TREDEGAR CORP
Form 10-Q
November 08, 2006

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 September 30, 2006

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 (State or Other Jurisdiction of Incorporation or Organization)	54-1497771 (I.R.S. Employer Identification No.)
1100 Boulders Parkway Richmond, Virginia (Address of Principal Executive Offices)	23225 (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 October 30, 2006: 38,822,447.

PART I - FINANCIAL INFORMATION

Item 1. **Financial Statements.**

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

	Sept. 30, 2006	Dec. 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 29,842	$ 23,434
Accounts and notes receivable, net of allowance for doubtful accounts and sales returns of $6,541 in 2006 and $5,423 in 2005	159,190	119,330
Income taxes recoverable	4,802	7,163
Inventories	58,773	62,438
Deferred income taxes	7,141	7,778
Prepaid expenses and other	3,388	4,224
Total current assets	263,136	224,367
Property, plant and equipment, at cost	667,139	632,717
Less accumulated depreciation	340,381	309,841
Net property, plant and equipment	326,758	322,876
Other assets and deferred charges	95,952	96,527
Goodwill and other intangibles	139,058	137,988
Total assets	$ 824,904	$ 781,758
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 88,364	$ 61,731
Accrued expenses	45,805	36,031
Current portion of long-term debt	1,179	-
Total current liabilities	135,348	97,762
Long-term debt	76,915	113,050
Deferred income taxes	86,429	74,287
Other noncurrent liabilities	11,315	11,297
Total liabilities	310,007	296,396
Commitments and contingencies (Notes 1 and 2)		
Shareholders' equity:		
Common stock, no par value	111,703	110,706
Common stock held in trust for savings restoration plan	(1,289)	(1,284)
Unearned compensation on restricted stock	-	(966)
Unrealized gain on available-for-sale securities	-	23
Foreign currency translation adjustment	20,217	14,114
(Loss) gain on derivative financial instruments	(230)	776
Minimum pension liability	(2,434)	(2,434)
Retained earnings	386,930	364,427
Total shareholders' equity	514,897	485,362
Total liabilities and shareholders' equity	$ 824,904	$ 781,758

See accompanying notes to financial statements.

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

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2006	2005	2006	2005
Revenues and other items:				
Sales	$ 296,256	$ 240,716	$ 846,711	$ 717,197
Other income (expense), net	474	(394)	734	3,104
	296,730	240,322	847,445	720,301
Costs and expenses:				
Cost of goods sold	252,848	201,917	719,177	604,346
Freight	7,265	6,281	20,989	18,626
Selling, general and administrative	18,135	15,746	50,570	49,200
Research and development	2,016	1,851	6,114	7,217
Amortization of intangibles	37	50	112	262
Interest expense	1,331	1,196	4,231	3,252
Asset impairments and costs associated with exit and disposal activities	692	1,159	3,410	12,517
Total	282,324	228,200	804,603	695,420
Income before income taxes	14,406	12,122	42,842	24,881
Income taxes	4,716	4,465	15,687	9,542
Net income	$ 9,690	$ 7,657	$ 27,155	$ 15,339
Earnings per share:				
Basic	$ .25	$ .20	$ .70	$ .40
Diluted	.25	.20	.70	.40
Shares used to compute earnings per share:				
Basic	38,654	38,465	38,629	38,453
Diluted	39,123	38,565	38,876	38,598
Dividends per share	$ .04	$ .04	$ .12	$ .12

See accompanying notes to financial statements.

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

	Nine Months Ended Sept. 30	
	2006	2005
Cash flows from operating activities:		
Net income	$ 27,155	$ 15,339
Adjustments for noncash items:		
Depreciation	32,619	28,203
Amortization of intangibles	112	262
Deferred income taxes	10,135	6,801
Accrued pension and postretirement benefits	2,358	(1,611)
Gain on sale of assets	(56)	(2,507)
Loss on asset impairments and divestitures	1,150	6,556
Changes in assets and liabilities, net of effects of acquisitions and divestitures:		
Accounts and notes receivable	(37,600)	(15,327)
Inventories	5,180	12,631
Income taxes recoverable	2,353	(8,627)
Prepaid expenses and other	870	789
Accounts payable	25,109	(3,169)
Accrued expenses and income taxes payable	7,877	(1,132)
Other, net	(938)	(2,767)
Net cash provided by operating activities	76,324	35,441
Cash flows from investing activities:		
Capital expenditures	(31,714)	(49,027)
Novalux investment	(542)	-
Proceeds from the sale of assets and property disposals	266	3,368
Other, net	-	737
Net cash used in investing activities	(31,990)	(44,922)
Cash flows from financing activities:		
Dividends paid	(4,656)	(4,641)
Debt principal payments	(38,956)	(33,875)
Borrowings	4,000	45,620
Book overdrafts	-	3,642
Proceeds from exercise of stock options	1,162	406
Net cash (used in) provided by financing activities	(38,450)	11,152
Effect of exchange rate changes on cash	524	(1,218)
Increase in cash and cash equivalents	6,408	453
Cash and cash equivalents at beginning of period	23,434	22,994
Cash and cash equivalents at end of period	$ 29,842	$ 23,447

See accompanying notes to financial statements.

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

					Accumulated Other Comprehensive Income (Loss)				
	Common Stock	Retained Earnings	Trust for Savings Restoration Plan	Unearned Restricted Stock Compensation	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation	Gain (Loss) on Derivative Financial Instruments	Minimum Pension Liability	Total Share-holders' Equity
Balance December 31, 2005	$ 110,706	$ 364,427	$ (1,284)	$ (966)	$ 23	$ 14,114	$ 776	$ (2,434)	$ 485,362
Comprehensive income:									
Net income	-	27,155	-	-	-	-	-	-	27,155
Other comprehensive income (loss):									
Available-for-sale securities adjustment (net of tax of $13)	-	-	-	-	(23)	-	-	-	(23)
Foreign currency translation adjustment (net of tax of $3,271)	-	-	-	-	-	6,103	-	-	6,103
Derivative financial instruments adjustment (net of tax of $581)	-	-	-	-	-	-	(1,006)	-	(1,006)
Comprehensive income									32,229
Cash dividends declared ($.04 per share)	-	(4,656)	-	-	-	-	-	-	(4,656)
Elimination of unearned restricted stock compensation	(966)	-	-	966	-	-	-	-	-
Stock options and restricted stock awards	783	-	-	-	-	-	-	-	783
Issued upon exercise of stock options and stock compensation plans (including related income tax benefits of $113)	1,180	4	(5)	-	-	-	-	-	1,179
Balance September 30, 2006	$ 111,703	$ 386,930	$ (1,289)	$ -	$ -	$ 20,217	$ (230)	$ (2,434)	$ 514,897

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") contain all adjustments necessary to present fairly, in all material respects, Tredegar's consolidated financial position as of September 30, 2006, the consolidated results of operations for the three and nine months ended September 30, 2006 and 2005, and the consolidated cash flows for the nine months ended September 30, 2006 and 2005. 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, 2005. The results of operations for the three and nine months ended September 30, 2006, are not necessarily indicative of the results to be expected for the full year.

2. Plant shutdowns, asset impairments and restructurings and related items in the third quarter of 2006 shown in the segment operating profit table in Note 8 include:

- A net pretax gain of $1 million associated with the shutdown of the films manufacturing facility in LaGrange, Georgia, including a gain of $1.2 million for related LIFO inventory liquidations (included in "Cost of goods sold" in the consolidated statements of income), partially offset by other shutdown-related costs of $198,000;
- A pretax charge of $920,000 related to expected future environmental costs at the aluminum extrusions facility in Newnan, Georgia (included in "Cost of goods sold" in the consolidated statements of income); and
- A pretax charge of $494,000 related to the estimated loss on the sub-lease of a portion of the AFBS (formerly Therics) facility in Princeton, New Jersey.

Plant shutdowns, asset impairments and restructurings and related items in the third quarter of 2005 shown in the segment operating profit table in Note 8 include:

- Pretax charges of $906,000 for severance and other employee-related costs in connection with restructurings in Film Products ($514,000), Aluminum Extrusions ($207,000), and at corporate headquarters ($185,000; included in "Corporate expenses, net" in the segment operating profit table);
- A net pretax charge of $595,000 related to severance and other employee-related costs associated with the restructuring of the research and development operations in Film Products (of this amount, $657,000 in pretax charges for employee relocation and recruitment is included in "Selling, general and administrative expenses" in the consolidated statements of income);
- A pretax charge of $198,000 related to the shutdown of the aluminum extrusions facility in Aurora, Ontario; and
- Pretax charges of $117,000 for accelerated depreciation related to restructurings in Film Products.

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

- A net pretax gain of $1.4 million associated with the shutdown of the films manufacturing facility in LaGrange, Georgia, including a gain of $2.6 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 $1 million and asset impairment charges of $130,000;

- Pretax charges of $1 million for asset impairments in Film Products;
- A pretax charge of $920,000 related to expected future environmental costs at the aluminum extrusions facility in Newnan, Georgia (included in "Cost of goods sold" in the consolidated statements of income);
- 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); and
- A pretax charge of $494,000 related to the estimated loss on the sub-lease of a portion of the AFBS (formerly Therics) facility in Princeton, New Jersey.

Plant shutdowns, asset impairments and restructurings and related items in the first nine months of 2005 shown in the segment operating profit table in Note 8 include:

- A pretax charge of $10 million related to the sale or assignment of substantially all of Therics' assets, including asset impairment charges of $5.6 million, lease-related losses of $3 million and severance and other transaction-related costs of $1.4 million;
- Pretax charges of $1.8 million related to severance and other employee-related costs associated with restructurings in Film Products ($991,000), Aluminum Extrusions ($648,000) and at corporate headquarters ($185,000; included in "Corporate expenses, net" in the segment operating profit table);
- A pretax gain of $1.6 million related to the shutdown of the films manufacturing facility in New Bern, North Carolina, including a $1.8 million gain on the sale of the facility (included in "Other income (expense), net" in the consolidated statements of income), partially offset by shutdown-related expenses of $225,000;
- A pretax charge of $1 million for process reengineering costs associated with the implementation of a new information system in Film Products (included in "Costs of goods sold" in the consolidated statements of income);
- A net pretax charge of $725,000 related to severance and other employee-related costs associated with the restructuring of the research and development operations in Film Products (of this amount, $1.2 million in pretax charges for employee relocation and recruitment is included in "Selling, general and administrative expenses" in the consolidated statements of income);
- A pretax gain of $653,000 related to the shutdown of the films manufacturing facility in Carbondale, Pennsylvania, including a $630,000 gain on the sale of the facility (included in "Other income (expense), net" in the consolidated statements of income), and the reversal to income of certain shutdown-related accruals of $23,000;
- A pretax charge of $597,000 related to the shutdown of the aluminum extrusions facility in Aurora, Ontario, including $1.1 million of shutdown-related costs, partially offset by the reversal to income of certain severance and employee-related accruals of $474,000; and
- Pretax charges of $322,000 for accelerated depreciation related to restructurings in Film Products.

A reconciliation of the beginning and ending balances of accrued expenses associated with plant shutdowns and divestitures for the nine months ended September 30, 2006 is as follows:

(In Thousands)	Severance	Asset Impairments	Accelerated Depreciation (a)	Other (b)	Total
Balance at December 31, 2005	$ 1,485	$ -	$ -	$ 5,487	$ 6,972
Changes in 2006:					
Charges	1,371	1,150	-	937	3,458
Cash spent	(2,286)	-	-	(1,538)	(3,824)
Charged against assets	-	(1,150)	-	-	(1,150)
Balance at September 30, 2006	$ 570	$ -	$ -	$ 4,886	$ 5,456

(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.

In the nine months ended September 30, 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 segment operating profit table in Note 8. In the nine months ended September 30, 2005, a pretax gain on the sale of corporate real estate of $61,000 (proceeds of $151,000) is included in “Other income (expense), net” in the consolidated statements of income and “Gain on the sale of corporate assets” in the segment operating profit table in Note 8. In the nine months ended September 30, 2005, a pretax gain for interest receivable on tax refund claims of $508,000 is included in "Other income (expense), net" in the consolidated statements of income and "Corporate expenses, net" in the segment operating profit table in Note 8.

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

(In Thousands)	Three Months Ended Sept. 30 2006	Three Months Ended Sept. 30 2005	Nine Months Ended Sept. 30 2006	Nine Months Ended Sept. 30 2005
Net income	$ 9,690	$ 7,657	$ 27,155	$ 15,339
Other comprehensive income (loss), net of tax:				
Available-for-sale securities adjustment:				
Unrealized net holding gains (losses) arising during the period	-	8	(2)	39
Reclassification adjustment for net gains realized in income	-	-	(21)	-
Available-for-sale securities adjustment	-	8	(23)	39
Foreign currency translation adjustment	1,536	3,043	6,103	(4,073)
Derivative financial instrument adjustment	669	736	(1,006)	(620)
Minimum pension liability adjustment	-	-	-	191
Comprehensive income (loss)	$ 11,895	$ 11,444	$ 32,229	$ 10,876

4. The components of inventories are as follows:

(In Thousands)	Sept. 30 2006	Dec. 31, 2005
Finished goods	$ 11,477	$ 12,838
Work-in-process	3,685	3,685
Raw materials	29,028	33,043
Stores, supplies and other	14,583	12,872
Total	$ 58,773	$ 62,438

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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 Sept. 30		Nine Months Ended Sept. 30	
(In Thousands)	2006	2005	2006	2005
Weighted average shares outstanding used to compute basic earnings per share	38,654	38,465	38,629	38,453
Incremental shares attributable to stock options and restricted stock	469	100	247	145
Shares used to compute diluted earnings per share	39,123	38,565	38,876	38,598

Incremental shares attributable to stock options and restricted stock are computed using the average market price during the related period. During the three and nine months ended September 30, 2006 and three and nine months ended September 30, 2005, 1,196,722, 1,324,817, 2,102,035 and 1,974,576, 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. Effective January 1, 2006, Tredegar adopted Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* ("SFAS 123(R)"). SFAS 123(R) requires us to record compensation expense for all share-based awards. We previously applied Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees,* and related interpretations and provided the required pro forma disclosures of SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"). Because we used the modified prospective method in adopting SFAS 123(R), prior periods have not been restated. In addition, the cumulative adjustment (estimated forfeitures) relating to the adoption of SFAS 123(R) in the first quarter of 2006 of $96,000 has not been separately shown in the income statement due to immateriality.

Our stock-based compensation is comprised of restricted and phantom stock awards (which we have historically recognized as compensation expense under APB Opinion No. 25) and stock option grants (which we have not historically recognized as compensation expense but provided pro forma compensation expense disclosures under SFAS 123). Compensation expense related to restricted and phantom stock awards included in determining net income during the three and nine months ended September 30, 2006 and three and nine months ended September 30, 2005 was $66,000 less a credit of $96,000 for changes in forfeiture assumptions, $126,000, $215,000 and $377,000, respectively. Stock option-based compensation expense included in determining net income in the three and nine months ended September 30, 2006 was $215,000 ($138,000 after taxes or less than one cent per share) and $708,000 ($508,000 after taxes or one cent per share), respectively. Pro forma stock option-based compensation expense included in determining pro forma net income in the three and nine months ended September 30, 2005 was $286,000 ($271,000 after taxes or less than one cent per share) and $859,000 ($814,000 after taxes or one cent per share), respectively. We expect to recognize stock option-based compensation expenses under the new standard of approximately $1 million in 2006 (2 cents per share after taxes).

We granted stock options with a two-year vesting period and a seven-year term in the first and third quarters of 2006 (none were granted in the second quarter of 2006). The assumptions used to determine the estimated fair value of options granted under the Black-Scholes options pricing model, the number of stock options granted, and the estimated fair value of options granted are as follows:

Assumptions Used in Determining Compensation Expense for Stock Options Granted in 2006 & Other Data

Dividend yield		1.1%	Stock options granted (number of shares):		
Expected volatility percentage		37.3%-39.1%	Officers		97,500
Weighted-average volatility		38.4%	Management		330,800
Weighted average risk-free interest rate		4.7%	Other employees		-
Expected holding period (years):			Total		428,300
Officers		6.0			
Management		5.0	Estimated weighted average fair value of		
Other employees		n/a	options per share at date of grant:		
Estimated weighted-average annual forfeiture rate			Officers	$	6.22
at date of grant:			Management		5.64
Officers		2.0%	Other employees		-
Management		5.0%			
Weighted average exercise prices at date of grant:					
Officers	$	15.11	Total estimated fair value of stock		
Management	$	15.18	options granted (in thousands)	$	2,472

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

A summary of our stock options outstanding at September 30, 2006 and December 31, 2005 and changes during the nine months and year ended, respectively, is presented below:

		Option Exercise Price/Share						
	Number of Options		Range					Wgted. Ave.
	2,661,990	$	4.17	to	$	46.63	$	22.01

Outstanding at 12/31/04					
Granted	-	n/a	to	n/a	n/a
Forfeited and Expired	(274,575)	13.95	to	46.63	21.90
Exercised	(137,075)	4.17	to	16.55	7.51
Outstanding at 12/31/05	2,250,340	7.38	to	46.63	22.90
Granted	428,300	15.11	to	16.48	15.16
Forfeited and Expired	(765,975)	7.38	to	46.63	31.47
Exercised	(107,510)	7.38	to	14.56	11.01
Outstanding at 9/30/06	1,805,155	$ 13.95	to	$ 29.94	$ 18.14

The following table summarizes additional information about stock options outstanding and exercisable and non-vested restricted stock outstanding at September 30, 2006:

	Options Outstanding at September 30, 2006	Options Exercisable at September 30, 2006
	Weighted	