	(134,200)	17.13	to	19.84	17.23
Outstanding at December 31, 2016	500,919	$17.13	to	$30.01	$ 21.67

The following table summarizes additional information about stock options outstanding and exercisable at December 31, 2016:

	Options Outstanding at December 31, 2016				Options Exercisable at December 31, 2016		
		Weighted Average					
Range of Exercise Prices	Shares	Remaining Contractual Life (Years)	Exercise Price	Aggregate Intrinsic Value (In Thousands)	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (In Thousands)
$— to $15.00	—	0.0	$ —	$ —	—	$ —	$ —
15.01 to 17.50	13,000	0.1	17.13	89,310	13,000	17.13	89,310
17.51 to 20.00	226,425	2.8	19.59	999,156	226,425	19.59	999,156
20.01 to 25.00	258,694	6.5	23.63	201,274	211,542	23.74	149,553
25.01 to 30.01	2,800	6.6	30.01	—	2,100	30.01	—
Total	500,919	4.6	$ 21.67	$ 1,289,740	453,067	$ 21.50	$ 1,238,019

During 2015, the Board of Directors approved the accelerated vesting of stock options and restricted stock for several Tredegar executives who left the Company in recognition of their many years of service. Compensation expense recognized in 2015 for accelerated stock option vestings (0.4 million shares) and accelerated restricted stock vestings (0.1 million shares) totaled $0.4 million and $1.0 million, respectively.

The following table summarizes additional information about unvested restricted stock outstanding at December 31, 2016, 2015 and 2014:

	Unvested Restricted Stock			Maximum Unvested Restricted Stock Units Issuable Upon Satisfaction of Certain Performance Criteria		
	Number of Shares	Weighted Avg. Grant Date Fair Value/Share	Grant Date Fair Value (In Thousands)	Number of Shares	Weighted Avg. Grant Date Fair Value/Share	Grant Date Fair Value (In Thousands)
Outstanding at January 1, 2014	157,850	$ 22.00	$ 3,473	132,300	$ 23.81	$ 3,150
Granted	95,707	22.18	2,123	59,675	21.54	1,285
Vested	(54,921)	20.73	(1,139)	—	—	—
Forfeited	(10,578)	21.76	(230)	(62,262)	19.18	(1,194)
Outstanding at December 31, 2014	188,058	22.48	4,227	129,713	24.99	3,241
Granted	147,666	18.87	2,786	144,582	18.47	2,670
Vested	(174,145)	20.57	(3,582)	—	—	—
Forfeited	(29,226)	21.42	(626)	(107,167)	20.78	(2,227)
Outstanding at December 31, 2015	132,353	21.19	2,805	167,128	22.04	3,684
Granted	144,546	13.47	1,947	136,986	11.34	1,553
Vested	(52,167)	21.56	(1,125)	—	—	—
Forfeited	(17,377)	18.97	(330)	(65,685)	20.24	(1,329)
Outstanding at December 31, 2016	207,355	$ 15.90	$ 3,297	238,429	$ 16.39	$ 3,908

The total intrinsic value of stock options exercised was $0.2 million in 2016, $1.0 million in 2015 and $0.1 million in 2014. The grant-date fair value of stock option-based awards vested was $0.4 million in 2016, $1.9 million in 2015 and $0.7 million in 2014. As of December 31, 2016, there was unrecognized compensation cost of $0.1 million related to stock option-based awards and $1.6 million related to non-vested restricted stock and other stock-based awards. This cost is expected to be recognized over the remaining weighted average period of 0.6 years for stock option-based awards and 1.6 years for non-vested restricted stock and other stock-based awards.

Stock options exercisable totaled 453,067 at December 31, 2016 and 771,000 shares at December 31, 2015. Stock options available for grant totaled 2,748,000 shares at December 31, 2016.

14 RETIREMENT PLANS AND OTHER POSTRETIREMENT BENEFITS

Tredegar sponsors noncontributory defined benefit (pension) plans covering certain current and former employees. The plans for salaried and hourly employees currently in effect are based on a formula using the participant's years of service and compensation or using the participant's years of service and a dollar amount. The plan is closed to new participants, and pay for active participants of the plan was frozen as of December 31, 2007. With the exception of plan participants at one of the Company's U.S. manufacturing facilities, the plan no longer accrues benefits associated with crediting employees for service, thereby freezing all future benefits under the plan.

In addition to providing pension benefits, the Company provides postretirement life insurance and health care benefits for certain groups of employees. Tredegar and retirees share in the cost of postretirement health care benefits, with employees hired on or before January 1, 1993, receiving a fixed subsidy to cover a portion of their health care premiums. The Company eliminated prescription drug coverage for Medicare-eligible retirees as of January 1, 2006. Consequently, Tredegar is not eligible for any federal subsidies.

The following tables reconcile the changes in benefit obligations and plan assets in 2016 and 2015, and reconcile the funded status to prepaid or accrued cost at December 31, 2016 and 2015:

(In Thousands)	Pension Benefits 2016	Pension Benefits 2015	Other Post-Retirement Benefits 2016	Other Post-Retirement Benefits 2015
Change in benefit obligation:				
Benefit obligation, beginning of year	$303,852	$325,426	$7,745	$8,372
Service cost	231	530	38	44
Interest cost	13,323	13,217	337	325
Effect of actuarial (gains) losses related to the following:				
Discount rate change	9,296	(14,687)	210	(356)
Retirement rate assumptions and mortality	(5,537)	(5,456)	(433)	32

table adjustments				
Other	(3,025)	(746)	(131)	(332)
Plan participant contributions	—	—	634	625
Benefits paid	(15,014)	(14,432)	(964)	(965)
Benefit obligation, end of year	$303,126	$303,852	$7,436	$7,745
Change in plan assets:				
Plan assets at fair value, beginning of year	$210,642	$229,017	$—	$—
Actual return on plan assets	11,199	(6,311)	—	—
Employer contributions	7,732	2,368	330	340
Plan participant contributions	—	—	634	625
Benefits paid	(15,014)	(14,432)	(964)	(965)
Plan assets at fair value, end of year	$214,559	$210,642	$—	$—
Funded status of the plans	$(88,567)	$(93,210)	$(7,436)	$(7,745)

Amounts recognized in the consolidated balance sheets:				
Accrued expenses (current)	$182	$210	$453	$455
Other noncurrent liabilities	88,385	93,000	6,983	7,290
Net amount recognized	$88,567	$93,210	$7,436	$7,745

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Assumptions used for financial reporting purposes to compute net benefit income or cost and benefit obligations for continuing operations, and the components of net periodic benefit income or cost for continuing operations, are as follows:

	Pension Benefits			Other Post-Retirement Benefits		
(In Thousands, Except Percentages)	2016	2015	2014	2016	2015	2014
Weighted-average assumptions used to determine benefit obligations:						
Discount rate	4.29 %	4.55 %	4.17 %	4.24 %	4.49 %	4.11 %
Expected long-term return on plan assets	6.50 %	7.00 %	7.50 %	n/a	n/a	n/a
Weighted-average assumptions used to determine net periodic benefit cost:						
Discount rate	4.55 %	4.17 %	4.99 %	4.49 %	4.11 %	4.88 %
Expected long-term return on plan assets	7.00 %	7.50 %	7.75 %	n/a	n/a	n/a
Components of net periodic benefit cost:						
Service cost	$231	$530	$869	$38	$44	$43

Interest cost	13,323	13,217	13,397	337	325	387
Expected return on plan assets	(15,980)	(17,636)	(18,301)	—	—	—
Amortization of prior service costs, and gains or losses	13,312	16,190	10,688	(214)	(194)	(190)
Settlement/curtailment	—	45	81	—	—	—
Net periodic benefit cost	$10,886	$12,346	$6,734	$161	$175	$240

Net benefit income or cost is determined using assumptions at the beginning of each year. Funded status is determined using assumptions at the end of each year. The amount of the accumulated benefit obligation is the same as the projected benefit obligation. At December 31, 2016, the effect of a 1% change in the health care cost trend rate assumptions would not impact the post-retirement obligation.

Expected benefit payments for continuing operations over the next five years and in the aggregate for 2021-2025 are as follows:

(In Thousands)	Pension Benefits	Other Post-Retirement Benefits
2017	$16,165	$ 453
2018	16,568	456
2019	17,076	460
2020	17,537	462
2021	17,860	465
2022—2026	92,955	2,322

Amounts recorded in 2016, 2015 and 2014 in accumulated other comprehensive income, before related deferred income taxes, consist of:

	Pension			Other Post-Retirement		
(In Thousands)	2016	2015	2014	2016	2015	2014
Prior service cost (benefit)	$10	$ 18	$ 87	$ —	$ —	$ —
Net actuarial (gain) loss	145,782	153,570	166,678	(1,756)	(1,616)	(1,154)

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Pension expense is expected to be $10.4 million in 2017. The amounts in accumulated other comprehensive income, before related deferred income taxes, that are expected to be recognized as components of net periodic benefit or cost during 2017 are as follows:

(In Thousands)	Pension	Other Post-Retirement
Prior service cost (benefit)	$ 5	$ —
Net actuarial (gain) loss	12,329	(245)

The percentage composition of assets held by pension plans for continuing operations at December 31, 2016, 2015 and 2014 are as follows:

	% Composition of Plan Assets at December 31,		
	2016	2015	2014
Pension plans related to continuing operations:			
Fixed income securities	8.0 %	12.8 %	14.5 %
Large/mid-capitalization equity securities	14.7	13.8	13.7
Small-capitalization equity securities	5.3	4.0	4.3
International and emerging market equity securities	11.5	10.9	11.0
Total equity securities	31.5	28.7	29.0
Private equity and hedge funds	48.4	52.4	51.2
Other assets	12.1	6.1	5.3
Total for continuing operations	100.0 %	100.0 %	100.0 %

Tredegar’s targeted allocation percentage for pension plan assets and the expected long-term rate of return on assets used to determine its benefit obligation at December 31, 2016, are as follows:

	Target % Composition of Plan Assets *	Expected Long-term Return %
Pension plans related to continuing operations:		
Fixed income securities	22.0 %	3.8 %
Large/mid-capitalization equity securities	14.0	8.4
Small-capitalization equity securities	5.0	9.5
International and emerging market equity securities	13.0	8.6
Total equity securities	32.0	8.7
Private equity and hedge funds	46.0	6.3
Total for continuing operations	100.0 %	6.5 %

* Target percentages for the composition of plan assets represents a neutral position within the approved range of allocations for such assets.

Expected long-term returns are estimated by asset class and generally are based on inflation-adjusted historical returns, volatilities, risk premiums and managed asset premiums. The portfolio of fixed income securities is structured with maturities that generally match estimated benefit payments over the next 1-2 years. The other assets category is primarily comprised of cash and contracts with insurance companies. The Company’s primary investment objective is to maximize total return with a strong emphasis on the preservation of capital, and it believes that over the long-term a diversified portfolio of fixed income securities, equity securities, hedge funds and private equity funds has a better risk-return profile than fixed income securities alone. The average remaining duration of benefit payments for the pension plans is about 11.4 years. The Company expects its required contributions to be approximately $5.5 million in 2017.

Estimates of the fair value of assets held by the Company's pension plan are provided by unaffiliated third parties. Investments in private equity and hedge funds and certain fixed income securities by the Company's pension plan are measured at NAV, which is a practical expedient for measuring fair value. These assets are therefore excluded from the fair value hierarchy for each of the years presented. At December 31, 2016 and 2015, the pension plan assets are categorized by level within the fair value measurement hierarchy as follows:

(In Thousands)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Balances at December 31, 2016				
Large/mid-capitalization equity securities	$31,549	$ 31,549	$ —	$ —
Small-capitalization equity securities	11,389	11,389	—	—
International and emerging market equity securities	24,710	11,410	13,300	—
Fixed income securities	17,213	4,441	12,772	—
Other assets	15,853	15,853	—	—
Total plan assets at fair value	$100,714	$ 74,642	$ 26,072	$ —
Private equity and hedge funds	103,686			
Contracts with insurance companies	10,158			
Total plan	$214,558			

assets, December 31, 2016				
Balances at December 31, 2015				
Large/mid-capitalization equity securities	$29,027	$ 29,027	$ —	$ —
Small-capitalization equity securities	8,457	8,457	—	—
International and emerging market equity securities	23,054	10,126	12,928	—
Fixed income securities	22,968	10,626	12,342	—
Other assets	2,727	2,727	—	—
Total plan assets at fair value	$86,233	$ 60,963	$ 25,270	$ —
Private equity and hedge funds	110,340			
Contracts with insurance companies	10,207			
Fixed income securities	3,862			
Total plan assets, December 31, 2015	$210,642			

Tredegar also has a non-qualified supplemental pension plan covering certain employees. Effective December 31, 2005, further participation in this plan was terminated and benefit accruals for existing participants were frozen. The plan was designed to restore all or a part of the pension benefits that would have been payable to designated participants from the principal pension plans if it were not for limitations imposed by income tax regulations. The projected benefit obligation relating to this unfunded plan was $2.2 million at December 31, 2016 and $2.3 million at December 31, 2015. Pension expense recognized for this plan was $0.1 million in 2016, $0.1 million in 2015 and $0.1 million in 2014. This information has been included in the preceding pension benefit tables.

Approximately 78 employees at the Company’s film products manufacturing facility in Kerkrade, The Netherlands are covered by a collective bargaining agreement that includes participation in a multi-employer pension plan. Pension expense recognized for participation in this plan, which is equal to required contributions, was $0.4 million in 2016, $0.4 million in 2015 and $0.5 million in 2014. This information has been excluded from the preceding pension benefit tables.

15 SAVINGS PLAN

Tredegar has a savings plan that allows eligible employees to voluntarily contribute a percentage of their compensation, up to Internal Revenue Service (“IRS”) limitations. The provisions of the savings plan provided the following benefits for salaried and certain hourly employees:

- The Company makes matching contributions to the savings plan of $1 for every $1 of employee contribution. The matching contribution is currently on a maximum of 5% of base pay.

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- The savings plan includes immediate vesting of matching contributions when made and automatic enrollment at 3% of base pay unless the employee opts out or elects a different percentage.

For the period from February 1, 2014 to December 31, 2014, the Company made matching contributions to the savings plan for salaried and non-union hourly employees of $0.50 for every $1 a participant contributed, with a matching contribution on a maximum of 5% of base pay during this period. The Company also has a non-qualified plan that restores matching benefits for employees suspended from the savings plan due to certain limitations imposed by income tax regulations (“restoration plan”). Charges recognized for these plans were $3.2 million in 2016, $3.0 million in 2015 and $1.6 million in 2014. The Company’s liability under the restoration plan was $1.6 million at December 31, 2016 (consisting of 67,013 phantom shares of common stock) and $1.0 million at December 31, 2015 (consisting of 71,818 phantom shares of common stock) and valued at the closing market price on those dates.

The Tredegar Corporation Benefits Plan Trust (the “Trust”) purchased 7,200 shares of the Company’s common stock in 1998 for $0.2 million and 46,671 shares of its common stock in 1997 for $1.0 million, as a partial hedge against the phantom shares held in the restoration plan. There have been no shares purchased since 1998 except for re-invested dividends. The cost of the shares held by the Trust is shown as a reduction to shareholders’ equity in the consolidated balance sheets.

16 RENTAL EXPENSE AND CONTRACTUAL COMMITMENTS

Rental expense for continuing operations was $2.9 million in 2016, $3.6 million in 2015 and $3.6 million in 2014.

Rental commitments under all non-cancelable leases (including $0.3 million for capital leases) for continuing operations as of December 31, 2016, are as follows:

(in thousands)	
2017	$ 2,397
2018	2,200
2019	1,982
2020	1,976
2021	1,491
Remainder	1,169
Total minimum lease payments	$ 11,215

Contractual obligations for plant construction and purchases of real property and equipment amounted to $12.0 million at December 31, 2016.

17 INCOME TAXES

Income from continuing operations before income taxes and income taxes are as follows:

(In Thousands)	2016	2015	2014
Income from continuing operations before income taxes:			
Domestic	$26,284	$(9,116)	$38,402
Foreign	1,399	(14,091)	7,014
Total	$27,683	$(23,207)	$45,416
Current income taxes:			
Federal	$4,302	$12,693	$14,568
State	(709)	973	2,178
Foreign	3,255	6,064	4,102
Total	6,848	19,730	20,848
Deferred income taxes:			
Federal	(2,505)	(9,419)	(9,530)
State	1,396	(1,035)	(417)
Foreign	(2,522)	(348)	(1,514)
Total	(3,631)	(10,802)	(11,461)
Total income taxes	$3,217	$8,928	$9,387

The significant differences between the U.S. federal statutory rate and the effective income tax rate for continuing operations are as follows:

	Percent of Income Before Income Taxes from Continuing Operations		
	2016	2015	2014
Federal statutory rate	35.0	35.0	35.0
State taxes, net of federal income tax benefit	2.3	0.3	2.2
Foreign rate differences	1.8	3.1	(0.1)
Non-deductible expenses	1.4	(1.9)	0.9
Changes in estimates related to prior year tax provision	1.2	(2.1)	(2.3)
Valuation allowance for capital loss carry-forwards	1.0	1.3	(10.2)
Tax contingency accruals and tax settlements	0.4	(3.1)	2.0
Tax incentive	—	0.5	(0.1)
Foreign investment write down	(0.7)	(10.9)	—
Unremitted earnings from foreign operations	(0.9)	2.2	(3.8)
Valuation allowance due to foreign losses	(1.5)	—	(0.4)
Research and development tax credit	(2.0)	1.5	(0.6)
Domestic Production Activities Deduction	(2.7)	3.6	(1.9)
Remitted earnings from foreign operations	(23.7)	0.1	—
Goodwill impairment	—	(68.1)	—
Effective income tax rate for continuing operations	11.6	(38.5)	20.7

Income taxes from continuing operations in 2016 included the recognition of an additional valuation allowance of $0.3 million related to expected limitations on the utilization of assumed capital losses on certain investments. In

2016, the difference between the federal statutory rate and the effective tax rate is primarily driven by the $6.4 million tax benefit from excess foreign tax credits related to the repatriation of cash from Brazil.

The change in income taxes from continuing operations in 2015 in comparison to the prior year can be attributed to several factors including recording no tax benefit on either the goodwill impairment charge or the unrealized loss on the portion of the Company’s investment in shares of kaléo shares held in a foreign jurisdiction. Also, there was a $0.5 million tax benefit

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related to the valuation allowance associated with capital losses in 2015 compared to a $4.9 million tax benefit in 2014. In 2014 there was a $2.2 million tax benefit recorded for changes in the underlying basis of certain foreign subsidiaries versus a $0.5 million tax benefit.

The Brazilian federal statutory income tax rate is a composite of 34.0% (25.0% of income tax and 9.0% of social contribution on income). Terphane's manufacturing facility in Brazil is the beneficiary of certain income tax incentives that allow for a reduction in the statutory Brazilian federal income tax rate levied on the operating profit of its products. These incentives produce a current tax rate of 15.25% for Terphane (6.25% of income tax and 9.0% social contribution on income). The current incentives will expire at the end of 2024. The benefit from the tax incentives was $0.1 million (0 cents per share) and $0.1 million (0 cents per share) in 2015 and 2014, respectively (none in 2016).

Deferred tax liabilities and deferred tax assets at December 31, 2016 and 2015, are as follows:

(In Thousands)	2016	2015
Deferred tax liabilities:		
Amortization of goodwill and other intangibles	$43,546	$42,900
Depreciation	24,178	22,221
Foreign currency translation gain adjustment	1,424	2,738
Derivative financial instruments	493	—
Total deferred tax liabilities	69,641	67,859
Deferred tax assets:		
Pensions	30,733	31,972
Employee benefits	10,262	10,397
Excess capital losses and book/tax basis differences on investments	7,595	8,026
Inventory	3,622	4,636
Asset write-offs, divestitures and environmental accruals	2,515	2,022
Tax benefit on state and foreign NOL and credit carryforwards	4,921	1,624
Timing adjustment for unrecognized tax benefits on uncertain tax positions, including portion relating to interest and penalties	395	1,006
Allowance for doubtful accounts	198	406
Derivative financial instruments	—	234
Other	1,568	2,224
Deferred tax assets before valuation allowance	61,809	62,547
Less: Valuation allowance	12,694	13,344
Total deferred tax assets	49,115	49,203
Net deferred tax liability	$20,526	$18,656
Amounts recognized in the consolidated balance sheets:		
Other assets and deferred charges (noncurrent)	584	—
Deferred income taxes (noncurrent)	$21,110	$18,656
Net deferred tax liability	$20,526	$18,656

Except as noted below, the Company believes that it is more likely than not that future taxable income will exceed future tax deductible amounts thereby resulting in the realization of deferred tax assets. The Company has estimated gross state and foreign tax credits and net operating loss carryforwards of $4.9 million and $1.6 million at December 31, 2016 and 2015, respectively, which primarily expire at different points over the next 5 to 8 years. Valuation allowances of $1.5 million, $1.5 million and $2.8 million at December 31, 2016, 2015 and 2014, respectively, are recorded against the tax benefit on state and foreign tax credits and net operating loss carryforwards generated by certain foreign and domestic subsidiaries that may not be recoverable in the carryforward period. The valuation allowance for excess capital losses from investments and other related items was $11.2 million, $10.9 million and $11.4 million at December 31, 2016, 2015 and 2014. The current year balance increased due to changes in the relative amounts of capital gains and losses generated during the year. The amount of the deferred tax asset considered realizable, however, could be adjusted in the near term if estimates of the fair value of certain investments during the carryforward period change. Tredegar continues to evaluate opportunities to utilize capital loss carryforwards prior to their expiration at various dates in the future. As circumstances and events warrant, allowances will be

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reversed when it is more likely than not that future taxable income will exceed deductible amounts, thereby resulting in the realization of deferred tax assets. The valuation allowance for asset impairments in foreign jurisdictions where the Company believes it is more likely than not that the deferred tax asset will not be realized was $0.9 million at December 31, 2015 and $0.4 million at December 31, 2014 (none in 2016).

A reconciliation of the Company's unrecognized uncertain tax positions since January 1, 2014, is shown below:

	Years Ended December 31,		
(In Thousands)	2016	2015	2014
Balance at beginning of period	$4,049	$3,255	$2,239
Increase (decrease) due to tax positions taken in:			
Current period	1,151	518	619
Prior period	43	326	397
Increase (decrease) due to settlements with taxing authorities	(1,706)	—	—
Reductions due to lapse of statute of limitations	(222)	(50)	—
Balance at end of period	$3,315	$4,049	$3,255

Additional information related to unrecognized uncertain tax positions since January 1, 2014 is summarized below:

	Years Ended December 31,		
(In Thousands)	2016	2015	2014
Gross unrecognized tax benefits on uncertain tax positions (reflected in current income tax and other noncurrent liability accounts in the balance sheet)	$3,315	$4,049	$3,255
Deferred income tax assets related to unrecognized tax benefits on	(345)	(858)	(726)

uncertain tax positions (reflected in deferred income tax accounts in the balance sheet)			
Net unrecognized tax benefits on uncertain tax positions, which would impact the effective tax rate if recognized	2,970	3,191	2,529
Interest and penalties accrued on deductions taken relating to uncertain tax positions (approximately $(262), $90 and $150 reflected in income tax expense in the income statement in 2016, 2015 and 2014, respectively, with the balance shown in current income tax and other noncurrent liability accounts in the balance sheet)	135	397	310
Related deferred income tax assets recognized on interest and penalties	(49)	(148)	(116)
Interest and penalties accrued on uncertain tax	86	249	194

positions net of related deferred income tax benefits, which would impact the effective tax rate if recognized			
Total net unrecognized tax benefits on uncertain tax positions reflected in the balance sheet, which would impact the effective tax rate if recognized	$3,056	$3,440	$2,723

Tredegar, or one of its subsidiaries, files income tax returns in the U.S. federal jurisdiction, various states and jurisdictions outside the U.S. With few exceptions, Tredegar is no longer subject to U.S. federal, state or non-U.S. income tax examinations by tax authorities for years before 2013. The Company anticipates that it is reasonably possible that Federal and state income tax audits or statutes may settle or close within the next 12 months, which could result in the recognition of up to approximately $0.8 million of the balance of unrecognized tax positions, including any payments that may be made.

18 LOSSES ASSOCIATED WITH PLANT SHUTDOWNS, ASSET IMPAIRMENTS AND RESTRUCTURINGS, UNUSUAL ITEMS, GAINS FROM SALE OF ASSETS AND OTHER ITEMS

Losses associated with plant shutdowns, asset impairments, restructurings and other charges in 2016 (as shown in the segment operating profit table in Note 5) totaled $6.1 million ($3.9 million after taxes), and unless otherwise noted below, are also included in “Asset impairments and costs associated with exit and disposal activities” in the consolidated statements of income. Results in 2016 included:

- Fourth quarter net loss $0.7 million ($0.4 million after taxes), related to the explosion that occurred in the second quarter of 2016 at the aluminum extrusions manufacturing facility in Newnan, Georgia, which consists of excess production costs for which recovery from insurance is not assured of $0.6 million ($0.4 million after taxes) (included in “Cost of goods sold” in the consolidated statements of income) and legal and consulting fees of $0.1 million ($0.1 million after taxes) (included in “Selling, general and administrative expenses” in the consolidated statements of income), third quarter net income of $1.7 million ($1.1 million after taxes), which includes the recognition of a gain of $1.9 million ($1.2 million after taxes) for a portion of the insurance recoveries approved by the insurer to begin the replacement of capital equipment, offset by the impairment of equipment damaged by the explosion of $0.3 million ($0.2 million after taxes) (net amount included in “Other income (expense), net” in the consolidated statements of income), and the reversal of an accrual for other costs related to the explosion not recoverable from insurance of $0.1 million ($0.0 million after taxes) (included in “Selling, general and administrative expenses” in the consolidated statements of income), and second quarter net loss of $0.6 million ($0.4 million after taxes) for other costs related to the explosion not recoverable from insurance (included in “Selling, general and administrative expenses” in the consolidated statements of income);
- Quarterly charges associated with the consolidation of domestic PE Films’ manufacturing facilities, which includes categories of expenses shown in the table below (Accelerated depreciation and a portion of Other facility consolidation-related costs as noted in the table below are included in “Cost of goods sold” in the consolidated statements of income):

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		2016	
($ in Millions)	BT	AT	BT	AT	BT	AT	BT	AT	BT	AT
Severance	0.3	0.2	0.4	0.2	0.3	0.2	0.3	0.2	1.2	0.8
Asset impairments	0.3	0.2	0.1	0.1	0.1	—	—	—	0.4	0.3
Accelerated depreciation	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.2	0.6	0.4
Other facility consolidation-related costs	0.5	0.3	0.8	0.5	0.6	0.4	0.2	0.1	2.0	1.3
Total	1.1	0.7	1.3	0.9	1.1	0.7	0.8	0.5	4.3	2.8
Other facility consolidation-related costs included in “Cost of goods sold” in the consolidated statements of income	0.4	0.2	0.7	0.4	0.4	0.2	0.2	0.1	1.6	1.0

Note: BT = before taxes; AT = after taxes

- A fourth quarter charge of $0.6 million ($0.4 million after taxes) associated with the acquisition of Futura Industries by Bonnell Aluminum (included in “Selling, general and administrative expenses” in the consolidated statements of income);
- A fourth quarter charge of $0.5 million ($0.3 million after taxes) related to expected future environmental costs at the aluminum extrusions manufacturing facility in Newnan, Georgia (included in “Cost of goods sold” in the consolidated statements of income);
- A first quarter charge of $0.4 million ($0.2 million after taxes) associated with a non-recurring business development project (included in “Selling, general and administrative expense” in the consolidated statements of income and “Corporate expenses, net” in the statement of net sales and operating profit by segment);
- A third quarter charge of $0.3 million ($0.2 million after taxes) for severance and other employee-related costs associated with restructurings in PE Films ($0.1 million) ($0.1 million after taxes) and Corporate ($0.2 million) ($0.1 million after taxes) (included in “Corporate expenses, net” in the statement of net sales and operating profit by segment);
- A fourth quarter charge of $0.3 million ($0.2 million after taxes) related to contingencies associated with the application of prior period Brazilian value-added tax credits in Flexible Packaging Films (included in “Cost of goods sold” in the consolidated statements of income);
- A fourth quarter charge of $0.2 million ($0.1 million after taxes) associated with asset impairments in PE Films;
- A fourth quarter gain of $0.1 million ($0.0 million after taxes) related to contractual indemnifications associated with the anticipated settlement of a Terphane pre-acquisition contingency (included in “Other income (expense), net” in the

consolidated statements of income); and

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- A fourth quarter gain of $0.1 million ($0.1 million after taxes) associated with the shutdown of the aluminum extrusions manufacturing facility in Kentland, Indiana, which includes a pretax gain of $0.2 million ($0.1 million after taxes) related to the sale of the property, partially offset by pretax charges of $0.1 million ($0.0 million after taxes) associated with the shutdown of this facility and a third quarter charge of $0.3 million ($0.2 million after taxes) associated with shutdown costs.

Results in 2016 include a net unrealized gain on the Company's investment in kaléo (included in "Other income (expense), net" in the consolidated statements of income) of $1.6 million ($1.2 million after taxes). The Company recorded an unrealized loss on its investment property in Alleghany and Bath Counties, Virginia (included in "Other income (expense), net" in the consolidated statements of income) of $1.0 million ($0.7 million after taxes) in the fourth quarter of 2016. See Note 4 for additional information on investments.

In July 2015, the Company announced its intention to consolidate its domestic production for PE Films by restructuring the operations in its manufacturing facility in Lake Zurich, Illinois. Efforts to transition domestic production from the Lake Zurich manufacturing facility will require various machinery upgrades and equipment transfers to its other manufacturing facilities. Given PE Films' focus on maintaining product quality and customer satisfaction, the Company anticipates that these activities will be completed in the middle of 2017. Total pre-tax cash expenditures associated with restructuring the Lake Zurich manufacturing facility are expected to be approximately $17 million over the project period, and once complete, annual pre-tax cash cost savings are expected to be approximately $5-6 million.

The Company expects to recognize costs associated with the exit and disposal activities of approximately $5-6 million over the project period. Exit and disposal costs include severance charges and other employee-related expenses arising from the termination of employees of approximately $3-4 million and equipment transfers and other facility consolidation-related costs of approximately $2 million. During the same period of time, operating expenses will include the acceleration of approximately $3 million of non-cash depreciation expense for certain machinery and equipment at the Lake Zurich manufacturing facility. Total expenses associated with the North American facility consolidation project were $4.3 million in the full year 2016 with $2.1 million ($1.3 million after taxes) included in "Asset impairments and costs associated with exit and disposal activities, net of adjustments" and $2.2 million ($1.4 million after taxes) included in "Cost of goods sold" in the consolidated statements of income. As of December 31, 2016, total expenses incurred since the project began in the third quarter of 2015 were $6.5 million ($4.1 million after taxes).

Total estimated cash expenditures of $16-17 million over the project period include the following:

- Cash outlays associated with previously discussed exit and disposal expenses of approximately $5 million, including additional operating expenses of approximately $1 million associated with customer product qualifications on upgraded and transferred production lines;
- Capital expenditures associated with equipment upgrades at other PE Films manufacturing facilities in the U.S. of approximately $11 million; and
- Cash incentives of approximately $1 million in connection with meeting safety and quality standards while production ramps down at the Lake Zurich manufacturing facility.

Cash expenditures for the North American facility consolidation project were $10.2 million in the full year 2016, which includes capital expenditures of $8.2 million. As of December 31, 2016, total cash expenditures since the project began in the third quarter of 2015 were $13.8 million, which includes $11.1 million for capital expenditures.

Losses associated with plant shutdowns, asset impairments, restructurings and other charges for continuing operations in 2015 (as shown in the segment operating profit table in Note 5) totaled $10.1 million ($6.4 million after taxes), and unless otherwise noted below, are also included in "Asset impairments and costs associated with exit and disposal activities" in the consolidated statements of income. Results in 2015 included:

- A second quarter charge of $3.9 million ($2.5 million after taxes) for severance and other employee-related costs associated with the resignation of the Company's former chief executive and chief financial officers (included in "Selling, general and administrative expense" in the consolidated statements of income and "Corporate expenses, net" in the statement of net sales and operating profit by segment);
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A fourth quarter charge of $1.0 million ($0.6 million after taxes) and a third quarter charge of $1.2 million ($0.7 million) associated with the consolidation of domestic PE Films' manufacturing facilities, which includes severance and other employee-related costs of $0.8 million, asset impairments of $0.4 million, accelerated depreciation of $0.4 million (included in "Cost of goods sold" in the consolidated statements of income) and other facility consolidation-related expenses of $0.6 million ($0.1 million is included in "Cost of goods sold" in the consolidated statements of income);

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- A fourth quarter charge of $1.1 million ($0.7 million after taxes) in PE Films ($0.4 million included in “Selling, general and administrative expense” in the consolidated statement of income), a third quarter charge of $0.9 million ($0.6 million after taxes) in PE Films ($0.9 million), Aluminum Extrusions ($35,000) and Corporate ($26,000, included in “Corporate expenses, net” in the statement of net sales and operating profit by segment), and a second quarter charge of $0.3 million ($0.2 million taxes) in Flexible Packaging Films ($0.3 million) and PE Films ($7,000) for severance and other employee-related costs, and a first quarter reversal of previously accrued severance and other employee related costs of $67,000 ($43,000 after taxes) in Flexible Packaging Films, all associated with restructurings;
- A fourth quarter charge of $1.0 million ($0.6 million after taxes) associated with a business development project (included in “Selling, general and administrative expense” in the consolidated statement of income and “Corporate expenses, net” in the statement of net sales and operating profit by segment);
- A fourth quarter charge of $31,000 ($19,000 after taxes), a third quarter charge of $0.3 million ($0.2 million after taxes), a second quarter charge of $18,000 ($11,000 after taxes) and a first quarter charge of $15,000 ($9,000 after taxes) associated with the previously shutdown aluminum extrusions manufacturing facility in Kentland, Indiana; and
- A fourth quarter charge of $0.3 million ($0.2 million after taxes) related to expected future environmental costs at the aluminum extrusions manufacturing facility in Newnan, Georgia (included in “Cost of goods sold” in the consolidated statements of income).

Results in 2015 include a net unrealized loss on the Company’s investment in kaléo (included in “Other income (expense), net” in the consolidated statements of income) of $20.5 million ($15.7 million after taxes). See Note 4 for additional information on investments.

Losses associated with plant shutdowns, asset impairments, restructurings and other charges for continuing operations in 2014 (as shown in the segment operating profit table in Note 5) totaled $13.8 million ($9.3 million after taxes), and unless otherwise noted below, are also included in “Asset impairments and costs associated with exit and disposal activities” in the consolidated statements of income. Results in 2014 included:

- A second quarter charge of $10.0 million ($6.8 million after taxes) associated with a one-time, lump sum license payment to the 3M Company after the Company settled all litigation issues associated with a patent infringement complaint (included in “Other income (expense), net” in the consolidated statements of income);
- A fourth quarter charge of $0.5 million ($0.3 million after taxes) in Flexible Packaging Films ($0.3 million) and PE Films ($0.2 million), a third quarter charge of $0.4 million ($0.2 million after taxes) in Flexible Packaging Films ($0.3 million), PE Films ($78,000) and Aluminum Extrusions ($31,000), a second quarter charge of $0.6 million ($0.4 million after taxes) in PE Films and a first quarter charge of $0.8 million ($0.5 million after taxes) in PE Films for severance and other employee-related costs associated with restructurings;
- A fourth quarter charge of $0.7 million ($0.4 million after taxes), a third quarter charge of $75,000 ($46,000 after taxes) and a second quarter charge of $0.2 million ($0.1 million after taxes) related to expected future environmental costs at the aluminum extrusions manufacturing facility in Newnan, Georgia (included in “Cost of goods sold” in the consolidated statements of income);
- A fourth quarter adjustment of previously accrued severance and other employee-related costs of $0.1 million ($63,000 after taxes) and a third quarter charge of $37,000 ($23,000 after taxes), a second quarter charge of $0.3 million ($0.2 million after taxes) and a first quarter charge of $0.5 million ($0.3 million after taxes) associated with the shutdown of the PE Films’ manufacturing facility in Red Springs, North Carolina, which includes net severance and other employee-related costs of $0.4 million and asset impairment and other shutdown-related charges of $0.3 million;
- A fourth quarter gain of $0.1 million ($73,000 after taxes) related to the sale of a previously shutdown PE Films’ manufacturing facility in LaGrange, Georgia (included in “Other income (expense), net” in the consolidated statements of income); and
- A fourth quarter charge of $11,000 ($7,000 after taxes), a third quarter charge of $20,000 ($12,000 after taxes) and a second quarter charge of $24,000 ($15,000 after taxes) associated with the previously shutdown aluminum extrusions manufacturing facility in Kentland, Indiana.

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Results in 2014 include a net unrealized gain on the Company’s investment in kaléo (included in “Other income (expense), net” in the consolidated statements of income) of $2.0 million ($1.0 million after taxes). An unrealized loss on the Company’s investment in the Harbinger Fund (included in “Other income (expense), net” in the consolidated statements of income and “Corporate expenses, net” in the statement of net sales and operating profit by segment) of $0.8 million ($0.4 million after taxes) was recorded in 2014 as a result of a reduction in the fair value of the investment that is not expected to be temporary. The Company realized a gain on the sale of a portion of its investment property in Alleghany and Bath Counties, Virginia (included in “Other income (expense), net” in the consolidated statements of income) of $1.2 million ($0.8 million after taxes) in 2014. See Note 4 for additional information on investments.

PE Films closed its manufacturing facility in Red Springs, North Carolina in June 2014. The plant, which was a leased facility, was solely dedicated to producing babycare elastic laminate films for P&G, who has consolidated its North American suppliers for this product. The Red Springs manufacturing facility employed 66 people, and total charges incurred related to the shutdown, which primarily consisted of severance and other employee-related costs, were $0.7 million in 2014. Impairment charges were recognized to write down the machinery and equipment to the lower of their carrying value or estimated fair value. The estimated fair value of machinery and equipment that was evaluated for impairment was primarily based on estimates of the proceeds that the Company would receive if and/or when assets are sold. Estimates of the remaining fair value for the related machinery and equipment were based on both Level 2 and 3 inputs as defined under GAAP.

19 CONTINGENCIES

Tredegar is involved in various stages of investigation and remediation relating to environmental matters at certain current and former plant locations. Where the Company has determined the nature and scope of any required environmental remediation activity, estimates of cleanup costs have been obtained and accrued. As efforts continue to maintain compliance with applicable environmental laws and regulations, additional contingencies may be identified. If additional contingencies are identified, the Company’s practice is to determine the nature and scope of those contingencies, obtain and accrue estimates of the cost of remediation, and perform remediation. The Company does not believe that additional costs that could arise from those activities will have a material adverse effect on its financial position. However, those costs could have a material adverse effect on its financial condition, results of operations and cash flows at that time.

The Company is involved in various other legal actions arising in the normal course of business. After taking into consideration the relevant information, the Company believes that it has sufficiently accrued for probable losses and that the actions will not have a material adverse effect on its financial position. However, the resolution of the actions in a future period could have a material adverse effect on quarterly or annual operating results at that time.

From time to time, the Company enters into transactions with third parties in connection with the sale of assets or businesses in which it agrees to indemnify the buyers or third parties involved in the transaction, or in which the sellers or third parties involved in the transaction agree to indemnify Tredegar, for certain liabilities or risks related to the assets or business. Also, in the ordinary course of its business, the Company may enter into agreements with third parties for the sale of goods or services that may contain indemnification provisions. In the event that an indemnification claim is asserted, liability for indemnification would be subject to an assessment of the underlying facts and circumstances under the terms of the applicable agreement. Further, any indemnification payments may be limited or barred by a monetary cap, a time limitation, or a deductible or basket. For these reasons, Tredegar is unable to estimate the maximum amount of the potential future liability under the indemnity provisions of these agreements. The Company does, however, accrue for losses for any known contingent liability, including those that may arise from indemnification provisions, when future payment is probable and the amount is reasonably estimable. The Company discloses contingent liabilities if the probability of loss is reasonably possible and material.

In 2011, Tredegar was notified by U.S. Customs and Border Protection ("U.S. Customs") that certain film products exported by Terphane to the U.S. since November 6, 2008 could be subject to duties associated with an anti-dumping duty order on imported polyester films from Brazil. The Company contested the applicability of these anti-dumping duties to the films exported by Terphane, and a request was filed with the U.S. Department of Commerce ("Commerce") for clarification about whether the film products at issue are within the scope of the anti-dumping duty order. On January 8, 2013, Commerce issued a scope ruling confirming that the films are not subject to the order, provided that Terphane can establish to the satisfaction of U.S. Customs that the performance enhancing layer on those films is greater than 0.00001 inches thick. The films at issue are manufactured to specifications that exceed that threshold. On February 6, 2013, certain U.S. producers of PET film filed a summons with the U.S. Court of International Trade to appeal the scope ruling from Commerce. If U.S. Customs ultimately were to require the collection of anti-dumping duties because Commerce's scope ruling was overturned on appeal, or otherwise, indemnifications for related liabilities are specifically provided for under the Terphane purchase agreement. In December 2014, the U.S. International Trade Commission voted to revoke the anti-dumping duty order on imported PET films from Brazil. The revocation, as a result of the vote by the International Trade Commission, was effective as of November 2013. On February 20, 2015, certain U.S. producers of Flexible Packaging Films filed a summons with the U.S. Court of International Trade to appeal the determination by the U.S. International Trade Commission. The Court granted a motion by the plaintiffs to stay the appeal of the revocation decision pending the resolution of the scope appeal. A decision by the Court in the scope appeal remains pending.

20 SELECTED QUARTERLY FINANCIAL DATA
Tredegar Corporation and Subsidiaries
(In Thousands, Except Per-Share Amounts)
(Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
For the year ended December 31, 2016				
Sales	$207,333	$208,533	$207,702	$204,772
Gross profit	37,279	31,637	33,927	27,801
Net income	$7,281	$3,408	$12,048	$1,728
Earnings per share:				
Basic	$0.22	$0.10	$0.37	$0.05
Diluted	$0.22	$0.10	$0.37	$0.05
Shares used to compute earnings per share:				
Basic	32,654	32,716	32,818	32,856
Diluted	32,654	32,716	32,828	32,900
For the year ended December 31, 2015				
Sales	$234,171	$221,245	$223,772	$216,989
Gross profit	37,415	29,748	33,468	40,249
Net income (loss)	$9,870	$594	$(36,723)	$(5,876)
Earnings (loss) per share:				
Basic	$0.30	$0.02	$(1.13)	$(0.18)
Diluted	$0.30	$0.02	$(1.13)	$(0.18)
Shares used to compute earnings (loss) per share:				
Basic	32,482	32,609	32,605	32,614
Diluted	32,628	32,746	32,605	32,614

Item 16. FORM 10-K SUMMARY
Not Applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TREDEGAR CORPORATION
(Registrant)

Dated: February 22, 2017 By /s/ John D. Gottwald
John D. Gottwald
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 22, 2017.

Signature	Title
/s/ John D. Gottwald (John D. Gottwald)	President, Chief Executive Officer and Director (Principal Executive Officer)
/s/ D. Andrew Edwards (D. Andrew Edwards)	Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ Frasier W. Brickhouse, II (Frasier W. Brickhouse, II)	Corporate Treasurer and Controller (Principal Accounting Officer)
/s/ William M. Gottwald (William M. Gottwald)	Chairman of the Board of Directors
/s/ George C. Freeman, III (George C. Freeman, III)	Director
/s/ George A. Newbill (George A. Newbill)	Director
/s/ Kenneth R. Newsome (Kenneth R. Newsome)	Director
/s/ Gregory A. Pratt (Gregory A. Pratt)	Director
/s/ Thomas G. Snead, Jr. (Thomas G. Snead, Jr.)	Director
/s/ Carl E. Tack, III (Carl E. Tack, III)	Director
(John M. Steitz)	Director

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EXHIBIT INDEX

2.1	Stock Purchase Agreement, made as of October 1, 2012, by and among The William L. Bonnell Company, Inc., AACOA, Inc., the shareholders of AACOA, Inc., and Daniel G. Formsma, as the representative of the shareholders of AACOA, Inc. (filed as Exhibit 2.1 to Tredegar Corporation's ("Tredegar's") Current Report on Form 8-K (File No. 1-10258), filed on October 3, 2012, and incorporated herein by reference). (Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. Tredegar agrees to furnish supplementally to the Securities and Exchange Commission a copy of any omitted exhibit or schedule upon request)
2.2	Membership Interest Purchase Agreement, dated as of October 14, 2011, by and among TAC Holdings, LLC, Gaucho Holdings B.V. and Tredegar Film Products Corporation (filed as Exhibit 2.1 to Tredegar's Current Report on Form 8-K (File No. 1-10258), filed on October 19, 2011, and incorporated herein by reference). (Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. Tredegar agrees to furnish supplementally to the Securities and Exchange Commission a copy of any omitted exhibit or schedule upon request)
2.3	Stock Purchase Agreement, dated as of February 1, 2017, by and among Futura Industries Corporation, Futura Corporation, Susan D. Johnson, The Susan D. Johnson Trust, Ken Wells, The William L. Bonnell Company, Inc., and, in his capacity as Sellers' Representative, Brent F. Lloyd (filed as Exhibit 2.1 of Tredegar's Current Report on Form 8-K (File No. 1-10258), filed on February 2, 2017, and incorporated herein by reference). (Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. Tredegar agrees to furnish supplementally to the Securities and Exchange Commission a copy of any omitted exhibit or schedule upon request.)
3.1	Amended and Restated Articles of Incorporation of Tredegar (filed as Exhibit 3.1 to Tredegar's Annual Report on Form 10-K (File No. 1-10258) for the year ended December 31, 2004, and incorporated herein by reference)
3.1.1	Articles of Amendment to Amended and Restated Articles of Incorporation of Tredegar (filed as Exhibit 3.3 to Tredegar's Annual Report on Form 10-K (File No. 1-10258) for the year ended December 31, 2004, and incorporated herein by reference)
3.1.2	Articles of Amendment to Amended and Restated Articles of Incorporation of Tredegar, as of May 24, 2013 (filed as Exhibit 3.1 to Tredegar's Current Report on Form 8-K (File No. 1-10258), filed on May 29, 2013 and incorporated herein by reference)
3.1.3	Articles of Amendment to Amended and Restated Articles of Incorporation of Tredegar Corporation, as of May 4, 2016 (filed as Exhibit 3.1 to Tredegar's Current Report on Form 8-K (File No. 1-10258), filed on May 6, 2016, and incorporated herein by reference).
3.2	Amended and Restated Bylaws of Tredegar (filed as Exhibit 3.2 to Tredegar's Current Report on Form 8-K (File No. 1-10258), filed on August 10, 2015, and incorporated herein by reference)
4.1	Form of Common Stock Certificate (filed as Exhibit 4.1 to Tredegar's Annual Report on Form 10-K (File No. 1-10258) for the year ended December 31, 2004, and incorporated herein by reference)
4.2	Credit Agreement, dated as of March 1, 2016, among Tredegar Corporation, as borrower, the lenders named therein, JPMorgan Chase Bank, N.A., as administrative agent, SunTrust Bank, Citizens Bank of Pennsylvania and PNC Bank, National Association, as co-syndication agents, and U.S. Bank National Association, BMO Harris Bank, N.A., Bank of America, N.A. and Wells Fargo Bank, National Association, as co-documentation

	agents, and the other lenders party thereto (filed as Exhibit 4.1 to Tredegar's Current Report on Form 8-K (File No. 1-10258), filed on March 3, 2016, and incorporated herein by reference).
4.2.1	Guaranty, dated as of March 1, 2016, by and among the subsidiaries of Tredegar Corporation listed on the signature pages thereto in favor of JPMorgan Chase Bank, N.A., as administrative agent, for the ratable benefit of the Holders of Guaranteed Obligations (as defined therein) (filed as Exhibit 4.2 to Tredegar's Current Report on Form 8-K (File No. 1-10258), filed on March 3, 2016, and incorporated herein by reference).
4.2.2	Pledge and Security Agreement, dated as of March 1, 2016, by and among Tredegar Corporation and the subsidiaries of Tredegar Corporation listed on the signature pages thereto and JPMorgan Chase Bank, N.A., as administrative agent, for the ratable benefit of the Secured Parties (as defined therein) (filed as Exhibit 4.3 to Tredegar's Current Report on Form 8-K (File No. 1-10258), filed on March 3, 2016, and incorporated herein by reference).
10.1	Reorganization and Distribution Agreement, dated as of June 1, 1989, between Tredegar and Ethyl Corporation (filed as Exhibit 10.1 to Tredegar's Annual Report on Form 10-K (File No. 1-10258) for the year ended December 31, 2004, and incorporated herein by reference)

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*10.2	Employee Benefits Agreement, dated as of June 1, 1989, between Tredegar and Ethyl Corporation (filed as Exhibit 10.2 to Tredegar's Annual Report on Form 10-K (File No. 1-10258) for the year ended December 31, 2004, and incorporated herein by reference)
10.3	Tax Sharing Agreement, dated as of June 1, 1989, between Tredegar and Ethyl Corporation (filed as Exhibit 10.3 to Tredegar's Annual Report on Form 10-K (File No. 1-10258) for the year ended December 31, 2004, and incorporated herein by reference)
10.4	Indemnification Agreement, dated as of June 1, 1989, between Tredegar and Ethyl Corporation (filed as Exhibit 10.4 to Tredegar's Annual Report on Form 10-K (File No. 1-10258) for the year ended December 31, 2004, and incorporated herein by reference)
*10.5	Tredegar Industries, Inc. Retirement Benefit Restoration Plan (filed as Exhibit 10.7 to Tredegar's Annual Report on Form 10-K (File No. 1-10258) for the year ended December 31, 2004, and incorporated herein by reference)
*10.5.1	Amendment to the Tredegar Industries, Inc. Retirement Benefit Restoration Plan (filed as Exhibit 10.7.1 to Tredegar's Annual Report on Form 10-K (File No. 1-10258) for the year ended December 31, 2004, and incorporated herein by reference)
*10.6	Tredegar Industries, Inc. Savings Plan Benefit Restoration Plan (filed as Exhibit 10.6 to Tredegar's Annual Report on Form 10-K (File No. 1-10258) for the year ended December 31, 2013, and incorporated herein by reference)
*10.6.1	Resolutions of the Executive Committee of the Board of Directors of Tredegar Corporation adopted on December 28, 2004 (effective as of December 31, 2004) amending the Tredegar Corporation Retirement Savings Plan Benefit Restoration Plan (filed as Exhibit 10.9.1 to Tredegar's Current Report on Form 8-K (File No. 1-10258), filed on December 30, 2004, and incorporated herein by reference)
*10.7	Tredegar 2004 Equity Incentive Plan as Amended and Restated Effective March 27, 2009 (filed as Annex 1 to Tredegar's Definitive Proxy Statement on Schedule 14A (File No. 1-10258) filed on April 14, 2009 and incorporated herein by reference)
*10.8	Form of Notice of Stock Award and Stock Award Terms and Conditions (filed as Exhibit 10.2 to Tredegar's Current Report on Form 8-K (File No. 1-10258), filed on April 3, 2014, and incorporated herein by reference)
*10.9	Form of Notice of Nonstatutory Stock Option Grant and Nonstatutory Stock Option Terms and Conditions (filed as Exhibit 10.3 to Tredegar's Current Report on Form 8-K (File No. 1-10258) filed on February 27, 2013, and incorporated herein by reference)
*10.10	Form of Notice of Stock Unit Award and Stock Unit Award Terms and Conditions (filed as Exhibit 10.1 to Tredegar's Current Report on Form 8-K (File No. 1-10258), filed on March 1, 2016, and incorporated herein by reference)
*10.11	Form of Notice of Stock Award and Stock Award Terms and Conditions (filed as Exhibit 10.2 to Tredegar's Current Report on Form 8-K (File No. 1-10258), filed on March 1, 2016, and incorporated herein by reference)

*10.12	Summary of Director Compensation for Fiscal 2015 (filed as Exhibit 10.15 to Tredegar's Annual Report on Form 10-K (File No. 1-10258) for the year ended December 31, 2015, and incorporated herein by reference)
10.13	Agreement, dated as of February 19, 2014, by and among Tredegar Corporation, John D. Gottwald, William M. Gottwald and Floyd D. Gottwald, Jr. (filed as Exhibit 10.1 to Tredegar's Current Report on Form 8-K (File No. 1-10258), filed on February 20, 2014, and incorporated herein by reference)
*10.14	Form of Notice of Stock Unit Award and Stock Unit Award Terms and Conditions (filed as Exhibit 10.1 to Tredegar's Current Report on Form 8-K (File No. 1-10258) filed on March 3, 2015, and incorporated herein by reference)
*10.15	Form of Notice of Stock Award and Stock Terms and Conditions (filed as Exhibit 10.2 to Tredegar's Current Report on Form 8-K (File No. 1-10258), filed on March 3, 2015, and incorporated herein by reference)
*10.16	Severance Agreement with D. Andrew Edwards, dated June 25, 2015 (filed as Exhibit 10.3 to Tredegar's Current Report on Form 8-K (file No. 1-10258) filed on June 29, 2015, and incorporated herein by reference)
*10.16.1	First Amendment to Severance Agreement with D. Andrew Edwards, dated February 25, 2016 (filed as Exhibit 10.3 to Tredegar's Current Report on Form 8-K (File No. 1-10258), filed on March 1, 2016, and incorporated herein by reference)
*+10.17	Severance Agreement with Michael J. Schewel, dated May 9, 2016
+21	Subsidiaries of Tredegar
+23.1	Consent of PricewaterhouseCoopers, LLC, Independent Registered Public Accounting Firm

+23.2	Consent of Dixon Hughes Goodman LLP, Independent Auditors
+23.3	Consent of Ernst & Young LLP, Independent Auditors
+31.1	Certification of John D. Gottwald, President and Chief Executive Officer of Tredegar Corporation, pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
+31.2	Certification of D. Andrew Edwards, Vice President and Chief Financial Officer (Principal Financial Officer) of Tredegar Corporation, pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
+32.1	Certification of John D. Gottwald, President and Chief Executive Officer of Tredegar Corporation, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
+32.2	Certification of D. Andrew Edwards, Vice President and Chief Financial Officer (Principal Financial Officer) of Tredegar Corporation, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
+99	Financial Statements of kaleo, Inc. and Independent Auditors’ Reports
+101	XBRL Instance Document and Related Items

* Denotes compensatory plans or arrangements or management contracts.
\+ Filed herewith