TREDEGAR CORP
Form 10-Q
August 08, 2007

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2007

OR

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

For the transition period from ______________________________ to ___________________________

Commission file number 1-10258

Tredegar Corporation

(Exact Name of Registrant as Specified in Its Charter)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer x Non-accelerated filer o

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

The number of shares of Common Stock, no par value, outstanding as of July 25, 2007: 39,595,524.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	June 30, 2007	Dec. 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 32,397	$ 40,898
Accounts and notes receivable, net of allowance for doubtful accounts and sales returns of $6,482 in 2007 and $8,559 in 2006	149,650	121,834
Income taxes recoverable	5,265	10,975
Inventories	69,272	68,930
Deferred income taxes	8,101	6,055
Prepaid expenses and other	3,660	4,558
Total current assets	268,345	253,250
Property, plant and equipment, at cost	695,181	676,406
Less accumulated depreciation	377,703	350,643
Net property, plant and equipment	317,478	325,763
Other assets and deferred charges	76,923	64,078
Goodwill and other intangibles	140,226	138,696
Total assets	$ 802,972	$ 781,787
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	$ 86,757	$ 69,426
Accrued expenses	36,425	41,906
Current portion of long-term debt	488	678
Total current liabilities	123,670	112,010
Long-term debt	31,691	61,842
Deferred income taxes	80,121	75,772
Other noncurrent liabilities	17,800	15,568
Total liabilities	253,282	265,192
Commitments and contingencies (Notes 1 and 2)		
Shareholders equity:		
Common stock, no par value	127,639	120,508
Common stock held in trust for savings restoration plan	(1,299)	(1,291)
Foreign currency translation adjustment	29,356	21,522
Gain on derivative financial instruments	1,085	654
Pension and other postretirement benefit adjustments	(20,617)	(21,211)

Retained earnings	413,526	396,413
Total shareholders equity	549,690	516,595
Total liabilities and shareholders equity	$ 802,972	$ 781,787

See accompanying notes to financial statements.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Revenues and other items:				
Sales	$ 279,582	$ 282,491	$ 561,176	$ 550,455
Other income (expense), net	160	248	454	260
	279,742	282,739	561,630	550,715
Costs and expenses:				
Cost of goods sold	239,534	239,691	477,922	466,329
Freight	6,476	7,250	12,623	13,724
Selling, general and administrative	16,699	16,183	34,479	32,435
Research and development	2,130	2,249	4,072	4,098
Amortization of intangibles	38	38	75	75
Interest expense	557	1,468	1,381	2,900
Asset impairments and costs associated with exit and disposal activities	125	1,026	858	2,718
Total	265,559	267,905	531,410	522,279
Income before income taxes	14,183	14,834	30,220	28,436
Income taxes	4,248	5,584	9,952	10,971
Net income	$ 9,935	$ 9,250	$ 20,268	$ 17,465
Earnings per share:				
Basic	$ .25	$ .24	$ .52	$ .45
Diluted	.25	.24	.51	.45
Shares used to compute earnings per share:				
Basic	39,402	38,632	39,337	38,617
Diluted	39,584	38,837	39,537	38,751
Dividends per share	$ .04	$ .04	$ .08	$ .08

See accompanying notes to financial statements.

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

	Six Months Ended June 30	
	2007	2006
Cash flows from operating activities:		
Net income	$ 20,268	$ 17,465
Adjustments for noncash items:		
Depreciation	22,785	21,757
Amortization of intangibles	75	75
Deferred income taxes	(2,528)	9,708
Accrued pension and postretirement benefits	(897)	1,683
Gain on sale of assets		(56)
Loss on asset impairments and divestitures	338	1,150
Changes in assets and liabilities, net of effects of acquisitions and divestitures:		
Accounts and notes receivable	(24,774)	(35,838)
Inventories	2,323	2,352
Income taxes recoverable	5,710	(1,345)
Prepaid expenses and other	1,658	2,248
Accounts payable	15,196	30,119
Accrued expenses and income taxes payable	(3,853)	842
Other, net	719	(1,846)
Net cash provided by operating activities	37,020	48,314
Cash flows from investing activities:		
Capital expenditures	(12,070)	(24,903)
Investment in Harbinger ($10 million) and real estate in 2007 and Novalux in 2006	(11,056)	(400)
Proceeds from the sale of assets and property disposals & reimbursements from customers for purchases of equipment	3,842	56
Other, net		(88)
Net cash used in investing activities	(19,284)	(25,335)
Cash flows from financing activities:		
Dividends paid	(3,163)	(3,104)
Debt principal payments	(30,341)	(22,889)
Borrowings		4,000
Proceeds from exercise of stock options	6,437	663
Net cash (used in) provided by financing activities	(27,067)	(21,330)
Effect of exchange rate changes on cash	830	342
Increase in cash and cash equivalents	(8,501)	1,991
Cash and cash equivalents at beginning of period	40,898	23,434
Cash and cash equivalents at end of period	$ 32,397	$ 25,425

See accompanying notes to financial statements.

4

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

	Common Stock	Retained Earnings	Trust for Savings Restora-tion Plan	Accumulated Other Comprehensive Income (Loss): Foreign Currency Trans-lation	Accumulated Other Comprehensive Income (Loss): Gain (Loss) on Derivative Financial Instruments	Accumulated Other Comprehensive Income (Loss): Pension & Other Post-retirement Benefit Adjust.	Total Share-holders Equity
Balance December 31, 2006	$ 120,508	$ 396,413	$ (1,291)	$ 21,522	$ 654	$ (21,211)	$ 516,595
Comprehensive income:							
Net income		20,268					20,268
Other comprehensive income (loss):							
Available-for-sale securities adjustment							
Foreign currency translation adjustment (net of tax of $4,212)				7,834			7,834
Derivative financial instruments adjustment (net of tax of $145)					431		431
Amortization of prior service costs and net gains or losses (net of tax of $332)						594	594
Comprehensive income							29,127
Cash dividends declared ($.04 per share)		(3,163)					(3,163)
Stock options and restricted stock awards	629						629
Issued upon exercise of stock options and stock compensation plans (including related income tax benefits of $168)	6,502	8	(8)				6,502
Balance June 30, 2007	$ 127,639	$ 413,526	$ (1,299)	$ 29,356	$ 1,085	$ (20,617)	$ 549,690

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 or our) contain all adjustments necessary to present fairly, in all material respects, Tredegar s consolidated financial position as of June 30, 2007, the consolidated results of operations for the three and six months ended June 30, 2007 and 2006, the consolidated cash flows for the six months ended June 30, 2007 and 2006, and the consolidated changes in shareholders equity for the six months ended June 30, 2007. 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, 2006. The results of operations for the six months ended June 30, 2007, are not necessarily indicative of the results to be expected for the full year.

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

A pretax charge of $99,000 for severance and other employee-related costs in connection with restructurings in Aluminum Extrusions; and

A pretax charge of $26,000 related to the shutdown of the films manufacturing facility in LaGrange, Georgia.

Plant shutdowns, asset impairments and restructurings in the second quarter of 2006 shown in the segment operating profit table in Note 8 include:

A net pretax gain of $822,000 associated with the shutdown of the films manufacturing facility in LaGrange, Georgia, including a gain of $1.4 million for related LIFO inventory liquidations (included in Cost of goods sold in the consolidated statements of income), partially offset by severance and other costs of $567,000; and

Pretax charges of $459,000 for severance and other employee-related costs in connection with restructurings in Aluminum Extrusions ($405,000) and Film Products ($54,000).

Plant shutdowns, asset impairments and restructurings in the first six months 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;

A pretax charge of $99,000 for severance and other employee-related costs in connection with restructurings in Aluminum Extrusions; and

A pretax charge of $55,000 related to the shutdown of the films manufacturing facility in LaGrange, Georgia.

Plant shutdowns, asset impairments and restructurings in the first six months of 2006 shown in the segment operating profit table in Note 8 include:

A net pretax gain of $418,000 associated with the shutdown of the films manufacturing facility in LaGrange, Georgia, including a gain of $1.4 million for related LIFO inventory liquidations (included in Cost of goods sold in the consolidated statements of income), partially offset by severance and other costs of $841,000 and asset impairment charges of $130,000;

Pretax charges of $1 million for asset impairments in Film Products; and

Pretax charges of $727,000 for severance and other employee-related costs in connection with restructurings in Film Products ($213,000) and Aluminum Extrusions ($514,000).

A reconciliation of the beginning and ending balances of accrued expenses associated with plant shutdowns and divestitures for the six months ended June 30, 2007 is as follows:

(In Thousands)	Severance	Asset Impairments	Other (a)	Total
Balance at December 31, 2006	$ 436	$	$ 4,622	$ 5,058
Changes in 2007:				
Charges	99	338	421	858
Cash spent	(346)		(891)	(1,237)
Charged against assets		(338)		(338)
Balance at June 30, 2007	$ 189	$	$ 4,152	$ 4,341

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

In the first six months of 2006, a pretax gain on the sale of public equity securities of $56,000 (proceeds also of $56,000) is included in Other income (expense), net in the consolidated statements of income and Gain on the sale of corporate assets in the operating profit by segment table in Note 8.

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

	Three Months Ended June 30		Six Months Ended June 30	
(In Thousands)	2007	2006	2007	2006
Net income	$ 9,935	$ 9,250	$ 20,268	$ 17,465
Other comprehensive income (loss), net of tax:				
Available-for-sale securities adjustment:				
Unrealized net holding gains (losses) arising during the period				(2)
Reclassification adjustment for net gains realized in income				(21)
Available-for-sale securities adjustment				(23)
Foreign currency translation adjustment	5,796	3,877	7,834	4,567
Derivative financial instrument adjustment	198	(1,772)	431	(1,675)
Amortization of prior service costs and net gains or losses from pension and other postretirement benefit plans	299		594	
Comprehensive income (loss)	$ 16,228	$ 11,355	$ 29,127	$ 20,334

4. The components of inventories are as follows:

(In Thousands)	June 30 2007	Dec. 31 2006
Finished goods	$ 14,360	$ 15,412
Work-in-process	5,073	4,540
Raw materials	33,786	34,185
Stores, supplies and other	16,053	14,793
Total	$ 69,272	$ 68,930

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:

	Three Months Ended June 30		Six Months Ended June 30	
(In Thousands)	2007	2006	2007	2006
Weighted average shares outstanding used to compute basic earnings per share	39,402	38,632	39,337	38,617
Incremental shares attributable to stock options and restricted stock	182	205	200	134
Shares used to compute diluted earnings per share	39,584	38,837	39,537	38,751

Incremental shares attributable to stock options and restricted stock are computed using the average market price during the related period. During the three and six months ended June 30, 2007 and three and six months ended June 30, 2006, 52,845, 61,125, 1,381,738 and 1,388,865, 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. On April 2, 2007, we invested $10 million in Harbinger Capital Partners Special Situations Fund, L.P. (Harbinger), a fund that seeks to achieve superior absolute returns by participating primarily in medium to long-term investments involving distressed/high yield debt securities, special situation equities and private loans and notes. The fund is a highly speculative investment subject to a two-year lock-up and additional limitations on withdrawal. There is no secondary market for interests in the fund. Our investment in Harbinger, which represents less than 2% of Harbinger s total partnership capital, is accounted for under the cost method. At June 30, 2007, Harbinger reported our capital account value at $12.4 million reflecting $2.4 million of unrealized appreciation ($1.5 million or 4 cents per share after taxes) versus the carrying value in our balance sheet of $10 million (included in Other assets and deferred charges).

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

	Pension Benefits for 3 Months Ended June 30		Other Post-Retirement Benefits for 3 Months Ended June 30	
(In Thousands)	2007	2006	2007	2006
Service cost	$ (1,252)	$ (1,491)	$ (34)	$ (22)
Interest cost	(3,254)	(3,411)	(103)	(135)
Employee contributions				
Other	(34)	(36)		
Expected return on plan assets	5,603	5,430		
Amortization of prior service costs, gains or losses and net transition asset	(476)	(1,194)	8	4
Net periodic benefit (cost) income	$ 587	$ (702)	$ (129)	$ (153)

	Pension Benefits for 6 Months Ended June 30		Other Post-Retirement Benefits for 6 Months Ended June 30	
(In Thousands)	2007	2006	2007	2006
Service cost	$ (2,493)	$ (2,888)	$ (55)	$ (44)
Interest cost	(6,483)	(6,667)	(255)	(271)
Employee contributions				
Other	(66)	(57)		
Expected return on plan assets	11,175	10,668		
Amortization of prior service costs, gains or losses and net transition asset	(950)	(2,433)	24	9
Net periodic benefit (cost) income	$ 1,183	$ (1,377)	$ (286)	$ (306)

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 expect required contributions to our pension plans of approximately $1.1 million for the year ending December 31, 2007. We fund our other post-retirement benefits (life insurance and health benefits) on a claims-made basis, which were $920,000 for the year ended December 31, 2006.

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, 2006, 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 and other activity, which are described under Item 2 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 of each segment for purposes of assessing performance.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Net Sales				
Film Products	$ 130,259	$ 121,405	$ 266,320	$ 247,736
Aluminum Extrusions	142,847	153,836	282,233	288,995
Total net sales	273,106	275,241	548,553	536,731
Add back freight	6,476	7,250	12,623	13,724
Sales as shown in the Consolidated Statements of Income	$ 279,582	$ 282,491	$ 561,176	$ 550,455
Operating Profit				
Film Products:				
Ongoing operations	$ 13,762	$ 13,264	$ 30,582	$ 28,841
Plant shutdowns, asset impairments and restructurings, net of gain on sale of assets and related income from LIFO inventory liquidations	(26)	768	(393)	(815)
Aluminum Extrusions:				
Ongoing operations	3,288	5,674	6,754	10,540
Plant shutdowns, asset impairments and restructurings	(99)	(405)	(99)	(514)
AFBS (formerly Therics):				
Ongoing operations				
Loss on investment in Therics, LLC				(25)
Restructurings			(366)	
Total	16,925	19,301	36,478	38,027
Interest income	283	285	671	507
Interest expense	557	1,468	1,381	2,900
Gain on sale of corporate assets				56
Stock option-based compensation costs	196	282	465	493
Corporate expenses, net	2,272	3,002	5,083	6,761
Income before income taxes	14,183	14,834	30,220	28,436
Income taxes	4,248	5,584	9,952	10,971
Net income	$ 9,935	$ 9,250	$ 20,268	$ 17,465

9. The effective tax rate was 30.0% in the second quarter of 2007 and 32.9% in the first six months of 2007, compared with 37.6% in the second quarter of 2006 and 38.6% in the first six months of 2006. The decrease in the effective tax rate, which had a favorable impact of approximately 3 cents and 4 cents per share in the second quarter and first six months of 2007 versus last year, respectively, was mainly due to an adjustment in the second quarter of 2007 of deferred income taxes for a reduction in statutory income tax rates in Canada of $682,000 (2 cents per share) (reflected as a credit to income tax expense) and differences in income taxes accrued on operations outside of the U.S.

10. During the first quarter of 2007, we adopted new accounting standards for maintenance costs and uncertain tax positions (Financial Accounting Standards Board (FASB) Staff Position (FSP) No. AUG AIR-1, *Accounting for Planned Major Maintenance Activities* and FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, respectively), neither of which resulted in adjustments to the results of operations or financial condition reported in prior periods. In addition, we adopted FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*, which permits entities to choose to measure many financial instruments and certain other items at fair value, and FASB Statement No. 157, *Fair Value Measurements,* neither of which had an impact on results for the second quarter or first six months of 2007.

We account for any planned major maintenance of plant and equipment on the deferral method whereby the actual costs incurred are capitalized and amortized to the next major maintenance (typically no greater than 12 months), which is the estimated period benefited by the planned major maintenance activity. Expenditures for regular repairs and maintenance are expensed as incurred.

For financial reporting purposes, we had unrecognized tax benefits on uncertain tax positions of $3.4 million as of January 1, 2007. Included in this amount were $2.7 million for tax positions for which ultimate deductibility is highly certain but for which the timing of deductibility is uncertain. Because of the impact of deferred income tax accounting, other than interest, penalties and deductions not related to timing, a longer deductibility period would not affect the total income tax expense or the annual effective tax rate shown for financial reporting purposes, but would accelerate payments to the taxing authority. Tax payments resulting from the successful challenge by the taxing authority for accelerated deductions taken by us would possibly result in the payment of interest and penalties. Accordingly, we also accrue for possible interest and penalties on uncertain tax positions. The balance of accrued interest and penalties on deductions taken relating to uncertain tax positions was approximately $1 million at January 1, 2007 ($600,000 net of corresponding federal and state income tax benefits). As of June 30, 2007, there were no material changes since January 1, 2007 to unrecognized tax benefits on uncertain tax positions and related accrued interest and penalties. Accruals for possible interest and penalties on uncertain tax positions are reflected in income tax expense for financial reporting purposes.

We anticipate that by December 31, 2007, we will settle several disputed issues raised by the Internal Revenue Service (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 and accrued interest and penalties.

Tredegar and its subsidiaries file income tax returns in U.S., state and foreign jurisdictions. Tredegar is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2001. With few exceptions, Tredegar and its subsidiaries are no longer subject to state or non-U.S. income tax examinations by tax authorities for years before 2003.

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, hope, expect, are like project 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. Risk factors that may cause such a difference are summarized on pages 26-28 and are incorporated herein.

Executive Summary

Second-quarter 2007 net income was $9.9 million (25 cents per share) compared with $9.3 million (24 cents per share) in the second quarter of 2006. The increase was primarily due to lower pension and interest costs, a lower effective income tax rate and higher profits in our films business, partially offset by significantly lower profits in our aluminum business. Gains on the sale of assets and other items and 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 and six months ended June 30, 2007 and 2006:

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

	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Net Sales				
Film Products	$ 130,259	$ 121,405	$ 266,320	$ 247,736
Aluminum Extrusions	142,847	153,836	282,233	288,995
Total net sales	273,106	275,241	548,553	536,731
Add back freight	6,476	7,250	12,623	13,724
Sales as shown in the Consolidated Statements of Income	$ 279,582	$ 282,491	$ 561,176	