TREDEGAR CORP
Form 10-Q
August 06, 2008

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2008

OR

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

For the transition period from ___________ to ___________

Commission file number 1-10258

Tredegar Corporation

(Exact Name of Registrant as Specified in Its Charter)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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.

Large accelerated filer o Accelerated filer x

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

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

The number of shares of Common Stock, no par value, outstanding as of July 29, 2008: 33,675,365.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	June 30, 2008	Dec. 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 48,509	$ 48,217
Accounts and notes receivable, net of allowance for doubtful accounts and sales returns of $5,993 in 2008 and $5,198 in 2007	120,771	97,064
Income taxes recoverable	10,260	323
Inventories	36,715	48,666
Deferred income taxes	9,492	9,172
Prepaid expenses and other	7,418	4,077
Current assets of discontinued operation	—	37,750
Total current assets	233,165	245,269
Property, plant and equipment, at cost	665,837	637,688
Less accumulated depreciation	402,264	368,605
Net property, plant and equipment	263,573	269,083
Other assets and deferred charges	120,229	116,759
Goodwill and other intangibles	136,164	135,907
Noncurrent assets of discontinued operation	—	17,460
Total assets	$ 753,131	$ 784,478
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 71,602	$ 67,161
Accrued expenses	37,822	33,676
Current portion of long-term debt	585	540
Current liabilities of discontinued operation	—	17,152
Total current liabilities	110,009	118,529
Long-term debt	56,397	81,516
Deferred income taxes	83,247	68,625

Other noncurrent liabilities	15,910	15,662
Noncurrent liabilities of discontinued operation	—	8,818
Total liabilities	265,563	293,150
Commitments and contingencies (Notes 1 and 2)		
Shareholders’ equity:		
Common stock, no par value	38,602	51,444
Common stock held in trust for savings restoration plan	(1,308)	(1,303)
Foreign currency translation adjustment	33,482	40,610
Gain (loss) on derivative financial instruments	1,383	(1,204)
Pension and other postretirement benefit adjustments	872	(3,767)
Retained earnings	414,537	405,548
Total shareholders’ equity	487,568	491,328
Total liabilities and shareholders’ equity	$ 753,131	$ 784,478

See accompanying notes to financial statements.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Revenues and other items:				
Sales	$ 234,008	$ 234,882	$ 462,488	$ 479,769
Other income (expense), net	663	160	1,220	453
	234,671	235,042	463,708	480,222
Costs and expenses:				
Cost of goods sold	196,249	194,597	390,488	397,249
Freight	5,797	5,210	10,898	10,265
Selling, general and administrative	14,288	16,160	30,774	32,877
Research and development	2,851	2,130	5,334	4,072
Amortization of intangibles	31	38	63	75
Interest expense	557	557	1,438	1,381
Asset impairments and costs associated with exit and disposal activities	1,219	125	5,159	858
Total	220,992	218,817	444,154	446,777
Income from continuing operations before income taxes	13,679	16,225	19,554	33,445
Income taxes	4,814	5,661	6,904	11,746
Income from continuing operations	8,865	10,564	12,650	21,699
Income (loss) from discontinued operations	(207)	(629)	(930)	(1,431)
Net income	$ 8,658	$ 9,935	$ 11,720	$ 20,268
Earnings (loss) per share:				
Basic				
Continuing operations	$ .26	$ .27	$ .37	$ .55
Discontinued operations	(.01)	(.02)	(.03)	(.04)
Net income	$ .25	$ .25	$ .34	$ .51
Diluted				
Continuing operations	$ .26	$ .27	$ .37	$ .55
Discontinued operations	(.01)	(.02)	(.03)	(.04)

Net income	$ .25	$ .25	$ .34	$ .51
Shares used to compute earnings (loss) per share:				
Basic	33,997	39,402	34,231	39,337
Diluted	34,211	39,584	34,445	39,537
Dividends per share	$ .04	$ .04	$ .08	$ .08

See accompanying notes to financial statements.

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

	Six Months Ended June 30	
	2008	2007
Cash flows from operating activities:		
Net income	$ 11,720	$ 20,268
Adjustments for noncash items:		
Depreciation	22,379	22,785
Amortization of intangibles	63	75
Deferred income taxes	7,123	(2,528)
Accrued pension and postretirement benefits	(2,825)	(897)
Loss on asset impairments and divestitures	3,337	338
Changes in assets and liabilities, net of effects of acquisitions and divestitures:		
Accounts and notes receivable	(25,162)	(24,774)
Inventories	15,913	2,323
Income taxes recoverable	(9,803)	5,710
Prepaid expenses and other	828	1,658
Accounts payable and accrued expenses	2,086	11,343
Other, net	2,180	719
Net cash provided by operating activities	27,839	37,020
Cash flows from investing activities:		
Capital expenditures	(10,461)	(12,070)
Investment in Harbinger in 2007 ($10 million) and real estate in 2008 and 2007	(1,722)	(11,056)
Proceeds from the sale of the aluminum extrusions business in Canada (net of cash included in sale and transaction costs)	23,616	—
Proceeds from the sale of assets and property disposals & reimbursements from customers for purchases of equipment in 2007	248	3,842
Net cash provided by (used in) investing activities	11,681	(19,284)
Cash flows from financing activities:		
Dividends paid	(2,736)	(3,163)
Debt principal payments	(47,209)	(30,341)
Borrowings	22,000	—
Repurchases of Tredegar common stock	(12,904)	—
Proceeds from exercise of stock options	—	6,437
Net cash used in financing activities	(40,849)	(27,067)
Effect of exchange rate changes on cash	1,621	830

Decrease in cash and cash equivalents	292	(8,501)
Cash and cash equivalents at beginning of period	48,217	40,898
Cash and cash equivalents at end of period	$ 48,509	$ 32,397

See accompanying notes to financial statements.

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

	Common Stock	Retained Earnings	Trust for Savings Restoration Plan	Accumulated Other Comprehensive Income (Loss): Foreign Currency Translation	Accumulated Other Comprehensive Income (Loss): Gain (Loss) on Derivative Financial Instruments	Accumulated Other Comprehensive Income (Loss): Pension & Other Post-retirement Benefit Adjust.	Total Share-holders' Equity
Balance December 31, 2007	$ 51,444	$ 405,548	$ (1,303)	$ 40,610	$ (1,204)	$ (3,767)	$ 491,328
Comprehensive income:							
Net income	—	11,720	—	—	—	—	11,720
Other comprehensive income (loss):							
Foreign currency translation adjustment (net of tax of $3,840)	—	—	—	7,164	—	—	7,164
Reclassification of foreign currency translation gain realized on the sale of the aluminum extrusions business in Canada (net of tax of $7,696)	—	—	—	(14,292)	—	—	(14,292)
Derivative financial instruments adjustment (net of tax of $1,616)	—	—	—	—	2,587	—	2,587
Amortization of prior service costs and net gains or losses (net of tax of $130)	—	—	—	—	—	(232)	(232)
Reclassification of net actuarial losses and prior service costs realized on the sale of the aluminum extrusions business in Canada (net of tax of $1,799)	—	—	—	—	—	4,871	4,871
Comprehensive income							11,818
Cash dividends declared ($.08 per share)	—	(2,736)	—	—	—	—	(2,736)
Stock-based compensation expense & other	62	—	—	—	—	—	62
Repurchases of Tredegar common stock	(12,904)	—	—	—	—	—	(12,904)
Tredegar common stock purchased by trust for savings restoration plan	—	5	(5)	—	—	—	—
Balance June 30, 2008	$ 38,602	$ 414,537	$ (1,308)	$ 33,482	$ 1,383	$ 872	$ 487,568

See accompanying notes to financial statements.

TREDEGAR CORPORATION
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)

1. In the opinion of management, the accompanying consolidated financial statements of Tredegar Corporation and Subsidiaries ("Tredegar," "we," "us" or "our") contain all adjustments necessary to present fairly, in all material respects, Tredegar's consolidated financial position as of June 30, 2008, the consolidated results of operations for the three and six months ended June 30, 2008 and 2007, the consolidated cash flows for the six months ended June 30, 2008 and 2007, and the consolidated changes in shareholders' equity for the six months ended June 30, 2008. All such adjustments are deemed to be of a normal, recurring nature. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in Tredegar's Annual Report on Form 10-K for the year ended December 31, 2007. The results of operations for the six months ended June 30, 2008, are not necessarily indicative of the results to be expected for the full year.

2. Plant shutdowns, asset impairments and restructurings in the second quarter of 2008 shown in the segment operating profit table in Note 8 include:

- A pretax charge of $854,000 for asset impairments in Film Products;
- Pretax charges of $365,000 for severance and other employee-related costs in connection with restructurings in Film Products ($90,000) and Aluminum Extrusions ($275,000); and
- A pretax charge of $105,000 related to expected future environmental costs at the aluminum extrusions facility in Newnan, Georgia (included in "Cost of goods sold" in the consolidated statements of income).

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

- A pretax charge of $99,000 for severance and other employee-related costs in connection with restructurings in Aluminum Extrusions; and
- A pretax charge of $26,000 related to the shutdown of the films manufacturing facility in LaGrange, Georgia.

Plant shutdowns, asset impairments and restructurings in the first six months of 2008 shown in the segment operating profit table in Note 8 include:

- Pretax charges of $2.7 million for severance and other employee-related costs in connection with restructurings in Film Products ($2.2 million) and Aluminum Extrusions ($510,000);
- Pretax charges of $2.5 million for asset impairments in Film Products; and
- A pretax charge of $105,000 related to expected future environmental costs at the aluminum extrusions facility in Newnan, Georgia (included in "Cost of goods sold" in the consolidated statements of income).

The severance in Film Products includes a reduction in workforce (approximately 6% of Film Products' total employees) that is expected to save $2.6 million in 2008 and $4.2 million on an annualized basis.

Plant shutdowns, asset impairments and restructurings in the first six months of 2007 shown in the segment operating profit table in Note 8 include:

- A pretax charge of $366,000 related to the estimated loss on the sub-lease of a portion of the AFBS, Inc. (formerly know as Therics, Inc.) facility in Princeton, New Jersey;
- A pretax charge of $338,000 for asset impairments relating to machinery and equipment in Film Products;
- A pretax charge of $99,000 for severance and other employee-related costs in connection with restructurings in Aluminum Extrusions; and
- A pretax charge of $55,000 related to the shutdown of the films manufacturing facility in LaGrange, Georgia.

On February 12, 2008, Tredegar sold its aluminum extrusions business in Canada for a purchase price of $25.5 million to an affiliate of H.I.G. Capital. The purchase price is subject to adjustment based upon the actual working capital of the business at the time of sale. The final purchase price is estimated at $24.6 million, with the decline from the amount estimated at February 12, 2008 due to the excess of estimated working capital over actual working capital. We recognized a charge of $1.1 million ($430,000 after taxes) in the first quarter of 2008 and $207,000 ($207,000 after taxes) in the second quarter of 2008, which were in addition to the asset impairment charges recognized in 2007, to adjust primarily for differences in the carrying value of assets and liabilities and related tax benefits associated with the business sold since December 31, 2007. The remaining after-tax loss for discontinued operations in 2008 of $293,000 relates to the loss recognized in the first quarter from operations up through the date of sale. Tredegar expects to realize 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 in the accompanying financial statements and tables, except cash flows for discontinued operations have not been separately disclosed in the consolidated statements of cash flows.

A reconciliation of the beginning and ending balances of accrued expenses associated with plant shutdowns and divestitures for the six months ended June 30, 2008 is as follows:

(In Thousands)	Severance	Asset Impairments	Accelerated Depreciation (a)	Other (b)	Total
Balance at December 31, 2007	$ 363	$ —	$ —	$ 5,838	$ 6,201
Changes in 2008:					
Charges	2,655	855	1,649	100	5,259
Cash spent	(1,975)	—	—	(784)	(2,759)
Charged against assets	—	(855)	(1,649)	—	(2,504)
Balance at June 30, 2008	$ 1,043	$ —	$ —	$ 5,154	$ 6,197

(a) Represents depreciation accelerated due to plant shutdowns based on a remaining useful life of less than one year.

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

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

	Three Months Ended June 30		Six Months Ended June 30	
(In Thousands)	2008	2007	2008	2007
Net income	$ 8,658	$ 9,935	$ 11,720	$ 20,268
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment:				
Unrealized foreign currency translation adjustment arising during period	2,811	5,796	7,164	7,834
Reclassification adjustment of foreign currency translation gain included in income (related to sale of aluminum extrusions business in Canada - see Note 2)	—	—	(14,292)	—
Foreign currency translation adjustment	2,811	5,796	(7,128)	7,834
Derivative financial instrument adjustment	(590)	198	2,587	431
Pension and other post-retirement benefit adjustment:				
Amortization of prior service costs and net gains or losses	(116)	299	(232)	594
Reclassification of net actuarial losses and prior service costs (related to sale of aluminum extrusions business in Canada - see Note 2)	—	—	4,871	—
Pension and other post-retirement benefit adjustment	(116)	299	4,639	594
Comprehensive income	$ 10,763	$ 16,228	$ 11,818	$ 29,127

4. The components of inventories are as follows:

(In Thousands)	June 30 2008	Dec. 31 2007
Finished goods	$ 7,944	$ 10,004
Work-in-process	1,758	3,624
Raw materials	12,319	19,369
Stores, supplies and other	14,694	15,669
Total	$ 36,715	$ 48,666

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

equivalent shares outstanding, determined as follows:

(In Thousands)	Three Months Ended June 30 2008	Three Months Ended June 30 2007	Six Months Ended June 30 2008	Six Months Ended June 30 2007
Weighted average shares outstanding used to compute basic earnings (loss) per share	33,997	39,402	34,231	39,337
Incremental shares attributable to stock options and restricted stock	214	182	214	200
Shares used to compute diluted earnings (loss) per share	34,211	39,584	34,445	39,537

Incremental shares attributable to stock options and restricted stock are computed using the average market price during the related period. During the three and six months ended

June 30, 2008 and three and six months ended June 30, 2007, 158,507, 689,697, 52,845 and 61,125, respectively, of average out-of-the-money options to purchase shares were excluded from the calculation of incremental shares attributable to stock options and restricted stock.

6. Our investment in Harbinger Capital Partners Special Situations Fund, L.P. had a reported capital account value of $31.8 million at June 30, 2008, compared with $23.0 million at December 31, 2007. This investment has a carrying value in Tredegar's balance sheet of $10 million (included in "Other assets and deferred charges"), which represents the amount invested on April 2, 2007.

During the third quarter of 2007, we invested $6.5 million in a privately held drug delivery company representing ownership on a fully diluted basis of approximately 23%. The company is developing and commercializing state of the art drug delivery systems designed to improve patient compliance and outcomes. The 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 June 30, 2008, the estimated fair value of our investment (also the carrying value included in "Other assets and deferred charges" in our balance sheet) equaled the amount invested.

On the date of our investment (August 31, 2007), we believed 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 August 31, 2007, 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 August 31, 2007, or a 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.

Had we not elected to account for our investment under the fair value method, we would have been required to use the equity method of accounting. We were not allocated any profits or losses for the year ended December 31, 2007 based on the formulas contained in the company's operating agreement. We estimate that our allocation of losses for the first and second quarter of 2008 (based on the formulas contained in the company's operating agreement) was approximately $940,000 and $1.5 million, respectively.

The condensed balance sheets for the drug delivery company at June 30, 2008 and December 31, 2007 and related condensed statements of income for the first and second quarters of 2008 and the year and four months ended December 31, 2007, adjusted on a purchase accounting basis to the valuation implied by the latest round of financing in August-September 2007, are provided below:

(Unaudited)	6/30/08	12/31/07		6/30/08	12/31/07
Assets			Liabilities & Members' Equity		
Cash & cash equivalents	$ 4,179	$ 6,781	Liabilities	$ 1,802	$ 1,494
Other tangible assets	1,040	1,253	Contributed capital	12,354	12,354
Identifiable intangibles (15 year life)	3,747	3,901	Net equity appreciation implied from purchase accounting adjustments	12,805	12,805
Goodwill	10,194	10,194	Accumulated losses	(7,801)	(4,524)
Total assets	$ 19,160	$ 22,129	Total liabilities & members' equity	$ 19,160	$ 22,129

	2nd Qtr. '08	1st Qtr. '08	2007	Sept.-Dec. '07
Revenues & Expenses				
Revenues	$ —	$ —	$ —	$ —
Costs & expenses	1,834	1,443	2,445	800
Net loss	$ (1,834)	$ (1,443)	$ (2,445)	$ (800)

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

	Pension Benefits for 3 Months Ended June 30		Other Post-Retirement Benefits for 3 Months Ended June 30	
(In Thousands)	2008	2007	2008	2007
Service cost	$ (1,053)	$ (1,066)	$ (18)	$ (34)
Interest cost	(3,055)	(2,858)	(128)	(103)
Expected return on plan assets	5,486	5,096	—	—
Amortization of prior service costs, gains or losses and net transition asset	181	(439)	—	(4)
Net periodic benefit income (cost)	$ 1,559	$ 733	$ (146)	$ (141)