

TREDEGAR CORP
Form 10-Q
May 07, 2007

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, 2007

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

Tredegear 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 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):

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 April 25, 2007: 39,492,441.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Tredegear Corporation Consolidated Balance Sheets

(In Thousands)
(Unaudited)

| | March 31, 2007 | Dec. 31, 2006 |
|--|-------------------|------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 38,480 | \$ 40,898 |
| Accounts and notes receivable, net of allowance for doubtful accounts and sales returns of \$7,337 in 2007 and \$8,559 in 2006 | 143,817 | 121,834 |
| Income taxes recoverable | 2,850 | 10,975 |
| Inventories | 73,863 | 68,930 |
| Deferred income taxes | 7,567 | 6,055 |
| Prepaid expenses and other | 3,920 | 4,558 |
| Total current assets | 270,497 | 253,250 |
| Property, plant and equipment, at cost | 682,395 | 676,406 |
| Less accumulated depreciation | 361,987 | 350,643 |
| Net property, plant and equipment | 320,408 | 325,763 |
| Other assets and deferred charges | 64,360 | 64,078 |
| Goodwill and other intangibles | 138,893 | 138,696 |
| Total assets | \$794,158 | \$781,787 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 88,181 | \$69,426 |
| Accrued expenses | 36,706 | 41,906 |
| Current portion of long-term debt | 481 | 678 |
| Total current liabilities | 125,368 | 112,010 |
| Long-term debt | 41,716 | 61,842 |
| Deferred income taxes | 77,065 | 75,772 |
| Other noncurrent liabilities | 17,635 | 15,568 |
| Total liabilities | 261,784 | 265,192 |
| Commitments and contingencies (Notes 1 and 2) | | |
| Shareholders' equity: | | |

| | | |
|--|-----------|-----------|
| Common stock, no par value | 124,966 | 120,508 |
| Common stock held in trust for savings restoration plan | (1,296) | (1,291) |
| Foreign currency translation adjustment | 23,560 | 21,522 |
| Gain on derivative financial instruments | 887 | 654 |
| Pension and other postretirement benefit adjustments | (20,916) | (21,211) |
| Retained earnings | 405,173 | 396,413 |
| Total shareholders' equity | 532,374 | 516,595 |
| Total liabilities and shareholders' equity | \$794,158 | \$781,787 |

See accompanying notes to financial statements.

2

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

| | Three Months Ended March 31 | |
|---|--------------------------------|-----------------|
| | 2007 | 2006 |
| Revenues and other items: | | |
| Sales | \$ 281,594 | \$ 267,964 |
| Other income (expense), net | 294 | 12 |
| | 281,888 | 267,976 |
| Costs and expenses: | | |
| Cost of goods sold | 238,388 | 226,638 |
| Freight | 6,147 | 6,474 |
| Selling, general and administrative | 17,780 | 16,252 |
| Research and development | 1,942 | 1,849 |
| Amortization of intangibles | 37 | 37 |
| Interest expense | 824 | 1,432 |
| Asset impairments and costs associated with exit and disposal activities | 733 | 1,692 |
| Total | 265,851 | 254,374 |
| Income before income taxes | 16,037 | 13,602 |
| Income taxes | 5,704 | 5,387 |
| Net income | \$ 10,333 | \$ 8,215 |
| Earnings per share: | | |
| Basic | \$.26 | \$.21 |
| Diluted | .26 | .21 |
| Shares used to compute earnings per share: | | |
| Basic | 39,272 | 38,602 |
| Diluted | 39,487 | 38,664 |
| Dividends per share | \$.04 | \$.04 |

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

| | Three Months Ended March 31 | |
|---|--------------------------------|-----------|
| | 2007 | 2006 |
| Cash flows from operating activities: | | |
| Net income | \$ 10,333 | \$ 8,215 |
| Adjustments for noncash items: | | |
| Depreciation | 11,259 | 10,713 |
| Amortization of intangibles | 37 | 37 |
| Deferred income taxes | (1,633) | 4,478 |
| Accrued pension and postretirement benefits | (439) | 828 |
| 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 | (21,147) | (32,633) |
| Inventories | (4,345) | 2,226 |
| Income taxes recoverable | 8,125 | (284) |
| Prepaid expenses and other | 1,039 | 482 |
| Accounts payable | 18,309 | 21,265 |
| Accrued expenses and income taxes payable | (3,301) | 1,714 |
| Other, net | 1,095 | (681) |
| Net cash provided by operating activities | 19,670 | 17,454 |
| Cash flows from investing activities: | | |
| Capital expenditures | (7,164) | (13,074) |
| Proceeds from the sale of assets, property disposals & reimbursements from customers for purchases of equipment | 2,762 | 56 |
| Other, net | | (158) |
| Net cash used in investing activities | (4,402) | (13,176) |
| Cash flows from financing activities: | | |
| Dividends paid | (1,579) | (1,552) |
| Debt principal payments | (20,323) | (648) |
| Borrowings | | 4,000 |
| Proceeds from exercise of stock options | 4,089 | 461 |
| Net cash (used in) provided by financing activities | (17,813) | 2,261 |
| Effect of exchange rate changes on cash | 127 | 165 |
| (Decrease) increase in cash and cash equivalents | (2,418) | 6,704 |
| Cash and cash equivalents at beginning of period | 40,898 | 23,434 |
| Cash and cash equivalents at end of period | \$ 38,480 | \$ 30,138 |

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 | Foreign Currency Trans- lation | Accumulated Other Comprehensive Income (Loss) | | Total Share- holders Equity |
|--|-----------------|----------------------------|---|---|---|---|--------------------------------------|
| | | | | | Gain (Loss) on Derivative Financial Instruments | Pension & Other Post- retirement Benefit Adjust. | |
| Balance December 31, 2006 | \$ 120,508 | 396,413 | \$ (1,291) | \$ 21,522 | \$ 654 | \$ (21,211) | \$ 516,595 |
| Comprehensive income: | | | | | | | |
| Net income | | 10,333 | | | | | 10,333 |
| Other comprehensive income (loss): | | | | | | | |
| Available-for-sale securities adjustment | | | | | | | |
| Foreign currency translation adjustment (net of tax of \$1,100) | | | | 2,038 | | | 2,038 |
| Derivative financial instruments adjustment (net of tax of \$148) | | | | | 233 | | 233 |
| Amortization of prior service costs and net gains or losses (net of tax of \$163) | | | | | | 295 | 295 |
| Comprehensive income | | | | | | | 12,899 |
| Cash dividends declared (\$.04 per share) | | (1,578) | | | | | (1,578) |
| Stock options and restricted stock awards | 331 | | | | | | 331 |
| Issued upon exercise of stock options and stock compensation plans (including related income tax benefits of \$319) | 4,127 | 5 | (5) | | | | 4,127 |
| Balance March 31, 2007 | \$ 124,966 | 405,173 | \$ (1,296) | \$ 23,560 | \$ 887 | \$ (20,916) | \$ 532,374 |

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 March 31, 2007, the consolidated results of operations for the three months ended March 31, 2007 and 2006, the consolidated cash flows for the three months ended March 31, 2007 and 2006, and the consolidated changes in shareholders equity for the three months ended March 31, 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 three months ended March 31, 2007, 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 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.

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

- A pretax charge of \$404,000 related to the shutdown of the films manufacturing facility in LaGrange, Georgia, including asset impairment charges of \$130,000 and severance (56 people) and other costs of \$274,000;
- Pretax charges of \$1 million for asset impairments relating to machinery and equipment in Film Products; and

Pretax charges of \$268,000 for severance and other employee-related costs in connection with restructurings in Film Products (\$159,000) and Aluminum Extrusions (\$109,000).

A reconciliation of the beginning and ending balances of accrued expenses associated with plant shutdowns and divestitures for the three months ended March 31, 2007 is as follows:

| (In Thousands) | Severance | Asset Impairments | Other (a) \$ | Total |
|-----------------------------------|-----------|----------------------|-----------------|----------|
| Balance at December 31, 2006 | \$ 436 | \$ | 4,622 | \$ 5,058 |
| Changes in first quarter of 2007: | | | | |
| Charges | | 338 | 395 | 733 |
| Cash spent | (121) | | (547) | (668) |
| Charged against assets | | (338) | | (338) |
| | \$ | | \$ | |
| Balance at March 31, 2007 | 315 | \$ | 4,470 | \$ 4,785 |

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

In the first quarter 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.

6

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

| (In Thousands) | Three Months Ended March 31 | |
|---|--------------------------------|----------|
| | 2007 | 2006 |
| Net income | \$ 10,333 | \$ 8,215 |
| 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 | 2,038 | 690 |
| Derivative financial instrument adjustment | 233 | 97 |
| Amortization of prior service costs and net gains or losses from pension and other postretirement benefit plans | 295 | |
| Comprehensive income | \$ 12,899 | \$ 8,979 |

4. The components of inventories are as follows:

| (In Thousands) | March 31, 2007 | Dec. 31, 2006 |
|----------------|-------------------|------------------|
|----------------|-------------------|------------------|

| | | |
|----------------------------|-----------|-----------|
| Finished goods | \$ 14,215 | \$ 15,412 |
| Work-in-process | 5,713 | 4,540 |
| Raw materials | 38,483 | 34,185 |
| Stores, supplies and other | 15,452 | 14,793 |
| Total | \$ 73,863 | \$ 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:

| (In Thousands) | Three Months Ended March 31 | |
|---|--------------------------------|--------|
| | 2007 | 2006 |
| Weighted average shares outstanding used to compute basic earnings per share | 39,272 | 38,602 |
| Incremental shares attributable to stock options and restricted stock | 215 | 62 |
| Shares used to compute diluted earnings per share | 39,487 | 38,664 |

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, 2007 and 2006, 69,405 and 1,395,991, 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 represents less than 2% of its total partnership capital.

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:

| (In Thousands) | Pension Benefits for 3 Months Ended March 31 | | Other Post-Retirement Benefits for 3 Months Ended March 31 | |
|------------------------|--|------------|--|---------|
| | 2007 | 2006 | 2007 | 2006 |
| Service cost | \$ (1,241) | \$ (1,396) | \$ (21) | \$ (22) |
| Interest cost | (3,229) | (3,257) | (152) | (135) |
| Employee contributions | | | | |
| Other | (32) | (21) | | |

| | | | | |
|---|--------|----------|----------|----------|
| Expected return on plan assets | 5,572 | 5,238 | | |
| Amortization of prior service costs, gains or losses and net transition asset | (474) | (1,239) | 16 | 4 |
| Net periodic benefit income (cost) | \$ 596 | \$ (675) | \$ (157) | \$ (153) |

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

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, 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 March 31 | |
|---|--------------------------------|------------|
| | 2007 | 2006 |
| Net Sales | | |
| Film Products | \$ 136,061 | \$ 126,331 |
| Aluminum Extrusions | 139,386 | 135,159 |
| Total net sales | 275,447 | 261,490 |
| Add back freight | 6,147 | 6,474 |
| Sales as shown in the Consolidated Statements of Income | \$ 281,594 | \$ 267,964 |
| Operating Profit | | |
| Film Products: | | |
| Ongoing operations | \$ 16,820 | \$ 15,577 |
| Plant shutdowns, asset impairments and restructurings | (367) | (1,583) |
| Aluminum Extrusions: | | |
| Ongoing operations | 3,466 | 4,866 |
| Plant shutdowns, asset impairments and restructurings | | (109) |
| AFBS (formerly Therics): | | |
| Loss on investment in Therics, LLC | | (25) |
| Plant shutdowns, asset impairments and restructurings | (366) | |

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| | | |
|---------------------------------------|-----------|----------|
| Total | 19,553 | 18,726 |
| Interest income | 388 | 222 |
| Interest expense | 824 | 1,432 |
| Gain on sale of corporate assets | | 56 |
| Stock option-based compensation costs | 269 | 211 |
| Corporate expenses, net | 2,811 | 3,759 |
| Income before income taxes | 16,037 | 13,602 |
| Income taxes | 5,704 | 5,387 |
| Net income | \$ 10,333 | \$ 8,215 |

9

9. 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.

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 March 31, 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.

10. In February 2007, the FASB issued 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. The statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FASB Statement No. 157, *Fair Value Measurements*. We are evaluating the new standard and our financial instruments to determine whether or not we will elect the fair value option.

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 25-27 and are incorporated herein.

Executive Summary

First-quarter 2007 net income was \$10.3 million (26 cents per share) compared with \$8.2 million (21 cents per share) in the first quarter of 2006. 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 months ended March 31, 2007 and 2006:

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

| | Three Months Ended March 31 | |
|---|--------------------------------|------------|
| | 2007 | 2006 |
| <u>Net Sales</u> | | |
| Film Products | \$ 136,061 | \$ 126,331 |
| Aluminum Extrusions | 139,386 | 135,159 |
| Total net sales | 275,447 | 261,490 |
| Add back freight | 6,147 | 6,474 |
| Sales as shown in the Consolidated Statements of Income | \$ 281,594 | \$ 267,964 |
| <u>Operating Profit</u> | | |
| Film Products: | | |
| Ongoing operations | \$ 16,820 | \$ 15,577 |
| Plant shutdowns, asset impairments and restructurings | (367) | (1,583) |
| Aluminum Extrusions: | | |
| Ongoing operations | 3,466 | 4,866 |
| Plant shutdowns, asset impairments and restructurings | | (109) |
| AFBS (formerly Therics): | | |
| Loss on investment in Therics, LLC | | (25) |

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| | | |
|---|-----------|----------|
| Plant shutdowns, asset impairments and restructurings | (366) | |
| Total | 19,553 | 18,726 |
| Interest income | 388 | 222 |
| Interest expense | 824 | 1,432 |
| Gain on sale of corporate assets | | 56 |
| Stock option-based compensation costs | 269 | 211 |
| Corporate expenses, net | 2,811 | 3,759 |
| Income before income taxes | 16,037 | 13,602 |
| Income taxes | 5,704 | 5,387 |
| Net income | \$ 10,333 | \$ 8,215 |

11

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. Net sales and operating profit from ongoing operations in Film Products were up 7.7% and 8.0%, respectively, in the first quarter of 2007 compared with the first quarter of 2006. Volume was 65.3 million pounds in the first quarter of 2007 compared with 64.5 million pounds in the first quarter of last year. The increase in net sales and volume were primarily due to increased sales of high-value surface protection films and elastic materials, partially offset by lower sales of certain commodity barrier films that were dropped in conjunction with the shutdown in the second quarter of 2006 of the plant in LaGrange, Georgia. Volume was up 2.6 million pounds or 4.1% from the fourth quarter of 2006, which the company believes was adversely affected by customer inventory adjustments.

Profits increased in the first quarter of 2007 compared with the first quarter of 2006 due primarily to higher volume noted above and appreciation of the U.S. Dollar equivalent value of functional currencies for operations outside of the U.S. We also estimate that the lag in the pass-through of lower average resin costs had a positive impact on operating profit of \$500,000 in the first quarter of 2007. During the first quarter of last year, we estimate that profits were positively affected by \$2.0 million from the lag in the pass-through of lower average 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. Further information on resin prices and currencies are provided in Item 3 beginning on page 19.

In the last twelve months, excluding the effects of resin lag and LIFO adjustments, quarterly operating profit in Film Products has had significant ups and downs. Future performance in this business is likely to exhibit similar fluctuations, with growth primarily dependent on further increases in sales of high-value surface protection, elastic and apertured materials and new products developed using related core technologies.

Capital expenditures were \$5.0 million in the first quarter of 2007 and are projected to be approximately \$30 million for the year. Depreciation expense was \$8.2 million in the first quarter of 2007 and is projected to be \$33 million for the year.

Aluminum Extrusions. Net sales in Aluminum Extrusions were up 3.1% in the first quarter of 2007 compared with the first quarter of last year primarily due to higher selling prices substantially offset by lower volume. Volume decreased to 57.7 million pounds in the first quarter of 2007, down 9.4% from 63.7 million pounds in the first quarter of 2006. Lower shipments were primarily due to declines in demand for extrusions used in hurricane protection products and residential construction, partially offset by continued growth for extrusions used in commercial construction. Overall backlog at the end of the quarter was 14.3 million pounds, down from 19.7 million pounds at March 31, 2006, and the lowest quarterly level since the December 2003 level of 13.1 million pounds. Operating profit from ongoing operations decreased to \$3.5 million in the first quarter of 2007, down 28.6% from \$4.9 million in the first quarter of 2006. The decrease in operating profit was mainly due to lower volume partially offset by higher selling prices.

We are very focused on reducing our operating costs in light of the downturn in hurricane protection and residential construction markets, while trying to maintain our strength in commercial construction markets and sufficient flexibility to participate in cyclical upswings.

Capital expenditures in the first quarter of 2007 were \$2.2 million and are projected to be approximately \$11 million for the year. Depreciation expense was \$3 million in the first quarter of 2007 and is expected to be \$12.7 million for the year.

12

Other Items. Net pension income was \$596,000 in the first quarter of 2007, a favorable change of \$1.3 million (2 cents per share after taxes) from the net pension expense of \$675,000 recognized in the first quarter of 2006. Most of this favorable change relates to a pension plan that is reflected in Corporate expenses, net in the operating profit by segment table. See Note 7 on page 8 for components of pension income for the quarters ended March 31, 2007 and 2006. We contributed \$1.1 million to our pension plans in 2006 and expect to contribute the same amount in 2007.

Interest expense was \$824,000 in the first quarter of 2007, a decline of \$608,000 (1 cent per share after taxes) versus the first quarter of last year due to lower average debt outstanding. The effective tax rate was 35.6% in the first quarter of 2007 compared with 39.6% in the first quarter of 2006. The decrease in the effective tax rate, which had a favorable impact of approximately 1 cent per share, was mainly due to differences in income taxes accrued on operations outside of the U.S.

During the first quarter of 2007, we adopted new accounting standards for maintenance costs and uncertain income tax positions, neither of which resulted in adjustments to results of operations or financial condition reported in prior periods.

Net capitalization and other credit measures are provided in the liquidity and capital resources section beginning on page 15.

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, 2006, 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, 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. 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 2007 and the comparable period in 2006.

Recently Issued Accounting Standards

In February 2007, the FASB issued 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. The statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FASB Statement No. 157, *Fair Value Measurements*. We are evaluating the new standard and our financial instruments to determine whether or not we will elect the fair value option.

Results of Operations*First Quarter 2007 Compared with First Quarter 2006*

Overall, sales in the first quarter of 2007 increased by 5.1% compared with 2006. Net sales (sales less freight) increased 7.8% in Film Products primarily due to increased sales of high-value surface protection films and elastic materials, partially offset by lower sales of certain commodity barrier films that were dropped in conjunction with the shutdown in the second quarter of 2006 of the plant in LaGrange, Georgia. Net sales increased 3.1% in Aluminum Extrusions due to higher selling prices substantially offset by lower volume. For more information on net sales and volume, see the executive summary beginning on page 11.

Consolidated gross profit (sales minus cost of goods sold and freight) as a percentage of sales increased to 13.2% in the first quarter of 2007 from 13.0% in 2006. The gross profit margin increased in Film Products but decreased in Aluminum Extrusions primarily because of the changes in net sales noted above.

As a percentage of sales, selling, general and administrative and R&D expenses were 7.0% in the first quarter of 2007, up from 6.8% in the first quarter of last year. The increase is primarily due to higher costs associated with a new information system in Film Products and higher incentive compensation accruals.

Plant shutdowns, asset impairments and restructurings in the first quarter of 2007 shown in the segment operating profit table on page 11 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.

Plant shutdowns, asset impairments and restructurings in the first quarter of 2006 shown in the segment operating profit table on page 11 include:

- A pretax charge of \$404,000 related to the shutdown of the films manufacturing facility in LaGrange, Georgia, including asset impairment charges of \$130,000 and severance (56 people) and other costs of \$274,000;
- Pretax charges of \$1 million for asset impairments relating to machinery and equipment in Film Products; and
- Pretax charges of \$268,000 for severance and other employee-related costs in connection with restructurings in Film Products (\$159,000) and Aluminum Extrusions (\$109,000).

In the first quarter 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 on page 11. For more information on costs and expenses, see the executive summary beginning on page 11.

14

Interest income, which is included in Other income (expense), net in the consolidated statements of income, was \$388,000 in the first quarter of 2007 and \$222,000 in 2006. Interest expense was \$824,000 in the first quarter of 2007, a decline of \$608,000 (1 cent per share after taxes) versus the first quarter of last year due to lower average debt outstanding. Average debt outstanding and interest rates were as follows:

| (In Millions) | Three Months Ended March 31 | |
|--|--------------------------------|----------|
| | 2007 | 2006 |
| Floating-rate debt with interest charged on a rollover basis at one-month LIBOR: | | |
| Average outstanding debt balance | \$ 51.2 | \$ 109.6 |
| Average interest rate | 6.1% | 5.4% |
| Fixed-rate and other debt: | | |
| Average outstanding debt balance | \$ 2.4 | \$ 5.7 |
| Average interest rate | 4.9% | 6.7% |
| Total debt: | | |
| Average outstanding debt balance | \$ 53.6 | \$ 115.3 |
| Average interest rate | 6.0% | 5.5% |

The effective tax rate was 35.6% in the first quarter of 2007 compared with 39.6% in the first quarter of 2006. The decrease in the effective tax rate, which had a favorable impact of approximately 1 cent per share, was mainly due to differences in income taxes accrued on operations outside of the U.S.

Liquidity and Capital Resources

Changes in operating assets and liabilities from December 31, 2006 to March 31, 2007 are summarized below:

- Accounts receivable increased significantly by \$22.0 million (18.0%).
 - Accounts receivable in Film Products increased by \$6.5 million due to higher sales. Days sales outstanding (DSO) was 47 at March 31, 2007, consistent with December 31, 2006 DSO of 46 days.
 - Accounts receivable in Aluminum Extrusions increased by \$15.5 million due to higher sales. DSO was approximately 45 at March 31, 2007, consistent with historical levels.

- Inventories increased by \$4.9 million (7.1%).
 - Inventories in Films Products increased by \$698,000. Inventory days were 41 at March 31, 2007, down 2 days since December 31, 2006.
 - Inventories in Aluminum Extrusions increased by \$4.2 million. Inventory days were 36 at March 31, 2007, consistent with December 31, 2006.
- Net property, plant and equipment were down \$5.4 million (1.6%) due primarily to depreciation of \$11.3 million compared with capital expenditures of \$7.2 million, \$2.6 million received from a customer for reimbursement of certain machinery and equipment costs and asset impairments relating to machinery and equipment in Film Products of \$338,000, partially offset by appreciation of foreign currencies relative to the U.S. Dollar (favorable impact of \$1.9 million).
- Accounts payable increased significantly by \$18.8 million (27.0%).
 - Accounts payable days were 32 in Film Products at March 31, 2007 compared with 29 days at December 31, 2006.
 - Accounts payable days were 35 in Aluminum Extrusions compared with 26 days at December 31, 2006 (the typical seasonal low) and 35 days at March 31, 2006.

Cash provided by operating activities was \$19.7 million in the first three months of 2007 compared with \$17.5 million in 2006. The change is primarily related to normal volatility of working capital components.

Cash used in investing activities was \$4.4 million in the first three months of 2007, down from \$13.2 million in 2006 due primarily to lower capital expenditures and a \$2.6 million reimbursement received from a customer related to equipment purchases.

Capital expenditures in the first three months of 2007 primarily included the normal replacement of machinery and equipment and continued expansion of capacity for surface protection films and elastic materials. Capital expenditures for all of 2007 are expected to be approximately \$30 million in Film Products and about \$11 million in Aluminum Extrusions.

Net cash flow used in financing activities was \$17.8 million in the first quarter of 2007, and related to repayments on our revolving credit facility with excess cash flow of \$20.3 million, the payment of regular quarterly dividends of \$1.6 million (4 cents per share) and proceeds received from the exercise of stock options (\$4.1 million).

Further information on cash flows for the quarters ended March 31, 2007 and 2006 are provided in the consolidated statements of cash flows on page 4.

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 represents less than 2% of its total partnership capital.

Net capitalization and indebtedness as defined under our revolving credit agreement as of March 31, 2007 are as follows:

Net Capitalization and Indebtedness as of March 31, 2007
(In Thousands)

| | |
|--|------------|
| Net capitalization: | |
| Cash and cash equivalents | \$ 38,480 |
| Debt: | |
| \$300 million revolving credit agreement maturing December 15, 2010 | 40,000 |
| Other debt | 2,197 |
| Total debt | 42,197 |
| Debt net of cash and cash equivalents | 3,717 |
| Shareholders equity | 532,374 |
| Net capitalization | \$ 536,091 |
| Indebtedness as defined in revolving credit agreement: | |
| Total debt | \$ 42,197 |
| Face value of letters of credit | 6,013 |
| Liabilities relating to derivative financial instruments | 77 |
| Indebtedness | \$ 48,287 |

Under the revolving credit agreement, borrowings are permitted up to \$300 million, and \$259 million was available to borrow at March 31, 2007. 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, 2007, 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.

17

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 March 31, 2007 (In Thousands)

Computations of adjusted EBITDA and adjusted EBIT as defined in revolving credit agreement for the twelve months ended March 31, 2007:

| | |
|--|-----------|
| Net income | \$ 40,319 |
| Plus: | |
| After-tax losses related to discontinued operations | |
| Total income tax expense for continuing operations | 20,953 |
| Interest expense | 4,912 |
| Charges related to stock option grants and awards accounted for under the fair value-based method | 1,028 |
| Losses related to the application of the equity method of accounting | |
| Depreciation and amortization expense for continuing operations | 44,827 |
| 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 \$3,703) | 4,041 |
| Minus: | |
| After-tax income related to discontinued operations | |
| Total income tax benefits for continuing operations | |
| Interest income | (1,406) |
| 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 (cash-related of \$373) | (3,150) |
| Plus or minus, as applicable, pro forma EBITDA adjustments associated with acquisitions and asset dispositions | |
| Adjusted EBITDA as defined in revolving credit agreement | 111,524 |
| Less: Depreciation and amortization expense for continuing operations (including pro forma for acquisitions and asset dispositions) | (44,827) |
| Adjusted EBIT as defined in revolving credit agreement | \$ 66,697 |
| Shareholders' equity at March 31, 2007 | \$532,374 |
| Computations of leverage and interest coverage ratios as defined in revolving credit agreement: | |
| Leverage ratio (indebtedness-to-adjusted EBITDA) | .44x |

| | |
|---|-----------|
| Interest coverage ratio (adjusted EBIT-to-interest expense) | 13.58x |
| 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) | \$124,712 |
| Minimum adjusted shareholders equity permitted (\$351,918 plus 50% of net income generated after October 1, 2005) | \$376,630 |
| Maximum leverage ratio permitted: | |
| Ongoing | 3.00x |
| Pro forma for acquisitions | 2.50x |
| Minimum interest coverage ratio permitted | 2.50x |

We believe that as of March 31, 2007, we were, and currently we are, in compliance with all of our debt covenants. Noncompliance with any one or more of the debt covenants may have an 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 a covenant through an amendment to the revolving credit agreement may effectively cure the noncompliance, but may have an effect on financial condition or liquidity depending upon how the 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 section on liquidity and capital resources beginning on page 15 regarding the revolving credit agreement 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 energy costs. There is no assurance of our ability to pass through higher raw material and energy costs to our customers.

Average quarterly prices of low density polyethylene resin (a primary raw material for Film Products) are 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 prices of oil, ethylene and natural gas. To address fluctuating resin prices, we have indexed pass-through or cost-sharing agreements covering a majority of our sales, but many have a 90-day lag. Most new customer contracts contain resin pass-through arrangements.

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 (see the chart below) by entering into fixed-price forward purchase contracts with our natural gas suppliers. As of March 31, 2007, the Company had fixed prices through its natural gas suppliers for a portion of its usage through the end of the year. We estimate that, in an unhedged situation, every \$1 per mmBtu per month change in the market price of natural gas has a \$150,000 impact on the monthly operating profit of Aluminum Extrusions.

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 our U.S. plants. The percentage of sales from manufacturing operations related to foreign markets for the first three months of 2007 and 2006 are as follows:

| Percentage of Net Sales from Manufacturing Operations Related to Foreign Markets* | | | | | |
|--|----------------------|-----------------------|----------------------|-----------------------|--|
| Three Months Ended March 31 | | | | | |
| | 2007 | | 2006 | | |
| | Exports From U.S. | Foreign Operations | Exports From U.S. | Foreign Operations | |
| Canada | 4% | 13% | 4% | 15% | |
| Europe | 1 | 13 | 1 | 12 | |
| Latin America | | 2 | | 2 | |
| Asia | 4 | 5 | 5 | 3 | |
| Total | 9% | 33% | 10% | 32% | |

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

We attempt to match the pricing and cost of our products in the same currency (except in Canada where about 80% of our sales of aluminum extrusions are U.S. Dollar-based) and generally view the volatility of foreign currencies (see trends for the Euro, Canadian Dollar and Chinese Yuan in the chart on page 23) 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 foreign operations relates to the Canadian Dollar, the Euro, the Chinese Yuan, the Hungarian Forint and the Brazilian Real.

The relatively high percentage of U.S. Dollar-priced sales in Canada causes a mismatch between the currency denomination of sales and costs resulting in lower U.S. Dollar translated profits when the Canadian Dollar appreciates since our costs are higher in U.S. Dollar equivalent terms while sales are mostly unaffected (the opposite effect occurs when the Canadian Dollar depreciates in value relative to the U.S. Dollar). Changes in the value of the Canadian Dollar relative to the U.S. Dollar had an immaterial impact on operating profit the first quarter of 2007 compared with the first quarter of 2006. In Film Products, where we have been able to better match the currency of our sales and costs, we estimate that the appreciation of foreign currencies (primarily the Euro and Hungarian Forint and to a lesser extent the Chinese Yuan and Brazilian Real) relative to the U.S. Dollar had a positive impact on operating profit of about \$700,000 in the first quarter of 2007 compared with 2006.

We continue to review the loading of our aluminum extrusions plants in North America to optimize production mix and minimize cost in light of the increase in the U.S. Dollar equivalent cost structure of our plants in Canada. In addition, we have partially hedged our exposure to the Canadian Dollar and Euro as shown in the following tables (accounted for as cash flow hedges):

(In Thousands Except Exchange Rates)

| Description of Currency Exposure, Options Hedging Strategy Used & Periods Covered | Notional Amount of Option Contracts | Notional Amount as a % of Forecasted CAD- Related Period | Net Option Premium (Paid) Received | USD-Equivalent Strike Prices of Options Bought & Sold on CAD/USD Call Put | | Pretax Unrealized Gain (Loss) on Options at 3/31/07 Included in Shareholders Equity | USD- Equiv. Average Price of CAD for Period | C (Paid) Rece fr Cou part Exp of O |
|--|--|--|--|---|--------------|--|--|---|
| | | | | Options Bought | Options Sold | | | |
| <u>Exposure:</u> About 80% of sales of extrusions manufactured in facilities in Canada are denominated or economically priced in U.S. Dollars (USD) while conversion costs are denominated or economically priced in Canadian Dollars (CAD). | | | | | | | | |
| <u>Hedge Strategy:</u> Bought average rate call options & sold average rate put options on CAD/USD. | | | | | | | | |
| <u>Periods Covered by Option Contracts:</u> | | | | | | | | |
| 5/11/06 to end of second quarter 2006 | \$2,500 | 38% | \$ | \$ 0.9500 | \$ 0.8850 | n/a | \$ 0.8995 | |
| Third quarter 2006 | 5,000 | 40% | | 0.9500 | 0.8749 | n/a | 0.8919 | |
| Fourth quarter 2006 | 6,500 | 53% | | 0.9324 | 0.8650 | n/a | 0.8793 | |
| First quarter 2007 | 3,500 | 28% | | 0.9100 | 0.8380 | n/a | 0.8534 | |
| First quarter 2007 | 3,500 | 28% | | 0.9000 | 0.8345 | n/a | 0.8534 | |
| Second quarter 2007 | 3,500 | 28% | | 0.9100 | 0.8430 | \$ (1) | n/a | |
| Second quarter 2007 | 3,500 | 28% | | 0.9000 | 0.8364 | - | n/a | |
| Third quarter 2007 | 3,500 | 28% | | 0.9100 | 0.8473 | (10) | n/a | |
| Third quarter 2007 | 3,500 | 28% | | 0.9000 | 0.8403 | | n/a | |
| Fourth quarter 2007 | 3,500 | 28% | | 0.9100 | 0.8516 | (15) | n/a | |
| Fourth quarter 2007 | 3,500 | 28% | | 0.9000 | 0.8446 | (1) | n/a | |
| | | | | | | \$ (27) | | |

(In Thousands Except Exchange Rates)

Sensitivity Analysis of Amount Tredegar (Pays to)
Receives
from Counterparty in 2007 for Settlement of CAD/USD
Options

Average Average

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| CAD Per | USD Equiv. | First | Second | Third | Fourth | |
|---------|------------|----------|----------|----------|----------|----------|
| USD | of CAD | Quarter | Quarter | Quarter | Quarter | Total |
| 1.21951 | \$0.8200 | \$ (136) | \$ (164) | \$ (197) | \$ (232) | \$ (729) |
| 1.20482 | 0.8300 | (52) | (81) | (115) | (149) | (397) |
| 1.19048 | 0.8400 | | (12) | (32) | (67) | (111) |
| 1.17647 | 0.8500 | | | | (7) | (7) |
| 1.16279 | 0.8600 | | | | | |
| 1.14943 | 0.8700 | | | | | |
| 1.13636 | 0.8800 | | | | | |
| 1.12360 | 0.8900 | | | | | |
| 1.11111 | 0.9000 | | | | | |
| 1.09890 | 0.9100 | 39 | 39 | 39 | 39 | 155 |
| 1.08696 | 0.9200 | 116 | 116 | 116 | 116 | 465 |
| 1.07527 | 0.9300 | 194 | 194 | 194 | 194 | 774 |
| 1.06383 | 0.9400 | 271 | 271 | 271 | 271 | 1,084 |

(In Thousands Except Exchange Rates)

Notional
Amount as
a % of

USD-Equivalent

Pretax
Unrealized

USD-

Ca
(Paid

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| Description of Currency Exposure, Options Hedging Strategy Used & Periods Covered | Notional Amount of Option Contracts | Forecasted | Strike Prices of | Gain (Loss) | Equiv. | Rece |
|--|--|---|-------------------------------------|--|---|---|
| | | USD-Equiv. Royalty from Nether- lands Sub | & Sold on EUR/USD Call Put | on Options 3/31/07 Included in Shareholders Equity | Average Reference Price of EUR for Period | from Cour party Expir of Op |
| | | Net Option Premium (Paid) Received | Options Sold | Options Bought | | |
| | | | | | | |
| <u>Exposure:</u> Significant royalty on sales from film technology licensed to subsidiary in the Netherlands is earned in Euros (EUR). | | | | | | |
| <u>Hedge Strategy:</u> Sold average rate call options & bought average rate put options on EUR/USD. | | | | | | |
| <u>Periods Covered by Option Contracts:</u> | | | | | | |
| First quarter 2007 | \$ 3,200 | 74% | \$ 1.3350 | \$ 1.2800 | n/a | \$ 1.3101 |
| Second quarter 2007 | 3,200 | 82% | 1.3480 | 1.2800 | \$ (9) | n/a |
| Third quarter 2007 | 3,200 | 75% | 1.3575 | 1.2800 | (19) | n/a |
| Fourth quarter 2007 | 3,200 | 76% | 1.3640 | 1.2800 | (22) | n/a |
| | | | | | \$ (50) | |

(In Thousands Except
Exchange Rates)

| Sensitivity Analysis of Amount Tredegar (Pays to) Receives from Counterparty in 2007 for Settlement of EUR/USD Options | | | | | | | |
|---|------------------------------------|------------------|-------------------|------------------|-------------------|--------|--|
| Average EUR Per USD | Average USD Equiv. of EUR | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Total | |
| | \$ | | | | | | |
| 0.84034 | 1.1900 | \$ 225 | \$ 225 | \$ 225 | \$ 225 | \$ 900 | |
| 0.82645 | 1.2100 | 175 | 175 | 175 | 175 | 700 | |
| 0.81301 | 1.2300 | 125 | 125 | 125 | 125 | 500 | |
| 0.80000 | 1.2500 | 75 | 75 | 75 | 75 | 300 | |
| 0.78740 | 1.2700 | 25 | 25 | 25 | 25 | 100 | |
| 0.77519 | 1.2900 | | | | | | |
| 0.76336 | 1.3100 | | | | | | |
| 0.75188 | 1.3300 | | | | | | |
| 0.74074 | 1.3500 | (36) | (5) | | | (41) | |
| 0.72993 | 1.3700 | (84) | (52) | (29) | (14) | (180) | |
| 0.71942 | 1.3900 | (132) | (100) | (77) | (61) | (369) | |
| 0.70922 | 1.4100 | (180) | (147) | (124) | (108) | (559) | |
| 0.69930 | 1.4300 | (228) | (195) | (171) | (155) | (748) | |

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

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

23

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, 2007, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

24

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

On June 23, 2005, the United States Environmental Protection Agency, Region 4 (EPA), issued an Administrative Order (Docket No. CAA-04-2005-1838, the Order) under the Clean Air Act (as amended from time to time, the Act) alleging certain violations by Aluminum Extrusions Carthage, Tennessee facility of the refrigerant management regulations promulgated pursuant to the Act. The Order alleged that the violations occurred primarily in 2002 and 2003.

The Order required Aluminum Extrusions to either replace the cooling system at issue or retrofit it with an EPA approved non-ozone depleting substance. The Order further required Aluminum Extrusions to comply with certain applicable provisions of the Act and to provide certified documentation verifying compliance with the Order. Aluminum Extrusions was required to comply with all terms of the Order within 180 days from issuance.

Aluminum Extrusions fulfilled all obligations imposed by the Order during 2005, and reported that fact in a letter to the EPA dated October 25, 2005. Although Aluminum Extrusions has not admitted any violations to the EPA pursuant to the Order, Aluminum Extrusions elected to replace the affected cooling system and incurred related replacement costs of approximately \$110,000.

Pursuant to a Consent Agreement and Final Order (CAFO) that became effective May 9, 2006, Aluminum Extrusions (i) paid a civil penalty of \$30,422 and (ii) undertook a supplemental environmental project (SEP) in an amount of at least \$208,170 (Minimum SEP Expenditure). The CAFO requires that the SEP be fully implemented within one year of the CAFO s effective date. On July 6, 2006, Aluminum Extrusions completed the SEP at a cost of \$296,432. Management sent a report to the EPA in the fourth quarter of 2006 indicating that it believes that the SEP was completed in a satisfactory and timely manner. On March 7, 2007, the EPA sent a letter to Aluminum Extrusions agreeing that the SEP was completed in a satisfactory and timely manner, and terminated the CAFO.

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 include, but are not limited to, the following:

General

- ***Our future performance is influenced by costs incurred by our operating companies including, for example, the cost of energy and raw materials.*** These costs include, without limitation, the cost of resin (the raw material on which Film Products primarily depends), aluminum (the raw material on which Aluminum Extrusions primarily depends), natural gas (the principal fuel necessary for Aluminum Extrusions plants to operate), electricity and diesel fuel. Resin, aluminum and natural gas prices are volatile, and the prices for resin and aluminum have increased significantly since early 2002. Tredegar attempts to mitigate the effects of increased costs through price increases and contractual pass-through provisions, but there are no assurances that higher prices can effectively be passed through to our customers or that we will be able to offset fully or on a timely basis the effects of higher raw material costs through price increases or pass-through arrangements. Further, there is no assurance that cost control efforts will be sufficient to offset any additional future declines in revenue or increases in energy, raw material or other costs.
- ***Our substantial international operations subject us to risks of doing business in foreign countries, which could adversely affect our business, financial condition and results of operations.*** Risks inherent in international operations include the following, by way of example: changes in general economic conditions, potential difficulty enforcing agreements and intellectual property rights, staffing and managing widespread operations, restrictions on foreign trade or investment, restrictions on the repatriation of income, fluctuations in exchange rates, imposition of additional taxes on our foreign income, nationalization of private enterprises and unexpected adverse changes in foreign laws and regulatory requirements.

25

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- ***Non-compliance with any of the covenants in our \$300 million credit facility could result in all outstanding debt under the agreement becoming due, which could have an adverse effect on our financial condition or liquidity.*** The credit agreement governing our credit facility contains restrictions and financial covenants that

could restrict our financial flexibility. Our failure to comply with these covenants could result in an event of default, which if not cured or waived, could have an adverse effect on our financial condition and liquidity.

Film Products

- ***Film Products is highly dependent on sales associated with one customer, The Procter & Gamble Company (P&G).*** P&G comprised approximately 23% of Tredegar Corporation's net sales in 2006, 25% in 2005 and 27% in 2004. The loss or significant reduction of sales associated with P&G would have a material adverse effect on our business. Other P&G-related factors that could adversely affect our business include, by way of example, (i) failure by P&G to achieve success or maintain share in markets in which P&G sells products containing our materials, (ii) operational decisions by P&G that result in component substitution, inventory reductions and similar changes and (iii) delays in P&G rolling out products utilizing new technologies developed by Tredegar. While we have undertaken efforts to expand our customer base, there can be no assurance that such efforts will be successful, or that they will offset any delay or loss of sales and profits associated with P&G.
- ***Growth of Film Products depends on our ability to develop and deliver new products at competitive prices, especially in the personal care market.*** Personal care products are now being made with a variety of new materials and the overall cycle for changing materials has accelerated. While we have substantial technical resources, there can be no assurance that our new products can be brought to market successfully, or if brought to market successfully, at the same level of profitability and market share of replaced films. A shift in customer preferences away from our technologies, our inability to develop and deliver new profitable products, or delayed acceptance of our new products in domestic or foreign markets, could have a material adverse effect on our business. In the long term, growth will depend on our ability to provide innovative materials at a cost that meets our customers' needs.
- ***Continued growth in Film Products' sale of high value protective film products is not assured.*** A shift in our customers' preference to new or different products could have a material adverse effect on our sale of protective films. Similarly, a decline in consumer demand for notebook computers or liquid crystal display (LCD) monitors or a decline in the rate of growth in purchases of LCD televisions could have a significant negative impact on protective film sales.
- ***Our inability to protect our intellectual property rights or our infringement of the intellectual property rights of others could have a significant adverse impact on Film Products.*** Film Products operates in a field where our significant customers and competitors have substantial intellectual property portfolios. The continued success of this business depends on our ability not only to protect our own technologies and trade secrets, but also to develop and sell new products that do not infringe upon existing patents or threaten existing customer relationships. An unfavorable outcome in any intellectual property litigation or similar proceeding could have a significant adverse impact on Film Products.

- ***As Film Products expands its personal care business, we have greater credit risk that is inherent in broadening our customer base.***

Aluminum Extrusions

- ***Sales volume and profitability of Aluminum Extrusions is cyclical and highly dependent on economic conditions of end-use markets in the United States and Canada, particularly in the construction, distribution and transportation industries. Our market segments are also subject to seasonal slowdowns during the winter months.*** Because of the high degree of operating leverage inherent in our operations (generally constant fixed costs until full capacity utilization is achieved), the percentage drop in operating profits in a cyclical downturn will likely exceed the percentage drop in volume. Any benefits associated with cost reductions and productivity improvements may not be sufficient to offset the adverse effects on profitability from pricing and margin pressure and higher bad debts that usually accompany a downturn. In addition, higher energy costs and the appreciation of the U.S. Dollar equivalent value of the Canadian Dollar can further reduce profits unless offset by price increases or cost reductions and productivity improvements.
- ***The markets for our products are highly competitive with product quality, service, delivery performance and price being the principal competitive factors.*** Aluminum Extrusions has around 1,800 customers in a variety of end-use markets within the broad categories of building and construction, distribution, transportation, machinery and equipment, electrical and consumer durables. No single customer exceeds 4% of Aluminum Extrusions net sales. Due to the diverse customer mix across many end-use markets, we believe the industry generally tracks the real growth of the overall economy (historical cross-cycle volume growth has been in the 3% range).

During improving economic conditions, excess industry capacity is absorbed and pricing pressure becomes less of a factor in many of our end-use markets. Conversely, during an economic slowdown, excess industry capacity often drives increased pricing pressure in many end-use markets as competitors protect their position with key customers. Because the business is susceptible to these changing economic conditions, Aluminum Extrusions targets complex, customized, service-intensive business with more challenging requirements which is competitively more defensible compared to higher volume, standard extrusion applications.

Foreign imports, primarily from China, represent a growing portion of the North American aluminum extrusion market. Foreign competition to date has been primarily large volume, standard extrusion profiles that impact some of our less strategic end-use markets. Market share erosion in other end-use markets remains possible.

There can be no assurance that we will be able to maintain current margins and profitability. Our continued success and prospects depend on our ability to retain existing customers and participate in overall industry cross-cycle growth.

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 7, 2007

/s/ D. Andrew Edwards

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

