TREDEGAR CORP
Form 10-K
March 02, 2007

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

FORM 10-K

FOR ANNUAL AND TRANSACTION REPORTS PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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

For the fiscal year ended December 31, 2006
OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _________ to __________

Commission File Number 1-10258

TREDEGAR CORPORATION

(Exact name of registrant as specified in its charter)

Virginia	**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 x

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 x

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 x No o

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 x

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

Large accelerated filer o Accelerated filer x Non-accelerated filer o

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

Aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2006 (the last business day of the registrant's most recently completed second quarter): $479,651,105*

Number of shares of Common Stock outstanding as of January 31, 2007: 39,382,964 (38,790,297 as of June 30, 2006)

* In determining this figure, an aggregate of 8,471,011 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, 2006, as reported by *The Wall Street Journal*.

Documents Incorporated By Reference

Portions of the Tredegar Corporation ("Tredegar") Proxy Statement for the 2007 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 and mail it to shareholders on or about March 28, 2007.

Index to Annual Report on Form 10-K
Year Ended December 31, 2006

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

The Securities and Exchange Commission (the "SEC") has not approved or disapproved of this report or passed upon its accuracy or adequacy.

Index

PART I

Item 1. **BUSINESS**

Description of Business

Tredegar Corporation ("Tredegar"), a Virginia corporation incorporated in 1988, is engaged, through its subsidiaries, in the manufacture of plastic films and aluminum extrusions. Financial information related to Tredegar's films and aluminum segments included in Note 3 to the notes to financial statements is incorporated herein by reference.

Film Products

Tredegar 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 more than 30% of Tredegar's consolidated net sales.

Film Products also makes apertured films, breathable barrier films and laminates that regulate vapor or fluid 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. Film Products supplies a family of laminates for use in protective apparel under the GuardDog Laminates™ brand name.

Packaging and Protective Films. Film Products produces a broad line of packaging films with an emphasis on paper, as well as laminating films for food packaging applications. 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 films that are disposable, protective coversheets for photopolymers used in the manufacture of circuit boards. Other films sold under the UltraMask® and ForceField™ brand names are used as protective films to protect flat panel display components during fabrication, shipping and handling.

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.

Index

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 $255 million in 2006, $237 million in 2005 and $226 million in 2004 (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 189 issued patents (73 of which are issued in the U.S.) and 110 trademarks (10 of which are issued in the U.S.). Expenditures for research and development ("R&D") have averaged $7.4 million annually over the past three years.

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.

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 doors, industrial and agricultural machinery and equipment, ladders, bus bars, automotive parts, snowmobiles and tractor-trailer shapes, among other products. Sales are made primarily in the United States and Canada, principally east of the Rocky Mountains. Aluminum Extrusions competes primarily on the basis of product quality, service and price.

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

% of Aluminum Extrusions Sales Volume by Market Segment	**2006**	2005	2004
Building and construction:			
Commercial	**48**	44	41
Residential	**14**	18	21
Distribution	**19**	16	13
Transportation	**9**	9	10
Machinery and equipment	**5**	6	7
Electrical	**3**	4	5
Consumer durables	**2**	3	3
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. patents and two U.S. trademarks.

2

Index

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 2006, 2005 and 2004 was related to Film Products and AFBS, Inc. (formerly known as Therics, Inc.). R&D spending at Film Products was approximately $8.1 million in 2006, $6.6 million in 2005 and $7.5 million in 2004.

On June 30, 2005, substantially all of the assets of AFBS, 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. AFBS received a 17.5% equity interest in Therics, LLC, valued at $170,000 and a 3.5% interest in Theken Spine, LLC, valued at $800,000, along with potential future payments based on the sale of certain products by Therics, LLC. AFBS had operating losses of $3.5 million during the first six months of 2005 and $9.8 million in 2004. There was no R&D spending at AFBS in 2006. R&D spending at AFBS was approximately $2.4 million in 2005 and $7.8 million in 2004.

Backlog. Backlogs are not material to our operations.

***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. We believe that we are 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 3,000 people at December 31, 2006.

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 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 have risen significantly, and may continue to do so in the future. Tredegar attempts to mitigate the effects of increased costs through price increases and contractual pass-through provisions, but there are no assurances that higher prices can effectively be passed through to our customers or that we will be able to offset fully or on a timely basis the effects of higher raw material costs through price increases or pass-through arrangements. Further, there is no assurance that cost control efforts will be sufficient to offset any additional future declines in revenue or increases in energy, raw material or other costs.

Index

- ***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 or liquidity.*** The credit agreement governing our credit facility contains restrictions and financial covenants that could restrict our financial flexibility. Our failure to comply with these covenants could result in an event of default, which if not cured or waived, could have an adverse effect on our financial condition and liquidity.

Film Products

- ***Film Products is highly dependent on sales associated with one customer, P&G***. P&G comprised approximately 23% of Tredegar Corporation’s net sales in 2006, 25% in 2005 and 27% in 2004. The loss or significant reduction of sales associated with P&G would have a material adverse effect on our business. Other P&G-related factors that could adversely affect our business include, by way of example, (i) failure by P&G to achieve success or maintain share in markets in which P&G sells products containing our materials, (ii) operational decisions by P&G that result in component substitution, inventory reductions and similar changes and (iii) delays in P&G rolling out products utilizing new technologies developed by Tredegar. While we have undertaken efforts to expand our customer base, there can be no assurance that such efforts will be successful, or that they will offset any delay or loss of sales and profits associated with P&G.

- ***Growth of Film Products depends on our ability to develop and deliver new products at competitive prices, especially in the personal care market***. Personal care products are now being made with a variety of new materials and the overall cycle for changing materials has accelerated. While we have substantial technical resources, there can be no assurance that our new products can be brought to market successfully, or if brought to market successfully, at the same level of profitability and market share of replaced films. A shift in customer preferences away from our technologies, our inability to develop and deliver new profitable products, or delayed acceptance of our new products in domestic or foreign markets, could have a material adverse effect on our business. In the long term, growth will depend on our ability to provide innovative materials at a cost that meets our customers’ needs.

- ***Continued growth in Film Products' sale of high value protective film products is not assured.*** A shift in our customers' preference to new or different products could have a material adverse effect on our sale of protective films. Similarly, a decline in consumer demand for notebook computers or liquid crystal display (LCD) monitors or a decline in the rate of growth in purchases of LCD televisions could have a significant negative impact on protective film sales.

- ***Our inability to protect our intellectual property rights or our infringement of the intellectual property rights of others could have a significant adverse impact on Film Products.*** Film Products operates in a field where our significant customers and competitors have substantial intellectual property portfolios. The continued success of this business depends on our ability not only to protect our own technologies and trade secrets, but also to develop and sell new products that do not infringe upon existing patents or threaten existing customer relationships. An unfavorable outcome in any intellectual property litigation or similar proceeding could have a significant adverse impact on Film Products.

Index

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

Aluminum Extrusions

- ***Sales volume and profitability of Aluminum Extrusions is cyclical and highly dependent on economic conditions of end-use markets in the United States and Canada, particularly in the construction, distribution and transportation industries. Our market segments are also subject to seasonal slowdowns during the winter months.*** Because of the high degree of operating leverage inherent in our operations (generally constant fixed costs until full capacity utilization is achieved), the percentage drop in operating profits in a cyclical downturn will likely exceed the percentage drop in volume. Any benefits associated with cost reductions and productivity improvements may not be sufficient to offset the adverse effects on profitability from pricing and margin pressure and higher bad debts that usually accompany a downturn. In addition, higher energy costs and the appreciation of the U.S. Dollar equivalent value of the Canadian Dollar can further reduce profits unless offset by price increases or cost reductions and productivity improvements.

- ***The markets for our products are highly competitive with product quality, service, delivery performance and price being the principal competitive factors.*** Aluminum Extrusions has around 1,800 customers in a variety of end-use markets within the broad categories of building and construction, distribution, transportation, machinery and equipment, electrical and consumer durables. No single customer exceeds 4% of Aluminum Extrusion's net sales. Due to the diverse customer mix across many end-use markets, we believe the industry generally tracks the real growth of the overall economy (historical cross-cycle volume growth has been in the 3% range).

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

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

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

Item 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.

Index

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	*Locations in Foreign Countries*	*Principal Operations*
Lake Zurich, Illinois Pottsville, Pennsylvania Red Springs, North Carolina (leased) Richmond, Virginia (technical center) (leased) Terre Haute, Indiana (technical center and production facility)	Chieti, Italy (technical center) Guangzhou, China Kerkrade, The Netherlands Rétság, Hungary Roccamontepiano, Italy São Paulo, Brazil Shanghai, China	Production of plastic films and laminate materials

Aluminum Extrusions

Locations in the United States	*Locations in Canada*	*Principal Operations*
Carthage, Tennessee Kentland, Indiana Newnan, Georgia	Pickering, Ontario Richmond Hill, Ontario Ste Thérèse, Québec Woodbridge, Ontario (leased)	Production of aluminum extrusions, fabrication and finishing

Item 3. **LEGAL PROCEEDINGS**

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

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

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

Pursuant to a Consent Agreement and Final Order (“CAFO”) that became effective May 9, 2006, Aluminum Extrusions (i) paid a civil penalty of $30,422 and (ii) undertook a supplemental environmental project ("SEP") in an amount of at least $208,170 ("Minimum SEP Expenditure"). The CAFO requires that the SEP be fully implemented within one year of the CAFO's effective date. On July 6, 2006, Aluminum Extrusions completed the SEP at a cost of $296,432.

Management sent a report to the EPA in the fourth quarter of 2006 indicating that it believes that the SEP was completed in a satisfactory and timely manner. If, however, the EPA rules that the SEP was not completed satisfactorily or failed to spend at least the Minimum SEP Expenditure, Aluminum Extrusions could be responsible under the CAFO for additional penalties of up to $91,000.

Index

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 39,286,079 shares of common stock held by 3,482 shareholders of record on December 31, 2006.

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

	2006		2005	
	High	**Low**	High	Low
First quarter	**$ 16.65**	**$ 13.06**	$ 20.19	$ 16.08
Second quarter	**16.89**	**13.84**	17.56	14.52
Third quarter	**16.94**	**14.39**	16.67	12.09
Fourth quarter	**23.32**	**16.31**	13.16	11.76

The closing price of our common stock on February 20, 2007 was $23.86.

Dividend Information

We have paid a dividend every quarter since becoming a public company in July 1989. During 2006, 2005 and 2004, 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 59 for the restrictions contained in our credit agreement related to minimum shareholders' equity required and aggregate dividends permitted.

Issuer Purchases of Equity Securities

During 2006, 2005 and 2004, we did not purchase any shares of our common stock in the open market. Under a standing authorization from our board of directors announced on August 8, 2006, we may purchase up to 5 million shares in the open market or in privately negotiated transactions at prices management deems appropriate.

Annual Meeting

Our annual meeting of shareholders will be held on May 17, 2007, beginning at 9:00 a.m. EDT at Lewis Ginter Botanical Garden, 1800 Lakeside Avenue, Richmond, Virginia, 23229. We expect to mail formal notice of the annual meeting, proxies and proxy statements to shareholders on or about March 28, 2007.

Index

Comparative Tredegar Common Stock Performance

The following graph compares cumulative total shareholder returns for Tredegar, the S&P 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, 2006. Tredegar is part of both the S&P SmallCap 600 Index and Russell 2000 Index.

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:

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

Index

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	**Independent Registered Public Accounting Firm**
Hunton & Williams LLP	PricewaterhouseCoopers LLP
Richmond, Virginia	Richmond, Virginia

Item 6. **SELECTED FINANCIAL DATA**

The tables that follow on pages 10-16 present certain selected financial and segment information for the eight years ended December 31, 2006.

Index

EIGHT-YEAR SUMMARY
Tredegar Corporation and Subsidiaries

Years Ended December 31 (In Thousands, Except Per-Share Data)	**2006**	2005	2004	2003	2002	2001	2000	1999
Results of Operations (a):								
Sales	**$ 1,116,525**	$ 956,969	$ 861,165	$ 738,651	$ 753,724	$ 779,157	$ 879,475	$ 828,015
Other income (expense), net	**1,444**(b)	(544)(c)	15,604(d)	7,853	546	1,255	1,914	972
	1,117,969	956,425	876,769	746,504	754,270	780,412	881,389	828,987
Cost of goods sold	**944,839**(b)	810,621 (c)	717,120(d)	606,242	582,658	618,323	706,817	648,254
Freight	**28,096**	24,691	22,398	18,557	16,319	15,580	17,125	15,221
Selling, general & administrative expenses	**68,360**(b)	64,723 (c)	60,030(d)	53,341	52,252	47,954	47,321	44,675
Research and development expenses	**8,088**	8,982	15,265	18,774	20,346	20,305	15,305	11,500
Amortization of intangibles	**149**	299	330	268	100	4,914	5,025	3,430
Interest expense	**5,520**	4,573	3,171	6,785	9,352	12,671	17,319	9,088
Asset impairments and costs associated with exit and disposal activities	**4,080**(b)	16,334 (c)	22,973(d)	11,426(e)	3,884 (f)	16,935 (g)	23,791 (h)	4,628(i)
Unusual items	**-**	-	-	1,067(e)	(6,147)(f)	(971)(g)	(762)(h)	-
	1,059,132	930,223	841,287	716,460	678,764	735,711	831,941	736,796
Income from continuing operations before income taxes	**58,837**	26,202	35,482	30,044	75,506	44,701	49,448	92,191
Income taxes	**20,636**(b)	9,973	9,222(d)	10,717	26,881	13,950 (g)	18,135	32,728
Income from continuing operations (a)	**38,201**	16,229	26,260	19,327	48,625	30,751	31,313	59,463
Discontinued operations (a):								
Income (loss) from venture	**-**	-	2,921	(46,569)	(42,428)	(16,627)	83,640	(4,626)

capital investment activities								
Income (loss) from operations of Molecumetics	**-**	-	-	891	(8,728)	(5,768)	(3,577)	(2,189)
Income from discontinued energy segment	**-**	-	-	-	-	1,396	-	-
Income (loss) from discontinued operations (a)	**-**	-	2,921	(45,678)	(51,156)	(20,999)	80,063	(6,815)
Net income (loss)	**$ 38,201**	$ 16,229	$ 29,181	$ (26,351)	$ (2,531)	$ 9,752	$ 111,376	$ 52,648
Diluted earnings (loss) per share:								
Continuing operations (a)	**$ .98**	$ .42	$ .68	$ .50	$ 1.25	$ .79	$ .80	$ 1.54
Discontinued operations (a)	**-**	-	.08	(1.19)	(1.32)	(.54)	2.06	(.18)
Net income (loss)	**$ .98**	$ .42	$ .76	$ (.69)	$ (.07)	$ .25	$ 2.86	$ 1.36

Refer to notes to financial tables on page 16.

Index

EIGHT-YEAR SUMMARY
Tredegar Corporation and Subsidiaries

Years Ended December 31 (In Thousands, Except Per-Share Data)	**2006**	2005	2004	2003	2002	2001	2000	1999
Share Data:								
Equity per share	**$ 13.15**	$ 12.53	$ 12.45	$ 11.72	$ 12.08	$ 12.53	$ 13.07	$ 9.88
Cash dividends declared per share	**.16**	.16	.16	.16	.16	.16	.16	.16
Weighted average common shares outstanding during the period	**38,671**	38,471	38,295	38,096	38,268	38,061	37,885	36,992
Shares used to compute diluted earnings per share during the period	**38,931**	38,597	38,507	38,441	38,869	38,824	38,908	38,739
Shares outstanding at end of period	**39,286**	38,737	38,598	38,177	38,323	38,142	38,084	37,661
Closing market price per share:								
High	**23.32**	20.19	20.25	16.76	24.72	21.70	32.00	32.94
Low	**13.06**	11.76	13.00	10.60	12.25	15.30	15.00	16.06
End of year	**22.61**	12.89	20.21	15.53	15.00	19.00	17.44	20.69
Total return to shareholders (j)	**76.6%**	(35.4)%	31.2%	4.6%	(20.2)%	9.9%	(14.9)%	(7.3)%
Financial Position:								
Total assets	**781,787**	781,758	769,474	753,025	837,962	865,031	903,768	792,487
Cash and cash equivalents	**40,898**	23,434	22,994	19,943	109,928	96,810	44,530	25,752
Income taxes recoverable from sale of	**-**	-	-	55,000	-	-	-	-

venture capital portfolio								
Debt	**62,520**	113,050	103,452	139,629	259,280	264,498	268,102	270,000
Shareholders' equity (net book value)	**516,595**	485,362	480,442	447,399	462,932	477,899	497,728	372,228
Equity market capitalization (k)	**888,256**	499,320	780,066	592,889	574,845	724,706	664,090	779,112

Refer to notes to financial tables on page 16.

Index

SEGMENT TABLES
Tredegar Corporation and Subsidiaries

Net Sales (1)

Segment (In Thousands)	**2006**	2005	2004	2003	2002	2001	2000	1999
Film Products	**$ 511,169**	$ 460,277	$ 413,257	$ 365,501	$ 376,904	$ 382,740	$ 380,202	$ 342,300
Aluminum Extrusions	**577,260**	471,749	425,130	354,593	360,293	380,387	479,889	461,241
AFBS (formerly Therics)	**-**	252	380	-	208	450	403	161
Total ongoing operations (m)	**1,088,429**	932,278	838,767	720,094	737,405	763,577	860,494	803,702
Divested operations (a):								
Fiberlux	**-**	-	-	-	-	-	1,856	9,092
Total net sales	**1,088,429**	932,278	838,767	720,094	737,405	763,577	862,350	812,794
Add back freight	**28,096**	24,691	22,398	18,557	16,319	15,580	17,125	15,221
Sales as shown in Consolidated Statements of Income	**$ 1,116,525**	$ 956,969	$ 861,165	$ 738,651	$ 753,724	$ 779,157	$ 879,475	$ 828,015

Refer to notes to financial tables on page 16.

Index

SEGMENT TABLES
Tredegar Corporation and Subsidiaries

Operating Profit

Segment (In Thousands)	**2006**	2005	2004	2003	2002	2001	2000	1999
Film Products:								
Ongoing operations	**$ 57,645**	$ 44,946	$ 43,259	$ 45,676	$ 72,307	$ 61,787	$ 47,112	$ 59,554
Plant shutdowns, asset impairments and restructurings, net of gains on sale of assets and related income from LIFO inventory liquidations	**221** (b)	(3,955)(c)	(10,438)(d)	(5,746)(e)	(3,397)(f)	(9,136)(g)	(22,163)(h)	(1,170)(i)
Unusual items	**-**	-	-	-	6,147 (f)	-	-	-
Aluminum Extrusions:								
Ongoing operations	**22,031**	19,302	22,637	15,117	27,304	25,407	52,953	56,501
Plant shutdowns, asset impairments and restructurings, net of gains on sale of assets	**(1,434)**(b)	122 (c)	(10,553)(d)	(644)(e)	(487)(f)	(7,799)(g)	(1,628)(h)	-
Gain on sale of land			-	1,385	-	-	-	-
Other	**-**	-	7,316 (d)	-	-	-	-	-
AFBS (formerly Therics):								
Ongoing operations	**-**	(3,467)	(9,763)	(11,651)	(13,116)	(12,861)	(8,024)	(5,235)
Loss on investment in Therics, LLC	**(25)**	(145)	-	-	-	-	-	-
	(637	(10,318	(2,041	(3,855	-	-	-	(3,458

Plant shutdowns, asset impairments and restructurings	) (b)	) (c)	) (d)	) (e)				) (i)
Unusual items	**-**	-	-	(1,067) (e)	-	-	-	-
Divested operations (a):								
Fiberlux	**-**	-	-	-	-	-	(264)	57
Unusual items	**-**	-	-	-	-	-	762 (h)	-
Total	**77,801**	46,485	40,417	39,215	88,758	57,398	68,748	106,249
Interest income	**1,240**	586	350	1,183	1,934	2,720	2,578	1,419
Interest expense	**5,520**	4,573	3,171	6,785	9,352	12,671	17,319	9,088
Gain on sale of corporate assets	**56**	61	7,560	5,155	-	-	-	712
Loss from write-down of investment in Novalux	**-** (b)	5,000 (c)	-	-	-	-	-	-
Stock option-based compensation costs	**970**	-	-	-	-	-	-	-
Corporate expenses, net	**13,770**	11,357	9,674	8,724 (e)	5,834	2,746 (g)	4,559	7,101
Income from continuing operations before income taxes	**58,837**	26,202	35,482	30,044	75,506	44,701	49,448	92,191
Income taxes	**20,636** (b)	9,973	9,222	10,717	26,881	13,950 (g)	18,135	32,728
Income from continuing operations	**38,201**	16,229	26,260	19,327	48,625	30,751	31,313	59,463
Income (loss) from discontinued operations (a)	**-**	-	2,921	(45,678)	(51,156)	(20,999)	80,063	(6,815)
Net income (loss)	**$ 38,201**	$ 16,229	$ 29,181	$ (26,351)	$ (2,531)	$ 9,752	$ 111,376	$ 52,648

Refer to notes to financial tables on page 16.

13

Index

SEGMENT TABLES
Tredegar Corporation and Subsidiaries

Identifiable Assets

Segment (In Thousands)	**2006**	2005	2004	2003	2002	2001	2000	1999
Film Products	**$ 498,961**	$ 479,286	$ 472,810	$ 422,321	$ 379,635	$ 367,291	$ 367,526	$ 360,517
Aluminum Extrusions	**209,395**	214,374	210,894	185,336	176,631	185,927	210,434	216,258
AFBS (formerly Therics)	**2,420**	2,759	8,613	8,917	10,643	9,931	9,609	9,905
Subtotal	**710,776**	696,419	692,317	616,574	566,909	563,149	587,569	586,680
General corporate	**30,113**	61,905	54,163	61,508	52,412	40,577	30,214	22,419
Income taxes recoverable from sale of venture capital investment portfolio	**-**	-	-	55,000	-	-	-	-
Cash and cash equivalents	**40,898**	23,434	22,994	19,943	109,928	96,810	44,530	25,752
Identifiable assets from ongoing operations	**781,787**	781,758	769,474	753,025	729,249	700,536	662,313	634,851
Divested operations (a):								
Fiberlux	**-**	-	-	-	-	-	-	7,859
Discontinued operations (a):								
Venture capital	**-**	-	**-**	**-**	108,713	158,887	236,698	145,028
Molecumetics	**-**	-	-	-	-	5,608	4,757	4,749
Total	**$ 781,787**	$ 781,758	$ 769,474	$ 753,025	$ 837,962	$ 865,031	$ 903,768	$ 792,487

Refer to notes to financial tables on page 16.

Index

SEGMENT TABLES
Tredegar Corporation and Subsidiaries

Depreciation and Amortization

Segment (In Thousands)	**2006**	2005	2004	2003	2002	2001	2000	1999
Film Products	**$ 31,847**	$ 26,673	$ 21,967	$ 19,828	$ 20,085	$ 22,047	$ 23,122	$ 18,751
Aluminum Extrusions	**12,323**	11,484	10,914	10,883	10,506	11,216	9,862	9,484
AFBS (formerly Therics)	**-**	437	1,300	1,641	463	2,262	1,782	1,195
Subtotal	**44,170**	38,594	34,181	32,352	31,054	35,525	34,766	29,430
General corporate	**111**	195	241	270	353	329	315	253
Total ongoing operations	**44,281**	38,789	34,422	32,622	31,407	35,854	35,081	29,683
Divested operations (a):								
Fiberlux	**-**	-	-	-	-	-	151	498
Discontinued operations (a):								
Venture capital	**-**	-	-	-	-	-	18	22
Molecumetics	**-**	-	-	-	527	2,055	1,734	1,490
Total	**$ 44,281**	$ 38,789	$ 34,422	$ 32,622	$ 31,934	$ 37,909	$ 36,984	$ 31,693

Capital Expenditures, Acquisitions and Investments

Segment (In Thousands)	**2006**	2005	2004	2003	2002	2001	2000	1999
Film Products	**$ 33,168**	$ 50,466	$ 44,797	$ 57,203	$ 24,063	$ 24,775	$ 53,161	$ 25,296
Aluminum Extrusions	**7,381**	11,968	10,007	8,293	4,799	8,506	21,911	16,388
AFBS (formerly Therics)	**-**	36	275	219	1,621	2,340	1,730	757
Subtotal	**40,549**	62,470	55,079	65,715	30,483	35,621	76,802	42,441
General corporate	**24**	73	572	93	60	519	384	606
Capital expenditures for ongoing operations	**40,573**	62,543	55,651	65,808	30,543	36,140	77,186	43,047
Divested operations (a):								
Fiberlux	**-**	-	-	-	-	-	425	812
Discontinued operations (a):								
Venture capital	**-**	-	-	-	-	-	86	-
Molecumetics	**-**	-	-	-	793	2,850	2,133	1,362

Total capital expenditures	**40,573**	62,543	55,651	65,808	31,336	38,990	79,830	45,221
Acquisitions and other	**-**	-	1,420	1,579	-	1,918	6,316	215,227
Novalux investment	**542**	1,095	5,000	-	-	-	-	-
Venture capital investments	**-**	-	-	2,807	20,373	24,504	93,058	81,747
Total	**$ 41,115**	$ 63,638	$ 62,071	$ 70,194	$ 51,709	$ 65,412	$ 179,204	$ 342,195

Refer to notes to financial tables on page 16.

Index

NOTES TO FINANCIAL TABLES

(In Thousands, Except Per-Share Data)

(a) 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. In 2003, we sold substantially all of our venture capital investment portfolio. In 2002, we ceased operations at Molecumetics, one of our biotechnology units, and sold its tangible assets. The operating results associated with the venture capital investment portfolio and Molecumetics have been reported as discontinued operations. In 2003, discontinued operations also include a gain of $891 after-taxes on the sale of intellectual property of Molecumetics and a loss on the divestiture of the venture capital investment portfolio of $46,269 after-taxes. Discontinued operations in 2002 also include a loss on the disposal of Molecumetics of $4,875 after-taxes. In 2001, discontinued operations include a gain of $1,396 for the reversal of an income tax contingency accrual upon favorable conclusion of IRS examinations through 1997. The accrual was originally recorded in conjunction with the sale of The Elk Horn Coal Corporation. We divested our coal subsidiary, The Elk Horn Coal Corporation, and our remaining oil and gas properties in 1994. As a result of these events, we report the Energy segment as discontinued operations. On April 10, 2000, we sold Fiberlux. The operating results of Fiberlux were historically reported as part of the Plastics segment on a combined basis with Film Products.

(b) 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 (formerly Therics) 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, indicates that realization of related deferred tax assets is more likely than not.

(c) 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 $2,221 related to severance and other employee-related costs in connection with restructurings in Film Products ($1,118), Aluminum Extrusions ($648) 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 net gain of $1,265 related to the shutdown of the aluminum extrusions facility in Aurora, Ontario, including a gain on the sale of the facility ($1,667, included in "Other income (expense), net" in the consolidated statements of income), shutdown-related costs ($1,111), partially offset by the reversal to income of certain accruals associated with severance and other costs ($709), a charge of $1,019 for process reengineering costs associated with the implementation of a global 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 "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.

(d) Plant shutdowns, asset impairments and restructurings for 2004 include a charge of $10,127 related to the planned shutdown of the aluminum extrusions plant in Aurora, Ontario, 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 $1,547 for severance and other employee-related costs associated with restructurings in AFBS ($735), Film Products ($532) and Aluminum Extrusions ($280), 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."

(e) Plant shutdowns, asset impairments and restructurings for 2003 include charges of $4,514 for severance costs in connection with restructurings in Film Products ($1,922), Aluminum Extrusions ($256), AFBS ($1,155) and corporate headquarters ($1,181, included in "Corporate expenses, net" in the operating profit by segment table), charges of $2,776 for asset impairments in the films business, charges of $2,700 related to the estimated loss on the sub-lease of a portion of the AFBS facility in Princeton, New Jersey, a charge of $611 primarily related to severance costs associated with the shutdown of the films plant in New Bern, North Carolina, a charge of $388 related to an early retirement program in our aluminum business and charges of $437 for additional costs incurred related to plant shutdowns in our films business. Unusual items for 2003 include a charge of $1,067 related to an adjustment for depreciation and amortization at AFBS based on our decision to suspend divestiture efforts.

(f) Plant shutdowns, asset impairments and restructurings for 2002 include a charge of $1,457 for asset impairments in the films business, a charge of $1,007 for additional costs related to the shutdown of the films plant in Carbondale, Pennsylvania, a charge of $541 for additional costs related to the shutdown of the films plant in Tacoma, Washington, a charge of $487 for additional costs related to the shutdown of the aluminum extrusions plant in El Campo, Texas, and a charge of $392 for additional costs related to the 2000 shutdown of the films plant in Manchester, Iowa. Unusual items for 2002 include a net gain of $5,618 for payments received from P&G related to terminations and revisions to contracts and related asset writedowns, and a gain of $529 related to the sale of assets.

(g) Plant shutdowns, asset impairments and restructurings for 2001 include a charge of $7,799 for the shutdown of the aluminum extrusions plant in El Campo, Texas, a charge of $3,386 for the shutdown of the films plant in Tacoma, Washington, a charge of $2,877 for the shutdown of the films plant in Carbondale, Pennsylvania, a charge of $1,505 for severance costs related to further rationalization in the films business, and a charge of $1,368 for impairment of our films business in Argentina. Unusual items in 2001 include a gain of $971 (included in "Corporate expenses, net" in the operating profit by segment table) for interest received on tax overpayments. Income taxes in 2001 include a benefit of $1,904 for the reversal of income tax contingency accruals upon favorable conclusion of IRS examinations through 1997.

(h) Plant shutdowns, asset impairments and restructurings for 2000 include a charge of $17,870 related to excess capacity in the films business, a charge of $1,628 related to restructuring at our aluminum extrusions plant in El Campo, Texas, and a charge of $4,293 for the shutdown of the films plant in Manchester, Iowa. Unusual items in 2000 include a gain of $762 for the sale of Fiberlux.

(i) Plant shutdowns, asset impairments and restructurings for 1999 include a charge of $3,458 related to a write-off of in-process research and development expenses associated with the AFBS acquisition and a charge of $1,170 for the write-off of excess packaging film capacity.

(j) 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.

(k) Equity market capitalization is the closing market price per share for the period multiplied by the shares outstanding at the end of the period.

(l) 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.

(m) Net sales include sales to P&G totaling $255,414 in 2006, $236,554 in 2005, and $226,122 in 2004. These amounts include plastic film sold to others who converted the film into materials used in products manufactured by P&G.

Index

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 3-5 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 1-5.

Income from continuing operations was $38.2 million (98 cents per diluted share) in 2006 compared with $16.2 million (42 cents per diluted share) in 2005. Gains on the sale of assets, investment write-downs and other items and losses related to plant shutdowns, assets impairments and restructurings are described in results of operations beginning on page 20. The business segment review begins on page 33.

Film Products

In Film Products, net sales were $511.2 million in 2006, up 11.1% versus $460.3 million in 2005. Operating profit from ongoing operations was $57.6 million in 2006, up 28.3% compared to $44.9 million in 2005. Operating profit from ongoing operations excluding the estimated effects of resin pass-through lag and year-end LIFO adjustments was $53.1 million in 2006, up 8.6% versus $48.9 million in 2005. Volume decreased to 253.5 million pounds in 2006 from 261.1 million pounds in 2005. We estimate that the growth in net sales excluding the effects of the pass-through of resin price changes and foreign exchange rate changes was approximately 6% in 2006. Sales and operating profit growth in 2006 were driven primarily by increased sales of high-value surface protection films, elastic materials and new apertured topsheets, partially offset by lower sales of certain commodity barrier films that were dropped in conjunction with the shutdown of the plant in LaGrange, Georgia. The plant was shut down in the first half of 2006 and had sales of commodity barrier films of approximately $20 million in 2005.

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. Average quarterly prices of low-density polyethylene resin ("LDPE") in the U.S. have been volatile over the last several years (see the chart on page 29). Resin prices in Europe, Asia and South America have exhibited similar trends.

Capital expenditures declined to $33.2 million in 2006 compared with $50.5 million in 2005. Capital expenditures in 2007 are expected to be approximately $35 million. Approximately half of the capital expenditures in 2006 related to expanding the production capacity for surface protection films. These films are primarily used to protect flat panel display components during fabrication, shipping and handling. Sales of surface protection films used primarily in this application totaled approximately $56 million in 2006, $30 million in 2005 and $16 million in 2004. Other capital expenditures in 2006 included capacity additions for elastic materials and a new information system, which was rolled out in U.S. locations. Depreciation expense was $31.7 million in 2006 compared with $26.5 million 2005, and is projected to be $34 million in 2007.

Aluminum Extrusions

In Aluminum Extrusions, net sales were $577.3 million in 2006, up 22.4% versus $471.7 million in 2005. Operating profit from ongoing operations was $22.0 million in 2006, up 14.0% compared to $19.3 million in 2005. Volume increased to 259.9 million pounds in 2006, up 5.5% compared to 246.4 million pounds in 2005. Growth in shipments in 2006 was driven by demand for extrusions used in commercial construction and hurricane protection products, partially offset by a decline in extrusions used in residential construction. The increase in operating profit during 2006 was primarily due to higher volume and selling prices and lower energy costs (energy costs were down $1.1 million), partially offset by appreciation of the Canadian Dollar ($2.8 million) and higher charges for possible uncollectible accounts ($1.4 million).

Capital expenditures in 2006 were $7.4 million versus $12 million in 2005 and are expected to be approximately $14 million in 2007. Depreciation expense was $12.3 million in 2006 compared with $11.5 million in 2005, and is projected to be $12.8 million in 2007.

Other Developments

Consolidated net pension expense was $2.6 million in 2006, an increase of $5.3 million (9 cents per share after taxes) from the net pension income of $2.7 million recognized in 2005 (see Note 11 beginning on page 61 for more information). Most of this unfavorable change relates to a pension plan that is reflected in “Corporate expenses, net” in the segment operating profit table on page 13. We contributed $1.1 million to our pension plans in 2006 and expect required contributions of $1.1 million in 2007.

On October 26, 2006, we announced changes to our U.S. defined benefit (pension) and savings plans covering salaried and certain other employees. The changes had no impact on our net income or earnings per share in 2006. The changes relating to the pension plan reduced our projected benefit obligation by approximately $10 million as of December 31, 2006. In 2007, the changes to the pension plan are expected to reduce our service cost, interest cost and amortization of prior service cost components of pension expense by approximately $600,000, $600,000 and $1.5 million, respectively, and the savings plan changes are expected to increase charges for company matching contributions by approximately $700,000. Based on these changes and other factors, we expect pension income of $2.0 million in 2007, a favorable change of $4.6 million or 7 cents per share after taxes compared with 2006.

Effective December 31, 2006, we adopted Statement of Financial Accounting Standards (“SFAS”) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No 87, 88, 106 and 132(R)*. In accordance with this new standard we recognized the funded status of our pension and other postretirement plans in our balance sheet as of December 31, 2006, which included plan assets at fair value in excess of benefit obligations of $41.0 million. The adjustments in our balance sheet of our pension and other postretirement plans to recognize their funded status resulted in a decrease in prepaid pension cost of $27.7 million, an increase in related liabilities of $3.3 million, a decrease in non-current deferred income tax liabilities of $11.4 million and a decrease in shareholders’ equity of $19.6 million. Prepaid pension cost and related liabilities are included in “Other assets and deferred charges” and “Other noncurrent liabilities” in the consolidated balance sheets.

During the first quarter of 2006, we adopted Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* (“SFAS 123(R)”), which requires all stock-based compensation to be expensed and accounted for using a fair value-based method. The adoption of SFAS 123(R) and the granting of stock options in 2006 resulted in pretax charges for stock option-based compensation of $970,000 (2 cents per share after taxes) in 2006.

Strong cash flows from operations after investing activities and dividends of approximately $58 million and proceeds from the exercise of stock options of approximately $10 million resulted in a decline in net debt (total debt net of cash) of approximately $68 million in 2006. Consolidated net capitalization and other credit measures are provided in the financial condition section beginning on page 24.

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.

18

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 1 of each year). We have made determinations as to what our reporting units are and what amounts of goodwill and intangible assets should be allocated to those reporting units.

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 $1.2 million in 2006, $8.6 million in 2005 and $14.1 million in 2004.

Pension Benefits

We have noncontributory and contributory defined benefit (pension) plans 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 was 5.70% at the end of 2006, 5.70% at the end of 2005 and 6.00% at the end of 2004, 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 2006, 2005 and 2004. 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. During 2006, 2005, 2004 and 2003, the value of our plan assets increased due to improved general market conditions after declining in 2002, 2001 and 2000. Our expected long-term return on plan assets has been 8.4% since 2004 based on market and economic conditions and asset mix (our expected return was 8.6% in 2003 and 9% in 2002 and prior years). See page 65 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

Many deductions for tax return purposes cannot be taken until the expenses are actually paid, rather than when the expenses are recorded for book purposes. In these circumstances, we accrue for the tax benefit expected to be received in future years if, in our judgment, it is more likely than not that we will receive such benefits. In addition, the amount and timing of certain current deductions (which reduce taxes currently payable or generate income tax refunds) require interpretation of tax laws. In these circumstances, we estimate and accrue income tax contingencies for differences in interpretation that may exist with tax authorities. On a quarterly basis, we review our judgments regarding income tax contingency accruals and the likelihood the benefits of a deferred tax asset will be realized. During the periodic reviews, we must consider a variety of factors, including the nature and amount of the tax income and expense items, the current tax statutes, the current status of audits performed by tax authorities and the projected future earnings. We believe the realization of our net deferred tax assets is reasonably assured and that our income tax contingency accruals are adequate as measured under existing accounting standards. As circumstances change, our valuation allowances for deferred tax assets, income tax contingency accruals and net earnings are adjusted accordingly in that period.

Index

Recently Issued Accounting Standards

In September 2006, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") No. AUG AIR-1, *Accounting for Planned Major Maintenance Activities.* The FSP is effective for the first fiscal year beginning after December 15, 2006. The FSP eliminates the accrual method of accounting for major maintenance activities, but continues to permit the use of the direct expensing, built-in overhaul and deferral methods. The FSP also continues to require accruals or deferrals for interim periods of annual costs that clearly benefit two or more interim periods. We are evaluating the FSP and have not determined whether or not it will have a material effect on our financial position or results of operations.

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

Results of Operations

2006 versus 2005

Revenues. Sales in 2006 increased by 16.7% compared with 2005. Net sales (sales less freight) increased 11.1% in Film Products primarily due to growth in higher value-added products, including surface protection, elastic and apertured materials, and higher selling prices, which were driven by higher raw material costs. Net sales increased 22.4% in Aluminum Extrusions due to higher volume (up 5.5%) and selling prices. For more information on net sales and volume, see the executive summary beginning on page 17.

Operating Costs and Expenses. Gross profit (sales minus cost of goods sold and freight) as a percentage of sales increased to 12.9% in 2006 from 12.7% in 2005. At Film Products, a higher gross profit margin was driven primarily by growth in higher value-added products, including surface protection, elastic and apertured materials, partially offset by the effects of higher average selling prices to cover higher average resin costs. Margins in Film Products also improved in 2006 versus 2005 from a favorable lag in the pass-through to customers of changes in resin costs and income from LIFO inventory liquidations of approximately $7.4 million in 2006 (including $2.9 million of income shown in "Cost of goods sold" in the consolidated statements of income from LIFO liquidations related to the shutdown of the facility in LaGrange, Georgia) compared with an unfavorable net lag and LIFO adjustment in 2005 of approximately $4.0 million. At Aluminum Extrusions, a lower gross profit margin was primarily due to the effects of higher selling prices to cover higher aluminum costs and appreciation of the Canadian Dollar, partially offset by higher volume and selling prices and lower energy costs.

As a percentage of sales, selling, general and administrative ("SG&A") expenses decreased to 6.1% in 2006 compared with 6.8% in 2005 due primarily to higher sales and the divestiture of substantially all of our interest in AFBS, Inc. (formerly known as Therics, Inc.) at the end of the second quarter of 2005. For more information on this divestiture, see the business segment review beginning on page 33.

R&D expenses declined to $8.1 million in 2006 from $9.0 million in 2005 primarily due to the divestiture of substantially all of our interest in AFBS.

Losses associated with plant shutdowns, asset impairments and restructurings, net of gains on sale of related assets and related income from LIFO inventory liquidations, in 2006 totaled $1.9 million ($1.4 million after taxes) and included:

20

Index

- A fourth quarter net gain of $14,000 ($8,000 after taxes), a third-quarter net gain of $1 million ($615,000 after taxes), a second-quarter net gain of $822,000 ($494,000 after taxes) and a first-quarter pretax charge of $404,000 ($243,000 after taxes) associated with the shutdown of the films manufacturing facility in LaGrange, Georgia, including a pretax gain of $2.9 million for related LIFO inventory liquidations (included in "Cost of goods sold" in the consolidated statements of income), severance and other costs of $1.6 million, asset impairment charges of $130,000 and a gain on the disposal of equipment of $261,000 (included in “Other income (expense), net” in the consolidated statements of income);
- A third-quarter charge of $920,000 ($566,000 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);
- A fourth quarter charge of $143,000 ($93,000 after taxes) and a third quarter charge of $494,000 ($321,000 after taxes) related to the estimated loss on the sub-lease of a portion of the AFBS facility in Princeton, New Jersey;
- Second-quarter charges of $459,000 ($289,000 after taxes) and first-quarter charges of $268,000 ($170,000 after taxes) for severance and other employee-related costs in connection with restructurings in Aluminum Extrusions ($514,000) and Film Products ($213,000); and
- First-quarter charges of $1 million ($876,000 after taxes) for asset impairments relating to machinery & equipment in Film Products.

In 2006, a pretax gain on the sale of public equity securities of $56,000 (proceeds also of $56,000) is included in “Other income (expense), net” in the consolidated statements of income and “Gain on the sale of corporate assets” in the segment operating profit table on page 13. Income taxes in 2006 include a reversal of a valuation allowance of $577,000 for deferred tax assets associated with capital loss carry-forwards recorded with the write-down of the investment in Novalux. Outside appraisal of the value of corporate assets, primarily real estate, performed in December 2006, indicates that realization of related deferred tax assets is more likely than not.

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 2006 and $586,000 in 2005. Interest income was up primarily due to a higher 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 increased to $5.5 million in 2006 compared with $4.6 million in 2005. Average debt outstanding and interest rates were as follows:

(In Millions)	**2006**	2005
Floating-rate debt with interest charged on a rollover basis at one-month LIBOR plus a credit spread:		
Average outstanding debt balance	**$ 91.0**	$ 110.0
Average interest rate	**5.9%**	4.5%
Fixed-rate and other debt:		
Average outstanding debt balance	**$ 4.4**	$ 5.9
Average interest rate	**6.5%**	5.5%
Total debt:		
Average outstanding debt balance	**$ 95.4**	$ 115.9
Average interest rate	**5.9%**	4.6%

Income Taxes. The effective tax rate declined to 35.1% in 2006 compared with 38.1% in 2005 due to the numerous variances between years that are shown in the effective tax rate reconciliation provided in Note 14 of the notes to financial statements.

Index

2005 versus 2004

Revenues. Overall, sales for 2005 increased 11.1% compared with 2004. Net sales (sales less freight) for Film Products increased 11.4% primarily due to sales of higher value-added products (mainly apertured, elastic and surface protection materials) and higher selling prices driven by higher raw material costs. Net sales for Aluminum Extrusions increased 11% primarily due to higher selling prices driven by higher raw material and energy costs and higher sales volume (volume was up 1.2%). For more information on net sales, see the business segment review beginning on page 33.

Operating Costs and Expenses. Gross profit (sales less cost of goods sold and freight) as a percentage of sales decreased to 12.7% in 2005 from 14.1% in 2004. At Film Products, the lower gross profit margin was driven primarily by higher resin costs, partially offset by higher overall gross profit from sales of higher value-added products. For more information on resin costs, see the executive summary beginning on page 17. At Aluminum Extrusions, the gross profit margin decreased in 2005 compared with 2004 primarily due to higher energy costs and strength of the Canadian Dollar, partially offset by price increases, higher volume and an energy surcharge.

As a percentage of sales, SG&A expenses decreased to 6.8% in 2005 compared with 7.0% in 2004 due to higher sales and the divestiture of substantially all of our interest in AFBS at the end of the second quarter of 2005, partially offset by the classification of certain costs at AFBS as operating versus R&D consistent with the commercialization of the company’s bone void filler products last year.

R&D expenses declined to $9.0 million in 2005 from $15.3 million in 2004. R&D spending at AFBS declined to $2.4 million in 2005 from $7.8 million in 2004 due to the divestiture of substantially all of our interest in AFBS at the end of the second quarter of 2005. Further contributing to lower R&D expenses at AFBS were cost reduction efforts and the classification of certain costs as operating versus R&D consistent with the commercialization of the company’s bone void filler products last year. R&D spending at Film Products dropped to $6.6 million in 2005 compared with $7.5 million in 2004 due to restructuring.

Losses associated with plant shutdowns, asset impairments and restructurings, net of gains on sale of related assets, in 2005 totaled $14.6 million ($9.4 million after taxes) and included:

- A fourth-quarter charge of $269,000 ($174,000 after taxes) and a second-quarter charge of $10 million ($6.5 million after taxes) related to the sale or assignment of substantially all of AFBS assets, including asset impairment charges of $5.6 million, lease-related losses of $3.3 million and severance (31 people) and other transaction-related costs of $1.4 million (see page 35 for additional information on the transaction);
- Fourth-quarter charges of $397,000 ($256,000 after taxes), third-quarter charges of $906,000 ($570,000 after taxes), second-quarter charges of $500,000 ($317,000 after taxes) and first-quarter charges of $418,000 ($266,000 after taxes) related to severance and other employee-related costs associated with restructurings in Film Products ($1.1 million before taxes) and Aluminum Extrusions ($648,000 before taxes) and at corporate headquarters ($455,000 before taxes; included in “Corporate expenses, net” in the segment operating profit table on page 13) (an aggregate of 21 people were affected by these restructurings);
- A fourth-quarter charge of $2.1 million ($1.3 million after taxes) related to the shutdown of the films manufacturing facility in LaGrange, Georgia, including asset impairment charges of $1.6 million and severance (15 people) and other costs of $486,000;
- A fourth-quarter gain of $1.9 million ($1.2 million after taxes), a third-quarter charge of $198,000 ($127,000 after taxes), a second-quarter net gain of $71,000 ($46,000 after taxes) and a first-quarter charge of $470,000 ($301,000 after taxes) related to the shutdown of the aluminum extrusions facility in Aurora, Ontario, including a $1.7 million gain on the sale of the facility (included in "Other income (expense), net" in the consolidated statements of income) and $1.1 million of shutdown-related costs partially offset by the reversal to income of certain accruals associated

with severance and other costs of $709,000;

- A second-quarter charge of $27,000 ($16,000 after taxes) and a first-quarter gain of $1.6 million ($973,000 after taxes) related to the shutdown of the films manufacturing facility in New Bern, North Carolina, including a $1.8 million gain on the sale of the facility (included in "Other income (expense), net" in the consolidated statements of income), partially offset by shutdown-related expenses of $225,000;
- A first-quarter charge of $1 million ($653,000 after taxes) for process reengineering costs associated with the implementation of a global information system in Film Products (included in "Costs of goods sold" in the consolidated statements of income);

- Fourth-quarter charges of $118,000 ($72,000 after taxes), third-quarter charges of $595,000 ($359,000 after taxes), second-quarter charges of $250,000 ($150,000 after taxes) partially offset by a net first-quarter gain of $120,000 ($72,000 after taxes) related to severance and other employee-related accruals associated with the restructuring of the research and development operations in Film Products (of this amount, $1.4 million in pretax charges for employee relocation and recruitment is included in SG&A expenses in the consolidated statements of income);
- A second-quarter gain of $653,000 ($392,000 after taxes) related to the shutdown of the films manufacturing facility in Carbondale, Pennsylvania, including a $630,000 gain on the sale of the facility (included in "Other income (expense), net" in the consolidated statements on income), and the reversal to income of certain shutdown-related accruals of $23,000;
- Fourth-quarter charges of $583,000 ($351,000 after taxes) for asset impairments in Film Products;
- A net fourth-quarter charge of $495,000 ($310,000 after taxes) in Aluminum Extrusions, including an asset impairment of $597,000, partially offset by the reversal to income of certain shutdown-related accruals of $102,000;
- Fourth-quarter charges of $31,000 ($19,000 after taxes), third-quarter charges of $117,000 ($70,000 after taxes), second-quarter charges of $105,000 ($63,000 after taxes) and first-quarter charges of $100,000 ($60,000 after taxes) for accelerated depreciation related to restructurings in Film Products; and
- A fourth-quarter charge of $182,000 ($119,000 after taxes) in Film Products related to the write-off of an investment.

Gain on sale of corporate assets in 2005 includes a pretax gain of $61,000 related to the sale of corporate real estate. This gain is included in "Other income (expense), net" in the consolidated statements of income and separately shown in the segment operating profit table on page 13.

During the first quarter of 2005, we recognized a pretax gain for interest receivable on tax refund claims of $508,000 ($327,000 after taxes) (included in "Other income (expense), net" in the consolidated statements of income and "Corporate expenses, net" in the segment operating profit table on page 13).

During the fourth quarter of 2005, we recognized a pretax loss of $5 million ($3.8 million after taxes) from the write-down of our investment in Novalux, Inc. to estimated fair value at that time of $1.1 million. Novalux is a developer of laser technology for potential use in a variety of applications. The reduction in estimated fair value was due to longer than anticipated delays both in bringing the company's technology to market and in obtaining key development partnerships as well as liquidity issues. The loss from the write-down is included in "Other income (expense), net" in the consolidated statements of income and separately shown in the segment operating profit table on page 13. Subsequent to the first quarter of 2006, Novalux prospects improved and we invested an aggregate of $542,000 in May and September of 2006. As of December 31, 2006, our investment in Novalux was $6.6 million. Our carrying value in Novalux of $1.6 million and $1.1 million at December 31, 2006 and 2005, respectively, is included in "Other assets and deferred charges" in the consolidated balance sheet. Our voting ownership of Novalux as of December 31, 2006 is approximately 12% (11% on a fully diluted basis).

For more information on costs and expenses, see the business segment review beginning on page 33.

Interest Income and Expense. Interest income, which is included in "Other income (expense), net" in the consolidated statements of income, was $586,000 in 2005 and $350,000 in 2004. Interest income was up primarily due to a higher 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.

Index

Interest expense increased to $4.6 million in 2005 compared with $3.2 million in 2004. Average debt outstanding and interest rates were as follows:

(In Millions)		**2005**		2004
Floating-rate debt with interest charged on a rollover basis at one-month LIBOR plus a credit spread:				
Average outstanding debt balance	**$**	**110.0**	$	105.2
Average interest rate		**4.5%**		2.7%
Fixed-rate and other debt:				
Average outstanding debt balance	**$**	**5.9**	$	5.6
Average interest rate		**5.5%**		6.0%
Total debt:				
Average outstanding debt balance	**$**	**115.9**	$	110.8
Average interest rate		**4.6%**		2.8%

Income Taxes. The effective tax rate from continuing operations was 38.1% in 2005, up from 26.0% in 2004. The lower rate in 2004 reflects a tax benefit of $4 million related to the reversal of income tax contingency accruals upon favorable conclusion of IRS and state examinations through 2000.

Financial Condition

Assets and Liabilities

Changes in operating assets and liabilities from December 31, 2005 to December 31, 2006 are summarized below:

- Accounts receivable increased $2.5 million (2.1%).
  - Accounts receivable in Film Products increased by $6.5 million due mainly to higher sales. Days sales outstanding (“DSO”) was 46 at December 31, 2006 compared with 45 days at December 31, 2005.
  - Accounts receivable in Aluminum Extrusions decreased by $2.1 million. DSO was about 45, consistent with last year.
  - Accounts receivable at Corporate declined by $1.9 million due to funds received from an insurance settlement in February 2006.
- Inventories increased by $6.5 million (10.4%).
  - Inventories in Film Products increased by $3.4 million. Inventory days climbed to 43, up from 38 at September 30, 2006 due to a build-up in inventory caused by lower sales than expected. We believe that the unfavorable sales variance in the fourth quarter of 2006 is due to customer inventory corrections. Inventory days are still about 5 days below last year, which is indicative of the success achieved by the inventory management program initiated at the beginning of the year.
  - Inventories in Aluminum Extrusions increased by $3.1 million. Inventory days were 35 in Aluminum Extrusions at December 31, 2006 compared with 32 days at December 31, 2005.
- Net property, plant and equipment was up $2.9 million (0.9%) due primarily to appreciation of foreign currencies relative to the U.S. Dollar ($9.1 million), capital expenditures of $40.6 million compared with depreciation of $44.1 million and asset impairments in Film Products of $1.2 million.
- Accounts payable increased by $7.7 million (12.5%).
  - Accounts payable days were 29 in Film Products at December 31, 2006 compared with 28 days at December 31, 2005.
  - Accounts payable days were 27 in Aluminum Extrusions compared with 26 days at December 31, 2005.
- Accrued expenses increased by $5.9 million (16.3%) due primarily to incentive compensation accruals (there was no significant incentive compensation earned in 2005) and the timing of payments.

- Other noncurrent assets decreased and other noncurrent liabilities increased due primarily to the adoption of SFAS No. 158.
- Net deferred income tax liabilities in excess of assets increased by $3.2 million due to numerous changes between years in the balance of the components shown in the December 31, 2006 and 2005 schedule of deferred income tax assets and liabilities provided in Note 14 of the notes to financial statements.

Index

Net capitalization and indebtedness as defined under our revolving credit agreement as of December 31, 2006 are as follows:

Net Capitalization and Indebtedness as of Dec. 31, 2006
(In Thousands)

Net capitalization:		
Cash and cash equivalents	$	40,898
Debt:		
$300 million revolving credit agreement maturing December 15, 2010		60,000
Other debt		2,520
Total debt		62,520
Debt net of cash and cash equivalents		21,622
Shareholders' equity		516,595
Net capitalization	$	538,217
Indebtedness as defined in revolving credit agreement:		
Total debt	$	62,520
Face value of letters of credit		5,907
Liabilities relating to derivative financial instruments		116
Indebtedness	$	68,543

Under the revolving credit agreement, borrowings are permitted up to $300 million, and $239 million was available to borrow at December 31, 2006. 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, 2006, 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.

Index

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 Credit Agreement Along with Related Most Restrictive Covenants
For the Year Ended December 31, 2006 (In Thousands)

Computations of adjusted EBITDA and adjusted EBIT as defined in Credit Agreement:		
Net income	$	38,201
Plus:		
After-tax losses related to discontinued operations		-
Total income tax expense for continuing operations		20,636
Interest expense		5,520
Charges related to stock option grants and awards accounted for under the fair value-based method		970
Losses related to the application of the equity method of accounting		25
Depreciation and amortization expense for continuing operations		44,281
All non-cash losses and expenses, plus cash losses and expenses not to exceed $10,000, for continuing operations that are classified as unusual, extraordinary or which are related to plant shutdowns, asset impairments and/or restructurings (cash-related of $3,850)		5,000
Minus:		
After-tax income related to discontinued operations		-
Total income tax benefits for continuing operations		-
Interest income		(1,240)
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 $317)		(3,206)
Plus or minus, as applicable, pro forma EBITDA adjustments associated with acquisitions and asset dispositions		-
Adjusted EBITDA as defined in Credit Agreement		110,187
Less: Depreciation and amortization expense for continuing operations (including pro forma for acquisitions and asset dispositions)		(44,281)
Adjusted EBIT as defined in Credit Agreement	$	65,906
Indebtedness:		
Total debt	$	62,520
Face value of letters of credit		5,907

Indebtedness	$	68,427
Shareholders' equity at December 31, 2006	$	516,595
Computations of leverage and interest coverage ratios as defined in		
Credit Agreement:		
Leverage ratio (indebtedness-to-adjusted EBITDA)		.62x
Interest coverage ratio (adjusted EBIT-to-interest expense)		11.94x
Most restrictive covenants as defined in Credit Agreement:		
Maximum permitted aggregate amount of dividends that can be paid by Tredegar during the term of the Credit Agreement ($100,000 plus 50% of net income generated after October 1, 2005)	$	119,546
Minimum adjusted shareholders' equity permitted ($351,918 plus 50% of net income generated after October 1, 2005)	$	371,464
Maximum leverage ratio permitted:		
Ongoing		3.00x
Pro forma for acquisitions		2.50x
Minimum interest coverage ratio permitted		2.50x

Index

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:

	Payments Due by Period						
(In Millions)	2007	2008	2009	2010	2011	Remainder	Total
Debt	$ .7	$ .5	$ .5	$ 60.4	$ .2	$ .2	$ 62.5
Operating leases:							
AFBS (formerly Therics)	1.6	1.6	1.6	1.6	.4	-	6.8
Other	2.1	1.6	.5	.5	.3	.8	5.8
Capital expenditure commitments *	6.0	-	-	-	-	-	6.0
Total	$ 10.4	$ 3.7	$ 2.6	$ 62.5	$ .9	$ 1.0	$ 81.1

*Represents contractual obligations for plant construction and purchases of real property and equipment. See Note 13 on page 66.

We believe that existing borrowing availability, our current cash balances and our cash flow from operations will be sufficient to satisfy our working capital, capital expenditure and dividend requirements for the foreseeable future.

From time to time, we enter into transactions with third parties in connection with the sale of assets or businesses in which we agree to indemnify the buyers or third parties involved in the sale for certain liabilities or risks related to the assets or business. Also, in the ordinary course of our business, we may enter into agreements with third parties for the sale of goods or services that may contain indemnification provisions. In the event that an indemnification claim is asserted, liability for indemnification would be subject to an assessment of the underlying facts and circumstances under the terms of the applicable agreement. Further, any indemnification payments may be limited or barred by a monetary cap, a time limitation, or a deductible or basket. For these reasons, we are unable to estimate the maximum potential amount of the potential future liability under the indemnity provisions of these agreements. We do, however, accrue for losses for any known contingent liability, including those that may arise from indemnification provisions, when future payment is probable. We disclose contingent liabilities if the probability of loss is reasonably possible and significant.

Shareholders' Equity

At December 31, 2006, we had 39,286,079 shares of common stock outstanding and a total market capitalization of $888.3 million, compared with 38,737,016 shares of common stock outstanding and a total market capitalization of $499.3 million at December 31, 2005.

During 2006, 2005 and 2004, we did not purchase any shares of our common stock in the open market. Under a standing authorization from our board of directors, we may purchase up to 5 million shares in the open market or in privately negotiated transactions at prices management deems appropriate.

Cash Flows

The discussion in this section supplements the information presented in the consolidated statements of cash flows on page 44.

Cash provided by operating activities was $104.6 million in 2006 compared with $53.7 million in 2005. The increase is due primarily to improved operating results, higher deferred income taxes and lower incremental working capital investment (see assets and liabilities section on page 24 for discussion of working capital trends).

Cash used in investing activities was $40.6 million in 2006 compared with $55.0 million in 2005 due primarily to lower capital expenditures. Capital expenditures in 2006 in Film Products of $33.2 million (down from $50.5 million in 2005 and $1.5 million in excess of 2006 depreciation) primarily included the continued expansion of capacity for surface protection films and elastic materials, a new information system and normal replacement of machinery and equipment. Capital expenditures in Aluminum Extrusions were $7.4 million in 2006 compared to $12 million in 2005 and depreciation in 2006 of $12.3 million. See the executive summary beginning on page 17 and the business segment review beginning on page 33 for more information on capital expenditures.

Index

Net cash flow used in financing activities was $47.0 million in 2006 and included the use of cash generated from operating activities in excess of investing activities to pay dividends and repay amounts outstanding under our revolving credit facility. In addition, financing activities in 2006 included proceeds from the exercise of stock options of $9.7 million, including $8.5 million in the fourth quarter of 2006 due to an increase in the company's stock price and certain stock option expiration dates in early 2007.

Cash provided by operating activities was $53.7 million in 2005 compared with $93.8 million in 2004. The decrease is due primarily to the income tax refund received in 2004 related to the sale in 2003 of our venture capital portfolio, partially offset by lower working capital investment in 2005 compared with 2004.

Cash used in investing activities was $55.0 million in 2005 compared with $52.2 million in 2004. The change is primarily attributable to higher capital expenditures (up $6.9 million) and lower proceeds from the sale of assets and property disposals (down $2.2 million), partially offset by a small acquisition in Film Products in 2004 ($1.4 million) and higher investment in Novalux, Inc. in 2004 ($5.0 million invested in 2004 compared with $1.1 million invested in 2005).

Capital expenditures in 2005 included the normal replacement of machinery and equipment and primarily:

- Continued expansion of capacity for apertured and elastic materials and surface protection films and a new global information system in Film Products; and
- Moving and upgrading the largest aluminum extrusion press at the facility shut down in Aurora, Ontario to the plant in Pickering, Ontario, and enlargement of the Pickering facility.

Net cash provided by financing activities was $3.6 million in 2005 and included the refinancing of our debt in December 2005 (see the assets and liabilities section beginning on page 24 for more information).

In 2004, cash provided by operating activities was $93.8 million compared with $76.4 million in 2003. The increase is due primarily to the income tax refund related to the sale of the venture capital portfolio (see the business segment review beginning on page 33) partially offset by higher primary working capital (accounts receivable, inventories and accounts payable) needed to support higher sales.

Cash used in investing activities was $52.2 million in 2004 compared with $38.5 million in 2003. The change is primarily attributable to proceeds from the sale of venture capital investments, net of investments made, of $18.7 million in 2003, and the $5 million investment in Novalux, Inc. made in the third quarter of 2004, partially offset by lower capital expenditures of $10.2 million.

Net cash used in financing activities was $40.5 million in 2004 compared with $129.9 million in 2003. In 2004, we used $50 million from tax refunds related to the sale of the venture capital portfolio to pay down debt. Additional net borrowings of $13.8 million related primarily to capital expenditures and higher primary working capital needed to support higher sales. Net cash used in financing activities in 2003 was driven by scheduled debt payments and debt payments made in conjunction with our refinancing in 2003.

Quantitative and Qualitative Disclosures about Market Risk

Tredegar has exposure to the volatility of interest rates, polyethylene and polypropylene resin prices, aluminum ingot and scrap prices, energy prices, foreign currencies and emerging markets. See the assets and liabilities section beginning on page 24 regarding credit agreements and interest rate exposures.

Changes in resin prices, and the timing of those changes, could have a significant impact on profit margins in Film Products. Profit margins in Aluminum Extrusions are sensitive to fluctuations in aluminum ingot and scrap prices as well as natural gas prices (natural gas is the principal energy source used to operate our casting furnaces). There is no assurance of our ability to pass through higher raw material and energy costs to our customers.

See the executive summary beginning on page 17 and the business segment review beginning on page 33 for discussion regarding the impact of the lag in the pass-through of resin price changes. The volatility of average quarterly prices of low density polyethylene resin in the U.S. (a primary raw material for Film Products) are shown in the chart below.

Resin prices in Europe, Asia and South America have exhibited similar trends. The price of resin is driven by several factors including supply and demand and the price of oil, ethylene and natural gas. To address fluctuating resin prices, 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.

In the normal course of business, we enter into fixed-price forward sales contracts with certain customers for the sale of fixed quantities of aluminum extrusions at scheduled intervals. In order to hedge our exposure to aluminum price volatility (see the chart below) under these fixed-price arrangements, which generally have a duration of not more than 12 months, we enter into a combination of forward purchase commitments and futures contracts to acquire or hedge aluminum, based on the scheduled deliveries. See Note 6 on page 55 for more information.

Index

In Aluminum Extrusions, we hedge from time-to-time a portion of our exposure to natural gas price volatility by entering into fixed-price forward purchase contracts with our natural gas suppliers. We estimate that, in an unhedged situation, every $1 per mmBtu per month change in the market price of natural gas has a $150,000 impact on the monthly operating profit in Aluminum Extrusions. Substantially higher energy costs (primarily natural gas) in 2005 resulted in a reduction in operating profit in Aluminum Extrusions of approximately $7 million in 2005 compared with 2004. In September 2005, we announced an energy surcharge for our aluminum extrusions business in the U.S. to be applied when the previous quarter's NYMEX natural gas average settlement price is in excess of $8.85 per mmBtu.

We sell to customers in foreign markets through our foreign operations and through exports from U.S. plants. The percentage of sales and total assets for manufacturing operations related to foreign markets for 2006 and 2005 are as follows:

Tredegar Corporation - Manufacturing Operations
Percentage of Net Sales and Total Assets Related to Foreign Markets

	2006			2005		
	% of Total Net Sales *		% Total Assets -	% of Total Net Sales *		% Total Assets -
	Exports From U.S.	Foreign Oper- ations	Foreign Oper- ations *	Exports From U.S.	Foreign Oper- ations	Foreign Oper- ations *
Canada	4	16	11	5	16	12
Europe	1	12	14	1	14	14
Latin America	-	2	2	1	2	2
Asia	5	4	7	4	4	5
Total % exposure to foreign markets	10	34	34	11	36	33

*The percentages for foreign markets are relative to Tredegar's total net sales and total assets from manufacturing operations (consolidated net sales and total assets from continuing operations excluding cash and cash equivalents and AFBS (formerly Therics)).

We attempt to match the pricing and cost of our products in the same currency (except in Canada where about 80% of our sales of aluminum extrusions are U.S. Dollar-based) and generally view the volatility of foreign currencies (see trends for the Euro, Canadian Dollar and Chinese Yuan in the chart below) and emerging markets, and the corresponding impact on earnings and cash flow, as part of the overall risk of operating in a global environment. Exports from the U.S. are generally denominated in U.S. Dollars. Our foreign currency exposure on income from foreign operations relates to the Canadian Dollar, the Euro, the Chinese Yuan, the Hungarian Forint and the Brazilian Real.

Index

The relatively high percentage of U.S. Dollar-priced sales in Canada is partly due to the shifting of a large portion of the customers previously served by the aluminum extrusions plant in El Campo, Texas, in 2001. The resulting mismatch between the currency denomination of sales and costs causes lower U.S. Dollar translated profits when the Canadian Dollar appreciates since our costs are higher in U.S. Dollar equivalent terms while sales are mostly unaffected (the opposite effect occurs when the Canadian Dollar depreciates in value relative to the U.S. Dollar). We estimate that the appreciation of the Canadian Dollar relative to the U.S. Dollar had an adverse impact on operating profit of about $2.8 million in 2006 compared with 2005, and $3.5 million in 2005 compared with 2004. In Film Products, where we have been able to better match the currency of our sales and costs, we estimate that the change in value of foreign currencies (primarily the Euro and Hungarian Forint and to a lesser extent the Chinese Yuan and Brazilian Real) relative to the U.S. Dollar had a positive impact on operating profit of about $500,000 in 2006 compared with 2005, and $600,000 in 2005 compared with 2004.

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

(In Thousands Except Exchange Rates)

				USD-Equivalent Strike Prices of Options Bought & Sold on CAD/USD					Gain (Loss) on Options Recognized in Income for Period	
Description of Currency Exposure, Options Hedging Strategy Used & Periods Covered	Notional Amount of Option Contracts	Notional Amount as a % of Forecasted USD-Equiv. CAD-Related Costs for Period	Net Option Premium (Paid) Received	Call Options Bought	Put Options Sold	Pretax Unrealized Gain (Loss) on Options at 12/31/06 Included in Shareholders Equity	USD-Equiv. Average Reference Price of CAD for Period	Cash (Paid to) Received from Counter-party at Expiration of Options	Portion Deemed Effective as Hedge	Portion Deemed Ineffective as Hedge
<u>Exposure</u>: About 80% of sales of extrusions manufactured in facilities in Canada are denominated or economically priced in U.S. Dollars ("USD") while conversion costs are denominated or economically priced in Canadian Dollars ("CAD").										
<u>Hedge Strategy</u>: Bought average rate call options & sold average rate put options on CAD/USD.										
<u>Periods Covered by Option Contracts</u>:										
5/11/06 to end of second quarter 2006	$ 2,500	38%	$ -	$ 0.9500	$ 0.8850	n/a	$ 0.8995	$ -	$ -	$ -

Third quarter 2006	5,000	40%	-	0.9500	0.8749	n/a	0.8919	-	-	-
Fourth quarter 2006	6,500	53%	-	0.9324	0.8650	n/a	0.8793			