

TREDEGAR CORP
Form 10-K
March 06, 2009

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission File Number 1-10258

TREDEGAR CORPORATION

(Exact name of registrant as specified in its charter)

Virginia

54-1497771

(State or other jurisdiction
of incorporation or organization)

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

1100 Boulders Parkway, Richmond, Virginia

23225

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: **804-330-1000**

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class | Name of Each Exchange on Which Registered |
|--|---|
| Common Stock | New York Stock Exchange |
| Preferred Stock Purchase Rights | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No

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 at least the past 90 days. Yes No o

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [].

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

Large accelerated filer

Accelerated filer

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

Aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2008 (the last business day of the registrant's most recently completed second fiscal quarter): \$377,027,070*

Number of shares of Common Stock outstanding as of January 31, 2009: 33,909,932 (33,920,565 as of June 30, 2008)

* In determining this figure, an aggregate of 8,272,465 shares of Common Stock beneficially owned by Floyd D. Gottwald, Jr., John D. Gottwald, William M. Gottwald and the members of their immediate families has been excluded because the shares are held by affiliates. The aggregate market value has been computed based on the closing price in the New York Stock Exchange Composite Transactions on June 30, 2008.

Documents Incorporated By Reference

Portions of the Tredegar Corporation Proxy Statement for the 2009 Annual Meeting of Shareholders (the "Proxy Statement") are incorporated by reference into Part III of this Form 10-K. We expect to file our Proxy Statement with the Securities and Exchange Commission (the "SEC") and mail it to shareholders on or about April 14, 2009.

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Year Ended December 31, 2008**

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* Items 11 and 14 and portions of Items 10, 12 and 13 are incorporated by reference from the Proxy Statement.

PART I

Item 1. BUSINESS

Description of Business

Tredegear Corporation (“Tredegear”), a Virginia corporation incorporated in 1988, is engaged, through its subsidiaries, in the manufacture of plastic films and aluminum extrusions. The financial information related to Tredegear’s films and continuing aluminum segments and related to geographical areas included in Note 3 to the notes to financial statements is incorporated herein by reference. Unless the context requires otherwise, all references herein to “Tredegear,” “we,” “us” or “our” are to Tredegear Corporation and its consolidated subsidiaries.

Film Products

Tredegear Film Products Corporation and its subsidiaries (together, “Film Products”) manufacture plastic films, elastics and laminate materials primarily for personal and household care products and packaging and surface protection applications. These products are produced at locations in the United States and at plants in The Netherlands, Hungary, Italy, China and Brazil. Film Products competes in all of its markets on the basis of product innovation, quality, price and service.

Personal and Household Care Materials. Film Products is one of the largest global suppliers of apertured, breathable, elastic and embossed films, and laminate materials for personal care markets, including:

- Apertured film and nonwoven materials for use as topsheet in feminine hygiene products, baby diapers and adult incontinent products (including materials sold under the ComfortQuilt® and ComfortAire™ brand names);
- Breathable, embossed and elastic materials for use as components for baby diapers, adult incontinent products and feminine hygiene products (including elastic components sold under the Fabriflex™, StretchTab™ and FlexAire™ brand names); and
- Absorbent transfer layers for baby diapers and adult incontinent products sold under the AquiDry™ and AquiSoft™ brand names. In each of the last three years, personal care products accounted for approximately 40% of Tredegear’s consolidated net sales.

Film Products also makes apertured films, breathable barrier films and laminates that regulate fluid or vapor transmission. These products are typically used in industrial, medical, agricultural and household markets, including disposable mops, facial wipes, filter layers for personal protective suits, facial masks and landscaping fabric.

Packaging and Protective Films. Film Products produces a broad line of packaging films with an emphasis on paper products, as well as laminating films for food packaging applications. We believe these products give our customers a competitive advantage by providing cost savings with thin-gauge films that are readily printable and convertible on conventional processing equipment. Major end uses include overwrap for bathroom tissue and paper towels, and retort pouches.

Film Products also produces single and multi-layer surface protection films sold under the UltraMask® and ForceField™ brand names. These films are used in high technology applications, including protecting components of flat panel displays and liquid crystal display (“LCD”) televisions during the manufacturing process.

Raw Materials. The primary raw materials used by Film Products are low density, linear low density and high density polyethylene and polypropylene resins, which are obtained from domestic and foreign suppliers at competitive prices. We believe there will be an adequate supply of polyethylene and polypropylene resins in the immediate future. Film Products also buys polypropylene-based nonwoven fabrics based on these same resins, and we believe there will be an adequate supply of these materials in the immediate future.

Customers. Film Products sells to many branded product producers throughout the world. Its largest customer is The Procter & Gamble Company (“P&G”). Net sales to P&G totaled \$283 million in 2008, \$259 million in 2007, and \$255 million in 2006 (these amounts include film sold to third parties that converted the film into materials used with products manufactured by P&G).

P&G and Tredegar have had a successful long-term relationship based on cooperation, product innovation and continuous process improvement. The loss or significant reduction in sales associated with P&G would have a material adverse effect on our business.

Research and Development and Intellectual Property. Film Products has technical centers in Richmond, Virginia; Terre Haute, Indiana; Chieti, Italy; and Shanghai, China; and holds 199 issued patents (75 of which are issued in the U.S.) and 111 trademarks (7 of which are issued in the U.S.). Expenditures for research and development (“R&D”) were approximately \$11.0 million in 2008, \$8.4 million in 2007 and \$8.1 million in 2006.

Aluminum Extrusions

The William L. Bonnell Company, Inc. and its subsidiaries (together, “Aluminum Extrusions”) produce soft-alloy aluminum extrusions primarily for building and construction, distribution, transportation, machinery and equipment, electrical, and consumer durables markets. On February 12, 2008, we sold our aluminum extrusions business in Canada. All historical results for the Canadian business have been reflected as discontinued operations (see Note 17 to the notes to financial statements for more information).

Aluminum Extrusions manufactures mill (unfinished), anodized (coated) and painted aluminum extrusions for sale directly to fabricators and distributors that use our extrusions to produce window components, curtain walls and storefronts, tub and shower enclosures, industrial machinery and equipment and automotive parts, among other products. Sales are made primarily in the United States, principally east of the Rocky Mountains. Aluminum Extrusions competes primarily on the basis of product quality, service and price.

Aluminum Extrusions sales volume from continuing operations by market segment over the last three years is shown below:

| % of Aluminum Extrusions Sales Volume by Market Segment (Continuing Operations) | | | |
|--|------------|------|------|
| | 2008 | 2007 | 2006 |
| Building and construction: | | | |
| Commercial | 72 | 65 | 55 |
| Residential | 13 | 17 | 19 |
| Distribution | 5 | 9 | 18 |
| Transportation | 4 | 4 | 3 |
| Machinery and equipment | 2 | 2 | 2 |
| Electrical | 2 | 2 | 2 |
| Consumer durables | 2 | 1 | 1 |
| Total | 100 | 100 | 100 |

Raw Materials. The primary raw materials used by Aluminum Extrusions consist of aluminum ingot, aluminum scrap and various alloys, which are purchased from domestic and foreign producers in open-market purchases and under short-term contracts. We believe there will be an adequate supply of aluminum and other required raw materials and supplies in the immediate future.

Intellectual Property. Aluminum Extrusions holds two U.S. registered trademarks.

General

Patents, Licenses and Trademarks. Tredegar considers patents, licenses and trademarks to be of significance for Film Products. We routinely apply for patents on significant developments in this business. Our patents have remaining terms ranging from 1 to 19 years. We also have licenses under patents owned by third parties.

Research and Development. Tredegar's spending for R&D activities in 2008, 2007 and 2006 was related to Film Products. R&D spending was approximately \$11.0 million in 2008, \$8.4 million in 2007 and \$8.1 million in 2006.

Backlog. Backlogs are not material to our operations in Film Products. Overall backlog for continuing operations in Aluminum Extrusions at December 31, 2008 was down by approximately 47% compared with December 31, 2007. The demand for extruded aluminum shapes is down significantly in most market segments, which we believe is cyclical in nature. Aluminum extrusion volume from continuing operations decreased to 136.2 million pounds in 2008, down 12.6% from 155.8 million pounds in 2007. Aluminum extrusion volume was down 15.9% in 2007 from 185.2 million pounds in 2006. Shipments declined in most markets. Shipments in non-residential construction, which comprised approximately 72% of total volume in 2008, declined by approximately 2.7% in 2008 compared to 2007.

Government Regulation. Laws concerning the environment that affect or could affect our domestic operations include, among others, the Clean Water Act, the Clean Air Act, the Resource Conservation Recovery Act, the Occupational Safety and Health Act, the National Environmental Policy Act, the Toxic Substances Control Act, the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), as amended, regulations promulgated under these acts, and any other federal, state or local laws or regulations governing environmental matters. At December 31, 2008, we believe that we were in substantial compliance with all applicable laws, regulations and permits. In order to maintain substantial compliance with such standards, we may be required to incur expenditures, the amounts and timing of which are not presently determinable but which could be significant, in constructing new facilities or in modifying existing facilities.

Employees. Tredegar employed approximately 2,200 people in continuing operations at December 31, 2008.

Available Information and Corporate Governance Documents. Our Internet address is www.tredegar.com. We make available, free of charge through our website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such documents are electronically filed with, or furnished to, the SEC. Information filed electronically with the SEC can be accessed on its website at www.sec.gov. In addition, our Corporate Governance Guidelines, Code of Conduct and the charters of our Audit, Executive Compensation and Nominating and Governance Committees are available on our website and are available in print, without charge, to any shareholder upon request by contacting Tredegar's Corporate Secretary at 1100 Boulders Parkway, Richmond, Virginia 23225. The information on or that can be accessed through our website is not, and shall not be deemed to be, a part of this report or incorporated into other filings we make with the SEC.

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 extremely volatile as shown in the charts on pages 30-31. We attempt 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.
- ***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 and 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.
- ***Our investments (primarily \$10 million investment in Harbinger and \$7.5 million investment in a drug delivery company) have high risk.*** Harbinger Capital Partners Special Situations Fund, L.P. ("Harbinger") is 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 and subject to limitations on withdrawal. The drug delivery company may need several more rounds of financing to have the opportunity to complete product development and bring its technology to market, which may never occur. There is no secondary market for selling our interests in Harbinger or the drug delivery company. As a result, we will be required to bear the risk of our investments in Harbinger and the drug delivery company for an indefinite period of time.
- ***Loss of certain key officers or employees could adversely affect our business.*** We depend on our senior executive officers and other key personnel to run our business. The loss of any of these officers or other key personnel could materially adversely affect our operations. Competition for qualified employees among companies that rely heavily on engineering and technology is intense, and the loss of qualified employees or an inability to attract, retain and motivate additional highly skilled employees required for the operation and expansion of our business could hinder our ability to improve manufacturing operations, conduct research activities successfully and develop marketable products.
- ***Volatility and disruption of financial markets could affect access to credit.*** Our ability to invest in our businesses and make acquisitions with funds in excess of the net cash flow generated from ongoing operations requires access to capital markets. Over recent months, many banks and other financial institutions have had to

enter into forced or liquidation sales and/or announced multi-billion dollar write-downs related to their exposure to mortgage-backed securities, high leverage loans and other financial instruments. Further, there is uncertainty over the future of the global economy. This, along with other factors, has led to a tightening in the credit markets for certain borrowers. If we are unable to obtain capital at a reasonable cost, we may not be able to expand our operations and implement our growth strategies.

Film Products

- ***Film Products is highly dependent on sales associated with one customer, P&G.*** P&G comprised approximately 33% of our consolidated net sales from continuing operations in 2008, 29% in 2007 and 28% in 2006. 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, (iii) delays in P&G rolling out products utilizing new technologies developed by us and (iv) P&G rolling out products utilizing technologies developed by others that replaces our business with P&G. 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.*** Personal care, surface protection and packaging 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 LCD monitors or a decline in the rate of growth in purchases of LCD televisions could have a material adverse effect 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 material adverse effect on Film Products.
- ***As Film Products expands its personal care business, we have greater credit risk that is inherent in broadening our customer base.***
- ***Failure of our customers to achieve success or maintain market share could adversely impact sales and operating margins.*** Our products serve as components for various consumer products sold worldwide. Our customers' ability to successfully develop, manufacture and market its products is integral to our success.

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, particularly in the construction, distribution and***

transportation industries. Our market segments are also subject to seasonal slowdowns. 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 (including a greater chance of loss associated with defaults on fixed-price forward sales contracts with our customers) that usually accompany a downturn. In addition, higher energy costs 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 approximately 850 customers associated with its continuing operations that are 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 5% 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.

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 portion of the U.S. 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 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES
General

Most of the improved real property and the other assets used in our operations are owned, and none of the owned property is subject to an encumbrance that is material to our consolidated operations. We consider the plants, warehouses and other properties and assets owned or leased by us to be in generally good condition.

We believe that the capacity of our plants is adequate to meet our immediate needs. Our plants generally have operated at 50-95% of capacity. Our corporate headquarters, which is leased, is located at 1100 Boulders Parkway, Richmond, Virginia 23225.

Our principal plants and facilities are listed below:

Film Products

Locations in the United States

Lake Zurich, Illinois
 Pottsville, Pennsylvania
 Red Springs, North Carolina
 (leased)
 Richmond, Virginia (technical
 center) (leased)
 Terre Haute, Indiana
 (technical center and
 production facility)

Locations in Foreign Countries

Chieti, Italy (technical center)
 Guangzhou, China
 Kerkrade, The Netherlands
 Rétság, Hungary
 Roccamontepiano, Italy
 São Paulo, Brazil
 Shanghai, China

Principal Operations

Production of plastic films and
 laminate materials

Aluminum Extrusions

Locations in the United States

Carthage, Tennessee
 Kentland, Indiana
 Newnan, Georgia

Locations in Canada

All locations in Canada were part of the sale on
 February 12, 2008, of the aluminum extrusions
 business in Canada (see Note 17 to the notes to
 financial statements for more information)

Principal Operations

Production of aluminum extrusions,
 fabrication and finishing

Item 3. LEGAL PROCEEDINGS

None.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

Item 5. MARKET FOR TREDEGAR'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Prices of Common Stock and Shareholder Data

Our common stock is traded on the New York Stock Exchange ("NYSE") under the ticker symbol TG. We have no preferred stock outstanding. There were 33,909,932 shares of common stock held by 3,356 shareholders of record on December 31, 2008.

The following table shows the reported high and low closing prices of our common stock by quarter for the past two years.

| | 2008 | | 2007 | |
|----------------|----------|----------|----------|----------|
| | High | Low | High | Low |
| First quarter | \$ 18.56 | \$ 13.13 | \$ 24.44 | \$ 21.18 |
| Second quarter | 19.49 | 14.19 | 24.45 | 20.57 |

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| | | | | |
|----------------|--------------|--------------|-------|-------|
| Third quarter | 20.59 | 13.38 | 22.43 | 16.25 |
| Fourth quarter | 18.68 | 11.41 | 18.27 | 13.33 |

The closing price of our common stock on February 27, 2009 was \$16.70.

Dividend Information

We have paid a dividend every quarter since becoming a public company in July 1989. During 2008, 2007 and 2006, our quarterly dividend was 4 cents per share.

All decisions with respect to the declaration and payment of dividends will be made by the Board of Directors in its sole discretion based upon earnings, financial condition, anticipated cash needs, restrictions in our credit agreement and such other considerations as the Board deems relevant. See Note 8 beginning on page 57 for the restrictions contained in our credit agreement related to minimum shareholders' equity required and aggregate dividends permitted.

Issuer Purchases of Equity Securities

On January 7, 2008, we announced that our board of directors approved a share repurchase program whereby management is authorized at its discretion to purchase, in the open market or in privately negotiated transactions, up to 5 million shares of Tredegar's outstanding common stock. The authorization has no time limit. This share repurchase program replaced our previous share repurchase authorization announced on August 8, 2006.

Under these standing authorizations, we purchased approximately 1.1 million shares in 2008 and 4.8 million shares in 2007 of our stock in the open market at an average price of \$14.88 and \$16.00 per share, respectively. During 2006, we did not purchase any shares of our common stock. The table below summarizes share repurchase activity under each plan by month during 2008 and 2007:

| Period | Total Number of Shares Purchased | Average Price Paid Per Share Before Broker Commissions | Total Number of Shares Purchased as Part of: | | Maximum Number of Shares at End of Period that May Yet be Purchased Under: | |
|------------------------|----------------------------------|--|--|--------------------------|--|--------------------------|
| | | | August 2006 Program (a) | January 2008 Program (b) | August 2006 Program (a) | January 2008 Program (b) |
| January - July 2007 | — | \$ — | — | — | 5,000,000 | — |
| August 2007 | 687,100 | 17.25 | 687,100 | — | 4,312,900 | — |
| September 2007 | 1,005,600 | 17.03 | 1,692,700 | — | 3,307,300 | — |
| October 2007 | 518,800 | 17.32 | 2,211,500 | — | 2,788,500 | — |
| November 2007 | 1,236,900 | 14.13 | 3,448,400 | — | 1,551,600 | — |
| December 2007 | 1,385,100 | 15.73 | 4,833,500 | — | 166,500 | — |
| January 2008 | 66,500 | 15.86 | 4,900,000 | — | — | 5,000,000 |
| February 2008 | 16,300 | 15.38 | — | 16,300 | — | 4,983,700 |
| March 2008 | 386,500 | 15.44 | — | 402,800 | — | 4,597,200 |
| April 2008 | — | — | — | 402,800 | — | 4,597,200 |
| May 2008 | 311,800 | 14.84 | — | 714,600 | — | 4,285,400 |
| June 2008 | 69,400 | 14.23 | — | 784,000 | — | 4,216,000 |
| July 2008 | 253,600 | 13.87 | — | 1,037,600 | — | 3,962,400 |
| August - December 2008 | — | — | — | 1,037,600 | — | 3,962,400 |

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

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

Annual Meeting

Our annual meeting of shareholders will be held on May 19, 2009, beginning at 9:00 a.m. EDT at Lewis Ginter Botanical Garden, 1800 Lakeside Avenue, Richmond, Virginia, 23228. We expect to mail formal notice of the annual meeting, proxies and proxy statements to shareholders on or about April 14, 2009.

Comparative Tredegar Common Stock Performance

The following graph compares cumulative total shareholder returns for Tredegar, the S&P SmallCap 600 Stock Index (an index comprised of companies with market capitalizations similar to Tredegar) and the Russell 2000 Index for the five years ended December 31, 2008. Tredegar is part of both the S&P SmallCap 600 Index and Russell 2000 Index.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Tredegar Corporation The S&P SmallCap 600 Index
And The Russell 2000 Index

*\$100 invested on 12/31/03 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

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Inquiries

Inquiries concerning stock transfers, dividends, dividend reinvestment, consolidating accounts, changes of address, or lost or stolen stock certificates should be directed to:

National City Bank
Dept. 5352
Corporate Trust Operations
P.O. Box 92301
Cleveland, Ohio 44101-4301
Phone: 800-622-6757
E-mail: shareholder.inquiries@nationalcity.com

All other inquiries should be directed to:

Tredegear Corporation
Investor Relations Department
1100 Boulders Parkway
Richmond, Virginia 23225
Phone: 800-411-7441
E-mail: invest@tredegear.com
Web site: www.tredegear.com

Quarterly Information

We do not generate or distribute quarterly reports to shareholders. Information on quarterly results can be obtained from our website. In addition, we file quarterly, annual and other information electronically with the SEC, which can be accessed on its website at www.sec.gov.

Legal Counsel

Hunton & Williams LLP
Richmond, Virginia

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP
Richmond, Virginia

Item 6. SELECTED FINANCIAL DATA

The tables that follow on pages 11-16 present certain selected financial and segment information for the five years ended December 31, 2008.

FIVE-YEAR SUMMARY

Tredegar Corporation and Subsidiaries

| Years Ended December 31 | 2008 | 2007 | 2006 | 2005 | 2004 |
|--|----------------|-------------|-------------|-------------|-------------|
| (In Thousands, Except Per-Share Data) | | | | | |
| Results of Operations (a): | | | | | |
| Sales | \$ 883,899 | \$ 922,583 | \$ 937,561 | \$ 808,464 | \$ 709,649 |
| Other income (expense), net | 10,341 (b) | 1,782 (c) | 1,444 (d) | (2,211) (e) | 15,604 (f) |
| | 894,240 | 924,365 | 939,005 | 806,253 | 725,253 |
| Cost of goods sold | 739,721 (b) | 761,509 (c) | 779,376 (d) | 672,465 (e) | 580,893 (f) |
| Freight | 20,782 | 19,808 | 22,602 | 20,276 | 18,027 |
| Selling, general & administrative expenses | 58,699 | 68,501 | 64,082 (d) | 61,007 (e) | 57,221 (f) |
| Research and development expenses | 11,005 | 8,354 | 8,088 | 8,982 | 15,265 |
| Amortization of intangibles | 123 | 149 | 149 | 299 | 330 |
| Interest expense | 2,393 | 2,721 | 5,520 | 4,573 | 3,171 |
| Asset impairments and costs associated with exit and disposal activities | 12,390 (b) | 4,027 (c) | 4,080 (d) | 15,782 (e) | 12,566 (f) |
| | 845,113 | 865,069 | 883,897 | 783,384 | 687,473 |
| Income from continuing operations before income taxes | 49,127 | 59,296 | 55,108 | 22,869 | 37,780 |
| Income taxes | 19,486 (b) | 24,366 | 19,791 (d) | 9,497 | 10,201 (f) |
| Income from continuing operations (a) | 29,641 | 34,930 | 35,317 | 13,372 | 27,579 |
| Discontinued operations (a): | | | | | |
| Income (loss) from aluminum extrusions business in Canada | (705) | (19,681) | 2,884 | 2,857 | (1,319) |
| Income from venture capital investment activities | — | — | — | — | 2,921 |
| Income (loss) from discontinued operations (a) | (705) | (19,681) | 2,884 | 2,857 | 1,602 |
| Net income | \$ 28,936 | \$ 15,249 | \$ 38,201 | \$ 16,229 | \$ 29,181 |
| Diluted earnings (loss) per share: | | | | | |
| Continuing operations (a) | \$.87 | \$.90 | \$.91 | \$.35 | \$.72 |
| Discontinued operations (a) | (.02) | (.51) | .07 | .07 | .04 |
| Net income | \$.85 | \$.39 | \$.98 | \$.42 | \$.76 |

Refer to notes to financial tables on page 16.

FIVE-YEAR SUMMARY

Tredegar Corporation and Subsidiaries

| Years Ended December 31 | 2008 | 2007 | 2006 | 2005 | 2004 |
|-------------------------|------|------|------|------|------|
|-------------------------|------|------|------|------|------|

(In Thousands, Except Per-Share Data)

Share Data:

| | | | | | |
|---|----------|----------|----------|----------|----------|
| Equity per share | \$ 12.40 | \$ 14.13 | \$ 13.15 | \$ 12.53 | \$ 12.45 |
| Cash dividends declared per share | .16 | .16 | .16 | .16 | .16 |
| Weighted average common shares outstanding during the period | 33,977 | 38,532 | 38,671 | 38,471 | 38,295 |
| Shares used to compute diluted earnings per share during the period | 34,194 | 38,688 | 38,931 | 38,597 | 38,507 |
| Shares outstanding at end of period | 33,910 | 34,765 | 39,286 | 38,737 | 38,598 |
| Closing market price per share: | | | | | |
| High | \$ 20.59 | \$ 24.45 | \$ 23.32 | \$ 20.19 | \$ 20.25 |
| Low | 11.41 | 13.33 | 13.06 | 11.76 | 13.00 |
| End of year | 18.18 | 16.08 | 22.61 | 12.89 | 20.21 |
| Total return to shareholders (g) | 14.1% | (28.2)% | 76.6% | (35.4)% | 31.2% |

Financial Position:

| | | | | | |
|---------------------------------------|------------|------------|------------|------------|------------|
| Total assets | \$ 610,632 | \$ 784,478 | \$ 781,787 | \$ 781,758 | \$ 769,474 |
| Cash and cash equivalents | 45,975 | 48,217 | 40,898 | 23,434 | 22,994 |
| Debt | 22,702 | 82,056 | 62,520 | 113,050 | 103,452 |
| Shareholders' equity (net book value) | 420,416 | 491,328 | 516,595 | 485,362 | 480,442 |
| Equity market capitalization (h) | 616,484 | 559,021 | 888,256 | 499,320 | 780,066 |

Refer to notes to financial tables on page 16.

SEGMENT TABLES

Tredegar Corporation and Subsidiaries

Net Sales (i)

| Segment | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|------------|------------|------------|------------|------------|
| (In Thousands) | | | | | |
| Film Products | \$ 522,839 | \$ 530,972 | \$ 511,169 | \$ 460,277 | \$ 413,257 |
| Aluminum Extrusions | 340,278 | 371,803 | 403,790 | 327,659 | 277,985 |
| AFBS (formerly Therics) | — | — | — | 252 | 380 |
| Total net sales (j) | 863,117 | 902,775 | 914,959 | 788,188 | 691,622 |
| Add back freight | 20,782 | 19,808 | 22,602 | 20,276 | 18,027 |
| Sales as shown in Consolidated Statements of Income | \$ 883,899 | \$ 922,583 | \$ 937,561 | \$ 808,464 | \$ 709,649 |

Identifiable Assets

| Segment | 2008 | 2007 | 2006 | 2005 | 2004 |
|--|------------|------------|------------|------------|------------|
| (In Thousands) | | | | | |
| Film Products | \$ 399,895 | \$ 488,035 | \$ 498,961 | \$ 479,286 | \$ 472,810 |
| Aluminum Extrusions | 112,259 | 115,223 | 128,967 | 130,448 | 126,425 |
| AFBS (formerly Therics) | 1,629 | 2,866 | 2,420 | 2,759 | 8,613 |
| Subtotal | 513,783 | 606,124 | 630,348 | 612,493 | 607,848 |
| General corporate | 50,874 | 74,927 | 30,113 | 61,905 | 54,163 |
| Cash and cash equivalents | 45,975 | 48,217 | 40,898 | 23,434 | 22,994 |
| Identifiable assets from continuing operations | 610,632 | 729,268 | 701,359 | 697,832 | 685,005 |
| Discontinued operations (a): | | | | | |
| Aluminum extrusions business in Canada | — | 55,210 | 80,428 | 83,926 | 84,469 |
| Total | \$ 610,632 | \$ 784,478 | \$ 781,787 | \$ 781,758 | \$ 769,474 |

Refer to notes to financial tables on page 16.

SEGMENT TABLES

Tredegar Corporation and Subsidiaries

Operating Profit

| Segment | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|------------------|------------------|------------------|------------------|------------------|
| (In Thousands) | | | | | |
| Film Products: | | | | | |
| Ongoing operations | \$ 53,914 | \$ 59,423 | \$ 57,645 | \$ 44,946 | \$ 43,259 |
| Plant shutdowns, asset impairments and restructurings, net of gains on sale of assets and related income from LIFO inventory liquidations | (11,297) (b) | (649) (c) | 221 (d) | (3,955) (e) | (10,438) (f) |
| Aluminum Extrusions: | | | | | |
| Ongoing operations | 10,132 | 16,516 | 18,302 | 17,084 | 14,526 |
| Plant shutdowns, asset impairments and restructurings | (687) (b) | (634) (c) | (1,434) (d) | (993) (e) | (146) (f) |
| Other | — | — | — | — | 7,316 (f) |
| AFBS (formerly Therics): | | | | | |
| Ongoing operations | — | — | — | (3,467) | (9,763) |
| Loss on investment in Therics, LLC | — | — | (25) | (145) | — |
| Gain on sale of investments in Theken Spine and Therics, LLC | 1,499 (b) | — | — | — | — |
| Plant shutdowns, asset impairments and restructurings | — | (2,786) (c) | (637) (d) | (10,318) (e) | (2,041) (f) |
| Total | 53,561 | 71,870 | 74,072 | 43,152 | 42,713 |
| Interest income | 1,006 | 1,212 | 1,240 | 586 | 350 |
| Interest expense | 2,393 | 2,721 | 5,520 | 4,573 | 3,171 |
| Gain on sale of corporate assets | 1,001 | 2,699 | 56 | 61 | 7,560 |
| Gain from write-up of an investment accounted for under the fair value method | 5,600 (b) | — | — | — | — |
| Loss from write-down of an investment | — | 2,095 (c) | — | 5,000 (e) | — |
| Stock option-based compensation costs | 782 | 978 | 970 | — | — |
| Corporate expenses, net | 8,866 | 10,691 | 13,770 | 11,357 (e) | 9,672 |
| Income from continuing operations before income taxes | 49,127 | 59,296 | 55,108 | 22,869 | 37,780 |
| Income taxes | 19,486 (b) | 24,366 (c) | 19,791 (d) | 9,497 | 10,201 |
| Income from continuing operations | 29,641 | 34,930 | 35,317 | 13,372 | 27,579 |
| Income (loss) from discontinued operations (a) | (705) | (19,681) | 2,884 | 2,857 | 1,602 |
| Net income | \$ 28,936 | \$ 15,249 | \$ 38,201 | \$ 16,229 | \$ 29,181 |

Refer to notes to financial tables on page 16.

SEGMENT TABLES

Tredegar Corporation and Subsidiaries

Depreciation and Amortization

| Segment | 2008 | 2007 | 2006 | 2005 | 2004 |
|--|-----------|-----------|-----------|-----------|-----------|
| (In Thousands) | | | | | |
| Film Products | \$ 34,588 | \$ 34,092 | \$ 31,847 | \$ 26,673 | \$ 21,967 |
| Aluminum Extrusions | 8,018 | 8,472 | 8,378 | 7,996 | 7,474 |
| AFBS (formerly Therics) | — | — | — | 437 | 1,300 |
| Subtotal | 42,606 | 42,564 | 40,225 | 35,106 | 30,741 |
| General corporate | 70 | 91 | 111 | 195 | 241 |
| Total continuing operations | 42,676 | 42,655 | 40,336 | 35,301 | 30,982 |
| Discontinued operations (a): | | | | | |
| Aluminum extrusions business in Canada | 515 | 3,386 | 3,945 | 3,488 | 3,440 |
| Total | \$ 43,191 | \$ 46,041 | \$ 44,281 | \$ 38,789 | \$ 34,422 |

Capital Expenditures, Acquisitions and Investments

| Segment | 2008 | 2007 | 2006 | 2005 | 2004 |
|--|-----------|-----------|-----------|-----------|-----------|
| (In Thousands) | | | | | |
| Film Products | \$ 11,135 | \$ 15,304 | \$ 33,168 | \$ 50,466 | \$ 44,797 |
| Aluminum Extrusions | 9,692 | 4,391 | 6,609 | 5,750 | 7,263 |
| AFBS (formerly Therics) | — | — | — | 36 | 275 |
| Subtotal | 20,827 | 19,695 | 39,777 | 56,252 | 52,335 |
| General corporate | 78 | 6 | 24 | 73 | 572 |
| Capital expenditures for continuing operations | 20,905 | 19,701 | 39,801 | 56,325 | 52,907 |
| Discontinued operations (a): | | | | | |
| Aluminum extrusions business in Canada | 39 | 942 | 772 | 6,218 | 2,744 |
| Total capital expenditures | 20,944 | 20,643 | 40,573 | 62,543 | 55,651 |
| Acquisitions and other | — | — | — | — | 1,420 |
| Investments | 5,391 | 23,513 | 542 | 1,095 | 5,000 |
| Total | \$ 26,335 | \$ 44,156 | \$ 41,115 | \$ 63,638 | \$ 62,071 |

Refer to notes to financial tables on page 16.

NOTES TO FINANCIAL TABLES

(In Thousands, Except Per-Share Data)

- (a) On February 12, 2008, we sold our aluminum extrusions business in Canada. All historical results for this business have been reflected as discontinued operations. In 2008, discontinued operations include an after-tax loss of \$412 on the sale in addition to operating results through the closing date. In 2007, discontinued operations also include \$11,428 in cash income tax benefits from the sale that were realized in 2008. In 2004, discontinued operations include a gain of \$2,921 after-taxes primarily related to the reversal of a business and occupancy tax contingency accrual upon favorable resolution. The accrual was originally recorded in connection with our venture capital investment operation. Since we sold substantially all of our venture capital investment portfolio in 2003, the operating results associated with the venture capital investment portfolio have been reported as discontinued operations.
- (b) Plant shutdowns, asset impairments and restructurings for 2008 include an asset impairment charge of \$9,735 for Film Products, a charge of \$2,655 for severance and other employee related costs in connection with restructurings for Film Products (\$2,145) and Aluminum Extrusions (\$510), a pre-tax gain of \$583 from the sale of land rights and related improvements at the Film Products facility in Shanghai, China (included in "Other income (expense), net" in the consolidated statement of income), and a \$177 pre-tax charge related to expected future environmental costs at the Aluminum Extrusions facility in Newnan, Georgia (included in "Cost of goods sold" in the consolidated statements of income). The gain of \$1,499 (\$965 after taxes) from the sale of our investments in Theken Spine and Therics, LLC. is included in "Other income (expense), net" in the consolidated statements of income). AFBS Inc. (formerly Therics, Inc.) received these investments in 2005, when substantially all of the assets of AFBS, Inc., a wholly owned subsidiary of Tredegar, were sold or assigned to a newly created limited liability company, Therics, LLC, controlled and managed by an individual not affiliated with Tredegar. The gain from the write-up of an investment accounted for under the fair value method of \$5,600 in 2008 is included in "Other income (expense), net" in the consolidated statements of income. Income taxes in 2008 includes the reversal of a valuation allowance recognized in the third quarter of 2007 of \$1,066 that originally related to expected limitations on the utilization of assumed capital losses on certain investments.
- (c) Plant shutdowns, asset impairments and restructurings for 2007 include a charge of \$2,786 related to the estimated loss on the sub-lease of a portion of the AFBS (formerly Therics) facility in Princeton, New Jersey, charges of \$594 for asset impairments in Film Products, a charge of \$592 for severance and other employee-related costs in Aluminum Extrusions, a charge of \$55 related to the shutdown of the films manufacturing facility in LaGrange, Georgia, and a charge of \$42 associated with the expected future environmental costs at the aluminum extrusions facility in Newnan, Georgia (included in "Cost of goods sold" in the consolidated statements of income). The loss from the write-down of an investment in 2007 of \$2,095 is included in "Other income (expense), net" in the consolidated statements of income.
- (d) Plant shutdowns, asset impairments and restructurings for 2006 include a net gain of \$1,454 associated with the shutdown of the films manufacturing facility in LaGrange, Georgia, including a gain of \$2,889 for related LIFO inventory liquidations (included in "Cost of goods sold" in the consolidated statements of income) and a gain of \$261 on the sale of related property and equipment (included in "Other income (expense), net" in the consolidated statements of income), partially offset by severance and other costs of \$1,566 and asset impairment charges of \$130, charges of \$1,020 for asset impairments in Film Products, a charge of \$920 related to expected future environmental costs at the aluminum extrusions facility in Newnan, Georgia (included in "Cost of goods sold" in the consolidated statements of income), charges of \$727 for severance and other employee-related costs in connection with restructurings in Film Products (\$213) and Aluminum Extrusions (\$514), and charges of \$637 related to the estimated loss on the sub-lease of a portion of the AFBS facility in Princeton, New Jersey. Income taxes in 2006 include a reversal of a valuation allowance of \$577 for deferred tax assets associated with capital loss carry-forwards recorded with the write-down of the investment in Novalux in 2005. Outside appraisal of the value of corporate assets, primarily real estate, performed in December 2006, indicated that realization of related deferred tax assets is more likely than not.
- (e) Plant shutdowns, asset impairments and restructurings for 2005 include charges of \$10,318 related to the sale or assignment of substantially all of AFBS' assets, charges of \$2,071 related to severance and other employee-related costs in connection with restructurings in Film Products (\$1,118), Aluminum Extrusions (\$498) and corporate headquarters (\$455, included in "Corporate expenses, net" in the operating profit by segment table), a charge of \$2,101 related to the planned shutdown of the films manufacturing facility in LaGrange, Georgia, a net gain of \$1,667 related to the shutdown of the films manufacturing facility in New Bern, North Carolina, including a gain on the sale of the facility (\$1,816, included in "Other income (expense), net" in the consolidated statements of income), partially offset by shutdown-related expenses (\$225), a charge of \$1,019 for process reengineering costs associated with the implementation of an information system in Film Products (included in "Costs of goods sold" in the consolidated statements of income), a net charge of \$843 related to severance and other employee-related costs associated with the restructuring of the research and development operations in Film Products (of this amount, \$1,363 in charges for employee relocation and recruitment is included in

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“Selling, general & administrative expenses” in the consolidated statements of income), a gain of \$653 related to the shutdown of the films manufacturing facility in Carbondale, Pennsylvania, including a gain on the sale of the facility (\$630, included in “Other income (expense), net” in the consolidated statements of income), and the reversal to income of certain shutdown-related accruals (\$23), charges of \$583 for asset impairments in Film Products, a gain of \$508 for interest receivable on tax refund claims (included in “Corporate expenses, net” in the operating profit by segment table and “Other income (expense), net” in the consolidated statements of income), a charge of \$495 in Aluminum Extrusions, including an asset impairment (\$597), partially offset by the reversal to income of certain shutdown-related accruals (\$102), charges of \$353 for accelerated depreciation related to restructurings in Film Products, and a charge of \$182 in Film Products related to the write-off of an investment. As of December 31, 2005, the investment in Novalux, Inc. of \$6,095 was written down to estimated fair value of \$1,095. The loss from the write-down, \$5,000, is included in “Other income (expense), net” in the consolidated statements of income.

- (f) Plant shutdowns, asset impairments and restructurings for 2004 include a charge of \$3,022 related to the sale of the films business in Argentina, charges of \$2,572 related to accelerated depreciation from plant shutdowns and restructurings in Film Products, charges of \$2,459 related to severance and other costs associated with plant shutdowns in Film Products, charges of \$1,267 for severance and other employee-related costs associated with restructurings in AFBS (\$735) and Film Products (\$532), a charge of \$1,306 related to the estimated loss on the sub-lease of a portion of the AFBS facility in Princeton, New Jersey, a charge of \$1,278 (of this amount, \$59 for employee relocation is included in “Selling, general & administrative expenses” in the consolidated statements of income) related to severance and other employee-related costs associated with the restructuring of the research and development operations in Film Products and charges of \$575 in Film Products and \$146 in Aluminum Extrusions related to asset impairments. Income taxes in 2004 include a tax benefit of \$4,000 related to the reversal of income tax contingency accruals upon favorable conclusion of IRS and state examinations through 2000. The other pretax gain of \$7,316 included in the Aluminum Extrusions section of the operating profit by segment table is comprised of the present value of an insurance settlement of \$8,357 (future value of \$8,455) associated with environmental costs related to prior years, partially offset by accruals for expected future environmental costs of \$1,041. The company received \$5,143 of the \$8,455 insurance settlement in 2004 and recognized receivables at present value for future amounts due (\$1,497 received in February of 2005 and \$1,717 received in February 2006). The gain from the insurance settlement is included in “Other income (expense), net” in the consolidated statements of income, while the accruals for expected future environmental costs are included in “Cost of goods sold.”
- (g) Total return to shareholders is defined as the change in stock price during the year plus dividends per share, divided by the stock price at the beginning of the year.
- (h) Equity market capitalization is the closing market price per share for the period multiplied by the shares outstanding at the end of the period.
- (i) Net sales represent gross sales less freight. Net sales is the measure used by the chief operating decision maker of each segment for purposes of assessing performance.
- (j) Net sales include sales to P&G totaling \$282,670 in 2008, \$258,602 in 2007 and \$255,414 in 2006. These amounts include plastic film sold to others who converted the film into materials used in products manufactured by P&G.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-looking and Cautionary Statements

From time to time, we may make statements that may constitute "forward-looking statements" within the meaning of the "safe-harbor" provisions of the Private Securities Litigation Reform Act of 1995. These 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. Some of the risk factors that may cause such a difference are summarized on pages 4-6 and are incorporated herein.

Executive Summary

General

Tredegar is a manufacturer of plastic films and aluminum extrusions. Descriptions of our businesses are provided on pages 1-6.

Income from continuing operations was \$29.6 million (87 cents per diluted share) in 2008 compared with \$34.9 million (90 cents per diluted share) in 2007. Gains on the sale of assets, investment write-downs or write-ups and other items and losses related to plant shutdowns, assets impairments and restructurings are described in results of operations beginning on page 22. The business segment review begins on page 33.

Film Products

In Film Products, net sales were \$522.8 million in 2008, down 1.5% versus \$531.0 million in 2007. Operating profit from ongoing operations was \$53.9 million in 2008, down 9.3% compared with \$59.4 million in 2007. Volume decreased to 221.2 million pounds in 2008 from 244.3 million pounds in 2007. The volume decline was primarily due to competitive pressures in most product segments, most notably the personal care and surface protection markets. Net sales declined compared to last year due to lower volume, partially offset by higher selling prices from the pass-through of increased resin costs. A significant portion of the substantially lower resin costs realized in the fourth quarter of 2008 will not be passed through to customers via lower selling prices until the first quarter of 2009.

Operating profit from ongoing operations in Film Products decreased in 2008 versus 2007 due primarily to lower volume, partially offset by cost reduction efforts and the benefit from appreciation of the U.S. dollar value of currencies for operations outside of the U.S. (benefit from currency rate changes was approximately \$3.6 million). 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. The estimated unfavorable impact of the lag in the pass-through of changes in average resin costs and year-end adjustments for inventories accounted for under the last-in first-out method ("LIFO") was \$600,000 and \$2.5 million for 2008 and 2007, respectively.

Volume and operating profits in films are expected to continue to be adversely impacted by competitive pressures and the global economic downturn. More than ever, we are focused on reducing costs and managing the business under significantly greater economic uncertainty.

Capital expenditures in Film Products were \$11.1 million in 2008, down from \$15.3 million in 2007, and are projected to be approximately \$22 million in 2009. Depreciation expense was \$34.5 million in 2008, up from \$33.9 million in 2007, and is projected to be approximately \$32 million in 2009.

Aluminum Extrusions

Net sales from continuing operations in Aluminum Extrusions were \$340.3 million in 2008, down 8.5% from \$371.8 million in 2007. Operating profit from ongoing U.S. operations decreased to \$10.1 million in 2008, down 38.7% from \$16.5 million in 2007. Volume from continuing operations was 136.2 million pounds in 2008, down 12.6% from 155.8 million pounds in 2007.

The decrease in net sales was mainly due to lower volume. Shipments declined in most markets. Shipments in non-residential construction, which comprised 72% of total volume in 2008, declined by approximately 2.7% in 2008 compared with 2007. Operating profit from ongoing U.S. operations declined in 2008 compared with last year mainly due to lower volume. Overall backlog for continuing operations in Aluminum Extrusions at December 31, 2008 was down by approximately 47% compared with December 31, 2007. We continue to be very focused on reducing costs in light of anticipated further declines in volume based on current market conditions.

Capital expenditures for continuing operations in Aluminum Extrusions were \$9.7 million in 2008, a \$5.3 million increase from \$4.4 million in 2007, and are projected to be approximately \$24 million in 2009. In January 2008, we announced plans to spend approximately \$24 million over the following 18 months to expand the capacity at our plant in Carthage, Tennessee. This project, which accounted for \$5.7 million of capital expenditures in 2008, will increase our capabilities in the non-residential construction sector. Depreciation expense for continuing operations was \$8.0 million in 2008, a decrease of 5.4% from \$8.5 million in 2007, and is projected to be \$8.6 million in 2009.

On February 12, 2008, we sold our aluminum extrusions business in Canada for approximately \$25 million to an affiliate of H.I.G. Capital. We realized cash income tax benefits in 2008 from the sale of approximately \$12 million. All historical results for this business have been reflected as discontinued operations.

Other Developments

Net pension income from continuing operations was \$4.9 million in 2008, a favorable change of \$2.1 million (4 cents per share after taxes) from amounts recognized in 2007. Most of the favorable changes relate to a pension plan that is reflected in "Corporate expenses, net" in the operating profit by segment table presented on page 14. We contributed approximately \$122,000 to our pension plans for continuing operations in 2008.

At December 31, 2008, the fair value of the assets of our pension plans was estimated at \$194.5 million, down from \$284.1 million at December 31, 2007. The significant decline was mainly due to the drop in global stock prices and benefit payments to retirees of approximately \$10.2 million in 2008. The projected benefit obligation at December 31, 2008 is approximately \$211.7 million at a discount rate of 6.5%. The minimum required contribution to our pension plans in 2009 is estimated at \$4.4 million, and net pension income in 2009 is estimated at \$3.2 million.

Interest expense was \$2.4 million in 2008, a \$328,000 decline versus 2007 as higher average debt levels during the year were offset by lower average interest.

The effective tax rate used to compute income taxes from continuing operations was 39.7% in 2008 compared with 41.1% in 2007. The decrease in the effective tax rate for continuing operations for 2008 versus 2007, which had a favorable impact of 2 cents per share, was due to numerous factors as shown in the effective income tax rate reconciliation provided in Note 14 on page 66.

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 and subject to limitations on withdrawal. There is no secondary market for interests in the fund. Our investment in Harbinger, which represents less than 2% of Harbinger's total partnership capital, is accounted for under the cost method. At December 31, 2008, Harbinger reported our capital account value at \$10.1 million versus the carrying value of \$10 million (included in "Other assets and deferred charges" in our consolidated balance sheet).

See discussion of investment accounted for under the fair value method on page 20.

During 2008 and 2007, we invested \$4.3 million and \$6.2 million, respectively, in real estate. At December 31, 2008 and 2007, the carrying value of investments in this real estate equaled the amounts invested (included in "Other assets and deferred charges" in our consolidated balance sheet).

In 2008 we repurchased 1.1 million shares of our stock under a standing authorization from our board of directors at an average price of \$14.88 per share. Due to strong cash flows from operations and proceeds received from the sales of the aluminum extrusions business in Canada, our net debt (total debt of \$82.0 million less cash and cash equivalents of \$48.2 million) of \$33.8 million at December 31, 2007 improved to net cash (cash and cash equivalents of \$46.0 million in excess of total debt of \$22.7 million) of \$23.3 million at December 31, 2008 (net debt or cash is not intended to represent debt or cash as defined by generally accepted accounting principles, but is utilized by management in evaluating financial leverage and equity valuation and we believe that investors also may find net debt or cash helpful for the same purposes). Consolidated net capitalization and other credit measures are provided in the financial condition section beginning on page 25.

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. Actual results could differ significantly from those estimates under different assumptions and conditions. We believe the following discussion addresses our critical accounting policies. 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.

Impairment and Useful Lives of Long-lived Identifiable Assets and Goodwill

We regularly assess our long-lived identifiable assets for impairment when events or circumstances indicate that their carrying value may not be recoverable from future cash flows. Any necessary impairment charges are recorded when we do not believe the carrying value of the long-lived asset will be recoverable. We also reassess the useful lives of our long-lived assets based on changes in our business and technologies.

We assess goodwill for impairment when events or circumstances indicate that the carrying value may not be recoverable, or, at a minimum, on an annual basis (December 1st of each year). Our reporting units include Film Products and Aluminum Extrusions, each of which may have separately identifiable operating net assets (operating assets including goodwill and intangible assets net of operating liabilities). As of December 1 and December 31, 2008, the estimated fair value of our reporting units exceeded the carrying value of their respective net assets. We estimate the fair value using discounted cash flow analysis and comparative enterprise value-to-EBITDA multiples. The estimated fair value of Film Products exceeded the carrying value of its net assets by a wide margin. In Aluminum Extrusions, the excess of its fair value over carrying value of related net assets was approximately 12% at December 31, 2008. Estimated fair values and carrying values change as business conditions change, and the relatively low margin by which the estimated fair value of Aluminum Extrusions exceeded its carrying value results in a reasonably possible chance that a goodwill impairment under U.S. generally accepted accounting principles will be triggered in the future. As of December 31, 2008, we estimate that if the estimated fair value of Aluminum Extrusions were only \$1 below the carrying value of its net assets, that the amount of the goodwill impairment under U.S. generally accepted accounting principles would have been an anomalous write-off of the entire amount of \$30.6 million (also \$30.6 million after taxes since there would be no income tax benefits related to the write-off).

In assessing the recoverability of long-lived identifiable assets and goodwill, we must make assumptions regarding estimated future cash flows, discount rates and other factors to determine if impairment tests are met or the fair value of the respective assets. If these estimates or their related assumptions change in the future, we may be required to record additional impairment charges. Based upon assessments performed, we recorded asset impairment losses for continuing operations related to long-lived identifiable assets of \$8.6 million in 2008, \$594,000 in 2007 and \$1.2 million in 2006. For asset impairments relating to discontinued operations, see Note 17 to the notes to financial statements.

Investment Accounted for Under the Fair Value Method

On August 31, 2007, we invested \$6.5 million in a privately held drug delivery that is developing and commercializing state of the art drug delivery systems designed to improve patient compliance and outcomes. On December 15, 2008, we invested an additional \$1.0 million as part of a new round of equity financing completed by the investee. This investment is accounted for under the fair value method. We elected the fair value option over the equity method of accounting since our investment objectives are similar to those of venture capitalists, which typically do not have controlling financial interests (venture capital funds use the fair value method to account for their investment portfolios). At December 31, 2008, our ownership interest was approximately 21% on a fully diluted basis. In connection with the new round of equity financing in the fourth quarter of 2008, we recognized an unrealized gain of \$5.6 million for the write-up of this investment based upon the implied valuation of our ownership interest. At December 31, 2008 and 2007, the fair value of our investment (the carrying value included in "Other assets and deferred charges" in our consolidated balance sheet) was \$13.1 million and \$6.5 million, respectively.

Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements*, requires disclosure of the level within the fair value hierarchy in which fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3). On the dates of our investments (August 31, 2007 and December 15, 2008), we believe that the amount we paid for our ownership interest and liquidation preferences was based on Level 2 inputs, including investments by other investors. Subsequent to the last round of financing, and until the next round of financing, we believe fair value estimates drop to Level 3 inputs since there is no secondary market for our ownership interest. In addition, the company currently has no product sales. Accordingly, after the latest financing and until the next round of financing or other significant financial transaction, value estimates will primarily be based on assumptions relating to meeting product development and commercialization milestones, cash flow projections (projections of sales, costs, expenses, capital expenditures and working capital investment) and discounting of these factors for the high degree of risk. As a result, an increase in our estimate of the fair value of our ownership interest is unlikely unless a significant new round of financing, merger or initial public offering indicates a higher value. However, if the company does not meet its development and commercialization milestones and there are indications that the amount or timing of its projected cash flows or related risks are unfavorable versus plans as of December 15, 2008, or another new round of financing or other significant financial transaction indicates a lower value, then our estimate of the fair value of our ownership interest in the company is likely to decline.

Pension Benefits

We have noncontributory defined benefit (pension) plans in our continuing operations that have significant net pension income developed from actuarial valuations. Inherent in these valuations are key assumptions including discount rates, expected return on plan assets and rate of future compensation increases. We are required to consider current market conditions, including changes in interest rates and plan asset investment returns, in determining these assumptions. Actuarial assumptions may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. These differences may result in a significant impact to the amount of net pension income recorded in future periods.

The discount rate is used to determine the present value of future payments. The discount rate is the single rate that, when applied to expected benefit payments, provides a present value equal to the present value of expected benefit payments determined by using the AA-rated bond yield curve. In general, our liability increases as the discount rate decreases and vice versa. Our weighted average discount rate for continuing operations was 6.5% at the end of 2008, 6.25% at the end of 2007 and 5.75% at the end of 2006, with changes between periods due to changes in market interest rates. The compensation increase assumption affects the estimate of future payments, and was 4% at the end of 2007 and 2006 (not applicable in 2008). Based on plan changes announced in 2006, pay for active participants of the plan was frozen as of December 31, 2007. A lower expected return on plan assets increases the amount of expense and vice versa. Decreases in the level of actual plan assets will also serve to increase the amount of pension expense. The value of our plan assets relating to continuing operations decreased \$89.6 million, or 31.5%, in 2008 primarily due to the drop in global stock prices. Between 2003 and 2007, the value of our plan assets relating to continuing operations increased due to improved general market conditions after declining from 2000 to 2002. Our expected long-term return on plan assets relating to continuing operations, which is primarily based on estimated market and economic

conditions as well as asset mix, was 8.5% from 2004 to 2007, 8.75% in 2003 and 9% in 2002 and prior years. Our expected long-term return on plan assets was lowered to 8.25% for fiscal year 2009. See page 64 for more information on expected long-term return on plan assets and asset mix.

See the executive summary beginning on page 17 for further discussion regarding the financial impact of our pension plans.

Income Taxes

On a quarterly basis, we review our judgments regarding uncertain tax positions and the likelihood that the benefits of a deferred tax asset will be realized. As circumstances change, we reflect in earnings any adjustments to unrecognized benefits for uncertain tax positions and valuation allowances for deferred tax assets.

For financial reporting purposes, we had unrecognized tax benefits on uncertain tax positions of \$2.6 million and \$3.3 million as of December 31, 2008 and 2007, respectively. Included in the 2008 and 2007 amounts were \$1.8 million and \$2.3 million, respectively, 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 \$1.3 million and \$1.2 million at December 31, 2008 and 2007, respectively (\$827,000 and \$759,000, respectively, net of corresponding federal and state income tax benefits). 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, 2009, 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 \$1.3 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 2005.

As of December 31, 2008 and 2007, we had valuation allowances relating to deferred tax assets of \$9.8 million and \$9.4 million, respectively. For more information on deferred income tax assets and liabilities, see Note 14 of the notes to financial statements.

Recently Issued Accounting Standards

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

Results of Continuing Operations

2008 versus 2007

Revenues. Sales in 2008 decreased by 4.2% compared with 2007 due to sales declines in both Film Products and Aluminum Extrusions. Net sales (sales less freight) decreased 1.5% in Film Products as competitive pressures led to lower volume, which was partially offset by higher selling prices from the pass-through of increased resin costs. Net sales decreased 8.5% in Aluminum Extrusions due to lower volume as shipments declined in most markets. For more information on net sales and volume, see the executive summary beginning on page 17.

Operating Costs and Expenses. Consolidated gross profit (sales minus cost of goods sold and freight) as a percentage of sales was 14.0% in 2008 and 15.3% in 2007. The gross profit margin decreased in Film Products and Aluminum Extrusions primarily due to lower sales volumes, partially offset by cost reduction efforts and the favorable impact of changes in the U.S. dollar value of currencies for operations outside the U.S. The benefit from currency rate changes was approximately \$3.6 million.

As a percentage of sales, selling, general and administrative and R&D expenses were 7.9% in 2008, down from 8.3% in 2007. The decrease is primarily due to lower selling, general and administrative expenses in Film Products from cost reduction efforts.

Losses associated with plant shutdowns, asset impairments and restructurings in 2008 totaled \$12.0 million (\$8.4 million after taxes) and included:

- A fourth quarter charge of \$7.2 million (\$5.0 million after taxes), a second quarter charge of \$854,000 (\$717,000 after taxes), and a first quarter charge of \$1.6 million (\$1.2 million after taxes) for asset impairments in Film Products;
- A second quarter charge of \$90,000 (\$83,000 after taxes) and a first quarter charge of \$2.1 million (\$1.4 million after taxes) for severance and other employee-related costs in connection with restructurings in Film Products;
- A second quarter charge of \$275,000 (\$169,000 after taxes) and a first quarter charge of \$235,000 (\$145,000 after taxes) for severance and other employee-related costs in connection with restructurings in Aluminum Extrusions;
- A fourth quarter pretax gain of \$583,000 (\$437,000 after taxes) related to the sale of land rights and related improvements at the Film Products facility in Shanghai, China (included in “Other income (expense), net” in the consolidated statements of income); and
- A fourth quarter charge of \$72,000 (\$44,000 after taxes) and a second quarter charge of \$105,000 (\$65,000 after taxes) related to expected future environmental costs at the Aluminum Extrusions facility in Newnan, Georgia (included in “Cost of goods sold” in the consolidated statements of income).

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The severance in Film Products includes a reduction in workforce in the first quarter of 2008 (approximately 6% or 90 of Film Products' total employees) that is expected to save approximately \$4.2 million on an annualized basis.

We recognized a gain of \$1.5 million (\$965,000 after taxes) from the sale of our investments in Theken Spine and Therics, LLC. The gain is included in "Other income (expense), net" in the consolidated statements of income. AFBS Inc. (formerly Therics, Inc.) received these investments in 2005, when substantially all of the assets of AFBS, Inc., a wholly owned subsidiary of Tredegar, were sold or assigned to a newly created limited liability company, Therics, LLC, controlled and managed by an individual not affiliated with Tredegar.

Results in 2008 include unrealized gains from the write-up of an investment accounted for under the fair value method of \$5.6 million (\$3.6 million after taxes; see further discussion on page 20). Gains on the sale of corporate assets in 2008 include realized gains of \$509,000 (\$310,000 after taxes) from the sale of equity securities and \$492,000 (\$316,000 after taxes) from the sale of corporate real estate. The pretax amounts for each of these items is included in "Other income (expense), net" in the consolidated statements of income and separately shown in the segment operating profit table on page 14.

For more information on costs and expenses, see the executive summary beginning on page 17.

Interest Income and Expense. Interest income, which is included in "Other income (expense), net" in the consolidated statements of income, was \$1.0 million in 2008, down from \$1.2 million in 2007 due to lower average yield earned on cash equivalents. Our policy permits investment of excess cash in marketable securities that have the highest credit ratings and maturities of less than one year with the primary objectives being safety of principal and liquidity.

Interest expense was \$2.4 million in 2008, a 12.0% decrease in comparison to \$2.7 million for 2007, as higher average debt levels during the year were offset by lower average interest rates. Average debt outstanding and interest rates were as follows:

| (In Millions) | 2008 | 2007 |
|--|---------|---------|
| Floating-rate debt with interest charged on a rollover basis at one-month LIBOR plus a credit spread: | | |
| Average outstanding debt balance | \$ 47.7 | \$ 41.5 |
| Average interest rate | 3.8% | 6.0% |
| Fixed-rate and other debt: | | |
| Average outstanding debt balance | \$ 1.8 | \$ 2.2 |
| Average interest rate | 4.1% | 3.8% |
| Total debt: | | |
| Average outstanding debt balance | \$ 49.5 | \$ 43.7 |
| Average interest rate | 3.8% | 5.9% |

Income Taxes. The effective tax rate used to compute income taxes from continuing operations decreased to 39.7% in 2008 compared with 41.1% in 2007. The decrease in the effective tax rate for continuing operations, which had a favorable impact of 2 cents per share, was due to numerous factors as shown in the effective income tax rate reconciliation provided in Note 14 on page 66.

2007 versus 2006

Revenues. Overall, sales in 2007 decreased by 1.6% compared with 2006, primarily due to a decline in sales in Aluminum Extrusions. For more information on net sales and volume, see the executive summary beginning on page 17.

Operating Costs and Expenses. Consolidated gross profit (sales minus cost of goods sold and freight) as a percentage of sales was 15.3% in 2007 and 14.5% in 2006. The gross profit margin increased in Film Products but decreased in Aluminum Extrusions primarily because of the changes in sales and volume. In addition, gross profit improvement in

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Film Products was partially offset by an estimated negative impact in 2007 of \$2.5 million from the lag in the pass-through of changes in average resin costs and year-end adjustments for LIFO. In 2006, we estimated a favorable impact of \$4.5 million from the lag in the pass-through of changes in average resin costs and year-end adjustments for LIFO.

As a percentage of sales, selling, general and administrative and R&D expenses were 8.3% in 2007, up from 7.7% in 2006. The increase is primarily due to higher costs in Film Products, including costs associated with a new information system and a reorganization that resulted in the hiring of additional personnel.

Losses associated with plant shutdowns, asset impairments and restructurings in 2007 totaled \$4.1 million (\$2.8 million after taxes) and included:

- A fourth quarter charge of \$1.2 million (\$780,000 after taxes), a third quarter charge of \$1.2 million (\$793,000 after taxes) and a first quarter charge of \$366,000 (\$238,000 after taxes) related to the estimated loss on the sub-lease of a portion of the AFBS (formerly Therics) facility in Princeton, New Jersey;
- A fourth quarter charge of \$256,000 (\$256,000 after taxes) and a first quarter charge of \$338,000 (\$284,000 after taxes) for asset impairments in Film Products;
- A third quarter charge of \$493,000 (\$309,000 after taxes) and a second quarter charge of \$99,000 (\$62,000 after taxes) for severance and other employee-related costs in Aluminum Extrusions;
- A second quarter charge of \$26,000 (\$16,000 after taxes) and a first quarter charge of \$29,000 (\$17,000 after taxes) for costs related to the shutdown of the films manufacturing facility in LaGrange, Georgia; and
- A third quarter charge of \$42,000 (\$26,000 after taxes) related to expected future environmental costs at the aluminum extrusions facility in Newnan, Georgia (included in "Cost of goods sold" in the consolidated statements of income).

Results in 2007 include a fourth-quarter gain of \$2.7 million (\$1.7 million after taxes) on the sale of corporate real estate (proceeds of \$3.8 million) and a third-quarter loss from the write-down of an investment of \$2.1 million (\$1.3 million after taxes). The pretax amounts for both of these items are included in "Other income (expense), net" in the consolidated statements of income and separately shown in the segment operating profit table on page 14. Income taxes in 2007 include the recognition of a valuation allowance against deferred tax assets of \$1.1 million in the third quarter for expected limitations on the utilization of certain assumed capital losses.

For more information on costs and expenses, see the executive summary beginning on page 17.

Interest Income and Expense. Interest income, which is included in "Other income (expense), net" in the consolidated statements of income, was \$1.2 million in 2007 and \$1.2 million in 2006. Our policy permits investment of excess cash in marketable securities that have the highest credit ratings and maturities of less than one year with the primary objectives being safety of principal and liquidity.

Interest expense decreased to \$2.7 million in 2007, a decline of \$2.8 million versus 2006 due to lower average debt outstanding. Average debt outstanding and interest rates were as follows:

| (In Millions) | 2007 | 2006 |
|---|---------|---------|
| Floating-rate debt with interest charged on a rollover basis at one-month LIBOR plus a credit spread: | | |
| Average outstanding debt balance | \$ 41.5 | \$ 91.0 |
| Average interest rate | 6.0% | 5.9% |
| Fixed-rate and other debt: | | |
| Average outstanding debt balance | \$ 2.2 | \$ 4.4 |
| Average interest rate | 3.8% | 6.5% |

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| | | |
|----------------------------------|---------|---------|
| Total debt: | | |
| Average outstanding debt balance | \$ 43.7 | \$ 95.4 |
| Average interest rate | 5.9% | 5.9% |

Income Taxes. The effective tax rate increased to 41.1% in 2007 compared with 35.9% in 2006 mainly due to a valuation allowance for possible deferred tax benefits on capital loss carry-forwards and lower income tax benefits expected for the Extraterritorial Income Exclusion and Domestic Production Activities Deduction and the research and development (“R&D”) tax credit. For more information on the variances in our effective tax rate between years, see Note 14 of the notes to financial statements.

Financial Condition

Assets and Liabilities

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

- Accounts receivable decreased \$5.7 million (5.8%).
 - Accounts receivable in Film Products decreased by \$3.9 million due mainly to lower sales and the strengthening of the U.S. dollar relative to other foreign currencies. Days sales outstanding (“DSO”) remained consistent at 45 at December 31, 2008 and 2007.
 - Accounts receivable for continuing operations in Aluminum Extrusions decreased by \$1.8 million. DSO was 43 at December 31, 2008 compared with 40 at December 31, 2007, which was within the range experienced over the last twelve months.
- Inventories decreased \$11.9 million (24.4%).
 - Inventories in Film Products decreased by approximately \$9.9 million. Inventory days decreased to 36 at December 31, 2008 from 43 at December 31, 2007, primarily due to an overall effort to reduce inventory levels and a strengthening of the U.S. dollar relative to other foreign currencies.
 - Inventories for continuing operations of Aluminum Extrusions decreased by approximately \$2.0 million. Inventory days decreased to 30 at December 31, 2008 compared with 35 at December 31, 2007, primarily due to cyclical fluctuations and an overall effort to reduce inventory levels.
- Net property, plant and equipment decreased \$32.2 million (12.0%) with capital expenditures of \$20.9 million offset by depreciation of \$42.6 million, machinery and equipment asset impairments in Film Products of \$8.6 million, the appreciation of the U.S. dollar relative to foreign currencies (\$1.4 million decline) and \$544,000 for property disposals.
- Accounts payable decreased by \$12.2 million (18.1%).
 - Accounts payable in Film Products decreased by \$8.3 million due mainly to lower sales. Accounts payable days were 25 at December 31, 2008 compared with 30 at December 31, 2007, which was within the range experienced over the last twelve months.
 - Accounts payable for continuing operations in Aluminum Extrusions increased by \$199,000. Accounts payable days were 42 at December 31, 2008 compared with 37 days at December 31, 2007, primarily due to cyclical fluctuations and improved payable terms with suppliers.
 - Accounts payable decreased at corporate by \$4.1 million from the prior year primarily due to a \$3.4 million amount payable at December 31, 2007 to a securities broker relating to our repurchase of Tredegar common stock.
- Accrued expenses increased by \$4.7 million (13.9%) due primarily due to the increase in unrealized losses on future contracts that hedge fixed priced customer contracts in Aluminum Extrusions.
- Other noncurrent assets decreased and other noncurrent liabilities increased due primarily to the change in the funded status of our defined benefit pension plans. As of December 31, 2008, the funded status of our defined benefit pension plan was a net liability of \$17.1 million in “Other noncurrent liabilities” compared with an asset of \$86.3 million in “Other assets and deferred charges” and a liability of \$2.3 million in “Other noncurrent liabilities” as of December 31, 2007.

- Net deferred income tax liabilities in excess of assets decreased by \$22.0 million due to numerous changes between years in the balance of the components shown in the December 31, 2008 and 2007 schedule of deferred income tax assets and liabilities provided in Note 14 on page 66. Income taxes recoverable increased by \$12.2 million due primarily to the tax benefits on certain net operating and capital losses that will be recovered through the carryback to prior years that had operating income and capital gains.

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

| Net Capitalization and Indebtedness as of December 31, 2008 (In Thousands) | |
|--|------------|
| Net capitalization: | |
| Cash and cash equivalents | \$ 45,975 |
| Debt: | |
| \$300 million revolving credit agreement maturing December 15, 2010 | 21,000 |
| Other debt | 1,702 |
| | 22,702 |
| Total debt | 22,702 |
| | 23,273 |
| Cash and cash equivalents net of debt | 23,273 |
| Shareholders' equity | 420,416 |
| | 420,416 |
| Net capitalization | \$ 397,143 |
| | 397,143 |
| Indebtedness as defined in revolving credit agreement: | |
| Total debt | \$ 22,702 |
| Face value of letters of credit | 6,406 |
| Liabilities relating to derivative financial instruments, net of cash deposits | 7,085 |
| | 36,193 |
| Indebtedness | \$ 36,193 |

Under the revolving credit agreement, borrowings are permitted up to \$300 million, and \$233 million was available to borrow at January 1, 2009, the date our maximum leverage covenant dropped from 3.0x adjusted EBITDA to 2.75x adjusted EBITDA. 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 December 31, 2008, the interest rate on debt under the revolving credit agreement was priced at one-month LIBOR plus the applicable credit spread of 75 basis points.

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The computations of adjusted EBITDA, adjusted EBIT, the leverage ratio and interest coverage ratio as defined in the credit agreement are presented below along with the related most restrictive covenants. Adjusted EBITDA and adjusted EBIT as defined in the credit agreement are not intended to represent cash flow from operations as defined by GAAP and should not be considered as either an alternative to net income or to cash flow.

Computations of Adjusted EBITDA, Adjusted EBIT, Leverage Ratio and
Interest Coverage Ratio as Defined in Revolving Credit Agreement Along with Related Most
Restrictive Covenants
As of and for the Twelve Months Ended December 31, 2008 (In Thousands)

| | |
|--|------------|
| Computations of adjusted EBITDA and adjusted EBIT as defined in revolving credit agreement for the twelve months ended December 31, 2008: | |
| Net income | \$ 28,936 |
| Plus: | |
| After-tax losses related to discontinued operations | 705 |
| Total income tax expense for continuing operations | 19,486 |
| Interest expense | 2,393 |
| Charges related to stock option grants and awards accounted for under the fair value-based method | 782 |
| Losses related to the application of the equity method of accounting | — |
| Depreciation and amortization expense for continuing operations | 42,676 |
| 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 \$2,839) | 12,723 |
| Minus: | |
| After-tax income related to discontinued operations | — |
| Total income tax benefits for continuing operations | — |
| Interest income | (1,006) |
| 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 \$3,083) | (8,683) |
| Plus or minus, as applicable, pro forma EBITDA adjustments associated with acquisitions and asset dispositions | — |
| | <hr/> |
| Adjusted EBITDA as defined in revolving credit agreement | 98,012 |
| Less: Depreciation and amortization expense for continuing operations (including pro forma for acquisitions and asset dispositions) | (42,676) |
| | <hr/> |
| Adjusted EBIT as defined in revolving credit agreement | \$ 55,336 |
| | <hr/> |
| Shareholders' equity at December 31, 2008 as defined in revolving credit agreement | \$ 486,154 |
| Computations of leverage and interest coverage ratios as defined in revolving credit agreement: | |
| Leverage ratio (indebtedness-to-adjusted EBITDA) | .37x |
| Interest coverage ratio (adjusted EBIT-to-interest expense) | 23.12x |
| 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) | \$ 141,638 |
| Minimum adjusted shareholders' equity permitted (\$315,000 plus 50% of net income generated, to the extent positive, after July 1, 2007) | \$ 336,147 |
| Maximum leverage ratio permitted: | |
| Ongoing (2.75x effective January 1, 2009) | 3.00x |
| Pro forma for acquisitions | 2.50x |

Minimum interest coverage ratio permitted

2.50x

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Noncompliance with any one or more of the debt covenants may have a material adverse effect on financial condition or liquidity in the event such noncompliance cannot be cured or should we be unable to obtain a waiver from the lenders. Renegotiation of the covenant(s) through an amendment to the credit agreement may effectively cure the noncompliance, but may have an effect on financial condition or liquidity depending upon how the covenant is renegotiated.

We are obligated to make future payments under various contracts as set forth below:

| (In Millions) | Payments Due by Period | | | | | | | Total |
|--|------------------------|---------|--------|--------|--------|-----------|---------|-------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | Remainder | | |
| Debt | \$.5 | \$ 21.5 | \$.3 | \$.1 | \$.3 | \$ — | \$ 22.7 | |
| Operating leases: | | | | | | | | |
| AFBS (formerly Therics) | 1.7 | 1.7 | .4 | — | — | — | 3.8 | |
| Other | 1.3 | 1.3 | 1.4 | 1.3 | .2 | — | 5.5 | |
| Estimated contributions required ⁽¹⁾ : | | | | | | | | |
| Defined benefit plans | 4.4 | 5.4 | 6.3 | 5.7 | 4.9 | 1.4 | 28.1 | |
| Other postretirement benefits | .5 | .5 | .5 | .6 | .6 | 3.3 | 6.0 | |
| Capital expenditure commitments ⁽²⁾ | 17.5 | — | — | — | — | — | 17.5 | |
| Estimated obligations relating to uncertain tax positions ⁽³⁾ | 2.2 | — | — | — | — | 1.6 | 3.8 | |
| Total | \$ 28.1 | \$ 30.4 | \$ 8.9 | \$ 7.7 | \$ 6.0 | \$ 6.3 | \$ 87.4 | |