

TREDEGAR CORP
Form 10-Q
May 06, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2008

OR

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

For the transition period from _____ to _____

Commission file number 1-10258

Tredegar Corporation

(Exact Name of Registrant as Specified in Its Charter)

Virginia

54-1497771

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer
Identification No.)

1100 Boulders Parkway
Richmond, Virginia

23225

(Address of Principal Executive Offices)

(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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The number of shares of Common Stock, no par value, outstanding as of April 25, 2008: 34,297,485.

PART I - FINANCIAL INFORMATION**Item 1. Financial Statements.**

Tredegar Corporation
Consolidated Balance Sheets
(In Thousands)
(Unaudited)

| | March 31, 2008 | Dec. 31, 2007 |
|--|-------------------|------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 41,443 | \$ 48,217 |
| Accounts and notes receivable, net of allowance for doubtful accounts and sales returns of \$5,902 in 2008 and \$5,198 in 2007 | 116,185 | 97,064 |
| Income taxes recoverable | 14,298 | 323 |
| Inventories | 41,652 | 48,666 |
| Deferred income taxes | 9,173 | 9,172 |
| Prepaid expenses and other | 8,361 | 4,077 |
| Current assets of discontinued operation | — | 37,750 |
| Total current assets | 231,112 | 245,269 |
| Property, plant and equipment, at cost | 653,040 | 637,688 |
| Less accumulated depreciation | 386,054 | 368,605 |
| Net property, plant and equipment | 266,986 | 269,083 |
| Other assets and deferred charges | 117,672 | 116,759 |
| Goodwill and other intangibles | 136,179 | 135,907 |
| Noncurrent assets of discontinued operation | — | 17,460 |
| Total assets | \$ 751,949 | \$ 784,478 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 74,327 | \$ 67,161 |
| Accrued expenses | 37,589 | 33,676 |
| Current portion of long-term debt | 583 | 540 |
| Current liabilities of discontinued operation | — | 17,152 |
| Total current liabilities | 112,499 | 118,529 |
| Long-term debt | 56,450 | 81,516 |
| Deferred income taxes | 83,022 | 68,625 |
| Other noncurrent liabilities | 15,844 | 15,662 |

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| | | |
|---|-------------------|-------------------|
| Noncurrent liabilities of discontinued operation | — | 8,818 |
| | <u> </u> | <u> </u> |
| Total liabilities | 267,815 | 293,150 |
| | <u> </u> | <u> </u> |
| Commitments and contingencies (Notes 1 and 2) | | |
| Shareholders' equity: | | |
| Common stock, no par value | 44,573 | 51,444 |
| Common stock held in trust for savings restoration plan | (1,306) | (1,303) |
| Foreign currency translation adjustment | 30,671 | 40,610 |
| Gain (loss) on derivative financial instruments | 1,973 | (1,204) |
| Pension and other postretirement benefit adjustments | 988 | (3,767) |
| Retained earnings | 407,235 | 405,548 |
| | <u> </u> | <u> </u> |
| Total shareholders' equity | 484,134 | 491,328 |
| | <u> </u> | <u> </u> |
| Total liabilities and shareholders' equity | \$ 751,949 | \$ 784,478 |
| | <u> </u> | <u> </u> |

See accompanying notes to financial statements.

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

| | Three Months Ended March 31 | |
|--|--------------------------------|------------------|
| | 2008 | 2007 |
| Revenues and other items: | | |
| Sales | \$ 228,480 | \$ 244,887 |
| Other income (expense), net | 557 | 293 |
| | <u>229,037</u> | <u>245,180</u> |
| Costs and expenses: | | |
| Cost of goods sold | 194,239 | 202,652 |
| Freight | 5,101 | 5,055 |
| Selling, general and administrative | 16,486 | 16,717 |
| Research and development | 2,483 | 1,942 |
| Amortization of intangibles | 32 | 37 |
| Interest expense | 881 | 824 |
| Asset impairments and costs associated with exit and disposal activities | 3,940 | 733 |
| | <u>223,162</u> | <u>227,960</u> |
| Total | 223,162 | 227,960 |
| Income from continuing operations before income taxes | 5,875 | 17,220 |
| Income taxes | 2,090 | 6,085 |
| | <u>3,785</u> | <u>11,135</u> |
| Income from continuing operations | 3,785 | 11,135 |
| Income (loss) from discontinued operations | (723) | (802) |
| | <u>3,062</u> | <u>10,333</u> |
| Net income | \$ 3,062 | \$ 10,333 |
| Earnings (loss) per share: | | |
| Basic | | |
| Continuing operations | \$.11 | \$.28 |
| Discontinued operations | (.02) | (.02) |
| | <u>.09</u> | <u>.26</u> |
| Net income | \$.09 | \$.26 |
| Diluted | | |
| Continuing operations | \$.11 | \$.28 |
| Discontinued operations | (.02) | (.02) |
| | <u>.09</u> | <u>.26</u> |

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| | | | | |
|--|---|--------|----|--------|
| Net income | \$ | .09 | \$ | .26 |
| Shares used to compute earnings (loss) per share: | | | | |
| Basic | | 34,467 | | 39,272 |
| Diluted | | 34,682 | | 39,487 |
| Dividends per share | \$ | .04 | \$ | .04 |
| | See accompanying notes to financial statements. | | | |

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

| | Three Months Ended March 31 | |
|--|--------------------------------|-----------------|
| | 2008 | 2007 |
| Cash flows from operating activities: | | |
| Net income | \$ 3,062 | \$ 10,333 |
| Adjustments for noncash items: | | |
| Depreciation | 11,336 | 11,259 |
| Amortization of intangibles | 32 | 37 |
| Deferred income taxes | 8,289 | (1,633) |
| Accrued pension and postretirement benefits | (1,413) | (439) |
| Loss on asset impairments and divestitures | 2,327 | 338 |
| Changes in assets and liabilities, net of effects of acquisitions and divestitures: | | |
| Accounts and notes receivable | (22,066) | (21,147) |
| Inventories | 10,013 | (4,345) |
| Income taxes recoverable | (13,841) | 8,125 |
| Prepaid expenses and other | 421 | 1,039 |
| Accounts payable and accrued expenses | 5,357 | 15,008 |
| Other, net | 2,661 | 1,095 |
| | <u>6,178</u> | <u>19,670</u> |
| Net cash provided by operating activities | 6,178 | 19,670 |
| Cash flows from investing activities: | | |
| Capital expenditures | (4,052) | (7,164) |
| Proceeds from the sale of the aluminum extrusions business in Canada (net of cash included in sale and transaction costs) | 23,616 | — |
| Proceeds from the sale of assets and property disposals & reimbursements from customers for purchases of equipment | 248 | 2,762 |
| | <u>19,812</u> | <u>(4,402)</u> |
| Net cash provided by (used in) investing activities | 19,812 | (4,402) |
| Cash flows from financing activities: | | |
| Dividends paid | (1,378) | (1,579) |
| Debt principal payments | (38,158) | (20,323) |
| Borrowings | 13,000 | — |
| Repurchases of Tredegar common stock | (7,283) | — |
| Proceeds from exercise of stock options | — | 4,089 |
| | <u>(33,819)</u> | <u>(17,813)</u> |
| Net cash used in financing activities | (33,819) | (17,813) |
| Effect of exchange rate changes on cash | <u>1,055</u> | <u>127</u> |
| Decrease in cash and cash equivalents | <u>(6,774)</u> | <u>(2,418)</u> |

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| | | |
|---|-------------------|-------------------|
| Cash and cash equivalents at beginning of period | 48,217 | 40,898 |
| | <u> </u> | <u> </u> |
| Cash and cash equivalents at end of period | \$ 41,443 | \$ 38,480 |
| | <u> </u> | <u> </u> |

See accompanying notes to financial statements.

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

| | Accumulated Other Comprehensive Income (Loss) | | | | | | | Total Share- holders' Equity |
|--|--|----------------------|---|---|---|---|------------|---------------------------------------|
| | Common Stock | Retained Earnings | Trust for Savings Restora- tion Plan | Foreign Currency Trans- lation | Gain (Loss) on Derivative Financial Instruments | Pension & Other Post- retirement Benefit Adjust. | | |
| Balance December 31, 2007 | \$ 51,444 | \$ 405,548 | \$ (1,303) | \$ 40,610 | \$ (1,204) | \$ (3,767) | \$ 491,328 | |
| Comprehensive income: | | | | | | | | |
| Net income | — | 3,062 | — | — | — | — | 3,062 | |
| Other comprehensive income (loss): | | | | | | | | |
| Foreign currency translation adjustment (net of tax of \$2,344) | — | — | — | 4,353 | — | — | 4,353 | |
| Reclassification of foreign currency translation gain realized on the sale of the aluminum extrusions business in Canada (net of tax of \$7,696) | — | — | — | (14,292) | — | — | (14,292) | |
| Derivative financial instruments adjustment (net of tax of \$1,984) | — | — | — | — | 3,177 | — | 3,177 | |
| Amortization of prior service costs and net gains or losses (net of tax of \$65) | — | — | — | — | — | (116) | (116) | |
| Reclassification of net actuarial losses and prior service costs realized on the sale of the aluminum extrusions business in Canada (net of tax of \$1,799) | — | — | — | — | — | 4,871 | 4,871 | |
| Comprehensive income | | | | | | | 1,055 | |
| Cash dividends declared (\$.04 per share) | — | (1,378) | — | — | — | — | (1,378) | |
| Stock-based compensation expense & other | 412 | — | — | — | — | — | 412 | |
| Repurchases of Tredegear common stock | (7,283) | — | — | — | — | — | (7,283) | |
| Tredegear common stock purchased by trust for savings restoration plan | — | 3 | (3) | — | — | — | — | |
| Balance March 31, 2008 | \$ 44,573 | \$ 407,235 | \$ (1,306) | \$ 30,671 | \$ 1,973 | \$ 988 | \$ 484,134 | |

See accompanying notes to financial statements.

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

1. In the opinion of management, the accompanying consolidated financial statements of Tredegar Corporation and Subsidiaries (“Tredegar,” “we,” “us” or “our”) contain all adjustments necessary to present fairly, in all material respects, Tredegar’s consolidated financial position as of March 31, 2008, the consolidated results of operations for the three months ended March 31, 2008 and 2007, the consolidated cash flows for the three months ended March 31, 2008 and 2007, and the consolidated changes in shareholders’ equity for the three months ended March 31, 2008. All such adjustments are deemed to be of a normal, recurring nature. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in Tredegar’s Annual Report on Form 10-K for the year ended December 31, 2007. The results of operations for the three months ended March 31, 2008, are not necessarily indicative of the results to be expected for the full year.
2. Plant shutdowns, asset impairments and restructurings in the first quarter of 2008 shown in the segment operating profit table in Note 8 include:
 - A pretax charge of \$3.7 million in Film Products relating to restructuring in light of competitive pressures and resulting lower sales volume, including asset impairment charges of \$1.6 million and severance (approximately 90 people) and other employee-related costs of \$2.1 million; and
 - A pretax charge of \$235,000 for severance and other employee-related costs in connection with a restructuring in Aluminum Extrusions.

The reduction in workforce in Film Products (approximately 6% of Film Products’ total employees) is expected to save \$2.6 million in the remainder of 2008 and \$4.2 million on an annualized basis.

Plant shutdowns, asset impairments and restructurings in the first quarter of 2007 shown in the segment operating profit table in Note 8 include:

- A pretax charge of \$366,000 related to the estimated loss on the sub-lease of a portion of the AFBS, Inc. (formerly know as Therics, Inc.) facility in Princeton, New Jersey;
- A pretax charge of \$338,000 for asset impairments relating to machinery and equipment in Film Products; and
- A pretax charge of \$29,000 related to the shutdown of the films manufacturing facility in LaGrange, Georgia.

On February 12, 2008, Tredegar sold its aluminum extrusions business in Canada for a purchase price of \$25.5 million to an affiliate of H.I.G. Capital. The purchase price is subject to adjustment based upon the actual working capital of the business at the time of sale. The final purchase price is estimated at \$24.7 million, with the decline from the amount estimated at February 12, 2008 due to the excess of estimated working capital over actual working capital. During the first quarter of 2008, we recognized a charge of \$1.1 million (\$430,000 after taxes), which was in addition to the asset impairment charges recognized in 2007, to adjust primarily for differences in the carrying value of assets and liabilities and related tax benefits associated with the business sold since December 31, 2007. The remaining after-tax loss for discontinued operations in the first quarter of 2008 of \$293,000 relates to the loss from operations up through the date of sale. Tredegar expects to realize cash income tax benefits in 2008 from the sale of approximately \$12 million. All historical results for this business have been reflected as discontinued operations in the accompanying financial statements and tables, except cash flows

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for discontinued operations have not been separately disclosed in the consolidated statements of cash flows.

A reconciliation of the beginning and ending balances of accrued expenses associated with plant shutdowns and divestitures for the three months ended March 31, 2008 is as follows:

| (In Thousands) | Severance | Asset Impairments | Accelerated Depreciation (a) | Other (b) | Total |
|------------------------------|-----------|-------------------|------------------------------|-----------|----------|
| Balance at December 31, 2007 | \$ 363 | \$ — | \$ — | \$ 5,838 | \$ 6,201 |
| Changes in 2008: | | | | | |
| Charges | 2,290 | 855 | 795 | — | 3,940 |
| Cash spent | (678) | — | — | (302) | (980) |
| Charged against assets | — | (855) | (795) | — | (1,650) |
| Balance at March 31, 2008 | \$ 1,975 | \$ — | \$ — | \$ 5,536 | \$ 7,511 |

(a) Represents depreciation accelerated due to plant shutdowns based on a remaining useful life of less than one year.

(b) Other includes primarily accrued losses on a sub-lease at a facility in Princeton, New Jersey.

3. The components of other comprehensive income or loss are as follows:

| (In Thousands) | Three Months Ended March 31 | |
|--|-----------------------------|-----------|
| | 2008 | 2007 |
| Net income | \$ 3,062 | \$ 10,333 |
| Other comprehensive income (loss), net of tax: | | |
| Foreign currency translation adjustment: | | |
| Unrealized foreign currency translation adjustment arising during period | 4,353 | 2,038 |
| Reclassification adjustment of foreign currency translation gain included in income (related to sale of aluminum extrusions business in Canada - see Note 2) | (14,292) | — |
| Foreign currency translation adjustment | (9,939) | 2,038 |
| Derivative financial instrument adjustment | 3,177 | 233 |

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Pension and other post-retirement benefit adjustment:

| | | |
|---|----------|-----------|
| Amortization of prior service costs and net gains or losses | (116) | 295 |
| Reclassification of net actuarial losses and prior service costs (related to sale of aluminum extrusions business in Canada - see Note 2) | 4,871 | — |
| | <hr/> | |
| Pension and other post-retirement benefit adjustment | 4,755 | 295 |
| | <hr/> | |
| Comprehensive income | \$ 1,055 | \$ 12,899 |
| | <hr/> | |

4. The components of inventories are as follows:

| (In Thousands) | March 31 2008 | Dec. 31 2007 |
|----------------------------|------------------|------------------|
| Finished goods | \$ 10,579 | \$ 10,004 |
| Work-in-process | 1,949 | 3,624 |
| Raw materials | 13,799 | 19,369 |
| Stores, supplies and other | 15,325 | 15,669 |
| Total | \$ 41,652 | \$ 48,666 |

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

| (In Thousands) | Three Months Ended March 31 | |
|---|--------------------------------|---------------|
| | 2008 | 2007 |
| Weighted average shares outstanding used to compute basic earnings (loss) per share | 34,467 | 39,272 |
| Incremental shares attributable to stock options and restricted stock | 215 | 215 |
| Shares used to compute diluted earnings (loss) per share | 34,682 | 39,487 |

Incremental shares attributable to stock options and restricted stock are computed using the average market price during the related period. During the three months ended March 31, 2008 and 2007, 531,190 and 69,405, respectively, of average out-of-the-money options to purchase shares were excluded from the calculation of incremental shares attributable to stock options and restricted stock.

6. Our investment in Harbinger Capital Partners Special Situations Fund, L.P. had a reported capital account value of \$24.1 million at March 31, 2008, compared with \$23.0 million at December 31, 2007. This investment has a carrying value in Tredegar's balance sheet of \$10 million (included in "Other assets and deferred charges"), which represents the amount invested on April 2, 2007.

During the third quarter of 2007, we invested \$6.5 million in a privately held drug delivery company representing ownership on a fully diluted basis of approximately 23%. The company is developing and commercializing state of the art drug delivery systems designed to improve patient compliance and outcomes. The investment is accounted for under the fair value method. We elected the fair value option over the equity method of accounting since our investment objectives are similar to those of venture capitalists, which typically do not have controlling financial interests (venture capital funds use the fair value method to account for their investment portfolios). At March 31, 2008, the estimated fair value of our investment (also the carrying value included in "Other assets and deferred charges" in our balance sheet) equaled the amount invested.

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On the date of our investment (August 31, 2007), we believe that the amount we paid for our ownership interest and liquidation preferences was based on Level 2 inputs, including investments by other investors. Subsequent to August 31, 2007, and until the next round of financing, we believe fair value estimates drop to Level 3 inputs since there is no secondary market for our ownership interest. In addition, the company currently has no product sales.

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Accordingly, after the latest financing and until the next round of financing or other significant financial transaction, value estimates will primarily be based on assumptions relating to meeting product development and commercialization milestones, cash flow projections (projections of sales, costs, expenses, capital expenditures and working capital investment) and discounting of these factors for the high degree of risk. As a result, an increase in our estimate of the fair value of our ownership interest is unlikely unless a significant new round of financing, merger or initial public offering indicates a higher value. However, if the company does not meet its development and commercialization milestones and there are indications that the amount or timing of its projected cash flows or related risks are unfavorable versus plans as of August 31, 2007, or a new round of financing or other significant financial transaction indicates a lower value, then our estimate of the fair value of our ownership interest in the company is likely to decline.

Had we not elected to account for our investment under the fair value method, we would have been required to use the equity method of accounting. We were not allocated any profits or losses for the year ended December 31, 2007 based on the formulas contained in the company's operating agreement. We estimate that our allocation of losses for the first quarter of 2008 (based on the formulas contained in the company's operating agreement) was approximately \$940,000. The condensed balance sheets for the drug delivery company at March 31, 2008 and December 31, 2007 and related condensed statements of income for the first quarter of 2008 and the year and four months ended December 31, 2007, adjusted on a purchase accounting basis to the valuation implied by the latest round of financing in August-September 2007, are provided below:

| <i>(Unaudited)</i> | 3/31/08 | 12/31/07 | 3/31/08 | 12/31/07 |
|---|------------------|------------------|--|----------------------------|
| <u>Assets</u> | | | <u>Liabilities & Members' Equity</u> | |
| Cash & cash equivalents | \$ 5,877 | \$ 6,781 | Liabilities | \$ 1,732 \$ 1,494 |
| Other tangible assets | 1,040 | 1,253 | Contributed capital | 12,354 12,354 |
| Identifiable intangibles (15 year life) | 3,813 | 3,901 | Net equity appreciation implied from | |
| Goodwill | 10,194 | 10,194 | purchase accounting adjustments | 12,805 12,805 |
| | | | Accumulated losses | (5,967) (4,524) |
| Total assets | \$ 20,924 | \$ 22,129 | Total liabilities & members' equity | \$ 20,924 \$ 22,129 |

| | 1st Qtr. 2008 | 2007 | Sept.-Dec. '07 |
|--------------------------------|-------------------|-------------------|-----------------|
| <u>Revenues & Expenses</u> | | | |
| Revenues | \$ — | \$ — | \$ — |
| Costs & expenses | 1,443 | 2,445 | 800 |
| Net loss | \$ (1,443) | \$ (2,445) | \$ (800) |

7. The components of net periodic benefit income (cost) for our pension and other post-retirement benefit programs reflected in consolidated results for continuing operations are shown below:

| (In Thousands) | Pension Benefits for 3 Months Ended March 31 | | Other Post-Retirement Benefits for 3 Months Ended March 31 | |
|---|--|---------------|--|-----------------|
| | 2008 | 2007 | 2008 | 2007 |
| Service cost | \$ (1,053) | \$ (1,066) | \$ (18) | \$ (21) |
| Interest cost | (3,055) | (2,858) | (128) | (151) |
| Expected return on plan assets | 5,486 | 5,096 | — | — |
| Amortization of prior service costs, gains or losses and net transition asset | 181 | (439) | — | 4 |
| Net periodic benefit income (cost) | \$ 1,559 | \$ 733 | \$ (146) | \$ (168) |

As a result of adopting a required new accounting standard at the end of 2006, beginning in 2007 the service cost, interest cost, employee contributions, other and expected return on plan assets components of net periodic benefit income or cost are included in the consolidated balance sheet with the assets and liabilities comprising the funded status of our pension and other post-retirement benefit plans, which are included in "Other assets and deferred charges" and "Other noncurrent liabilities". The amortization component of net periodic benefit income or cost is reflected in other comprehensive income or loss (net of related income taxes), which is included directly in shareholder's equity.

We contributed approximately \$167,000 to our pension plans for continuing operations in 2007 and expect to contribute a similar amount in 2008. We fund our other post-retirement benefits (life insurance and health benefits) on a claims-made basis, which were \$441,000 for the year ended December 31, 2007.

8. Information by business segment is reported below. There are no accounting transactions between segments and no allocations to segments. There have been no significant changes to identifiable assets by segment since December 31, 2007, except for working capital fluctuations resulting from changes in business conditions or seasonal factors, changes caused by movement of foreign exchange rates and changes in property, plant and equipment due to capital expenditures, depreciation, asset impairments and other activity, which are described under Item 2 of Part I of this report. 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 for purposes of assessing performance.

Tredegar Corporation
Net Sales and Operating Profit by Segment
(In Thousands)
(Unaudited)

| | Three Months Ended March 31 | |
|---|--------------------------------|------------|
| | 2008 | 2007 |
| <u>Net Sales</u> | | |
| Film Products | \$ 132,314 | \$ 136,061 |
| Aluminum Extrusions | 91,065 | 103,771 |
| Total net sales | 223,379 | 239,832 |
| Add back freight | 5,101 | 5,055 |
| Sales as shown in the Consolidated Statements of Income | \$ 228,480 | \$ 244,887 |
| <u>Operating Profit</u> | | |
| Film Products: | | |
| Ongoing operations | \$ 10,786 | \$ 16,820 |
| Plant shutdowns, asset impairments and restructurings | (3,705) | (367) |
| Aluminum Extrusions: | | |
| Ongoing operations | 1,542 | 4,649 |
| Plant shutdowns, asset impairments and restructurings | (235) | — |
| AFBS: | | |
| Restructurings | — | (366) |
| Total | 8,388 | 20,736 |
| Interest income | 258 | 388 |
| Interest expense | 881 | 824 |
| Stock option-based compensation costs | 60 | 269 |
| Corporate expenses, net | 1,830 | 2,811 |
| Income from continuing operations before income taxes | 5,875 | 17,220 |
| Income taxes | 2,090 | 6,085 |
| Income from continuing operations | 3,785 | 11,135 |

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| | | |
|--|-----------------|------------------|
| Income (loss) from discontinued operations | <u>(723)</u> | <u>(802)</u> |
| Net income | <u>\$ 3,062</u> | <u>\$ 10,333</u> |

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9. The effective tax rate used to compute income taxes from continuing operations was 35.6% in the first quarter of 2008 compared with 35.3% in the first quarter of 2007. The increase in the effective tax rate for continuing operations for 2008 versus 2007 was mainly due to higher effective tax rates for operations outside of the U.S. and expiration at December 31, 2007 of the research & development tax credit, partially offset by a lower state income tax effective rate and lower valuation allowances for capital loss carry-forwards.

A reconciliation of our unrecognized uncertain tax positions since December 31, 2007, is shown below:

| | Balance at Dec. 31, 2007 | Increase (Decrease) Due to Tax Positions Taken in | | Increase (Decrease) Due to Settlements with Taxing Authorities | Reductions Due to Lapse of Statute of Limitations | Balance at March 31, 2008 |
|---|--------------------------------|---|-----------------|--|---|---------------------------------|
| | | Current Period | Prior Period | | | |
| Gross unrecognized tax benefits on uncertain tax positions (reflected in current income tax and other noncurrent liability accounts in the balance sheet) | \$ 3,268 | \$ 48 | \$ — | \$ (31) | \$ — | \$ 3,285 |
| Deferred income tax assets related to unrecognized tax benefits on uncertain tax positions for which ultimate deductibility is highly certain but for which the timing of the deduction is uncertain (reflected in deferred income tax accounts in the balance sheet) | (2,325) | | | | | (2,342) |
| Net unrecognized tax benefits on uncertain tax positions, which would impact the effective tax rate if recognized | 943 | | | | | 943 |
| Interest and penalties accrued on deductions taken relating to uncertain tax positions with the balance shown in current income tax and other noncurrent liability accounts in the balance sheet | 1,195 | | | | | 1,273 |
| Related deferred income tax assets recognized on interest and penalties | (436) | | | | | (465) |
| Interest and penalties accrued on uncertain tax positions net of related deferred income tax benefits, which would impact the effective tax rate if recognized | 759 | | | | | 808 |
| Total net unrecognized tax benefits on uncertain tax positions reflected in the balance sheet, which would impact the effective tax rate if recognized | \$ 1,702 | | | | | \$ 1,751 |

We anticipate that by December 31, 2008, we will settle several disputed issues raised by the IRS during its examination of our U.S. income tax returns for 2001-2003, the most significant of which regards the recognition of our captive insurance subsidiary as an insurance company for U.S. income tax purposes. It is reasonably possible that a settlement with the IRS for the disputed issues would cost us \$1.4 million, which would be applied against the balance of unrecognized tax benefits.

Tredegear and its subsidiaries file income tax returns in U.S., state and foreign jurisdictions. Tredegear is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2001. With few exceptions, Tredegear and its subsidiaries are no longer subject to state or non-U.S. income tax examinations by tax authorities for years before 2004.

10. The table below summarizes share repurchase activity by month for the first quarter of 2008:

| Period | Total Number of Shares Purchased | Average Price Paid Per Share Before Broker Commissions | Total Number of Shares Purchased as Part of: | | Maximum Number of Shares at End of Period That May Yet be Purchased Under January 2008 Program |
|---------------|---|---|---|-----------------------------|---|
| | | | August 2006 Program (a) | January 2008 Program (b) | |
| January 2008 | 66,500 | \$ 15.86 | 66,500 | — | 5,000,000 |
| February 2008 | 16,300 | 15.38 | — | 16,300 | 4,983,700 |
| March 2008 | 386,500 | 15.44 | — | 402,800 | 4,597,200 |

(a) On August 8, 2006, our board of directors approved a share repurchase program authorizing management at its discretion to purchase, in the open market or in privately negotiated transactions, up to 5 million shares of our outstanding common stock.

(b) On January 7, 2008, our board of directors approved a share repurchase program authorizing management at its discretion to purchase, in the open market or in privately negotiated transactions, up to 5 million shares of our outstanding common stock. This share repurchase program replaces Tredegar's previous share repurchase authorization described in (a) above.

11. The Financial Accounting Standards Board recently issued Statement of Financial Accounting Standards ("SFAS") No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133*, to enhance the current disclosure framework in SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS No. 161 addresses concerns that the disclosures required by SFAS No. 133 do not provide adequate information about the impact derivative instruments can have on an entity's financial position, results of operations and cash flows. SFAS 161 amends and expands the disclosures required by SFAS 133 so that they provide an enhanced understanding of (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (iii) how derivative instruments affect an entity's financial position, financial performance, and cash flows. The new disclosure guidance will apply to all interim and annual reporting periods for which a balance sheet and income statement are presented. SFAS 161 is effective for both interim and annual reporting periods beginning after November 15, 2008, with early application encouraged. SFAS 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. We do not believe that the adoption of SFAS 161 will have a material impact on our financial statements and related disclosures.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.
Forward-looking and Cautionary Statements

Some of the information contained in this quarterly report on Form 10-Q may constitute “forward-looking statements” within the meaning of the “safe-harbor” provisions of the Private Securities Litigation Reform Act of 1995. When we use words such as “believe,” “estimate,” “anticipate,” “expect,” “project,” “likely,” “may” and similar expressions, we do so to identify forward-looking statements. Such statements are based on our then current expectations and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those addressed in the forward-looking statements. Unless the context requires otherwise, all references herein to “Tredegar,” “we,” “us” or “our” are to Tredegar Corporation and its consolidated subsidiaries.

Executive Summary

First-quarter 2008 income from continuing operations was \$3.8 million (11 cents per share) compared with \$11.1 million (28 cents per share) in the first quarter of 2007. Losses related to plant shutdowns, asset impairments and restructurings are described in Note 2 on page 6. The following tables present Tredegar’s net sales and operating profit by segment for the three months ended March 31, 2008 and 2007:

Tredegar Corporation
Net Sales and Operating Profit by Segment
(In Thousands)
(Unaudited)

| | Three Months Ended March 31 | |
|---|--------------------------------|----------------|
| | 2008 | 2007 |
| <u>Net Sales</u> | | |
| Film Products | \$ 132,314 | \$ 136,061 |
| Aluminum Extrusions | 91,065 | 103,771 |
| | <u>223,379</u> | <u>239,832</u> |
| Total net sales | 223,379 | 239,832 |
| Add back freight | 5,101 | 5,055 |
| | <u>228,480</u> | <u>244,887</u> |
| Sales as shown in the Consolidated Statements of Income | \$ 228,480 | \$ 244,887 |
| <u>Operating Profit</u> | | |
| Film Products: | | |
| Ongoing operations | \$ 10,786 | \$ 16,820 |
| Plant shutdowns, asset impairments and restructurings | (3,705) | (367) |
| Aluminum Extrusions: | | |
| Ongoing operations | 1,542 | 4,649 |
| Plant shutdowns, asset impairments and restructurings | (235) | — |
| AFBS: | | |
| Restructurings | — | (366) |
| | <u>8,388</u> | <u>20,736</u> |
| Total | 8,388 | 20,736 |
| Interest income | 258 | 388 |

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| | | |
|---|-------------------|-------------------|
| Interest expense | 881 | 824 |
| Stock option-based compensation costs | 60 | 269 |
| Corporate expenses, net | 1,830 | 2,811 |
| | <u> </u> | <u> </u> |
| Income from continuing operations before income taxes | 5,875 | 17,220 |
| Income taxes | 2,090 | 6,085 |
| | <u> </u> | <u> </u> |
| Income from continuing operations | 3,785 | 11,135 |
| Income (loss) from discontinued operations | (723) | (802) |
| | <u> </u> | <u> </u> |
| Net income | \$ 3,062 | \$ 10,333 |
| | <u> </u> | <u> </u> |

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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 of each segment for purposes of assessing performance.

Film Products. First-quarter net sales and operating profit from ongoing operations in Film Products declined 2.8% and 36%, respectively, in the first quarter of 2008 compared with the first quarter of 2007. Volume was 57.9 million pounds in the first quarter of 2008 compared with 65.3 million pounds in the first quarter of 2007.

Volume was down in the first quarter of 2008 compared with the first quarter of 2007 primarily due to a decrease in sales of lower value surface protection films, personal care materials and packaging materials. Net sales decreased due to the decline in volume, partially offset by appreciation of the U.S. dollar value of currencies for operations outside of the U.S. and higher selling prices from the pass-through of higher resin costs.

Operating profit from ongoing operations decreased in the first quarter of 2008 compared with an exceptionally strong first quarter of 2007 due primarily to competitive pressures, particularly for personal care materials, packaging materials and lower value surface protection films. In addition, operating profit in the first quarter of 2008 benefited from appreciation of the U.S. dollar value of currencies for operations outside of the U.S. (the favorable impact from currency rate changes was approximately \$1.2 million) but was offset by the lag in the pass-through of increases in resin costs. Film Products 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.

Future operating profit levels in Film Products will depend on our ability to deliver product innovations and cost reductions. We believe we have good opportunities for growth, especially in higher value surface protection films and with expected new product introductions for the personal care market. We have already taken significant action on cost reductions. During the first quarter of 2008, we recognized restructuring and asset impairment charges of \$3.7 million, including charges relating to a 6% reduction of the Film Products' workforce that is expected to save \$2.6 million in the remainder of 2008 and \$4.2 million on an annualized basis.

Capital expenditures in Film Products were \$3.2 million in the first quarter of 2008 compared with \$5 million in the first quarter of last year, and are projected to be approximately \$33 million in 2008. Depreciation expense was \$8.8 million in the first quarter of 2008 compared with \$8.2 million in the first quarter of last year, and is projected to be approximately \$34 million in 2008.

Aluminum Extrusions. First-quarter net sales and ongoing operating profit from continuing operations in Aluminum Extrusions declined 12.2% and 67%, respectively, in the first quarter of 2008 compared with the first quarter of 2007. Volume from continuing operations decreased to 37.1 million pounds in the first quarter of 2008, down 12.5% from 42.4 million pounds in the first quarter of 2007.

The decreases in net sales and ongoing operating profit from continuing operations in the first quarter of 2008 compared with the first quarter of last year were mainly due to lower volume. Shipments declined in most markets.

The aluminum extrusions industry in the U.S. continues to suffer from a cyclical downturn. We are very focused on controlling our variable costs and reducing fixed costs to minimize the adverse impact of the volume drop on profits.

Capital expenditures for continuing operations in Aluminum Extrusions were \$810,000 in the first quarter of 2008 compared with \$1.9 million in the first quarter of last year, and are projected to be

approximately \$18 million in 2008. In January, we announced plans to spend approximately \$24 million over the next 18 months to expand the capacity at our plant in Carthage, Tennessee. Approximately 65% of the sales of aluminum extrusions from our continuing operations are related to non-residential construction, and this additional capacity will increase our capabilities in this sector. Depreciation expense was \$2.0 million in the first quarter of 2008 compared with \$2.1 million in the first quarter of last year, and is projected to be approximately \$8.1 million in 2008.

Other Items. Net pension income from continuing operations was \$1.6 in the first quarter of 2008, a favorable change of \$826,000 (2 cents per share after taxes) from amounts recognized in the first quarter 2007. Most of the favorable changes relate to a pension plan that is reflected in "Corporate expenses, net" in the operating profit by segment table. We contributed approximately \$167,000 to our pension plans for continuing operations in 2007 and expect to contribute a similar amount in 2008.

Interest expense was \$881,000 in the first quarter of 2008, a slight increase from \$824,000 in the first quarter of last year due to higher average debt levels partially offset lower average interest rates.

The effective tax rate used to compute income taxes from continuing operations was 35.6% in the first quarter of 2008 compared with 35.3% in the first quarter of 2007. The increase in the effective tax rate for continuing operations for 2008 versus 2007 was mainly due to higher effective tax rates for operations outside of the U.S. and expiration at December 31, 2007 of the research & development tax credit, partially offset by a lower state income tax effective rate and lower valuation allowances for capital loss carry-forwards.

Tredegar's investment in Harbinger Capital Partners Special Situations Fund, L.P. had a reported capital account value of \$24.1 million at March 31, 2008, compared with \$23.0 million at December 31, 2007. This investment has a carrying value in Tredegar's balance sheet of \$10 million, which represents the amount invested on April 2, 2007.

Net capitalization and other credit measures are provided in the liquidity and capital resources section beginning on page 18.

Critical Accounting Policies

In the ordinary course of business, we make a number of estimates and assumptions relating to the reporting of results of operations and financial position in the preparation of financial statements in conformity with generally accepted accounting principles. We believe the estimates, assumptions and judgments described in the section "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies" of our Annual Report on Form 10-K for the year ended December 31, 2007, have the greatest potential impact on our financial statements, so we consider these to be our critical accounting policies. These policies include our accounting for impairment of long-lived assets and goodwill, investment accounted for under the fair value method, pension benefits and income taxes. These policies require management to exercise judgments that are often difficult, subjective and complex due to the necessity of estimating the effect of matters that are inherently uncertain. Actual results could differ significantly from those estimates under different assumptions and conditions. We believe the consistent application of these policies enables us to provide readers of our financial statements with useful and reliable information about our operating results and financial condition. Since December 31, 2007, there have been no changes in these policies that have had a significant impact on results of operations or financial position. See Note 2 on page 6 for losses related to plant shutdowns, asset impairments and restructurings occurring during 2008 and the comparable period in 2007.

Recently Issued Accounting Standards

The Financial Accounting Standards Board recently issued Statement of Financial Accounting Standards (“SFAS”) No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133*, to enhance the current disclosure framework in SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS No. 161 addresses concerns that the disclosures required by SFAS No. 133 do not provide adequate information about the impact derivative instruments can have on an entity’s financial position, results of operations and cash flows. SFAS 161 amends and expands the disclosures required by SFAS 133 so that they provide an enhanced understanding of (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (iii) how derivative instruments affect an entity’s financial position, financial performance, and cash flows. The new disclosure guidance will apply to all interim and annual reporting periods for which a balance sheet and income statement are presented. SFAS 161 is effective for both interim and annual reporting periods beginning after November 15, 2008, with early application encouraged. SFAS 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. We do not believe that the adoption of SFAS 161 will have a material impact on our financial statements and related disclosures.

Results of Operations

First Quarter 2008 Compared with First Quarter 2007

Overall, sales in the first quarter of 2008 decreased by 6.7% compared with 2007. Net sales (sales less freight) decreased 2.8% in Film Products primarily due to a decrease in sales of lower value surface protection films, personal care materials and packaging materials, partially offset by appreciation of the U.S. dollar value of currencies for operations outside of the U.S. and higher selling prices from the pass-through of higher resin costs. Net sales decreased 12.2% in Aluminum Extrusions due to lower volume, which decreased 12.5% to 37.1 million pounds in the first quarter of 2008 compared with 42.4 million pounds in the first quarter of 2007. Shipments declined in most markets. For more information on net sales and volume, see the executive summary beginning on page 14.

Consolidated gross profit (sales minus cost of goods sold and freight) as a percentage of sales decreased to 12.7% in the first quarter of 2008 from 15.2% in 2007. The gross profit margin decreased in Film Products and Aluminum Extrusions primarily because of the decline in net sales noted above.

As a percentage of sales, selling, general and administrative and R&D expenses were 8.3% in the first quarter of 2008, up from 7.6% in the first quarter of last year. The increase is primarily due to the decline in sales noted above.

Plant shutdowns, asset impairments and restructurings in the first quarter of 2008 shown in the segment operating profit table on page 14 include:

- A pretax charge of \$3.7 million in Film Products relating to restructuring in light of competitive pressures and resulting lower sales volume, including asset impairment charges of \$1.6 million and severance (approximately 90 people) and other employee-related costs of \$2.1 million; and
- A pretax charge of \$235,000 for severance and other employee-related costs in connection with a restructuring in Aluminum Extrusions. See the executive summary beginning on page 14 for information on our cost reduction efforts.

Plant shutdowns, asset impairments and restructurings in the first quarter of 2007 shown in the segment operating profit table on page 14 include:

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- A pretax charge of \$366,000 related to the estimated loss on the sub-lease of a portion of the AFBS, Inc. (formerly know as Therics, Inc.) facility in Princeton, New Jersey;
- A pretax charge of \$338,000 for asset impairments relating to machinery and equipment in Film Products; and
- A pretax charge of \$29,000 related to the shutdown of the films manufacturing facility in LaGrange, Georgia.

Interest income, which is included in "Other income (expense), net" in the consolidated statements of income, was \$258,000 in the first quarter of 2008 and \$388,000 in 2007. Interest expense was \$881,000 in the first quarter of 2008, a slight increase from \$824,000 in the first quarter of last year due to higher average debt levels partially offset by lower average interest rates. Average debt outstanding and interest rates were as follows:

| (In Millions) | Three Months Ended March 31 | |
|---|--------------------------------|---------|
| | 2008 | 2007 |
| Floating-rate debt with interest charged on a rollover basis at one-month LIBOR: | | |
| Average outstanding debt balance | \$ 69.5 | \$ 51.2 |
| Average interest rate | 4.6% | 6.1% |
| Fixed-rate and other debt: | | |
| Average outstanding debt balance | \$ 2.0 | \$ 2.4 |
| Average interest rate | 3.5% | 4.9% |
| Total debt: | | |
| Average outstanding debt balance | \$ 71.5 | \$ 53.6 |
| Average interest rate | 4.6% | 6.0% |

The effective tax rate used to compute income taxes from continuing operations was 35.6% in the first quarter of 2008 compared with 35.3% in the first quarter of 2007. The increase in the effective tax rate for continuing operations for 2008 versus 2007 was mainly due to higher effective tax rates for operations outside of the U.S. and expiration at December 31, 2007 of the research & development tax credit, partially offset by a lower state income tax effective rate and lower valuation allowances for capital loss carry-forwards.

Liquidity and Capital Resources

Changes in operating assets and liabilities from December 31, 2007 to March 31, 2008 are summarized below:

- Accounts receivable increased \$19.1 million (19.7%).
 - Accounts receivable in Film Products increased by \$4.5 million. Days sales outstanding ("DSO") increased to 48 at March 31, 2008 compared with 45 at December 31, 2007, within the range experienced over the last twelve months.
 - Accounts receivable for continuing operations in Aluminum Extrusions increased by \$14.6 million. DSO was 41 at March 31, 2008 compared with 40 at December 31, 2007, within the range experienced over the last twelve months.
- Inventories declined \$7 million (14.4%).
 - Inventories in Film Products decreased by approximately \$800,000. Inventory days decreased to 41 at March 31, 2008 compared with 43 days at December 31, 2007, within the range experienced over the last twelve months.

- Inventories for continuing operations of Aluminum Extrusions decreased by approximately \$6.1 million. Inventory days decreased to 21 at March 31, 2008 compared with 35 at December 31, 2007, primarily due to cyclical fluctuations.
- Net property, plant and equipment was down \$2.1 million (less than 1%) due primarily to depreciation for continuing operations of \$10.8 million compared with capital expenditures of \$4.0 million and machinery and equipment asset impairments in Film Products of \$1.2 million, partially offset by appreciation of foreign currencies relative to the U.S. Dollar (favorable impact of \$5.9 million).
- Accounts payable increased by \$7.2 million (10.7%).
 - Accounts payable in Film Products was flat. Accounts payable days were 29 at March 31, 2008 compared with 30 at December 31, 2007, within the range experienced over the last twelve months.
 - Accounts payable for continuing operations in Aluminum Extrusions increased by \$10.8 million. Accounts payable days increased to 40 at March 31, 2008 from 37 at December 31, 2007, primarily due to more favorable trade terms.
 - Accounts payable decreased at corporate by \$3.6 million due to \$3.4 million payable at December 31, 2007 to a securities broker relating to our repurchase of Tredegar common stock (no balance was outstanding for this item at March 31, 2008).
- Accrued expenses increased by \$3.9 million (11.6%) due primarily to accrued restructuring and divestiture costs.
- Net deferred income tax liabilities in excess of assets increased by \$14.4 million and income taxes recoverable increased by \$14.0 million due primarily to the movement between these line items in the balance sheet of tax benefits of approximately \$12 million that are expected to be realized in cash in 2008 relating to the sale of the aluminum extrusions business in Canada (see Note 2 on page 6 for more information regarding the sale).

Cash provided by operating activities was \$6.2 million in the first quarter of 2008 compared with \$19.7 million in 2007. The change is primarily related to normal volatility of working capital components and lower net income.

Cash provided by investing activities was \$19.8 million in the first quarter of 2008, compared with cash used in investing activities of \$4.4 million in the first quarter of 2007. The change between periods is primarily due to proceeds received from the sale of the aluminum extrusions business in Canada of \$23.6 million.

Net cash flow used in financing activities was \$33.8 million in the first quarter of 2008 and related to net repayments on our revolving credit facility with excess cash flow of \$25 million, the payment of regular quarterly dividends of \$1.4 million (4 cents per share) and repurchases of Tredegar common stock (\$7.3 million; see more information in Note 10 on page 13).

Further information on cash flows for the quarters ended March 31, 2008 and 2007 are provided in the consolidated statements of cash flows on page 4.

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Net capitalization and indebtedness as defined under our revolving credit agreement as of March 31, 2008 are as follows:

| Net Capitalization and Indebtedness as of March 31, 2008 (In Thousands) | |
|--|------------|
| Net capitalization: | |
| Cash and cash equivalents | \$ 41,443 |
| Debt: | |
| \$300 million revolving credit agreement maturing December 15, 2010 | 55,000 |
| Other debt | 2,033 |
| Total debt | 57,033 |
| Debt net of cash and cash equivalents | 15,590 |
| Shareholders' equity | 484,134 |
| Net capitalization | \$ 499,724 |
| Indebtedness as defined in revolving credit agreement: | |
| Total debt | \$ 57,033 |
| Face value of letters of credit | 5,957 |
| Indebtedness | \$ 62,990 |

Under the revolving credit agreement, borrowings are permitted up to \$300 million, and \$242 million was available to borrow at March 31, 2008. The credit spread and commitment fees charged on the unused amount under the 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 |
| > 2.50x but ≤ 3x | 125 | 25 |
| > 1.75x but ≤ 2.50x | 100 | 20 |
| > 1x but ≤ 1.75x | 87.5 | 17.5 |
| ≤ 1x | 75 | 15 |

At March 31, 2008, the interest rate on debt under the revolving credit agreement was priced at one-month LIBOR plus the applicable credit spread of 75 basis points.

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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 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 Revolving Credit Agreement Along with Related Most
Restrictive Covenants
As of and for the Twelve Months Ended March 31, 2008 (In Thousands)

Computations of adjusted EBITDA and adjusted EBIT as defined in revolving credit agreement for the twelve months ended March 31, 2008:

| | | |
|--|----|----------|
| Net income | \$ | 7,978 |
| Plus: | | |
| After-tax losses related to discontinued operations | | 19,602 |
| Total income tax expense for continuing operations | | 20,371 |
| Interest expense | | 2,778 |
| Charges related to stock option grants and awards accounted for under the fair value-based method | | 769 |
| Losses related to the application of the equity method of accounting | | — |
| Depreciation and amortization expense for continuing operations | | 43,160 |
| 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 \$5,370) | | 9,371 |
| Minus: | | |
| After-tax income related to discontinued operations | | — |
| Total income tax benefits for continuing operations | | — |
| Interest income | | (1,082) |
| All non-cash gains and income, plus cash gains and income 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 (all cash-related) | | (2,699) |
| Plus or minus, as applicable, pro forma EBITDA adjustments associated with acquisitions and asset dispositions | | — |
| | | 100,248 |
| Adjusted EBITDA as defined in revolving credit agreement | | 100,248 |
| Less: Depreciation and amortization expense for continuing operations (including pro forma for acquisitions and asset dispositions) | | (43,160) |
| | | 57,088 |
| Adjusted EBIT as defined in revolving credit agreement | \$ | 57,088 |
| | | 484,134 |
| Shareholders' equity at March 31, 2008 | \$ | 484,134 |
| Computations of leverage and interest coverage ratios as defined in revolving credit agreement: | | |
| Leverage ratio (indebtedness-to-adjusted EBITDA) | | .63x |
| Interest coverage ratio (adjusted EBIT-to-interest expense) | | 20.55x |
| 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 after October 1, 2005) | \$ | 128,701 |
| Minimum adjusted shareholders' equity permitted (\$315,000 plus 50% of net income generated, to the extent positive, after July 1, 2007) | \$ | 323,210 |
| Maximum leverage ratio permitted: | | |
| Ongoing | | 3.00x |
| Pro forma for acquisitions | | 2.50x |

Minimum interest coverage ratio permitted

2.50x

21

Noncompliance with any one or more 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 we be unable to obtain a waiver from the lenders. Renegotiation of the covenant(s) 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.

We believe that the borrowing availability under our revolving credit agreement, our current cash balances and our cash flow from operations will be sufficient to satisfy our working capital, capital expenditure and dividend requirements for the foreseeable future.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Tredegar has exposure to the volatility of interest rates, polyethylene and polypropylene resin prices, aluminum ingot and scrap prices, energy prices, foreign currencies and emerging markets. See the liquidity and capital resources section beginning on page 18 regarding credit agreements and interest rate exposures.

Changes in resin prices, and the timing of those changes, could have a significant impact on profit margins in Film Products. 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 our casting furnaces). There is no assurance of our ability to pass through higher raw material and energy costs to our customers.

See the executive summary beginning on page 14 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 Film Products) is shown in the chart below.

Source: Quarterly averages computed by Tredegar using monthly data provided by Chemical Data Inc. ("CDI"). In January 2005, CDI reflected a 4 cents per pound non-market adjustment based on their estimate of the growth of discounts over the 2000 to 2003 period. The 4th quarter 2004 average rate of 67 cents per pound is shown on a pro forma basis as if the non-market adjustment was made in October 2004.

Resin prices in Europe, Asia and South America have exhibited similar 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, Film Products 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.

In the normal course of business, we enter 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 our 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, we enter into a combination of forward purchase commitments and futures contracts to acquire or hedge aluminum, based on the scheduled deliveries.

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

In Aluminum Extrusions, we hedge from time-to-time a portion of our exposure to natural gas price volatility by entering into fixed-price forward purchase contracts with our natural gas suppliers. We estimate that, in an unhedged situation, every \$1 per mmBtu per month change in the market price of natural gas has a \$95,000 impact on the continuing monthly operating profit for our U.S. operations in Aluminum Extrusions. In September 2005, we announced an energy surcharge for our aluminum extrusions business in the U.S. to be applied when the NYMEX natural gas price is in excess of \$8.85 per mmBtu.

Source: Quarterly averages computed by Tredegar using monthly NYMEX settlement prices.

We sell to customers in foreign markets through our foreign operations and through exports from U.S. plants. The percentage of sales and total assets for continuing manufacturing operations related to foreign markets for the first quarters of 2008 and 2007 are as follows:

| Percentage of Net Sales from Continuing Manufacturing Operations Related to Foreign Markets* | | | | |
|--|-------------------|--------------------|-------------------|--------------------|
| Three Months Ended March 31 | | | | |
| | 2008 | | 2007 | |
| | Exports From U.S. | Foreign Operations | Exports From U.S. | Foreign Operations |
| Canada | 5% | —% | 4% | —% |
| Europe | 1 | 18 | 1 | 15 |
| Latin America | — | 3 | — | 2 |
| Asia | 2 | 7 | 5 | 6 |
| Total | 8% | 28% | 10% | 23% |

* Based on consolidated net sales from continuing manufacturing operations (excludes AFBS).

We attempt to match the pricing and cost of our products in the same currency and generally view the volatility of foreign currencies (see trends for the Euro and Chinese Yuan in the chart below) 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. Our foreign currency exposure on income from continuing foreign operations relates to the Euro, the Chinese Yuan, the Hungarian Forint and the Brazilian Real.

In Film Products, where we are typically able to match the currency of our sales and costs, we estimate that the change in value of foreign currencies relative to the U.S. Dollar had a positive impact on operating profit of approximately \$1.2 million in the first quarter of 2008 compared with the first quarter of 2007.

Trends for the Euro and Chinese Yuan are shown in the chart below:

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

See Note 10 on page 13 for the information required by this item.

Item 4. Controls and Procedures.

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934, we carried out an evaluation, with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (as defined under Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit 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 our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

There has been no change in our internal control over financial reporting during the quarter ended March 31, 2008, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1A. Risk Factors.

There are a number of risks and uncertainties that can have a material effect on the operating results of our businesses and our financial condition. These risk factors have not changed materially since the filing of our Annual Report on Form 10-K for the year ended December 31, 2007.

Item 6. Exhibits.

Exhibit Nos.

- 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, Chief Financial Officer and Treasurer (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, Chief Financial Officer and Treasurer (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.

SIGNATURES

Pursuant to the requirements 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)

Date: May 6, 2008

/s/ D. Andrew Edwards

D. Andrew Edwards
Vice President, Chief Financial Officer and
Treasurer
(Principal Financial and Accounting Officer)

26
