

TREDEGAR CORP
Form 10-Q
August 04, 2006

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 June 30, 2006

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, 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 Accelerated filer Non-accelerated filer

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

The number of shares of Common Stock, no par value, outstanding as of July 26, 2006: 38,791,497.

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

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

	June 30, 2006	Dec. 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 25,425	\$ 23,434
Accounts and notes receivable, net of allowance for doubtful accounts and sales returns of \$5,435 in 2006 and \$5,423 in 2005	157,042	119,330
Income taxes recoverable	8,508	7,163
Inventories	61,373	62,438
Deferred income taxes	7,281	7,778
Prepaid expenses and other	2,001	4,224
Total current assets	261,630	224,367
Property, plant and equipment, at cost	662,211	632,717
Less accumulated depreciation	332,448	309,841
Net property, plant and equipment	329,763	322,876
Other assets and deferred charges	96,861	96,527
Goodwill and other intangibles	138,920	137,988
Total assets	\$ 827,174	\$ 781,758
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	\$ 93,154	\$ 61,731
Accrued expenses	39,815	36,031
Current portion of long-term debt	3,131	
Total current liabilities	136,100	97,762
Long-term debt	91,030	113,050
Deferred income taxes	84,896	74,287
Other noncurrent liabilities	11,254	11,297
Total liabilities	323,280	296,396
Commitments and contingencies (Notes 1 and 2)		
Shareholders equity:		
Common stock, no par value	111,042	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	18,681	14,114
(Loss) gain on derivative financial instruments	(899)	776

Edgar Filing: TREDEGAR CORP - Form 10-Q

Minimum pension liability	(2,434)	(2,434)
Retained earnings	378,793	364,427
	<u> </u>	<u> </u>
Total shareholders' equity	503,894	485,362
	<u> </u>	<u> </u>
Total liabilities and shareholders' equity	\$ 827,174	\$ 781,758
	<u> </u>	<u> </u>

See accompanying notes to financial statements.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Revenues and other items:				
Sales	\$ 282,491	\$ 243,724	\$ 550,455	\$ 476,481
Other income (expense), net	248	938	260	3,498
	<u>282,739</u>	<u>244,662</u>	<u>550,715</u>	<u>479,979</u>
Costs and expenses:				
Cost of goods sold	239,691	204,077	466,329	402,429
Freight	7,250	6,402	13,724	12,345
Selling, general and administrative	16,183	16,390	32,435	33,454
Research and development	2,249	2,566	4,098	5,366
Amortization of intangibles	38	106	75	212
Interest expense	1,468	1,093	2,900	2,056
Asset impairments and costs associated with exit and disposal activities	1,026	10,491	2,718	11,358
	<u>267,905</u>	<u>241,125</u>	<u>522,279</u>	<u>467,220</u>
Income before income taxes	14,834	3,537	28,436	12,759
Income taxes	5,584	1,405	10,971	5,077
	<u>9,250</u>	<u>2,132</u>	<u>17,465</u>	<u>7,682</u>
Net income	\$ 9,250	\$ 2,132	\$ 17,465	\$ 7,682
Earnings per share:				
Basic	\$.24	\$.05	\$.45	\$.20
Diluted	.24	.05	.45	.20
Shares used to compute earnings per share:				
Basic	38,632	38,453	38,617	38,446
Diluted	38,837	38,592	38,751	38,614
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	
	2006	2005
Cash flows from operating activities:		
Net income	\$ 17,465	\$ 7,682
Adjustments for noncash items:		
Depreciation	21,757	18,453
Amortization of intangibles	75	212
Deferred income taxes	9,708	952
Accrued pension and postretirement benefits	1,683	(1,111)
Gain on sale of assets	(56)	(2,507)
Loss on asset impairments and divestitures	1,150	6,439
Changes in assets and liabilities, net of effects of acquisitions and divestitures:		
Accounts and notes receivable	(35,838)	(8,441)
Inventories	2,352	3,459
Income taxes recoverable	(1,345)	
Prepaid expenses and other	2,248	1,747
Accounts payable	30,119	(1,033)
Accrued expenses and income taxes payable	842	268
Other, net	(1,846)	(2,116)
	48,314	24,004
Cash flows from investing activities:		
Capital expenditures	(24,903)	(35,483)
Novalux investment	(400)	
Proceeds from the sale of assets and property disposals	56	3,368
Other, net	(88)	875
	(25,335)	(31,240)
Cash flows from financing activities:		
Dividends paid	(3,104)	(3,095)
Debt principal payments	(22,889)	(29,336)
Borrowings	4,000	39,500
Book overdrafts		5,785
Proceeds from exercise of stock options	663	195
	(21,330)	13,049
Effect of exchange rate changes on cash	342	(1,857)
Increase in cash and cash equivalents	1,991	3,956
Cash and cash equivalents at beginning of period	23,434	22,994
Cash and cash equivalents at end of period	\$ 25,425	\$ 26,950

Edgar Filing: TREDEGAR CORP - Form 10-Q

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 Restora- tion Plan	Unearned Restricted Stock Compen- sation	Unrealized Gain on Available- for-Sale Securities	Foreign Currency Trans- lation	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		17,465							17,465
Other comprehensive income (loss):									
Available-for-sale securities adjustment (net of tax of \$13)					(23)				(23)
Foreign currency translation adjustment (net of tax of \$2,458)						4,567			4,567
Derivative financial instruments adjustment (net of tax of \$998)							(1,675)		(1,675)
Comprehensive income									20,334
Cash dividends declared (\$.04 per share)		(3,104)							(3,104)
Elimination of unearned restricted stock compensation	(966)			966					
Stock options and restricted stock awards	613								613
Issued upon exercise of stock options and stock compensation plans (including related income tax benefits of \$94)	689	5	(5)						689
Balance June 30, 2006	\$ 111,042	\$ 378,793	\$ (1,289)	\$	\$	\$ 18,681	\$ (899)	\$ (2,434)	\$ 503,894

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 June 30, 2006, the consolidated results of operations for the three and six months ended June 30, 2006 and 2005, and the consolidated cash flows for the six months ended June 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 six months ended June 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 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 and related items in the second quarter 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;

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;

Pretax charges of \$500,000 related to severance and other employee-related costs associated with restructurings in Film Products (\$227,000) and Aluminum Extrusions (\$273,000);

A pretax gain of \$71,000 related to the shutdown of the aluminum extrusions facility in Aurora, Ontario, including the reversal to income of certain severance and employee-related accruals of \$474,000, partially offset by other shutdown-related costs of \$403,000;

A net pretax charge of \$250,000 related to severance and other employee-related costs associated with the restructuring of the research and development operations in Film Products (of this amount, \$346,000 in pretax charges for employee relocation and recruitment is included in Selling, R&D and general expenses in the consolidated statements of income);

Pretax charges of \$105,000 for accelerated depreciation related to restructurings in Film Products; and

A pretax charge of \$27,000 related to severance and other employee-related costs associated with the shutdown of the films manufacturing facility in New Bern, North Carolina.

Edgar Filing: TREDEGAR CORP - Form 10-Q

Plant shutdowns, asset impairments and restructurings and related items 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).

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

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);

Pretax charges of \$918,000 related to severance and other employee-related costs associated with restructurings in Film Products (\$477,000) and Aluminum Extrusions (\$441,000);

A pretax charge of \$399,000 related to the shutdown of the aluminum extrusions facility in Aurora, Ontario, including \$873,000 of shutdown-related costs, partially offset by the reversal to income of certain severance and employee-related accruals of \$474,000;

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 gain of \$508,000 for interest receivable on tax refund claims (included in Corporate expenses, net in the net sales and operating profit by segment table and Other income (expense), net in the consolidated statements of income);

A net pretax charge of \$130,000 related to severance and other employee-related costs associated with the restructuring of the research and development operations in Film Products (of this amount, \$545,000 in pretax charges for employee relocation and recruitment is included in Selling, R&D and general expenses in the consolidated statements of income); and

Pretax charges of \$205,000 for accelerated depreciation related to restructurings in Film Products.

Edgar Filing: TREDEGAR CORP - Form 10-Q

A reconciliation of the beginning and ending balances of accrued expenses associated with plant shutdowns and divestitures for the six months ended June 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		245	2,766
Cash spent	(2,015)			(522)	(2,537)
Charged against assets		(1,150)			(1,150)
Balance at June 30, 2006	\$ 841	\$	\$	\$ 5,210	\$ 6,051

(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 six months ended June 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 operating profit by segment table in Note 8. In the three and six months ended June 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 operating profit by segment table in Note 8. In the six months ended June 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 operating profit by segment table in Note 8.

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

(In Thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Net income	\$ 9,250	\$ 2,132	\$ 17,465	\$ 7,682
Other comprehensive income (loss), net of tax:				
Available-for-sale securities adjustment:				
Unrealized net holding gains (losses) arising during the period		3	(2)	31
Reclassification adjustment for net gains realized in income			(21)	
Available-for-sale securities adjustment		3	(23)	31
Foreign currency translation adjustment	3,877	(4,179)	4,567	(7,115)
Derivative financial instrument adjustment	(1,772)	(1,191)	(1,675)	(1,356)
Minimum pension liability adjustment				191
Comprehensive income (loss)	\$ 11,355	\$ (3,235)	\$ 20,334	\$ (567)

4. The components of inventories are as follows:

(In Thousands)	June 30 2006	Dec. 31, 2005
Finished goods	\$ 12,354	\$ 12,838
Work-in-process	5,342	3,685
Raw materials	29,571	33,043
Stores, supplies and other	14,106	12,872
Total	\$ 61,373	\$ 62,438

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

(In Thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Weighted average shares outstanding used to compute basic earnings per share	38,632	38,453	38,617	38,446
Incremental shares attributable to stock options and restricted stock	205	139	134	168
Shares used to compute diluted earnings per share	38,837	38,592	38,751	38,614

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, 2006 and three and six months ended June 30, 2005, 1,381,738, 1,388,865, 1,988,055 and 1,910,847, 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 six months ended June 30, 2006 and three and six months ended June 30, 2005 was \$74,000, \$156,000, \$79,000 and \$162,000, respectively. Stock option-based compensation expense included in determining net income in the three and six months ended June 30, 2006 was \$282,000 (\$180,000 after taxes or less than one cent per share) and \$493,000 (\$369,000 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 six months ended June 30, 2005 was \$286,000 (\$271,000 after taxes or less than one cent per share) and \$573,000 (\$543,000 after taxes or one cent per share), respectively. We expect to recognize stock option-based compensation expenses under the new standard of approximately \$1.1 million in 2006 (2 cents per share after taxes).

Edgar Filing: TREDEGAR CORP - Form 10-Q

We granted stock options with a two-year vesting period and a seven-year term in the first quarter 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	38.2%-39.1%	Officers	97,500
Weighted-average volatility	38.4%	Management	320,800
Weighted average risk-free interest rate	4.7%	Other employees	
Expected holding period (years):		Total	418,300
Officers	6.0	Estimated weighted average fair value of options per share at date of grant:	
Management	5.0	Officers	\$ 6.22
Other employees	n/a	Management	5.62
Expected annual forfeiture rate:		Other employees	
Officers	2.0%		
Management	5.0%		
Weighted average exercise prices at date of grant (market price at date of grant of \$15.11):			
Officers	\$ 15.11	Total estimated fair value of stock options granted (in thousands)	
Management	\$ 15.14		\$ 2,411

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.

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

	Number of Options	Option Exercise Price/Share			Wgted. Ave.
		Range			
Outstanding at 12/31/04	2,661,990	\$ 4.17	to	\$ 46.63	\$ 22.01
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	418,300	15.11	to	15.71	15.13
Forfeited and Expired	(700,875)	7.38	to	46.63	32.88
Exercised	(74,260)	7.38	to	13.95	9.53

Edgar Filing: TREDEGAR CORP - Form 10-Q

Outstanding at 6/30/06	1,893,505	\$	13.95	to	\$	29.94	\$	18.02
------------------------	-----------	----	-------	----	----	-------	----	-------

Edgar Filing: TREDEGAR CORP - Form 10-Q

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

Range of Exercise Prices		Options Outstanding at June 30, 2006				Options Exercisable at June 30, 2006			
		Shares	Weighted Average		Aggregate Intrinsic Value (In Thousands)	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (In Thousands)	
Remaining Contractual Life (Years)	Exercise Price		Weighted Average Exercise Price	Aggregate Intrinsic Value (In Thousands)					
\$ 13.95	to \$ 17.88	919,600	4.5	\$ 15.18	\$ 778	518,800	\$ 15.21	\$ 502	
17.89	to 19.75	676,950	1.7	19.22		676,950	19.22		
19.76	to 25.65	216,300	0.7	21.95		216,300	21.95		
25.66	to 29.94	80,655	2.0	29.85		80,655	29.85		
\$ 13.95	to \$ 29.94	1,893,505	3.2	\$ 18.02	\$ 778	1,492,705	\$ 18.80	\$ 502	

Non-vested Restricted Stock	Number of Shares	Wgtd. Ave. Grant Date Fair Value/Sh.
Outstanding at 12/31/05	109,000	\$ 13.88
Granted		
Vested	(17,333)	13.95
Forfeited	(12,667)	13.95
Outstanding at 6/30/06	79,000	\$ 13.86

The total intrinsic value of stock options exercised during the three and six months ended June 30, 2006 was \$21,000 and \$409,000, respectively. The grant-date fair value of stock option-based awards vested during the three and six months ended June 30, 2006 was \$44,000 and \$1.3 million, respectively. As of June 30, 2006, there was \$1.9 million and \$575,000 of unrecognized compensation cost related to stock option-based awards and non-vested restricted stock, respectively. This cost is expected to be recognized over the remaining weighted average period of 1.70 years for stock option-based awards and 2.85 years for non-vested restricted stock. Compensation costs for non-vested restricted stock is subject to accelerated vesting based on meeting certain financial targets.

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

(In Thousands)	Pension Benefits for 3 Months Ended June 30		Other Post-Retirement Benefits for 3 Months Ended June 30	
	2006	2005	2006	2005
Service cost	\$ (1,491)	\$ (1,524)	\$ (22)	\$ (29)
Interest cost	(3,411)	(3,145)	(135)	(145)
Employee contributions				
Other	(36)	(29)		
Expected return on plan assets	5,430	5,512		
Amortization of prior service costs, gains or losses and net transition asset	(1,194)	(146)	4	
Net periodic benefit (cost) income	\$ (702)	\$ 668	\$ (153)	\$ (174)

(In Thousands)	Pension Benefits for 6 Months Ended June 30		Other Post-Retirement Benefits for 6 Months Ended June 30	
	2006	2005	2006	2005
Service cost	\$ (2,888)	\$ (3,048)	\$ (44)	\$ (58)
Interest cost	(6,667)	(6,291)	(271)	(292)
Employee contributions				
Other	(57)	68		
Expected return on plan assets	10,668	11,024		
Amortization of prior service costs, gains or losses and net transition asset	(2,433)	(292)	9	
Net periodic benefit (cost) income	\$ (1,377)	\$ 1,461	\$ (306)	\$ (350)

We expect required contributions to our pension plans to be about \$800,000 for the year ending December 31, 2006. We fund our other post-retirement benefits (life insurance and health benefits) on a claims-made basis, which were \$645,000 and \$525,000 for the years ended December 31, 2005 and 2004, respectively.

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. 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	
	2006	2005	2006	2005
Net Sales				
Film Products	\$ 121,405	\$ 111,244	\$ 247,736	\$ 227,955
Aluminum Extrusions	153,836	125,963	288,995	235,929
AFBS (formerly Therics)		115		252
Total net sales	275,241	237,322	536,731	464,136
Add back freight	7,250	6,402	13,724	12,345
Sales as shown in the Consolidated Statements of Income	\$ 282,491	\$ 243,724	\$ 550,455	\$ 476,481
Operating Profit				
Film Products:				
Ongoing operations	\$ 13,264	\$ 11,396	\$ 28,841	\$ 22,974
Plant shutdowns, asset impairments and restructurings, net of gain on sale of assets and related income from LIFO inventory liquidations	768	44	(815)	413
Aluminum Extrusions:				
Ongoing operations	5,674	7,221	10,540	10,218
Plant shutdowns, asset impairments and restructurings	(405)	(202)	(514)	(840)
AFBS (formerly Therics):				
Ongoing operations		(1,644)		(3,467)
Loss on investment in Therics, LLC			(25)	
Restructurings		(10,049)		(10,049)
Total	19,301	6,766	38,027	19,249
Interest income	285	142	507	240
Interest expense	1,468	1,093	2,900	2,056
Gain on sale of corporate assets		61	56	61
Stock option-based compensation costs	282		493	
Corporate expenses, net	3,002	2,339	6,761	4,735
Income before income taxes	14,834	3,537	28,436	12,759
Income taxes	5,584	1,405	10,971	5,077
Net income	\$ 9,250	\$ 2,132	\$ 17,465	\$ 7,682

9. In July 2006, the Financial Accounting Standards Board (FASB) affirmed its previous decision to make the recognition provisions of its proposed standard, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No 87, 88, 106 and 132(R)*, effective for public companies for fiscal years ending after December 15, 2006. Accordingly, we will be required to recognize the funded status of our pension plans in our December 31, 2006 financial statements. The funded status of our pension plans at December 31, 2005 was plan assets at fair value in excess of benefit obligations of \$18.6 million. On a pro forma basis at December 31, 2005, we estimate that the new standard would have resulted in a decrease in prepaid pension cost of \$67 million (included in Other assets and deferred charges in the consolidated balance sheet), a decrease in non-current deferred income tax liabilities of \$24 million and a decrease in shareholders equity of \$43 million. Adjustments from the new standard are not expected to impact our debt covenant computations since our credit agreement allows us to elect to use generally accepted accounting principles in effect when the agreement was signed.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, clarifying the accounting for uncertain tax positions. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation is effective for fiscal years beginning after December 15, 2006 with earlier application encouraged. We are evaluating the interpretation and have not determined whether or not it will have a material effect on our financial position or results of operations.

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 likely, 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 31-33 and are incorporated herein.

Executive Summary

Second-quarter 2006 net income was \$9.3 million (24 cents per share) compared with \$2.1 million (5 cents per share) in the second quarter of 2005. Net income was \$17.5 million (45 cents per share) for the first six months of 2006 compared with \$7.7 million (20 cents per share) for the first six months of 2005. Gains on the sale of assets and other items and losses related to plant shutdowns, assets impairments and restructurings are described in Note 2 on page 6. The business segment review is provided below and beginning on page 22.

Second-quarter net sales in Film Products were \$121.4 million, up 9.2% from \$111.2 million in the second quarter of 2005 while operating profit from ongoing operations rose 16.7% to \$13.3 million from \$11.4 million. The increase in sales and operating profit over last year's second quarter was primarily due to continued growth in the sale of higher value surface protection films, elastic materials and new apertured topsheets. Profits also benefited from the lag in the pass-through of lower average resin costs (estimated impact of \$500,000). Customer inventory adjustments did not have as significant an impact on profits as initially expected. Volume was 61.9 million pounds compared with 64.3 million pounds in the second quarter of 2005. Volume declines were mainly due to lower sales of certain barrier films that are being discontinued in conjunction with the shutdown of the plant in LaGrange, Georgia.

Film Products has index-based pass-through raw material 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. Average quarterly prices of low-density polyethylene resin (LDPE) in the U.S. decreased 8 and 6 cents per pound in the first and second quarters of 2006, respectively, after increasing 21 cents per pound or 32% in the fourth quarter of 2005. LDPE prices in the U.S. increased in June 2006 by 6 cents per pound (the price of LDPE in the U.S. declined by 4 cents per pound in each month from December 2005 to April 2006 and was flat in May 2006). Average LDPE prices in Europe and Asia increased 2 to 4 cents per pound in the second quarter of 2006. Since 2002, U.S. LDPE prices have more than doubled. Resin prices in Europe, Asia and South America have also increased significantly during this time.

We estimate that the lag in the pass-through to customers of changes in resin prices had a positive impact on first- and second- quarter 2006 results of \$2 million and \$500,000, respectively, compared with a negative impact on fourth-quarter 2005 results of \$5.5 million (net of the favorable effect of a decline in inventories accounted for under the last-in first-out method). There was no significant resin pass-through lag in the first quarter of 2005. In the second quarter of 2005, lower average resin prices resulted in a positive pass-through lag impact of approximately \$1.5 million.

Net sales were \$247.7 million in the first six months of 2006, up 8.6% versus \$228.0 million in 2005. Operating profit from ongoing operations was \$28.8 million in the first six months of 2006, up 25.2% compared to \$23.0 million in 2005. Year-to-date volume decreased to 126.4 million pounds from

Edgar Filing: TREDEGAR CORP - Form 10-Q

131.7 million pounds in 2005. Net sales, operating profit and volume changes for the first six months of 2006 compared with 2005 were primarily due to the factors noted above in the second quarter analysis.

Film Products continues to expand capacity to support growth in new products. Capital expenditures were \$21.7 million in the first six months of 2006 and are expected to be \$45 million for the year. Approximately half of the forecasted capital expenditures relates to expanding the production capacity for surface protection films. Other planned capital expenditures include capacity additions for elastic materials and a new information system, which is currently being rolled out in U.S. locations. Depreciation expense was \$15.7 million in the first six months of 2006 compared with \$12.4 million in the first half of last year, and is projected to increase by approximately \$5 million to \$32 million for the year.

Second-quarter net sales in Aluminum Extrusions were \$153.9 million, up 22.1% from \$126.0 million in the second quarter of 2005 primarily due to improved volume and higher selling prices. Operating profit from ongoing operations decreased to \$5.7 million, down 20.8% from \$7.2 million in the second quarter of 2005. The decrease in operating profit was mainly due to appreciation of the Canadian Dollar (adverse impact estimated of \$1.3 million), margin compression caused by rapidly increasing aluminum costs (adverse impact estimated of \$650,000) and a charge for a possible uncollectible account (\$375,000). We believe margin compression from rapid movements in aluminum costs should be mitigated for extruded products in the future since pricing on normal customer orders has changed from the order date to the shipment date. Volume was up 9.5% to 69.4 million pounds versus 63.4 million pounds in the second quarter of 2005. Growth in shipments continued to be driven by demand for extrusions used in commercial construction and hurricane protection products.

Net sales were \$289.0 million in the first six months of 2006, up 22.5% versus \$235.9 million in 2005. Operating profit from ongoing operations was \$10.5 million in the first six months of 2006, up 2.9% compared to \$10.2 million in 2005. Year-to-date volume increased to 133.0 million pounds, up 9.2% compared to 121.8 million pounds in 2005. Year-to-date net sales improved due to higher volume and higher selling prices. The increase in operating profit during the first six months was primarily due to higher volume and selling prices, partially offset by appreciation of the Canadian Dollar (\$1.6 million), higher energy costs (\$2 million), margin compression caused by rapidly increasing aluminum costs (adverse impact estimated of \$1.3 million) and a charge for a possible uncollectible account (\$375,000).

Capital expenditures in Aluminum Extrusions in the first six months of 2006 were \$3.2 million and are expected to be approximately \$10 million for the year.

Consolidated net pension expense was \$1.4 million in the first six months of 2006, an increase of \$2.9 million (5 cents per share after taxes) from the net pension income of \$1.5 million recognized in the first six months of 2005. We expect net pension expense of \$2.8 million in 2006, an unfavorable change of \$5.4 million (9 cents per share after taxes) versus 2005. Most of this change relates to a pension plan that is reflected in Corporate expenses, net in the operating profit by segment table on page 22. We expect required contributions to our pension plans to be about \$800,000 in 2006.

During the first quarter of 2006, we adopted Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payment*, which requires all stock-based compensation to be expensed and accounted for using a fair value-based method. The adoption of SFAS No. 123R and the granting of stock options on March 7, 2006 resulted in first- and second-quarter pretax charges for stock option-based compensation of \$211,000 and \$282,000, respectively. We expect to recognize stock option-based compensation costs under the new standard of approximately \$1.1 million in 2006 (2 cents per share after taxes).

Consolidated net capitalization and other credit measures are provided in the liquidity and capital resources section