

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012

OR

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

For the transition period from _____ to _____

Commission File Number 1-10258

TREDEGAR CORPORATION

(Exact name of registrant as specified in its charter)

Virginia
(State or other jurisdiction
of incorporation or organization)

54-1497771
(I.R.S. Employer
Identification No.)

**1100 Boulders Parkway,
Richmond, Virginia**
(Address of principal executive offices)

23225
(Zip Code)

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

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
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 No

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

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

Aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2012 (the last business day of the registrant's most recently completed second fiscal quarter): \$391,082,896*

Number of shares of Common Stock outstanding as of January 31, 2013: 32,082,370 (32,113,983 as of June 30, 2012)

* In determining this figure, an aggregate of 5,253,894 shares of Common Stock beneficially owned by John D. Gottwald, William M. Gottwald and the members of their immediate families has been excluded because the shares are deemed to be 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, 2012.

[Table of Contents](#)

Documents Incorporated By Reference

Portions of the Tredegar Corporation Proxy Statement for the 2013 Annual Meeting of Shareholders (the “Proxy Statement”) are incorporated by reference into Part III of this Form 10-K.

Index to Annual Report on Form 10-K Year Ended December 31, 2012

	<u>Page</u>
Part I	
Item 1. Business	1-5
Item 1A. Risk Factors	5-9
Item 1B. Unresolved Staff Comments	9
Item 2. Properties	10
Item 3. Legal Proceedings	10
Item 4. Mine Safety Disclosures	10
Part II	
Item 5. Market for Tredegar’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	11-13
Item 6. Selected Financial Data	13-19
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	20-40
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	40
Item 8. Financial Statements and Supplementary Data	40
Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure	40
Item 9A. Controls and Procedures	40
Item 9B. Other Information	41
Part III	
Item 10. Directors, Executive Officers and Corporate Governance*	42-43
Item 11. Executive Compensation	43
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*	43
Item 13. Certain Relationships and Related Transactions, and Director Independence	44
Item 14. Principal Accounting Fees and Services	44
Part IV	
Item 15. Exhibits and Financial Statement Schedules	44

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

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. The financial information related to Tredegar’s film products and aluminum extrusions segments and related geographical areas included in Note 5 to the Notes to Financial Statements is incorporated herein by reference. Unless the context requires otherwise, all references herein to “Tredegar,” “we,” “us” or “our” are to Tredegar Corporation and its consolidated subsidiaries.

Film Products

Tredegar Film Products Corporation and its subsidiaries (together, “Film Products”) manufacture plastic films, elastics and laminate materials primarily for personal care products and surface protection and packaging applications. These products are manufactured at facilities in the United States (“U.S.”) and The Netherlands, Hungary, China, Brazil and India. In October 2011, Film Products acquired Terphane Holdings LLC (“Terphane”), further expanding our films business in Latin America and the U.S. Film Products competes in all of its markets on the basis of product innovation, quality, price and service.

Personal 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 laminate materials for use as topsheet in feminine hygiene products, baby diapers and adult incontinence products (including materials sold under the SoftQuilt™, ComfortQuilt™, ComfortAire™, ComfortFeel™, SoftAire™ and FreshFeel™ brand names);
- Breathable, embossed and elastic materials for use as components for baby diapers, adult incontinence products and feminine hygiene products (including elastic components sold under the ExtraFlex™, FabriFlex™, StretchTab™, FlexAire™ and FlexFeel™ brand names); and
- Absorbent transfer layers for baby diapers and adult incontinence products sold under the Aquidry®, Aquidry Plus™ and Aquisoft™ brand names.

In 2012, 2011 and 2010, personal care products accounted for approximately 38%, 45% and 50% of Tredegar’s consolidated net sales from continuing operations, respectively.

Flexible Packaging Films. Film Products produces specialized polyester (“PET”) films for use in packaging applications that have specialized properties, such as heat resistance, strength, barrier protection and the ability to accept high-quality print graphics. These differentiated, high-value films are primarily sold in Latin America and the U.S. under the Terphane® and Sealphane® brand names. Major end uses include food packaging and industrial applications. In 2012, flexible packaging films accounted for approximately 16% of Tredegar’s consolidated net sales from continuing operations. Tredegar did not offer these films until the fourth quarter of 2011, so flexible packaging films only accounted for approximately 4% of consolidated net sales from continuing operations in 2011.

Surface Protection Films. Film Products produces single and multi-layer surface protection films sold under the UltraMask® and ForceField™ brand names. These films are used in high technology applications, most notably protecting high-value components of flat panel displays used in monitors, notebooks, smart phones, tablets, e-readers and digital signage, during the manufacturing and transportation process. In 2012, 2011 and 2010, surface protection films accounted for approximately 8%, 9% and 12% of Tredegar’s consolidated net sales from continuing operations, respectively.

Polyethylene Overwrap & Polypropylene Films. Film Products produces various types of polyethylene and polypropylene overwrap films. Applications for polyethylene films include an emphasis on packaging for paper products. These products provide our customers with thin-gauge films that are readily printable and convertible on conventional processing equipment. Film Products also manufactures polypropylene films for packaging applications. Major end uses for polyethylene and polypropylene films include overwrap for bathroom tissue and paper towels as well as retort pouches.

Table of Contents

Films for Other Markets. Film Products also makes a variety of specialty films and film-based products that provide tailored functionality for the illumination market as well as various other markets. By leveraging the combination of film capabilities and our patented microstructure technology, we are able to offer optical management products for a wide range of applications, including lighting, signage and durable goods.

The operations of Bright View Technologies Corporation (“Bright View”) were incorporated into Film Products effective January 1, 2012 to better leverage efforts to produce films for new market segments. Bright View is a developer and producer of high-value microstructure-based optical films for the LED (light-emitting diode) and fluorescent lighting markets.

Raw Materials. The primary raw materials used by Film Products are low density, linear low density and high density polyethylene and polypropylene resins, Purified Terephthalic Acid (“PTA”) and Mono-ethylene Glycol (“MEG”), which are obtained from domestic and foreign suppliers at competitive prices. We believe there will be an adequate supply of these raw materials in the foreseeable future. Film Products also buys polypropylene-based nonwoven fabrics based on the resins previously noted and styrenic block copolymers, and we believe there will be an adequate supply in the foreseeable future.

Customers. Film Products sells to many branded product producers throughout the world. Its largest customer is The Procter & Gamble Company (“P&G”). Net sales to P&G totaled \$264 million in 2012, \$280 million in 2011 and \$273 million in 2010 (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.

Aluminum Extrusions

The William L. Bonnell Company, Inc. and its subsidiaries (together, “Aluminum Extrusions”) produce high-quality, soft-alloy aluminum extrusions primarily for building and construction, distribution, transportation, electrical, consumer durables and machinery and equipment markets. Aluminum Extrusions manufactures mill (unfinished), anodized (coated) and painted and fabricated aluminum extrusions for sale directly to fabricators and distributors, and it competes primarily on the basis of product quality, service and price. Sales are made primarily in the U.S., principally east of the Rocky Mountains.

On October 1, 2012, Aluminum Extrusions acquired AACOA, Inc. (“AACOA”). AACOA produces aluminum extrusions and provides anodizing services to customers in the consumer durables, machinery and equipment and transportation markets. Our acquisition of AACOA allows us to add fabrication capabilities to Aluminum Extrusions’ current array of products and services while providing AACOA with large press capabilities and enhanced geographic sales coverage in a variety of end-use markets.

[Table of Contents](#)

The primary end-uses in each of Aluminum Extrusions' primary market segments include:

Major Markets	End-Uses
Residential & nonresidential construction	Windows and doors, pre-engineered structures, wall panels, partitions and interior enclosures, ducts, louvers and vents, curtain walls, storefronts and entrances, walkway covers, bus shelters, point of purchase displays, shower and tub enclosures, railings and support systems, venetian blinds, acoustical ceilings and walls, swimming pools and storm shutters
Transportation	Automotive and light truck products, spare parts, after-market automotive accessories, travel trailers and recreation vehicles
Distribution (metal service centers specializing in stock and release programs and custom fabrications to small manufacturers)	Standard profiles (rod, bar, tube and pipe), hurricane shutters, pleasure boat accessories, theatre set structures and other applications
Consumer durables	Refrigerators and freezers, office and institutional furniture, serving carts and pleasure boats
Electrical	Lighting fixtures (LED housings and heat sinks), solar panels, electronic apparatus and rigid and flexible conduits
Machinery & equipment	Material handling equipment, conveyors and conveying systems, hospital patient lifts, office machines and industrial erector sets

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

% of Aluminum Extrusions Sales Volume
by Market Segment (Continuing Operations) *

	2012	2011	2010
Building and construction:			
Nonresidential	70%	70%	68%
Residential	9	12	14
Distribution	5	6	5
Transportation	5	6	8
Consumer durables	5	2	2
Machinery and equipment	4	2	1
Electrical	2	2	2
Total	100%	100%	100%

* Includes sales volumes for AACOA for the fourth quarter of 2012 (subsequent to acquisition).

Aluminum Extrusions closed its manufacturing facility in Kentland, Indiana in the third quarter of 2012. The plant, whose core market was residential construction, previously employed 146 people.

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 foreseeable future.

[Table of Contents](#)

Other

In February 2010, we added a new segment, Other, comprised of the start-up operations of Bright View and Falling Springs, LLC (“Falling Springs”). As previously noted, the operations of Bright View were incorporated into Film Products effective January 1, 2012 to better leverage efforts to produce films for new market segments. Prior year balances for Bright View have been reclassified to Film Products to conform with the current year presentation.

Falling Springs develops, owns and operates multiple mitigation banks. Through the establishment of perpetual easements to restore, enhance and preserve wetlands, streams or other protected environmental resources, these mitigation banks create saleable credits that are used by the purchaser of credits to offset the negative environmental impacts from private and public development projects. On November 20, 2012, we sold our membership interests in Falling Springs to Arc Ventures, LC, a Virginia limited liability company affiliated with John D. Gottwald, a member of Tredegar’s Board of Directors, for cash and stock proceeds of \$16.6 million. The corresponding loss on sale of \$3.1 million and the results of operations related to Falling Springs have been classified as discontinued operations for all periods presented. With the sale of Falling Springs, there is no longer an Other segment to report.

General

Intellectual Property. We consider patents, licenses and trademarks to be of significance for Film Products. We routinely apply for patents on significant developments in these businesses. As of December 31, 2012, Film Products held 342 issued patents (108 of which are issued in the U.S.) and 117 trademarks (19 of which are issued in the U.S.). Aluminum Extrusions held three U.S. trademark registrations. Our patents have remaining terms ranging from 1 to 20 years. We also have licenses under patents owned by third parties.

Research and Development. Tredegar’s spending for research and development (“R&D”) activities in 2012, 2011 and 2010 was primarily related to Film Products. As of December 31, 2012, Film Products has technical centers in Bloomfield, New York; Cabo de Santo Agostinho, Brazil; Richmond, Virginia; Morrisville, North Carolina; and Terre Haute, Indiana. R&D spending was approximately \$13.2 million in 2012, \$13.2 million in 2011 and \$13.6 million in 2010.

Backlog. Backlogs are not material to our operations in Film Products. Overall backlog for continuing operations in Aluminum Extrusions at December 31, 2012 increased by approximately 77% compared with December 31, 2011, with approximately half of this increase being attributed to the addition of AACOA. Demand for extruded aluminum shapes continued to improve in 2012. Volume for Aluminum Extrusions, which we believe is cyclical in nature, was 114.8 million pounds in 2012, 108.0 million pounds in 2011 and 94.9 million pounds in 2010.

Government Regulation. U.S. laws concerning the environment to which our domestic operations are or may be subject include, among others, the Clean Water Act, the Clean Air Act, the Resource Conservation and 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”), all as amended, regulations promulgated under these acts, and any other federal, state or local laws or regulations governing environmental matters. Compliance with these laws is an important consideration for us because we use hazardous materials in some of our operations, we are a generator of hazardous waste, and wastewater from our operations is discharged to various types of wastewater management systems. Under CERCLA and other laws, we may be subject to financial exposure for costs associated with waste management and disposal, even if we fully comply with applicable environmental laws.

The U.S. Environmental Protection Agency has adopted regulations under the Clean Air Act relating to emissions of carbon dioxide and other greenhouse gases (“GHG”), including mandatory reporting and permitting requirements. Additional regulations are anticipated. Several of our manufacturing operations result in emissions of GHG and are subject to the current GHG regulations. Compliance with these regulations has yet to require significant expenditures. The cost of compliance with any future GHG legislation or regulations is not presently determinable, but it is not anticipated to have a material adverse effect on our financial condition or results of operations based on information currently available.

Tredegar is also subject to the governmental regulations in the countries where we conduct business.

Table of Contents

At December 31, 2012, we believe that we were in substantial compliance with all applicable environmental laws, regulations and permits in the U.S. and other countries where we conduct business. Environmental standards tend to become more stringent over time. In order to maintain substantial compliance with such standards, we may be required to incur additional 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. Furthermore, our failure to comply with current or future laws and regulations could subject us to substantial penalties, fines, costs and expenses.

Employees. Tredegar employed approximately 2,700 people at December 31, 2012.

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 Securities and Exchange Commission ("SEC"). Information filed electronically with the SEC can be accessed on its website at www.sec.gov. In addition, our Corporate Governance Guidelines, Code of Conduct and the charters of our Audit, Executive Compensation and Nominating and Governance Committees are available on our website and are available in print, without charge, to any shareholder upon request by contacting Tredegar's Corporate Secretary at 1100 Boulders Parkway, Richmond, Virginia 23225. The information on or that can be accessed through our website is not, and shall not be deemed to be, a part of this report or incorporated into other filings we make with the SEC.

Item 1A. RISK FACTORS

There are a number of risks and uncertainties that could have a material adverse effect on the operating results of our businesses and our consolidated financial condition and liquidity. The following risk factors should be considered, in addition to the other information included in this Annual Report on Form 10-K for the year ended December 31, 2012 ("Form 10-K"), when evaluating Tredegar and our businesses:

General

- ***Our performance is influenced by costs incurred by our operating companies, including, for example, the cost of raw materials and energy.*** These costs include, without limitation, the cost of resin, PTA and MEG (the raw materials on which Film Products primarily depends), aluminum (the raw material on which Aluminum Extrusions primarily depends), natural gas (the principal fuel necessary for Aluminum Extrusions' plants to operate), electricity and diesel fuel. Resin, aluminum and natural gas prices are extremely volatile as shown in the charts on pages 35-36. We attempt to mitigate the effects of increased costs through price increases and contractual pass-through provisions, but there are no assurances that higher prices can effectively be passed through to our customers or that we will be able to offset fully or on a timely basis the effects of higher raw material and energy costs through price increases or pass-through arrangements. Further, our cost control efforts may not be sufficient to offset any additional future declines in revenue or increases in raw material, energy or other costs.
- ***Tredegar and its customers operate in highly competitive markets.*** Tredegar and its businesses compete on product innovation, quality, price and service, and our businesses and their customers operate in highly competitive markets. Global market conditions continue to exacerbate our exposure to margin compression due to competitive forces, especially as certain products move into the later stages of their product life cycles. We attempt to mitigate the effects of this trend through cost saving measures and manufacturing efficiency initiatives, but these efforts may not be sufficient to offset the impact of margin compression as a result of competitive pressure.
- ***Tredegar may not be able to successfully execute its acquisition strategy.*** New acquisitions, such as our October 2011 acquisition of Terphane and our October 2012 acquisition of AACOA, can provide meaningful opportunities to grow our business and improve profitability. Acquired businesses may not achieve expected levels of revenue, profit or productivity, or otherwise perform as we expect. Acquisitions involve special risks,

[Table of Contents](#)

including, without limitation, diversion of management's time and attention from our existing businesses, the potential assumption of unanticipated liabilities and contingencies and potential difficulties in integrating acquired businesses and achieving anticipated operational improvements. While our strategy is to acquire businesses that will improve our competitiveness and profitability, acquisitions may not be successful or accretive to earnings.

- ***Noncompliance with any of the covenants in our \$350 million credit facility could result in all debt under the agreement outstanding at such time becoming due and limiting our borrowing capacity, which could have a material adverse effect on our financial condition and liquidity.*** The credit agreement governing our revolving credit facility contains restrictions and financial covenants that could restrict our operational and financial flexibility. Our failure to comply with these covenants could result in an event of default, which if not cured or waived, would result in all outstanding debt under the credit facility at such time becoming due, which could have a material adverse effect on our financial condition and liquidity. Renegotiation of the covenant(s) through an amendment to our revolving credit facility may effectively cure the noncompliance, but may have a negative effect on our consolidated financial condition or liquidity depending upon how the amended covenant is renegotiated.
- ***Loss of certain key officers or employees could adversely affect our businesses.*** We depend on our senior executive officers and other key personnel to run our businesses. The loss of any of these officers or other key personnel could have a material adverse effect on our operations. Competition for qualified employees among companies that rely heavily on engineering and technology is intense, and the loss of qualified employees or an inability to attract, retain and motivate highly skilled employees required for the operation and expansion of our businesses could hinder our ability to improve manufacturing operations, conduct research activities successfully and develop marketable products.
- ***Tredegar is subject to increased credit risk that is inherent with economic uncertainty and efforts to increase market share as we attempt to broaden our customer base.*** In the event of the deterioration of operating cash flows or diminished borrowing capacity of our customers, the collection of trade receivable balances may be delayed or deemed unlikely. The operations of our customers for Aluminum Extrusions generally follow the cycles within the economy, resulting in greater credit risk from diminished operating cash flows and higher bankruptcy rates when the economy is deteriorating or in recession. In addition, Film Products' credit risk exposure could increase as efforts to expand its business may lead to a broader, more diverse customer base.
- ***Tredegar is subject to various environmental laws and regulations and could become exposed to material liabilities and costs associated with such laws.*** We are subject to various environmental obligations and could become subject to additional obligations in the future. In the case of known potential liabilities, it is management's judgment that the resolution of ongoing and/or pending environmental remediation obligations is not expected to have a material adverse effect on our consolidated financial condition or liquidity. In any given period or periods, however, it is possible such obligations or matters could have a material adverse effect on the results of operations. Changes in environmental laws and regulations, or their application, including, but not limited to, those relating to global climate change, could subject us to significant additional capital expenditures and operating expenses. Moreover, future developments in federal, state, local and international environmental laws and regulations are difficult to predict. Environmental laws have become and are expected to continue to become increasingly strict. As a result, we will be subject to new environmental laws and regulations. However, any such changes are uncertain and, therefore, it is not possible for us to predict with certainty the amount of additional capital expenditures or operating expenses that could be necessary for compliance with respect to any such changes.
- ***Tredegar could be required to make additional cash contributions to its defined benefit (pension) plan.*** We sponsor a pension plan that covers certain hourly and salaried employees in the U.S. Recent economic trends have resulted in a significant reduction in interest rates and plan asset investment returns. Cash contribution requirements for the pension plan are sensitive to changes in these market factors. We expect that we will be required to make a cash contribution of approximately \$0.2 million to our underfunded pension plan in 2013, and we may be required to make additional cash contributions in future periods if current trends in interest rates continue, volatility in investment returns on plan assets persist or if our plan asset investment returns lag market performance.

Table of Contents

- ***An information technology system failure may adversely affect our business.*** We rely on information technology systems to transact our businesses. An information technology system failure due to computer viruses, internal or external security breaches, power interruptions, hardware failures, fire, natural disasters, human error, or other causes could disrupt our operations and prevent us from being able to process transactions with our customers, operate our manufacturing facilities, and properly report those transactions in a timely manner. A significant, protracted information technology system failure may result in a material adverse effect on our financial condition, results of operations, or cash flows.
- ***Material disruptions at one of our major manufacturing facilities could negatively impact our financial results.*** We believe our facilities are operated in compliance with applicable local laws and regulations and that we have implemented measures to minimize the risks of disruption at our facilities. A material disruption in one of our operating locations could negatively impact production and our financial results. Such a disruption could be a result of any number of events, including but not limited to: an equipment failure with repairs requiring long lead times, labor stoppages or shortages, utility disruptions, constraints on the supply or delivery of critical raw materials, and severe weather conditions.
- ***An inability to renegotiate one of our collective bargaining agreements could adversely affect our financial results.*** Some of our employees are represented by labor unions under various collective bargaining agreements with varying durations and expiration dates. Tredegar may not be able to satisfactorily renegotiate collective bargaining agreements when they expire, which could result in strikes or work stoppages or higher labor costs. In addition, existing collective bargaining agreements may not prevent a strike or work stoppage at our facilities in the future. Any such work stoppages (or potential work stoppages) could negatively impact our ability to manufacture our products and adversely affect results of operations.
- ***Our investments (primarily \$7.5 million of investments in Intelliject and a \$3.6 million net investment in Harbinger) have high risk.*** The value of our investment in a specialty pharmaceutical company, Intelliject, Inc. (“Intelliject”), can fluctuate, primarily as a result of its ability to meet its developmental and commercialization milestones within an anticipated time frame. Intelliject received approval from the U.S. Food and Drug Administration for its first product in 2012, with market launch of the product in the first quarter of 2013. As Intelliject continues to invest in its product pipeline, it may require additional rounds of financing to have the opportunity to complete product pipeline development and bring its technology to market, which may never occur. The estimated fair value of our investment was \$33.7 million at December 31, 2012.

Harbinger Capital Partners Special Situations Fund, L.P. (“Harbinger”) is a private investment fund, and an investment in the fund involves risk and is subject to limitations on withdrawal. The amount of future installments of withdrawal proceeds is uncertain, and the timing of such payments is not known.

There is no secondary market for selling our interests in either investment. As a result, we may be required to bear the risk of our investment in Intelliject and Harbinger for an indefinite period of time.

Film Products

- ***Film Products is highly dependent on sales associated with one customer, P&G.*** P&G comprised approximately 31% of Tredegar’s consolidated net sales from continuing operations in 2012, 36% in 2011 and 38% in 2010. The loss or significant reduction of sales associated with P&G would have a material adverse effect on our business. Other P&G-related factors that could adversely affect our business include, by way of example, (i) failure by P&G to achieve success or maintain share in markets in which P&G sells products containing our materials, (ii) operational decisions by P&G that result in component substitution, inventory reductions and similar changes, (iii) delays in P&G rolling out products utilizing new technologies developed by us and (iv) P&G rolling out products utilizing technologies developed by others that replace our business with P&G. While we have undertaken efforts to expand our customer base, there can be no assurance that such efforts will be successful, or that they will offset any delay or loss of sales and profits associated with P&G.

[Table of Contents](#)

- ***Growth of Film Products depends on our ability to develop and deliver new products at competitive prices.*** Personal care materials, surface protection films and polyethylene overwrap and polypropylene films are now being made with a variety of new materials and the overall cycle for changing materials has accelerated. While we have substantial technological 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, results of operations and cash flows. In the long term, growth will depend on our ability to provide innovative materials at a price that meets our customers' needs.
- ***Failure of our customers, who are subject to cyclical downturns, to achieve success or maintain market share could adversely impact sales and operating margins.*** Our products serve as components for various consumer products sold worldwide. Our customers' ability to successfully develop, manufacture and market their products is integral to our success. In addition, many of our customers are in industries that are cyclical in nature and sensitive to changes in general economic conditions. Downturns in the businesses that use our products can adversely affect our sales and operating margins.
- ***Continued growth in Film Products' sale of protective film products is not assured.*** A shift in our customers' preference to new or different products or new technology that displaces the need for protective films that currently utilize our surface protection applications could have a material adverse effect on our sales of protective films. Surface protection films accounted for approximately 8%, 9% and 12% of Tredegar's consolidated net sales from continuing operations in 2012, 2011 and 2010, respectively. Unanticipated changes in the demand for our customers' products, a decline in the rate of growth for flat panel displays or improvements in the durability of flat panel displays could have a material adverse effect on protective film sales.
- ***Our substantial international operations subject us to risks of doing business in countries outside the U.S., 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 or governmental policies, potential difficulty enforcing agreements and intellectual property rights, modifications in foreign tax laws and incentives, staffing and managing widespread operations and the challenges of complying with a wide variety of laws and regulations, restrictions on international trade or investment, restrictions on the repatriation of income, fluctuations in exchange rates, imposition of additional taxes on our income generated outside the U.S., nationalization of private enterprises and unexpected adverse changes in international laws and regulatory requirements. In addition, while expanding operations into emerging foreign markets provides greater opportunities for growth, there are certain operating risks, as previously noted.
- ***Our inability to protect our intellectual property rights or our infringement of the intellectual property rights of others could have a material adverse impact on Film Products.*** Film Products operates in an industry 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 materially adverse effect on the financial condition and results of operations in Film Products.
- ***U.S. and global economic conditions could have an adverse effect on the operating results of some or all of our operations.*** As Film Products expands its business into new products and geographic regions, operating results and our financial condition could become more sensitive to changes in macroeconomic conditions, including fluctuations in exchange rates. Sales associated with new products and regions tend to more closely follow the cycles within the economy. Cost reductions and productivity improvements may not be sufficient to offset the adverse effects on profitability from lower customer demand in an economic downturn. Therefore, as such product offerings become a greater part of the film products business, our operating results and financial condition may be adversely impacted by seasonal slowdowns, cyclical downturns in the economy or changes in foreign currency rates.

Table of Contents

- ***An unstable economic environment could have a disruptive impact on our supply chain.*** Certain raw materials used in manufacturing our products are available from a single supplier, and we may not be able to quickly or inexpensively re-source to another supplier. The risk of damage or disruption to our supply chain has been exacerbated as different suppliers have consolidated their product portfolios or experienced financial distress. Failure to take adequate steps to effectively manage such events, which are intensified when a product is sourced from a single supplier or location, could adversely affect our business and results of operations, as well as require additional resources to restore our supply chain.

Aluminum Extrusions

- ***Sales volume and profitability of Aluminum Extrusions is cyclical and highly dependent on economic conditions of end-use markets in the U.S., particularly in the construction sector.*** Our end-use markets can be subject to seasonal slowdowns. Because of the high degree of operating leverage inherent in our operations (generally constant fixed costs until full capacity utilization is achieved), the percentage drop in operating profits in a cyclical downturn will likely exceed the percentage drop in volume. Any benefits associated with cost reductions and productivity improvements may not be sufficient to offset the adverse effects on profitability from pricing and margin pressure and higher bad debts (including a greater chance of loss associated with defaults on fixed-price forward sales contracts with our customers) that usually accompany a downturn. In addition, higher energy costs can further reduce profits unless offset by price increases or cost reductions and productivity improvements.

Although our sales volumes have improved in recent years, there is uncertainty surrounding the extent and timing of a full recovery in the building and construction sector. Therefore, the extent and timing of the recovery of sales volumes and profits for Aluminum Extrusions is uncertain, especially since there can be a lag in the recovery of its end-use markets in comparison to the overall economic recovery.

- ***The markets for our products are highly competitive with product quality, service, delivery performance and price being the principal competitive factors.*** Aluminum Extrusions has approximately 1,200 customers that are in a variety of end-use markets within the broad categories of building and construction, distribution, transportation, machinery and equipment, electrical and consumer durables. No single customer exceeds 5% of Aluminum Extrusions' net sales. Due to the diverse customer mix across many end-use markets, we believe the industry generally tracks the real growth of the overall economy. Future success and prospects depend on our ability to retain existing customers and participate in overall industry cross-cycle growth.

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 in order to differentiate itself from competitors that focus on higher volume, standard extrusion applications.

In the past, imports into the U.S., primarily from China, represented an increasing portion of the U.S. aluminum extrusion market. However, following an affirmative determination by the U.S. International Trade Commission in April 2011 that dumped and subsidized imports of aluminum extrusion from China are a cause of material injury to the domestic industry, the U.S. Department of Commerce has applied duties to these imported products. As a result, aluminum extrusion imports from China have decreased significantly. While the risk to the domestic industry has been abated for the time being, efforts continue to address the challenges and circumvention issues that remain.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Table of Contents

Item 2. PROPERTIES

General

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

We believe that the capacity of our plants is adequate to meet our immediate needs. Our plants generally have operated at approximately 40-95% of capacity during 2012. 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 U.S.

Bloomfield, New York

(technical center and
production facility)

Lake Zurich, Illinois

Morrisville, North Carolina

(technical center and production
facility) (leased)

Pottsville, Pennsylvania

Red Springs, North Carolina (leased)

Richmond, Virginia (technical center) (leased)

Terre Haute, Indiana

(technical center and
production facility)

Locations Outside the U.S.

Cabo de Santo Agostinho, Brazil

(technical center and
production facility)

Guangzhou, China

Kerkrade, The Netherlands

Pune, India

Rétság, Hungary

São Paulo, Brazil

Shanghai, China

Principal Operations

Production of plastic films and
lamine materials

Aluminum Extrusions

Locations in the U.S.

Carthage, Tennessee

Elkhart, Indiana

Newnan, Georgia

Niles, Michigan

Principal Operations

Production of aluminum extrusions, fabrication
and finishing

Item 3. LEGAL PROCEEDINGS

None.

Item 4. MINE SAFETY DISCLOSURES

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 32,069,370 shares of common stock held by 2,513 shareholders of record on December 31, 2012.

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

	2012		2011	
	High	Low	High	Low
First quarter	\$26.29	\$19.13	\$21.58	\$18.23
Second quarter	20.51	13.49	22.87	16.97
Third quarter	18.95	13.50	20.35	14.15
Fourth quarter	20.42	16.54	23.00	13.92

The closing price of our common stock on February 22, 2013 was \$25.65.

Dividend Information

We have paid a dividend every quarter since becoming a public company in July 1989. We paid quarterly dividends of 4 1/2 cents per share in the first two quarters of 2012 and 6 cents per share in the final two quarters of 2012. We also paid a one-time dividend of 75 cents per share to all shareholders in December 2012. We paid a quarterly dividend of 4 1/2 cents per share in 2011, and 4 cents per share in 2010.

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 revolving credit agreement and other such considerations as the Board deems relevant. See Note 11 beginning on page 68 for the restrictions contained in our revolving credit agreement related to minimum shareholders' equity required and aggregate dividends permitted.

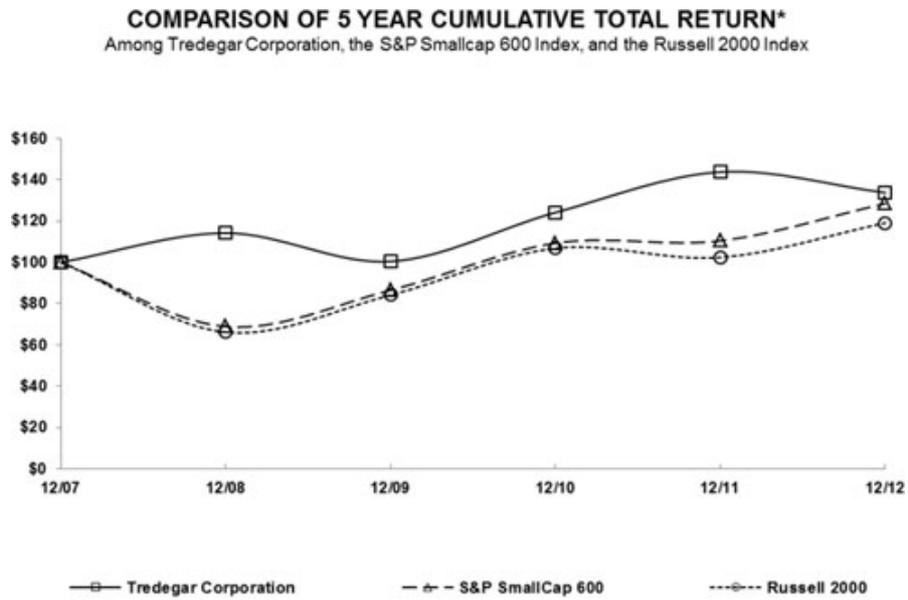
Issuer Purchases of Equity Securities

On January 7, 2008, we announced that our Board of Directors approved a share repurchase program whereby management is authorized at its discretion to purchase, in the open market or in privately negotiated transactions, up to 5 million shares of Tredegar's outstanding common stock. The authorization has no time limit. We did not repurchase any shares in the open market or otherwise in 2012 or 2011 under this standing authorization. We repurchased approximately 2.1 million shares in 2010 of our common stock in the open market at an average price of \$16.54 per share.

We received 209,576 shares in 2012 at a price of \$17.70 per share as consideration from Arc Ventures, LC in connection with our divestiture of Falling Springs. Shares received from the sale of Falling Springs do not represent shares repurchased under the current approved program.

Comparative Tredegar Common Stock Performance

The following graph compares cumulative total shareholder returns for Tredegar, the S&P SmallCap 600 Stock Index (an index comprised of companies with market capitalizations similar to Tredegar) and the Russell 2000 Index for the five years ended December 31, 2012. Tredegar is part of both the S&P SmallCap 600 Index and Russell 2000 Index.



*\$100 invested on 12/31/07 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

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[Table of Contents](#)

Inquiries

Inquiries concerning stock transfers, dividends, dividend reinvestment, consolidating accounts, changes of address, or lost or stolen stock certificates should be directed to Computershare Investor Services, the transfer agent and registrar for our common stock:

Computershare Investor Services
250 Royall Street
Canton, MA 02021
Phone: 800-622-6757
E-mail: web.queries@computershare.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
Website: www.tredegar.com

Quarterly Information

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

Legal Counsel
Hunton & Williams LLP
Richmond, Virginia

Independent Registered Public Accounting Firm
PricewaterhouseCoopers LLP
Richmond, Virginia

Item 6. SELECTED FINANCIAL DATA

The tables that follow on pages 14-19 present certain selected financial and segment information for the five years ended December 31, 2012.

[Table of Contents](#)**FIVE-YEAR SUMMARY**

Tredegar Corporation and Subsidiaries

Years Ended December 31 (In Thousands, Except Per-Share Data)	2012	2011	2010	2009	2008
Results of Operations (a):					
Sales	\$ 882,188	\$ 794,420	\$ 738,200	\$ 648,613	\$ 883,899
Other income (expense), net	18,119 (c)	3,213(d)	(1,182)(e)	8,464(f)	10,341(g)
	<u>900,307</u>	<u>797,633</u>	<u>737,018</u>	<u>657,077</u>	<u>894,240</u>
Cost of goods sold	712,660 (c)	654,087(d)	594,987(e)	516,933(f)	739,721(g)
Freight	24,846	18,488	17,812	16,085	20,782
Selling, general & administrative expenses	73,717(c)	67,808(d)	67,729	60,481	58,699
Research and development expenses	13,162	13,219	13,625	11,856	11,005
Amortization of intangibles	5,806	1,399	466	120	123
Interest expense	3,590	1,926	1,136	783	2,393
Asset impairments and costs associated with exit and disposal activities	5,022(c)	1,917(d)	773(e)	2,950(f)	12,390(g)
Goodwill impairment charge	—	—	—	30,559(b)	—
	<u>838,803</u>	<u>758,844</u>	<u>696,528</u>	<u>639,767</u>	<u>845,113</u>
Income from continuing operations before income taxes	61,504	38,789	40,490	17,310	49,127
Income taxes	18,319(c)	10,244(d)	13,649(e)	18,663(f)	19,486(g)
Income (loss) from continuing operations (a)	43,185	28,545	26,841	(1,353)	29,641
Discontinued operations, net of tax (a)	(14,934)(a)	(3,690)(a)	186	—	(705)(a)
Net income (loss)	\$ 28,251	\$ 24,855	\$ 27,027	\$ (1,353)	\$ 28,936
Diluted earnings (loss) per share (a):					
Continuing operations	\$ 1.34	\$.89	\$.82	\$ (.04)	\$.87
Discontinued operations	(.46)	(.12)	.01	—	(.02)
Net income (loss)	\$.88	\$.77	\$.83	\$ (.04)	\$.85

Refer to notes to financial tables on page 19.

[Table of Contents](#)**FIVE-YEAR SUMMARY**

Tredegar Corporation and Subsidiaries

Years Ended December 31 (In Thousands, Except Per-Share Data)	2012	2011	2010	2009	2008
Share Data:					
Equity per share	\$ 11.61	\$ 12.38	\$ 13.10	\$ 12.66	\$ 12.40
Cash dividends declared per share	.96(k)	.18	.16	.16	.16
Weighted average common shares outstanding during the period	32,032	31,932	32,292	33,861	33,977
Shares used to compute diluted earnings (loss) per share during the period	32,193	32,213	32,572	33,861	34,194
Shares outstanding at end of period	32,069	32,057	31,883	33,888	33,910
Closing market price per share:					
High	\$ 26.29	\$ 23.00	\$ 20.19	\$ 18.68	\$ 20.59
Low	13.49	13.92	14.93	12.79	11.41
End of year	20.42	22.22	19.38	15.82	18.18
Total return to shareholders (h)	(3.8)%	15.6%	23.5%	(12.1)%	14.1%
Financial Position:					
Total assets	\$783,165	\$780,610	\$580,342	\$596,279	\$610,632
Cash and cash equivalents	48,822	68,939	73,191	90,663	45,975
Debt	128,000	125,000	450	1,163	22,702
Shareholders' equity (net book value)	372,252	396,907	417,546	429,072	420,416
Equity market capitalization (i)	654,857	712,307	617,893	536,108	616,484

[Table of Contents](#)**SEGMENT TABLES**

Tredegar Corporation and Subsidiaries

Net Sales (j)

<u>Segment</u> (In Thousands)	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Film Products	\$ 611,877	\$ 535,540	\$ 520,749	\$ 455,007	\$ 522,839
Aluminum Extrusions	245,465	240,392	199,639	177,521	340,278
Total net sales	857,342	775,932	720,388	632,528	863,117
Add back freight	24,846	18,488	17,812	16,085	20,782
Sales as shown in Consolidated Statements of Income	<u>\$882,188</u>	<u>\$794,420</u>	<u>\$738,200</u>	<u>\$648,613</u>	<u>\$883,899</u>

Identifiable Assets

<u>Segment</u> (In Thousands)	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Film Products	\$551,842	\$574,571	\$368,853	\$371,639	\$399,895
Aluminum Extrusions	129,279	78,661	81,731	82,429	112,259
AFBS (formerly Therics)	—	—	583	1,147	1,629
Subtotal	681,121	653,232	451,167	455,215	513,783
General corporate	53,222	40,917	41,833	50,401	50,874
Cash and cash equivalents	48,822	68,939	73,191	90,663	45,975
Identifiable assets from continuing operations	783,165	763,088	566,191	596,279	610,632
Discontinued operations (a):	—	17,522	14,151	—	—
Total	<u>\$783,165</u>	<u>\$780,610</u>	<u>\$580,342</u>	<u>\$596,279</u>	<u>\$610,632</u>

Refer to notes to financial tables on page 19.

[Table of Contents](#)**SEGMENT TABLES**

Tredegar Corporation and Subsidiaries

Operating Profit

<u>Segment</u> (In Thousands)	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Film Products:					
Ongoing operations	\$ 69,950	\$59,493	\$66,718	\$ 64,379	\$ 53,914
Plant shutdowns, asset impairments, restructurings and other	(109)(c)	(6,807)(d)	(758)(e)	(1,846)(f)	(11,297)(g)
Aluminum Extrusions:					
Ongoing operations	9,037	3,457	(4,154)	(6,494)	10,132
Plant shutdowns, asset impairments, restructurings and other	(5,427)(c)	58(d)	493(e)	(639)(f)	(687)(g)
Goodwill impairment charge	—	—	—	(30,559)(b)	—
AFBS (formerly Therics):					
Gain on sale of investments in Theken Spine and Therics, LLC	—	—	—	1,968(f)	1,499(g)
Total	73,451	56,201	62,299	26,809	53,561
Interest income	418	1,023	709	806	1,006
Interest expense	3,590	1,926	1,136	783	2,393
Gain on sale of corporate assets	—	—	—	404	1,001
Gain (loss) on investment accounted for under the fair value method	16,100(c)	1,600(d)	(2,200)(e)	5,100(f)	5,600(g)
Stock option-based compensation costs	1,432	1,940	2,064	1,692	782
Corporate expenses, net	23,443(c)	16,169(d)	17,118	13,334	8,866
Income from continuing operations before income taxes	61,504	38,789	40,490	17,310	49,127
Income taxes	18,319(c)	10,244(d)	13,649(e)	18,663(f)	19,486(g)
Income (loss) from continuing operations	43,185	28,545	26,841	(1,353)	29,641
Income (loss) from discontinued operations, net of tax (a)	(14,934)(a)	(3,690)(a)	186(a)	—	(705)(a)
Net income (loss)	\$ 28,251	\$24,855	\$27,027	\$ (1,353)	\$ 28,936

Refer to notes to financial tables on page 19.

[Table of Contents](#)**SEGMENT TABLES**

Tredegar Corporation and Subsidiaries

Depreciation and Amortization

<u>Segment</u> (In Thousands)	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Film Products	\$39,202	\$36,315	\$34,448	\$32,360	\$34,588
Aluminum Extrusions	9,984	8,333	9,054	7,566	8,018
Subtotal	49,186	44,648	43,502	39,926	42,606
General corporate	73	75	74	71	70
Total continuing operations	49,259	44,723	43,576	39,997	42,676
Discontinued operations (a):	10	12	12	—	515
Total	\$49,269	\$44,735	\$43,588	\$39,997	\$43,191

Capital Expenditures and Investments

<u>Segment</u> (In Thousands)	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Film Products	\$30,484	\$13,107	\$15,839	\$11,487	\$11,135
Aluminum Extrusions	2,332	2,697	4,339	22,530	9,692
Subtotal	32,816	15,804	20,178	34,017	20,827
General corporate	436	76	236	125	78
Capital expenditures for continuing operations	33,252	15,880	20,414	34,142	20,905
Discontinued operations (a):	—	—	4	—	39
Total capital expenditures	33,252	15,880	20,418	34,142	20,944
Investments	—	—	—	—	5,391
Total	\$33,252	\$15,880	\$20,418	\$34,142	\$26,335

Refer to notes to financial tables on page 19.

NOTES TO FINANCIAL TABLES

- (a) On November 20, 2012, we sold our membership interests in Falling Springs. All historical results for this business have been reflected in discontinued operations. In 2012, discontinued operations also includes an after-tax loss of \$2.0 million from the sale of Falling Springs in addition to operating results through the closing date. On February 12, 2008, we sold our aluminum extrusions business in Canada. All historical results for this business have been reflected as discontinued operations. In 2012 and 2011, discontinued operations include after-tax charges of \$13.4 million and \$4.4 million, respectively, to accrue for indemnifications under the purchase agreement related to environmental matters. In 2008, discontinued operations include an after-tax loss of \$0.4 million on the sale in addition to operating results through the closing date.
- (b) A goodwill impairment charge of \$30.6 million (\$30.6 million after taxes) was recognized in Aluminum Extrusions upon completion of an impairment analysis performed as of March 31, 2009. The non-cash charge resulted from the estimated adverse impact on the business unit's fair value of possible future losses and the uncertainty of the amount and timing of an economic recovery.
- (c) Plant shutdowns, asset impairments, restructurings and other for 2012 include a net charge of \$3.6 million associated with the shutdown of our aluminum extrusions manufacturing facility in Kentland, Indiana, which included accelerated depreciation for property and equipment of \$2.4 million (included in "Cost of goods sold" in the consolidated statement of income), severance and other employee-related costs of \$1.2 million and other shutdown-related charges of \$2.3 million, partially offset by adjustments to inventories accounted for under the last-in, first-out method of \$1.5 million (included in "Cost of goods sold" in the consolidated statement of income) and gains of \$0.8 million (included in "Other income (expense), net" in the consolidated statements of income); a gain of \$1.3 million in Film Products (included in "Other income (expense), net" in the consolidated statements of income) associated with an insurance recovery on idle equipment that was destroyed in a fire at an outside warehouse; charges of \$1.3 million for acquisition-related expenses (included in "Selling, general and administrative expenses in the consolidated statements of income) associated with the acquisition of AACOA by Aluminum Extrusions; charges of \$1.1 million for integration-related expenses and other nonrecurring transactions (included in "Selling, general and administrative expenses" in the consolidated statements of income) associated with the acquisition of Terphane by Film Products; gain of \$1.1 million (included in "Other income (expense), net" in the consolidated statements of income) on the sale of a previously shutdown film products manufacturing facility in LaGrange, Georgia; losses of \$0.8 million for asset impairments associated with a previously shutdown film products manufacturing facility in LaGrange, Georgia; charges of \$0.5 million for severance and other employee-related costs in connection with restructurings in Film Products (\$0.3 million) and Aluminum Extrusions (\$0.2 million); charges of \$0.2 million for asset impairments in Film Products; charges of \$0.2 million for integration-related expenses and other nonrecurring transactions (included in "Selling, general and administrative expenses" in the consolidated statements of income) associated with the acquisition of AACOA by Aluminum Extrusions; charges of \$0.1 million associated with purchase accounting adjustments made to the value of inventory sold by Aluminum Extrusions after its acquisition of AACOA; and a charge of \$0.1 million (included in "Costs of goods sold" in the consolidated statement of income) related to adjustments of future environmental costs expected to be incurred by Aluminum Extrusions. The gain from the write-up of an investment accounted for under the fair value method of \$16.1 million and the unrealized loss on our investment in Harbinger of \$1.1 million in 2012 are included in "Other income (expense), net" in the consolidated statements of income. Income taxes for 2012 include the recognition of an additional valuation allowance of \$1.3 million related to the expected limitations on the utilization of assumed capital losses on certain investments.
- (d) Plant shutdowns, asset impairments, restructurings and other for 2011 include charges of \$4.8 million for acquisition-related expenses (included in "Selling, general and administrative expenses" in the consolidated statements of income) associated with the acquisition of Terphane by Film Products; charges of \$1.4 million for asset impairments in Films Products; a gain of \$1.0 million on the disposition of our film products business in Roccamontepiano, Italy (included in "Other income (expense), net" in the consolidated statements of income), which includes the recognition of previously unrecognized foreign currency translation gains of \$4.3 million that were associated with the business; charges of \$0.7 million associated with purchase accounting adjustments made to the value of inventory sold by Films Products after its purchase of Terphane (included in "Cost of goods sold" in the consolidated statements of income); charges of \$0.5 million for severance and other employee related costs in connection with restructurings in Film Products; charges of \$0.4 million for integration-related expenses (included in "Selling, general and administrative expenses" in the consolidated statements of income) associated with the acquisition of Terphane by Film Products; and gains of \$0.1 million associated with Aluminum Extrusions for timing differences between the recognition of realized losses on aluminum futures contracts and related revenues from the delayed fulfillment by customers of fixed-price forward purchase commitments (included in "Cost of goods sold" in the consolidated statements of income). The gain from the write-up of an investment accounted for under the fair value method of \$1.6 million and the unrealized loss on our investment in Harbinger of \$0.6 million in 2011 are included in "Other income (expense), net" in the consolidated statements of income.
- (e) Plant shutdowns, asset impairments, restructurings and other for 2010 include gains of \$0.9 million associated with Aluminum Extrusions for timing differences between the recognition of realized losses on aluminum futures contracts and related revenues from the delayed fulfillment by customers of fixed-price forward purchase commitments (included in "Cost of goods sold" in the consolidated statements of income); asset impairment charges of \$0.6 million related to Films Products; a charge of \$0.4 million related to expected future environmental costs at the aluminum extrusions manufacturing facility in Newnan, Georgia (included in "Cost of goods sold" in the consolidated statements of income); charges of \$0.2 million for severance and other employee-related costs in connection with restructurings in Film Products; a gain of \$0.1 million on the sale of previously impaired equipment (included in "Other income (loss), net" in the consolidated statements of income) at the film products manufacturing facility in Pottsville, Pennsylvania; and losses of \$0.1 million on the disposal of equipment (included in "Other income (expense), net" in the consolidated statements of income) from a previously shutdown film products manufacturing facility in LaGrange, Georgia. The loss from the write-down of an investment accounted for under the fair value method of \$2.2 million in 2010 is included in "Other income (expense), net" in the consolidated statement of income. Income taxes in 2010 include the recognition of an additional valuation allowance of \$0.2 million related to the expected limitations on the utilization of assumed capital losses on certain investments.
- (f) Plant shutdowns, asset impairments, restructurings and other for 2009 include a charge of \$2.1 million for severance and other employee related costs in connection with restructurings for Film Products (\$1.3 million), Aluminum Extrusions (\$0.4 million) and corporate headquarters (\$0.4 million, included in "Corporate expenses, net" in the operating profit by segment table); an asset impairment charge of \$1.0 million in Films Products; losses of \$1.0 million associated with Aluminum Extrusions for timing differences between the recognition of realized losses on aluminum futures contracts and related revenues from the delayed fulfillment by customers of fixed-price forward purchase commitments (included in "Cost of goods sold" in the consolidated statements of income); a gain of \$0.6 million related to the sale of land at our aluminum extrusions facility in Newnan, Georgia (included in "Other income (expense), net" in the consolidated statements of income); a gain of \$0.3 million on the sale of equipment (included in "Other income (expense), net" in the consolidated statements of income) from a previously shutdown film products manufacturing facility in LaGrange, Georgia; a gain of \$0.2 million on the sale of a previously shutdown aluminum extrusions manufacturing facility in El Campo, Texas (included in "Other income (expense), net" in the consolidated statements of income); a gain of \$0.1 million related to the reversal to income of certain inventory impairment accruals in Film Products; and a net charge of \$0.1 million (included in "Costs of goods sold" in the consolidated statement of income) related to adjustments of future environmental costs expected to be incurred by Aluminum Extrusions. The gain from the write-up of an investment accounted for under the fair value method of \$5.1 million in 2009 is included in "Other income (expense), net" in the consolidated statement of income. The gain on sale of investments in Theken Spine and Therics, LLC, which is also included in "Other income (expense), net" in the consolidated statement of income, includes the receipt of a contractual earn-out payment of \$1.8 million and a post-closing contractual adjustment of \$0.2 million. AFBS Inc. (formerly Therics, Inc.) received these investments in 2005, when substantially all of the assets of AFBS, Inc., a wholly owned subsidiary of Tredegar, were sold or assigned to a newly created limited liability

company, Therics, LLC, controlled and managed by an individual not affiliated with Tredegar. Income taxes in 2009 include the recognition of an additional valuation allowance of \$2.1 million related to the expected limitations on the utilization of assumed capital losses on certain investments.

- (g) Plant shutdowns, asset impairments, restructurings and other for 2008 include an asset impairment charge of \$9.7 million for Film Products; a charge of \$2.7 million for severance and other employee related costs in connection with restructurings for Film Products (\$2.2 million) and Aluminum Extrusions (\$0.5 million); a gain of \$0.6 million from the sale of land rights and related improvements at the film products facility in Shanghai, China (included in "Other income (expense), net" in the consolidated statement of income); and a \$0.2 million charge related to expected future environmental costs at the aluminum extrusions facility in Newnan, Georgia (included in "Cost of goods sold" in the consolidated statements of income). The gain of \$1.5 million from the sale of our investments in Theken Spine and Therics, LLC is included in "Other income (expense), net" in the consolidated statements of income. The gain from the write-up of an investment accounted for under the fair value method of \$5.6 million in 2008 is included in "Other income (expense), net" in the consolidated statements of income. Income taxes in 2008 includes the reversal of a valuation allowance recognized in the third quarter of 2007 of \$1.1 million that originally related to expected limitations on the utilization of assumed capital losses on certain investments.
- (h) 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.
- (i) Equity market capitalization is the closing market price per share for the period multiplied by the shares outstanding at the end of the period.
- (j) 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.
- (k) In addition to quarterly dividends of 4 1/2 cents per share in the the first and second quarters and 6 cents per share in the third and fourth quarters of 2012, there was a special one-time dividend of 75 cents per share paid to shareholders in December 2012.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***Forward-looking and Cautionary Statements***

Some of the information contained in this Form 10-K may constitute "forward-looking statements" within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. When we use the words "believe," "estimate," "anticipate," "expect," "project," "likely," "may" and similar expressions, we do so to identify forward-looking statements. Such statements are based on our then current expectations and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those addressed in the forward-looking statements. It is possible that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. For risks and important factors that could cause actual results to differ from expectations refer to the reports that we file with or provide to the SEC from time-to-time, including the risks and important factors set forth in "Risk Factors" in Part I, Item 1A of this Form 10-K. Readers are urged to review and consider carefully the disclosures Tredegar makes in the reports Tredegar files with or furnishes to the SEC. Tredegar does not undertake, and expressly disclaims any duty, to update any forward-looking statement to reflect any change in management's expectations or any change in conditions, assumptions or circumstances on which such statements are based.

Executive Summary**General**

Tredegar is primarily a manufacturer of plastic films and aluminum extrusions. Descriptions of all of our businesses are provided on pages 1-9.

Sales from continuing operations were \$882.2 million in 2012 compared to \$794.4 million in 2011. Income from continuing operations was \$43.2 million (\$1.34 per diluted share) in 2012, compared with \$28.5 million (89 cents per diluted share) in 2011. Losses associated with plant shutdowns, assets impairments and restructurings and gains and losses on the sale of assets, gains or losses on investments accounted for under the fair value method and other items are described in results of continuing operations beginning on page 25. The business segment review begins on page 38.

Film Products

A summary of operating results for Film Products is provided below:

<u>(In thousands, except percentages)</u>	Year Ended December 31		Favorable/ (Unfavorable) % Change
	2012	2011	
Sales volume (pounds)	270,265	218,727	23.6%
Net sales	\$ 611,877	\$ 535,540	14.3%
Operating profit from ongoing operations	<u>\$ 69,950</u>	<u>\$ 59,493</u>	<u>17.6%</u>

The improvement in operating results for Film Products in 2012 was primarily driven by higher volumes in flexible packaging films as a result of our acquisition of Terphane on October 24, 2011. Net sales (sales less freight) for Terphane were \$138.0 million in 2012 compared to \$28.3 million in 2011. The impact on operating profit from ongoing operations directly attributable to the acquisition of Terphane was \$19.1 million in 2012, which includes amortization expense of \$5.1 million. In 2011, operating profit from ongoing operations attributed to the addition of Terphane was approximately \$3.0 million, which included \$0.9 million in one-time reimbursements for custom duties and \$0.9 million of amortization expense.

As noted above, net sales for 2012 increased in comparison to 2011 primarily due to the acquisition of Terphane. Higher net sales from the addition of Terphane were primarily offset by lower volumes in the other product lines of approximately \$18.7 million, the unfavorable change in the U.S. dollar value of currencies for operations outside the U.S. of approximately \$10.1 million and a decrease in average selling prices of approximately \$4.6 million. Lower net sales volumes are primarily related to lower volumes for personal care materials and polyethylene overwrap films, partially offset by improved performance in surface protection films in the fourth quarter of 2012. The decrease in the average selling prices in 2012 compared to 2011 can be primarily attributed to pricing pressures.

[Table of Contents](#)

The increase in operating profit from ongoing operations in 2012 compared to 2011 is primarily due to the acquisition of Terphane, partially offset by lower volumes and compressed margins for personal care materials and the unfavorable impact of the change in the U.S. dollar value of currencies outside the U.S. Excluding the impact of the acquisition of Terphane, lower volumes in Film Products had an unfavorable impact of approximately \$4.8 million in 2012 compared to 2011. Lower volumes in personal care materials were partially mitigated by higher sales volumes for surface protection films. The change in the U.S. dollar value of currencies for operations outside the U.S. had an unfavorable impact of approximately \$1.4 million in 2012 compared to 2011. The estimated impact on operating profit from ongoing operations of the quarterly lag in the pass-through of average resin costs was approximately a negative \$0.5 million in 2012 compared to a negative \$0.8 million in 2011.

Effective January 1, 2012, the operations of Bright View were incorporated into Film Products to leverage research and development efforts and accelerate new product development. Prior year balances for Bright View have been reclassified to Film Products to conform with the current year presentation. Operating losses for Bright View in 2012 were consistent with 2011 at \$3.8 million.

Capital expenditures in Film Products were \$30.5 million in 2012 compared to \$13.1 million in 2011, which included approximately \$19.6 million in capital expenditures for a project that will expand our capacity at the manufacturing facility in Cabo de Santo Agostinho, Brazil. Film Products currently estimates that capital expenditures will be approximately \$80 million in 2013, which includes approximately \$49 million for the capacity expansion project in Brazil. This multi-year project will significantly increase capacity in Brazil and primarily serve flexible packaging films customers in Latin America. Depreciation expense was \$33.9 million in 2012 and \$34.9 million in 2011, and is projected to be approximately \$32 million in 2013.

Aluminum Extrusions

On October 1, 2012, The William L. Bonnell Company acquired 100% ownership of AACOA. The purchase price, net of cash acquired, of \$54.6 million was primarily funded using financing secured from our existing \$350 million revolving credit facility. AACOA operates production facilities in Elkhart, Indiana and Niles, Michigan, and its primary markets include consumer durables, machinery and equipment and transportation. The acquisition will add fabrication capabilities to Aluminum Extrusions' current array of products and services while providing AACOA with large press capabilities and enhanced geographic sales coverage in a variety of end-use markets.

A summary of operating results for Aluminum Extrusions is provided below:

(In thousands, except percentages)	Year Ended December 31		Favorable/ (Unfavorable) % Change
	2012	2011	
Sales volume (pounds)	114,845	107,997	6.3%
Net sales	\$245,465	\$240,392	2.1%
Operating profit from ongoing operations	<u>\$ 9,037</u>	<u>\$ 3,457</u>	<u>161.4%</u>

Net sales in 2012 increased versus 2011 primarily due to the acquisition of AACOA, partially offset by a decrease in average selling prices driven by lower aluminum prices and lower volume resulting from the shutdown of the Kentland facility. AACOA, which was acquired on October 1, 2012, had net sales of \$19.5 million in the fourth quarter of 2012. Excluding the impact of the acquisition of AACOA and the Kentland plant shutdown, sales volume in 2012 increased 0.6% in comparison to 2011.

Operating profit from ongoing operations increased in 2012 versus 2011 due to improved profitability from the shutdown of our Kentland manufacturing facility, better pricing, lower energy costs and the acquisition of AACOA. AACOA had operating profit from ongoing operations of approximately \$0.8 million for the fourth quarter of 2012, which included amortization expense of \$0.5 million.

Table of Contents

Aluminum Extrusions closed its manufacturing facility in Kentland, Indiana in August 2012. The plant, whose core market was residential construction, previously employed 146 people. Charges associated with the Kentland shutdown were \$3.6 million in 2012, and included accelerated depreciation on property, plant and equipment of approximately \$2.4 million, severance and other employee-related costs of approximately \$1.2 million and other shutdown-related charges of \$2.3 million, partially offset by an adjustment for inventories accounted for under the last-in, first-out (“LIFO”) method of \$1.5 million and gains on the sale of equipment of \$0.8 million. Other shutdown-related costs are primarily comprised of equipment transfers, environmental assessments, estimated remediation costs, and other miscellaneous plant shutdown charges. Estimated cash expenditures for shutdown-related activities that are expected to be recognized in 2013 are approximately \$1 million. The shutdown of our Kentland manufacturing facility had a favorable impact on operating profit from ongoing operations of approximately \$2.5 million in 2012 compared to 2011. Starting in 2013, we estimate that on an annual basis the closure of Kentland will have a positive impact of approximately \$4-5 million on segment operating profit from ongoing operations in future periods.

Capital expenditures for Bonnell Aluminum were \$2.3 million in 2012 compared with \$2.7 million in 2011. Capital expenditures are projected to be approximately \$19 million in 2013, which includes approximately \$15 million for an 18-month project that will expand our capacity at the manufacturing facility in Newnan, Georgia. This additional capacity will primarily serve the automotive industry. Depreciation expense was \$9.5 million in 2012 compared with \$8.3 million in 2011, and is projected to be approximately \$7 million in 2013. Higher depreciation expense in 2012 is primarily related to approximately \$2.4 million in accelerated depreciation on property, plant and equipment at the Kentland manufacturing facility.

Other

The Other segment was previously comprised of Bright View and Falling Springs, LLC (“Falling Springs”). Falling Springs develops, owns and operates multiple mitigation banks. As previously noted, the operations of Bright View were incorporated into Film Products in 2012, and all prior year balances for Bright View have been reclassified to Film Products to conform with the current year presentation

On November 20, 2012, Tredegar Real Estate Holdings, Inc., a wholly owned subsidiary of Tredegar, sold its membership interests in Falling Springs to Arc Ventures, LC for cash and stock proceeds totaling \$16.6 million. Arc Ventures, LC is a Virginia limited liability company affiliated with John D. Gottwald, a member of our Board of Directors. The purchase price paid to Tredegar was comprised of cash of \$12.8 million and 209,576 shares of common stock of Tredegar owned by Arc Ventures, LC. The corresponding loss on sale of \$3.1 million, which includes transaction-related expenses of \$0.5 million, and the results of operations related to Falling Springs have been classified as discontinued operations for all periods presented.

Corporate Expenses, Interest and Income Taxes

Pension expense was \$8.1 million in 2012, an unfavorable change of \$5.8 million from pension expense recognized in 2011. Most of the change is reflected in “Corporate expenses, net” in the segment operating profit table presented on page 17. We contributed approximately \$2.3 million to our pension plans in 2012. Minimum required contributions to our pension plans in 2013 are expected to be \$0.2 million as interest rates and expected long-term plan asset investment returns declined in recent years. Pension expense in 2013 is estimated at \$13.3 million. Corporate expenses, net increased in 2012 in comparison to 2011 primarily due to the higher pension expenses noted above, an unrealized loss on our investment in Harbinger of \$1.1 million, certain acquisition-related expenses of \$0.8 million and higher performance-based incentive compensation of \$0.6 million.

Interest expense, which includes the amortization of debt issue costs, was \$3.6 million in 2012 in comparison to \$1.9 million in 2011 as a result of an increase in the average borrowings under our revolving credit facility. Additional borrowings under our revolving credit facility were used to finance a portion of the purchase prices for the acquisition of Terphane in the fourth quarter of 2011 and the acquisition of AACOA in the fourth quarter of 2012.

The effective tax rate used to compute income taxes from continuing operations was 29.8% in 2012 compared with 26.4% in 2011. Income taxes from continuing operations in 2012 primarily reflect the benefit of current year foreign tax incentives, and income taxes for continuing operations in 2011 primarily reflect the recognition of estimated tax benefits from the divestiture of the film products business in Italy, partially offset by the

[Table of Contents](#)

nondeductible acquisition-related expenses associated with the acquisition of Terphane by Film Products. Significant differences between the effective tax rate for continuing operations and the U.S. federal statutory rate for 2012 and 2011 are further detailed in the effective income tax rate reconciliation provided in Note 17 beginning on page 76.

Our net debt balance (total debt of \$128.0 million in excess of cash and cash equivalents of \$48.8 million) at December 31, 2012 was \$79.2 million, compared to a net debt balance (total debt of \$125.0 million in excess of cash and cash equivalents of \$68.9 million) at December 31, 2011 of \$56.1 million. Net debt, a financial measure that is not calculated or presented in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”), is not intended to represent debt as defined by U.S. GAAP, but is utilized by management in evaluating financial leverage and equity valuation. We believe that investors also may find net debt helpful for the same purposes. Consolidated net capitalization and other credit measures are provided in the financial condition section beginning on page 29.

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 U.S. GAAP. Actual results could differ significantly from those estimates under different assumptions and conditions. We believe the following discussion addresses our critical accounting policies. These policies require management to exercise judgments that are often difficult, subjective and complex due to the necessity of estimating the effect of matters that are inherently uncertain.

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

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

We assess goodwill for impairment when events or circumstances indicate that the carrying value may not be recoverable, or, at a minimum, on an annual basis (December 1st of each year). Our reporting units in Film Products include, but are not limited to, Polyethylene and Polypropylene Films and PET Films. As of December 31, 2012, each of the previously identified reporting units in Film Products was carrying a goodwill balance. We have two reporting units in Aluminum Extrusions, AACOA and Bonnell. All goodwill in Aluminum Extrusions is associated with the AACOA reporting unit.

In assessing the recoverability of goodwill and long-lived identifiable assets, we estimate fair value using discounted cash flow analysis and comparative enterprise value-to-EBITDA (earnings before interest, taxes, depreciation and amortization) multiples. These calculations require us to make assumptions regarding estimated future cash flows, discount rates and other factors to determine if an impairment exists. If these estimates or their related assumptions change in the future, we may be required to record additional impairment charges.

Based upon assessments performed as to the recoverability of long-lived identifiable assets, we recorded asset impairment losses for continuing operations of \$1.0 million in 2012, \$1.4 million in 2011 and \$0.6 million in 2010.

Investment Accounted for Under the Fair Value Method

In August 2007 and December 2008, we made an aggregate investment of \$7.5 million in Intelliject, a privately held specialty pharmaceutical company. This investment is accounted for under the fair value method. At the time of our initial investment, we elected the fair value option over the equity method of accounting since our investment objectives were similar to those of venture capitalists, which typically do not have controlling financial interests (venture capital funds generally use the fair value method to account for their investment portfolios). At December 31, 2012, our ownership interest was approximately 20% on a fully diluted basis.

We disclose the level within the fair value hierarchy in which fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3). On the dates of our investments, we believe that the amount we paid for our ownership interest and liquidation preferences was based on Level

Table of Contents

2 inputs, including investments by other investors. Subsequent to the last round of financing, and until the next round of financing, we believe fair value estimates are based upon Level 3 inputs since there is no secondary market for our ownership interest. In addition, Intelliject had no product sales as of December 31, 2012. Their first product launched in the first quarter of 2013. Accordingly, after the latest financing and until the next round of financing or any other significant financial transaction, fair value estimates will primarily be based on assumptions relating to meeting product development and commercialization milestones, cash flow projections (projections of development and commercialization milestone payments, sales, costs, expenses, capital expenditures and working capital investment) and discounting of these factors for the high degree of risk.

At December 31, 2012 and 2011, the fair value of our investment (the carrying value included in “Other assets and deferred charges” in our consolidated balance sheet) was \$33.7 million and \$17.6 million, respectively. The fair market valuation of our interest in Intelliject is sensitive to changes in the weighted average cost of capital used to discount cash flow projections for the high degree of risk associated with meeting development and commercialization milestones as anticipated. At December 31, 2012, the effect of a 500 basis point decrease in the weighted average cost of capital assumption would have further increased the fair value of our interest in Intelliject by approximately \$6 million, and a 500 basis point increase in the weighted average cost of capital assumption would have decreased the fair value of our interest by approximately \$5 million. Any future changes in the estimated fair value of our ownership interest will likely be attributed to a new round of financing, a merger or initial public offering or adjustments to the timing or magnitude of cash flows associated with development and commercialization milestones. Adjustments to the estimated fair value of our investment will be made in the period upon which such changes can be quantified.

Pension Benefits

We sponsor noncontributory defined benefit (pension) plans in our continuing operations that have resulted in varying amounts of net pension income or expense, as 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 or expense 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. The weighted average discount rate utilized was 4.21% at the end of 2012, 4.95% at the end of 2011 and 5.45% at the end of 2010, with changes between periods due to changes in market interest rates. Based on plan changes announced in 2006, pay for active participants of the plan was frozen as of December 31, 2007. A lower expected return on plan assets increases the amount of expense and vice versa. Decreases in the level of actual plan assets will also serve to increase the amount of pension expense. The total return on our plan assets, which is primarily affected by the change in fair value of plan assets, current year contributions and current year payments to participants, was 8.9% in 2012, a negative 5.1% in 2011, and 11.4% in 2010. Our expected long-term return on plan assets relating to continuing operations, which is estimated by asset class and generally based on inflation-adjusted historical returns, volatilities, risk premiums and managed asset premiums, were 8.0% in 2012, 8.25% in 2009 to 2011 and 8.5% from 2004 to 2008. We anticipate that our expected long-term return on plan assets will be 7.75% for 2013. See page 73 for more information on expected long-term return on plan assets and asset mix.

See the executive summary beginning on page 20 for further discussion regarding the financial impact of our pension plans.

Income Taxes

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

Table of Contents

For financial reporting purposes, we had unrecognized tax benefits on uncertain tax positions of \$0.9 million, \$1.0 million and \$1.1 million as of December 31, 2012, 2011 and 2010, respectively. Tax payments resulting from the successful challenge by the taxing authority on uncertain tax positions taken by us would possibly result in the payment of interest and penalties. Accordingly, we also accrue for possible interest and penalties on uncertain tax positions. The balance of accrued interest and penalties on deductions taken relating to uncertain tax positions was approximately \$0.1 million, \$0.4 million and \$0.1 million at December 31, 2012, 2011 and 2010, respectively (\$37,000, \$0.2 million and \$0.1 million, respectively, net of corresponding federal and state income tax benefits). Accruals for possible interest and penalties on uncertain tax positions are reflected in income tax expense for financial reporting purposes.

Tredegar and its subsidiaries file income tax returns in the U.S., various states, and jurisdictions outside the U.S. Except for refund claims and amended returns, the Internal Revenue Service ("IRS") has provided written confirmation that they do not plan to make any additional changes to our U.S. consolidated tax returns for the years prior to 2010, although the federal statute of limitations was extended through December 31, 2013 for the tax years 2006-2009. With few exceptions, Tredegar and its subsidiaries are no longer subject to state or non-U.S. income tax examinations by tax authorities for years before 2009.

As of December 31, 2012 and 2011, we had valuation allowances relating to deferred tax assets of \$18.6 million and \$12.4 million, respectively. For more information on deferred income tax assets and liabilities, see Note 17 of the notes to financial statements beginning on page 76.

Recently Issued Accounting Standards

In July 2012, the Financial Accounting Standards Board ("FASB") issued updated guidance for testing indefinite-lived intangible assets for impairment. The revised standard provides entities with an option to perform a "qualitative" assessment to determine whether further testing is necessary when performing an annual impairment assessment for indefinite-lived intangible assets other than goodwill. This new standard is comparable to the guidance finalized last year for goodwill impairment testing. An entity can still choose to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to the quantitative impairment test. The revised standard is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. We do not expect that this FASB accounting standard will have a material impact on our financial statements and disclosures.

Results of Continuing Operations

2012 versus 2011

Revenues. Sales in 2012 increased by 11.0% compared with 2011 due to higher sales in both Film Products and Aluminum Extrusions. Net sales increased 14.3% in Film Products primarily due to the acquisition of Terphane, partially offset by lower volumes in the remaining product lines, the unfavorable change in the U.S. dollar value of currencies for operations outside the U.S. and a decrease in average selling prices. Net sales increased 2.1% in Aluminum Extrusions primarily due to the acquisition of AACOA, partially offset by a decrease in average selling prices driven by lower aluminum prices and lower volumes resulting from the shutdown of the Kentland facility. For more information on net sales and volume, see the executive summary beginning on page 20.

Operating Costs and Expenses. Consolidated gross profit (sales minus cost of goods sold and freight) as a percentage of sales were 16.4% in 2012 and 15.3% in 2011. The gross profit margin in Film Products was relatively flat primarily due to the favorable impact of the acquisition of Terphane and the lag in the pass-through of higher resin costs, offset by lower volumes and margin compression, primarily in personal care materials. Gross profit margin in Aluminum Extrusions increased primarily as a result of improved profitability from the shutdown of our Kentland manufacturing facility, better pricing and lower energy costs. For more information on operating costs and expenses, see the executive summary beginning on page 20.

As a percentage of sales, selling, general and administrative and R&D expenses were 9.8% in 2012, which decreased from 10.2% in 2011. The decrease in selling, general and administrative and R&D expenses as a percentage of sales can be attributed to higher sales and lower acquisition-related expenditures in 2012. Acquisition-related expenses were \$2.0 million in 2012 compared to \$4.8 million in 2011.

Table of Contents

Losses associated with plant shutdowns, asset impairments, restructurings and other charges in 2012 totaled \$5.5 million (\$3.6 million loss after taxes) and included:

- A fourth quarter charge of \$0.9 million (\$0.5 million after taxes), a third quarter charge of \$0.8 million (\$0.5 million after taxes), a second quarter charge of \$1.0 million (\$0.7 million after taxes) and a first quarter charge of \$0.9 million (\$0.5 million after taxes) associated with the shutdown of the aluminum extrusions manufacturing facility in Kentland, Indiana, which includes accelerated depreciation for property, plant and equipment of \$2.4 million (included in “Cost of goods sold” in the consolidated statements of income), severance and other employee-related expenses of \$1.2 million and other shutdown-related charges of \$2.3 million, partially offset by adjustments to inventories accounted for under the LIFO method of \$1.5 million (included in “Cost of goods sold” in the consolidated statements of income) and gains on the sale of equipment of \$0.8 million (included in “Other income (expense), net” in the consolidated statements of income);
- A fourth quarter gain of \$1.3 million (\$0.7 million after taxes) in Film Products (included in “Other income (expense), net” in the consolidated statements of income) associated with an insurance recovery on idle equipment that was destroyed in a fire at an outside warehouse;
- A fourth quarter charge of \$0.9 million (\$0.6 million after taxes) and a third quarter charge of \$0.3 million (\$0.2 million after taxes) for acquisition-related expenses (included in “Selling, general and administrative expenses” in the consolidated statements of income) associated with the acquisition of AACOA by Aluminum Extrusions;
- A fourth quarter charge of \$0.1 million (\$0.1 million after taxes), a third quarter charge of \$0.1 million (\$0.1 million after taxes), a second quarter charge of \$0.6 million (\$0.4 million after taxes) and a first quarter charge of \$0.3 million (\$0.2 million after taxes) for integration-related expenses (included in “Selling, general and administrative expenses” in the consolidated statements of income) associated with the Film Products acquisition of Terphane;
- A fourth quarter gain of \$1.1 million (\$0.6 million after taxes) related to the sale of a previously shutdown film products manufacturing facility in LaGrange, Georgia;
- A second quarter charge of \$0.8 million (\$0.5 million after taxes) for asset impairments associated with a previously shutdown film products manufacturing facility in LaGrange, Georgia;
- A fourth quarter charge of \$0.2 million (\$0.1 million after taxes) and a second quarter charge of \$0.1 million (\$46,000 after taxes) in Film Products and a first quarter charge of \$0.2 million (\$0.1 million after taxes) in Aluminum Extrusions for severance and other employee-related costs in connection with restructurings;
- A fourth quarter charge of \$0.2 million (\$0.2 million after taxes) for asset impairments in Film Products;
- A fourth quarter charge of \$0.2 million (\$0.1 million after taxes) for integration-related expenses (included in “Selling, general and administrative expenses” in the consolidated statements of income) associated with the Aluminum Extrusions’ acquisition of AACOA;
- A fourth quarter charge of \$0.1 million (\$0.1 million after taxes) associated with purchase accounting adjustments made to the value of inventory sold by Aluminum Extrusions after its acquisition of AACOA (included in “Cost of goods sold” in the consolidated statements of income; see discussion that follows for additional detail); and
- A fourth quarter charge of \$0.1 million (\$49,000 after taxes) related to expected future environmental costs at our aluminum extrusions manufacturing facility in Newnan, Georgia (included in “Cost of goods sold” in the consolidated statements of income).

Business combination accounting principles under U.S. GAAP require that we adjust the inventory acquired in the acquisition of AACOA to fair value at the date of acquisition. In particular, finished goods inventory acquired was adjusted to reflect the cost of manufacturing plus a portion of the expected profit margin. The acquired inventory was sold in the fourth quarter of 2012. We believe that the adjustment included in “Cost of goods sold” in the fourth quarter of 2012 should be removed by investors as a means to determine profit and margins from ongoing operations, which reflect the operating trends of the acquired business.

As previously noted, on November 20, 2012, we sold Falling Springs to Arc Ventures, LC. The corresponding loss on sale of \$3.1 million (\$2.0 million after taxes), which includes transaction-related expenses of \$0.5 million, and the results of operations related to Falling Springs (net income of \$0.5 million in 2012) have been classified as discontinued operations.

On February 12, 2008, we sold our aluminum extrusions business in Canada for approximately \$25.0 million to an affiliate of H.I.G. Capital. All historical results for this business have been reflected as discontinued operations. In 2012, an accrual of \$13.4 million (\$13.4 million after taxes) was made for indemnifications under the purchase agreement related to environmental matters.

[Table of Contents](#)

Results in 2012 include an unrealized gain from the write-up of our investment in Intelliject of \$16.1 million (\$10.2 million after taxes; see further discussion beginning on page 23). An unrealized loss on our investment in Harbinger of \$1.1 million (\$0.7 million after taxes) was recorded in 2012 as a result of a reduction in the fair value of our investment that is not expected to be temporary. For more information on costs and expenses, see the executive summary beginning on page 20.

Interest Income and Expense. Interest income, which is included in “Other income (expense), net” in the consolidated statements of income, was \$0.4 million in 2012, compared to \$1.0 million in 2011. 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, which includes the amortization of debt issue costs, was \$3.6 million in 2012, compared to \$1.9 million for 2011. In October 2011, we borrowed \$125 million under our revolving credit agreement to help fund the acquisition of Terphane. In October 2012, we borrowed an additional \$51 million under our revolving credit facility to fund the acquisition of AACOA.

Average debt outstanding and interest rates were as follows:

<u>(In Millions)</u>	<u>2012</u>	<u>2011</u>
Floating-rate debt with interest charged on a rollover basis at one-month LIBOR plus a credit spread:		
Average outstanding debt balance	\$112.1	\$23.6
Average interest rate	2.1%	2.3%
Fixed-rate and other debt:		
Average outstanding debt balance	\$ —	\$ 0.3
Average interest rate	n/a	<u>4.3%</u>
Total debt:		
Average outstanding debt balance	\$112.1	\$23.9
Average interest rate	<u>2.1%</u>	<u>2.3%</u>

Income Taxes. The effective tax rate used to compute income taxes from continuing operations was 29.8% in 2012 compared with 26.4% in 2011. Income taxes from continuing operations in 2012 primarily reflect the benefit of current year foreign tax incentives. Income taxes for continuing operations in 2011 reflect the recognition of estimated tax benefits from the divestiture of the film products business in Italy, partially offset by nondeductible acquisition-related expenses associated with the acquisition of Terphane by Film Products. Factors impacting our effective tax rate for 2012 and 2011 are further detailed in the effective income tax rate reconciliation provided in Note 17 beginning on page 76.

2011 versus 2010

Revenues. Sales in 2011 increased by 7.6% compared with 2010 due to higher sales in both Film Products and Aluminum Extrusions. Net sales increased 2.8% in Film Products primarily due to the acquisition of Terphane and an increase in average selling prices from the pass-through of higher average resin prices, partially offset by lower volume in surface protection films and personal care materials. Net sales increased 20.4% in Aluminum Extrusions due to higher sales volume in most markets and an increase in average selling prices driven by higher aluminum prices.

Operating Costs and Expenses. Consolidated gross profit as a percentage of sales was 15.3% in 2011 and 17.0% in 2010. The gross profit margin in Film Products decreased primarily due to lower volumes in personal care materials and surface protection films, partially offset by the estimated favorable impact of the quarterly lag in the pass-through of changes in average resin costs, additional operating profits generated from the acquisition of Terphane, improved manufacturing efficiencies in 2011 and the change in the U.S. dollar value of currencies for operations outside the U.S. Gross profit margin in Aluminum Extrusions increased as a result of the higher sales volumes noted above.

Table of Contents

As a percentage of sales, selling, general and administrative and R&D expenses were 10.2% in 2011, which decreased from 11.0% in 2010. The decrease in selling, general and administrative and R&D expenses as a percentage of sales can be attributed to the cost reduction efforts in 2011 and lower performance-based incentive accruals, partially offset by higher acquisition-related expenditures in 2011.

Losses associated with plant shutdowns, asset impairments, restructurings and other charges in 2011 totaled \$6.8 million (\$0.3 million gain after taxes) and included:

- A fourth quarter charge of \$2.5 million (\$2.2 million after taxes) and a third quarter charge of \$2.3 million (\$2.2 million after taxes) for acquisition-related expenses (included in "Selling, general and administrative expenses" in the consolidated statements of income) associated with the Film Products acquisition of Terphane;
- A fourth quarter charge of \$0.6 million (\$0.4 million after taxes) and a second quarter charge of \$0.8 million (\$0.5 million after taxes) for asset impairments in Film Products;
- A third quarter gain of \$1.0 million (\$6.6 million after taxes) on the divestiture of our film products subsidiary in Roccamontepiano, Italy (included in "Other income (expense), net" in the consolidated statements of income), which includes the recognition of previously unrealized foreign currency translation gains of \$4.3 million that were associated with the business;
- A fourth quarter charge of \$0.7 million (\$0.5 million after taxes) associated with purchase accounting adjustments made to the value of inventory sold by Film Products after its acquisition of Terphane (included in "Cost of goods sold" in the consolidated statements of income; see discussion that follows for additional detail);
- A fourth quarter charge of \$0.1 million (\$39,000 after taxes), a third quarter charge of \$0.2 million (\$0.1 million after taxes) and a second quarter charge of \$0.3 million (\$0.2 million after taxes) for severance and other employee-related costs in connection with restructurings in Film Products;
- A fourth quarter charge of \$0.4 million (\$0.3 million after taxes) for integration-related expenses (included in "Selling, general and administrative expenses" in the consolidated statements of income) associated with the Film Products acquisition of Terphane; and
- A fourth quarter benefit of \$39,000 (\$24,000 after taxes), a third quarter charge of \$43,000 (\$27,000 after taxes), a second quarter benefit of \$0.1 million (\$0.1 million after taxes), and a first quarter charge of \$32,000 (\$20,000 after taxes) for timing differences between the recognition of realized losses on aluminum futures contracts and related revenues from the delayed fulfillment by customers of fixed-price forward purchase commitments (included in "Cost of goods sold" in the consolidated statements of income).

Business combination accounting principles under U.S. GAAP require that we adjust the inventory acquired in the acquisition of Terphane to fair value at the date of acquisition. In particular, finished goods inventory acquired was adjusted to reflect the cost of manufacturing plus a portion of the expected profit margin. The acquired inventory was sold in the fourth quarter of 2011. We believe that the adjustment included in "Cost of goods sold" in the fourth quarter of 2011 should be removed by investors as a means to determine profit and margins from ongoing operations, which reflect the operating trends of the acquired business.

The results of operations related to Falling Springs (net income of \$0.7 million in 2011 and \$0.2 million in 2010) have been classified as discontinued operations as a result of our divestiture of Fallings Springs in November 2012. In 2011, an accrual of \$4.4 million (\$4.4 million after taxes) was made for indemnifications under the purchase agreement associated with the 2008 sale of our aluminum extrusions business in Canada. These contractual indemnifications were related to environmental matters associated with our former aluminum extrusions operations in Canada.

Results in 2011 include an unrealized gain from the write-up of our investment in Intelliject of \$1.6 million (\$1.0 million after taxes; see further discussion beginning on page 23). An unrealized loss on our investment in Harbinger of \$0.6 million (\$0.4 million after taxes) was recorded in 2011 as a result of a reduction in the fair value of our investment that is not expected to be temporary. For more information on costs and expenses, see the executive summary beginning on page 20.

Interest Income and Expense. Interest income, which is included in "Other income (expense), net" in the consolidated statements of income, was \$1.0 million in 2011, compared to \$0.7 million in 2010. 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.

Table of Contents

Interest expense, which includes the amortization of debt issue costs, was \$1.9 million in 2011, compared to \$1.1 million for 2010. In October 2011, we borrowed \$125 million under our revolving credit agreement to help fund the acquisition of Terphane. Average debt outstanding and interest rates were as follows:

(In Millions)	2011	2010
Floating-rate debt with interest charged on a rollover basis at one-month LIBOR plus a credit spread:		
Average outstanding debt balance	\$ 23.6	\$ —
Average interest rate	2.3%	n/a
Fixed-rate and other debt:		
Average outstanding debt balance	\$ 0.3	\$ 0.9
Average interest rate	4.3%	4.0%
Total debt:		
Average outstanding debt balance	\$ 23.9	\$ 0.9
Average interest rate	2.3%	4.0%

Income Taxes. The effective tax rate used to compute income taxes from continuing operations was 26.4% in 2011 compared with 33.7% in 2010 primarily as a result of the recognition of estimated tax benefits related to the 2011 divestiture of our film products subsidiary in Italy, partially offset by the effect on income taxes from the reduction in 2010 of the estimated value of a dividend received from a foreign subsidiary and the impact of non-deductible acquisition-related expenses in 2011 associated with the acquisition of Terphane by Film Products. Factors impacting our effective tax rate for 2011 and 2010 are further detailed in the effective income tax rate reconciliation provided in Note 17 beginning on page 76. The impact of the change in the estimated value of a dividend received from a foreign subsidiary is reflected in “Changes in estimates related to prior year tax provision” in the effective income tax rate reconciliation.

Financial Condition

Assets and Liabilities

Significant changes in assets and liabilities from continuing operations from December 31, 2011 to December 31, 2012 are summarized below:

- Accounts and other receivables increased \$2.5 million (2.5%).
 - Accounts and other receivables in Film Products decreased by \$6.8 million due mainly to the timing of cash receipts.
 - Accounts and other receivables in Aluminum Extrusions increased by \$9.0 million primarily due to the addition of balances from the acquisition of AACOA and the timing of cash receipts.
 - Other receivables increased in corporate by approximately \$0.3 million due to contractual amounts due from Arc Ventures, LC from the sale of Falling Springs.
- Inventories increased \$13.4 million (21.8%).
 - Inventories in Film Products increased by approximately \$7.9 million primarily due to the timing of shipments.
 - Inventories in Aluminum Extrusions increased by approximately \$5.5 million primarily due to the addition of balances from the acquisition of AACOA.
- Net property, plant and equipment decreased \$3.8 million (1.5%) due primarily to depreciation of \$43.5 million, a change in the value of the U.S. dollar relative to foreign currencies (a decrease of approximately \$6.0 million) and asset impairments and property disposals of approximately \$2.7 million, partially offset by capital expenditures of \$33.3 million and property and equipment added from the acquisition of AACOA of \$15.1 million.
- Goodwill and other intangibles increased by \$17.7 million (7.9%) primarily due to balances added from the acquisition of AACOA, partially offset by amortization expense of \$5.8 million and changes in the value of the U.S. dollar relative to foreign currencies (decrease of approximately \$5.4 million). Identifiable intangible assets and goodwill associated with the acquisition were \$14.6 million and \$14.3 million, respectively.

[Table of Contents](#)

- Accounts payable increased by \$9.2 million (12.6%).
 - Accounts payable in Film Products increased by \$2.2 million primarily due to the timing of payments.
 - Accounts payable in Aluminum Extrusions increased by \$7.3 million, primarily due to the addition of balances from the acquisition of AACOA and the timing of payments.
 - Accounts payable decreased in corporate by \$0.3 million due to the normal volatility associated with the timing of payments.
- Accrued expenses increased by \$1.6 million (4.0%) from December 31, 2011 primarily due to the addition of balances from the acquisition of AACOA.
- Other noncurrent liabilities increased by \$25.7 million (35.8%) due primarily to the change in the funded status of our defined benefit plans. As of December 31, 2012, the funded status of our defined benefit pension plan was a net liability of \$83.3 million compared with \$57.8 million as of December 31, 2011, and the liability associated with our other post-employment benefits plan was \$8.9 million as of December 31, 2012 compared to \$8.4 million as of December 31, 2011.
- Net deferred income tax liabilities in excess of assets increased by \$8.5 million primarily due to numerous changes between years in the balance of the components shown in the December 31, 2012 and 2011 schedule of deferred income tax assets and liabilities provided in Note 17 beginning on page 76. Income taxes recoverable increased by \$0.3 million primarily due to the timing of tax payments.

Net capitalization and indebtedness as defined under our revolving credit agreement as of December 31, 2012 were as follows:

Net Capitalization and Indebtedness as of December 31, 2012 (In Thousands)

Net capitalization:	
Cash and cash equivalents	\$ 48,822
Debt:	
\$350 million revolving credit agreement maturing April 23, 2017	128,000
Other debt	—
Total debt	<u>128,000</u>
Debt net of cash and cash equivalents	79,178
Shareholders' equity	<u>372,252</u>
Net capitalization	<u>\$451,430</u>
Indebtedness as defined in revolving credit agreement:	
Total debt	\$128,000
Face value of letters of credit	4,532
Other	156
Indebtedness	<u>\$132,688</u>

[Table of Contents](#)

Under the revolving credit agreement, borrowings are permitted up to \$350 million, and approximately \$199 million was available to borrow at December 31, 2012 based on the most restrictive covenants. 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)

<u>Indebtedness-to-Adjusted EBITDA Ratio</u>	<u>Credit Spread Over LIBOR</u>	<u>Commitment Fee</u>
> 2.0x but <= 3.0x	200	35
> 1.0x but <= 2.0x	175	30
<= 1.0x	150	25

At December 31, 2012, the interest rate on debt borrowed under the revolving credit agreement was priced at one-month LIBOR plus the applicable credit spread of 150 basis points. Market exposure related to changes in one-month LIBOR (assuming that the applicable credit spread remains at 150 basis points) would not be material to our consolidated financial results.

Noncompliance with any 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 amended covenant is renegotiated.

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 net income or cash flow from operations as defined by U.S. GAAP and should not be considered as either an alternative to net income or to cash flow.

[Table of Contents](#)

Computations of Adjusted EBITDA, Adjusted EBIT, Leverage Ratio and
Interest Coverage Ratio as Defined in the Credit Agreement Along with Related Most
Restrictive Covenants

As of and for the Twelve Months Ended December 31, 2012 (In Thousands)

Computations of adjusted EBITDA and adjusted EBIT as defined in revolving credit agreement for the twelve months ended December 31, 2012:	
Net income	\$ 28,251
Plus:	
After-tax losses related to discontinued operations	14,934
Total income tax expense for continuing operations	18,319
Interest expense	3,590
Depreciation and amortization expense for continuing operations	49,259
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 \$4,047)	6,379
Charges related to stock option grants and awards accounted for under the fair value-based method	1,432
Losses related to the application of the equity method of accounting	—
Losses related to adjustments in the estimated fair value of assets accounted for under the fair value method of accounting	—
Minus:	
After-tax income related to discontinued operations	—
Total income tax benefits for continuing operations	—
Interest income	(418)
All non-cash gains and income, plus cash gains and income in excess of \$10,000, for continuing operations that are classified as unusual, extraordinary or which are related to plant shutdowns, asset impairments and/or restructurings	(1,514)
Income related to changes in estimates for stock option grants and awards accounted for under the fair value-based method	—
Income related to the application of the equity method of accounting	—
Income related to adjustments in the estimated fair value of assets accounted for under the fair value method of accounting	(16,100)
Plus cash dividends declared on investments accounted for under the equity method of accounting	—
Plus or minus, as applicable, pro forma EBITDA adjustments associated with acquisitions and asset dispositions	6,339
Adjusted EBITDA as defined in revolving credit agreement	110,471
Less: Depreciation and amortization expense for continuing operations (including pro forma for acquisitions and asset dispositions)	(52,184)
Adjusted EBIT as defined in revolving credit agreement	<u>\$ 58,287</u>
Shareholders' equity at December 31, 2012 as defined in revolving credit agreement	385,051
Computations of leverage and interest coverage ratios as defined in revolving credit agreement at December 31, 2012:	
Leverage ratio (indebtedness-to-adjusted EBITDA)	1.20x
Interest coverage ratio (adjusted EBIT-to-interest expense)	16.24x
Most restrictive covenants as defined in revolving credit agreement:	
Maximum permitted aggregate amount of dividends that can be paid by Tredegar during the term of the revolving credit agreement (\$100,000 plus 50% of net income generated beginning January 1, 2012)	\$ 114,126
Minimum adjusted shareholders' equity permitted (\$320,000 plus 50% of net income generated, to the extent positive, beginning January 1, 2012)	\$ 334,126
Maximum leverage ratio permitted:	3.00x
Minimum interest coverage ratio permitted	<u>2.50x</u>

Table of Contents

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

(In Millions)	Payments Due by Period						Total
	2013	2014	2015	2016	2017	Remainder	
Debt:							
Principal payments	\$ —	\$ —	\$ —	\$ —	\$ 128.0	\$ —	\$ 128.0
Estimated interest expense	2.6	2.6	2.6	2.6	.8	—	11.2
Estimated contributions required ⁽¹⁾ :							
Defined benefit plans	.2	6.4	10.8	11.8	9.1	7.7	46.0
Other postretirement benefits	.5	.5	.5	.5	.5	6.4	8.9
Capital expenditure commitments ⁽²⁾	16.4	—	—	—	—	—	16.4
Operating leases	2.1	2.0	1.3	1.2	1.2	1.1	8.9
Utility contracts	4.6	3.0	—	—	—	—	7.6
Estimated obligations relating to uncertain tax positions ⁽³⁾	—	—	—	—	—	1.0	1.0
Other ⁽⁴⁾	1.6	1.2	1.4	—	—	—	4.2
Total	\$ 28.0	\$ 15.7	\$ 16.6	\$ 16.1	\$ 139.6	\$ 16.2	\$ 232.2

- (1) Estimated minimum required contributions for defined benefit plans and benefit payments for other postretirement plans are based on actuarial estimates using current assumptions for discount rates, long-term rate of return on plan assets, rate of compensation increases and health care cost trends. The expected defined benefit plan contribution estimates for 2013 through 2022 were determined under provisions of the Pension Protection Act of 2006 using the preliminary assumptions chosen by Tredegar for the 2013 plan year. Tredegar has determined that it is not practicable to present defined benefit contributions and other postretirement benefit payments beyond 2022.
- (2) Represents contractual obligations for plant construction and purchases of real property and equipment. In February 2012, Film Products signed contracts associated with our multi-year capacity expansion project in Brazil that resulted in future contractual commitments of approximately \$14 million in 2013.
- (3) Amounts for which reasonable estimates about the timing of payments cannot be made are included in the remainder column.
- (4) Includes contractual severance, the expected contingent earnout from our purchase of the assets of Bright View, and other miscellaneous contractual arrangements.

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. At December 31, 2012, we had cash and cash equivalents of \$48.8 million, including funds held in locations outside the U.S. of \$28.6 million. We accrue U.S. federal income taxes on unremitted earnings of all foreign subsidiaries except Terphane Ltda. (a subsidiary of Film Products). Deferred U.S. federal income taxes have not been provided on the undistributed earnings for Terphane Ltda. because of our intent to permanently reinvest these earnings. The cumulative amount of untaxed earnings was \$23.0 million at December 31, 2012.

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 transaction, or the sellers or third parties involved in the transaction agree to indemnify us, 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 and the amount is reasonably estimable. We disclose contingent liabilities if the probability of loss is reasonably possible and material.

[Table of Contents](#)

Shareholders' Equity

At December 31, 2012, we had 32,069,370 shares of common stock outstanding and a total market capitalization of \$654.9 million, compared with 32,057,281 shares of common stock outstanding and a total market capitalization of \$712.3 million at December 31, 2011.

We received 209,576 shares in 2012 at a price of \$17.70 per share as consideration from Arc Ventures, LC in connection with our divestiture of Falling Springs.

We did not repurchase any shares on the open market in 2012 or 2011 under our approved share repurchase program.

Cash Flows

The discussion in this section supplements the information presented in the consolidated statements of cash flows on page 49. Cash flows for discontinued operations have not been separately disclosed in the consolidated statements of cash flows.

Cash provided by operating activities was \$82.6 million in 2012 compared with \$71.8 million in 2011. The increase is due primarily to normal volatility of working capital components (see the assets and liabilities section beginning on page 29 for discussion of changes in working capital).

Cash used in investing activities was \$75.6 million in 2012 compared with \$195.2 million in 2011. Cash used in investing activities in 2012 primarily includes the acquisition of AACOA (\$54.6 million) and capital expenditures (\$33.3 million), partially offset by net cash proceeds received from the sale of Falling Springs (\$12.1 million).

Net cash flow provided in financing activities was \$26.7 million in 2012, which is primarily due to the one-time dividend of \$24.0 million in December 2012 and the payment of regular quarterly dividends of \$6.8 million (4 1/2 cents per share per quarter in the first and second quarters and 6 cents per share in the third and fourth quarters). Net borrowings against our revolving credit facility were \$3.0 million in 2012.

Cash provided by operating activities was \$71.8 million in 2011 compared with \$46.4 million in 2010. The increase is due primarily to normal volatility of working capital components.

Cash used in investing activities was \$195.2 million in 2011 compared with \$22.2 million in 2010. Cash used in investing activities in 2011 primarily includes the purchase of Terphane (\$181.0 million) and capital expenditures (\$15.9 million).

Net cash flow provided in financing activities was \$120.4 million in 2011, which is primarily due to borrowings of \$125 million to fund the purchase of Terphane, partially offset by the payment of regular quarterly dividends of \$5.8 million (4 1/2 cents per share per quarter).

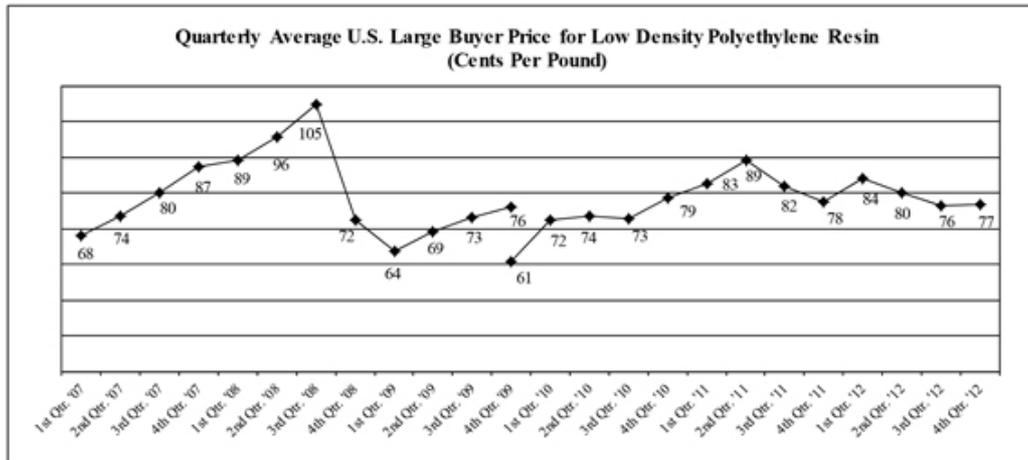
Quantitative and Qualitative Disclosures about Market Risk

Tredegar has exposure to the volatility of interest rates, polyethylene and polypropylene resin prices, Terephthalic Acid ("PTA") and Monoethylene Glycol ("MEG") prices, aluminum ingot and scrap prices, energy prices, foreign currencies and emerging markets. See the assets and liabilities section beginning on page 29 regarding interest rate exposures related to borrowings under the revolving credit agreement.

Changes in resin, PTA and MEG 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.

[Table of Contents](#)

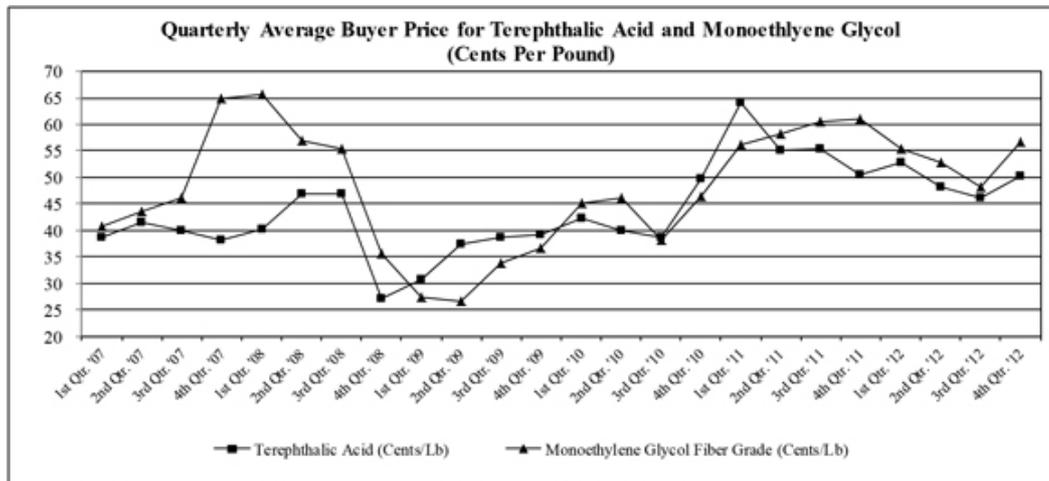
See the executive summary beginning on page 20 and the business segment review beginning on page 38 for discussion regarding the impact of the lag in the pass-through of resin price changes. The volatility of average quarterly prices of low density polyethylene resin in the U.S. (a primary raw material for Film Products) is shown in the chart below.



Source: Quarterly averages computed by Tredegar using monthly data provided by Chemical Data Inc. ("CDI"). In January 2010, CDI reflected a 15 cents per pound non-market adjustment based on their estimate of the growth of discounts over the 2005 to 2009 period. The 4th quarter 2009 average rate of 61 cents per pound is shown on a pro forma basis as if the non-market adjustment was made in October 2009.

Resin prices in Europe, Asia and South America have exhibited similar long-term 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 (see the executive summary on page 20 and the business segment review on page 38 for more information). Pricing on the remainder of our business is based upon raw material costs and supply/demand dynamics within the markets that we compete.

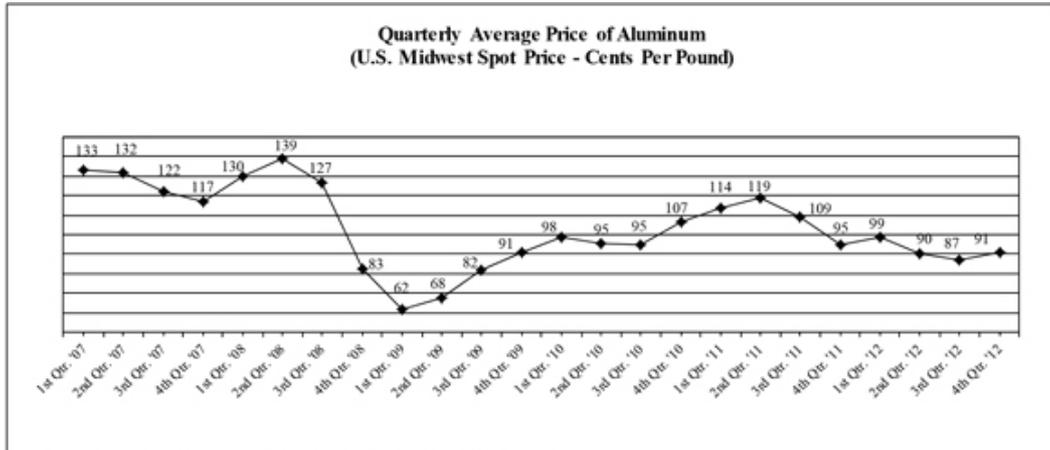
The volatility of average quarterly prices of PTA and MEG (raw materials for Film Products) is shown in the chart below:



Source: Quarterly averages computed by Tredegar using monthly data from CMAI Global Index data.

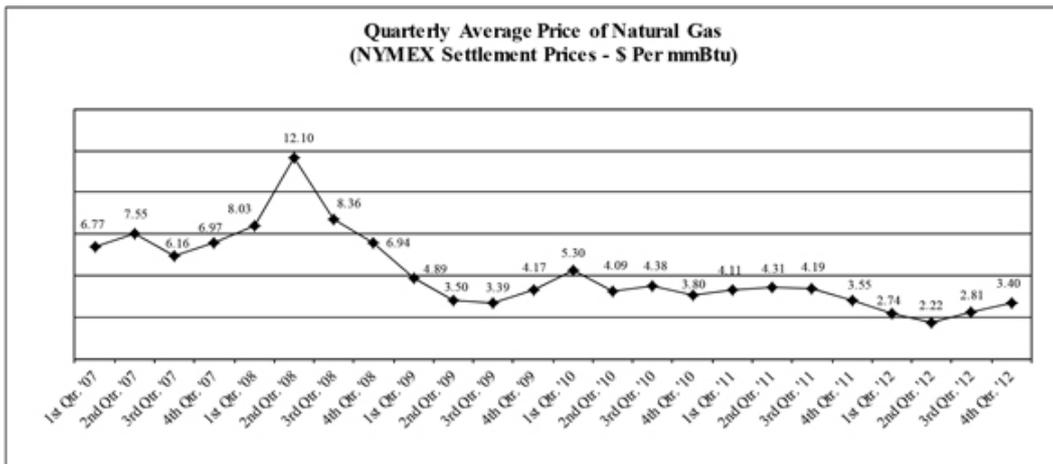
[Table of Contents](#)

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 9 beginning on page 65 for more information. The volatility of quarterly average aluminum prices is shown in the chart below.



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

In Aluminum Extrusions, we hedge from time-to-time a portion of our exposure to natural gas price volatility 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 \$75,000 impact on the continuing monthly operating profit for our U.S. operations in Aluminum Extrusions. We have an energy surcharge for our aluminum extrusions business in the U.S. that is applied when the previous quarter's NYMEX natural gas average settlement price is in excess of \$8.85 per mmBtu. The volatility of quarterly average natural gas prices is shown in the chart below.



Source: Quarterly averages computed by Tredegar using monthly NYMEX settlement prices.

[Table of Contents](#)

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 ongoing operations related to foreign markets for 2012, 2011 and 2010 are as follows:

Tredegar Corporation—Continuing Ongoing Operations
Percentage of Net Sales and Total Assets Related to Foreign Markets

	2012			2011			2010		
	% of Total Net Sales *		% Total Assets - Foreign Operations *	% of Total Net Sales *		% Total Assets - Foreign Operations *	% of Total Net Sales *		% Total Assets - Foreign Operations *
	Exports From U.S.	Foreign Operations	Foreign Operations *	Exports From U.S.	Foreign Operations	Foreign Operations *	Exports From U.S.	Foreign Operations	Foreign Operations *
Canada	5	—	—	6	—	—	7	—	—
Europe	1	13	7	1	16	7	1	16	15
Latin America	—	14	23	1	6	24	—	3	2
Asia	7	4	4	7	4	4	10	5	7
Total % exposure to foreign markets	13	31	34	15	26	35	18	24	24

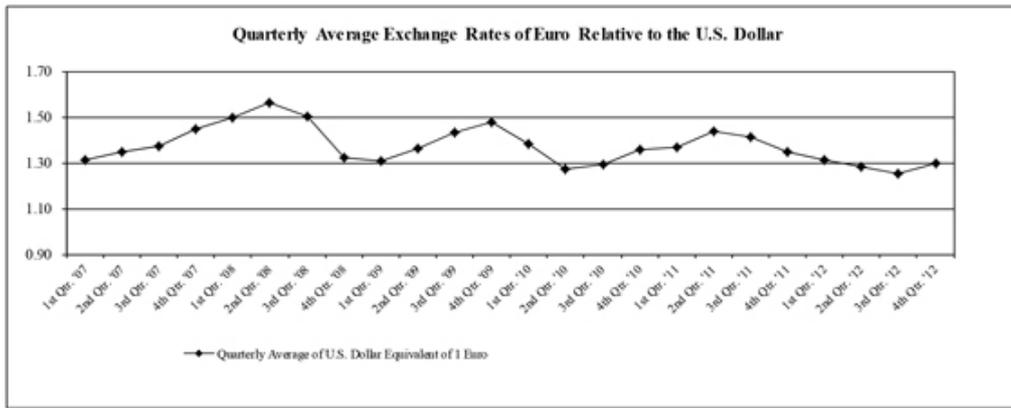
* The percentages for foreign markets are relative to Tredegar's total net sales and total assets from ongoing operations (consolidated net sales and total assets from continuing operations excluding cash and cash equivalents).

We attempt to match the pricing and cost of our products in the same currency and generally view the volatility of foreign currencies (see trends for the Euro, Brazilian Real 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 continuing foreign operations relates to the Euro, the Chinese Yuan, the Hungarian Forint, the Brazilian Real and the Indian Rupee.

In Film Products, where we are primarily able to match the currency of our sales and costs, we estimate that the change in value of foreign currencies relative to the U.S. Dollar had a negative impact on operating profit from ongoing operations of approximately \$1.4 million in 2012 compared to 2011, a positive impact on operating profit from ongoing operations of approximately \$1.8 million in 2011 compared with 2010, a negative impact of approximately \$1.3 million in 2010 compared with 2009.

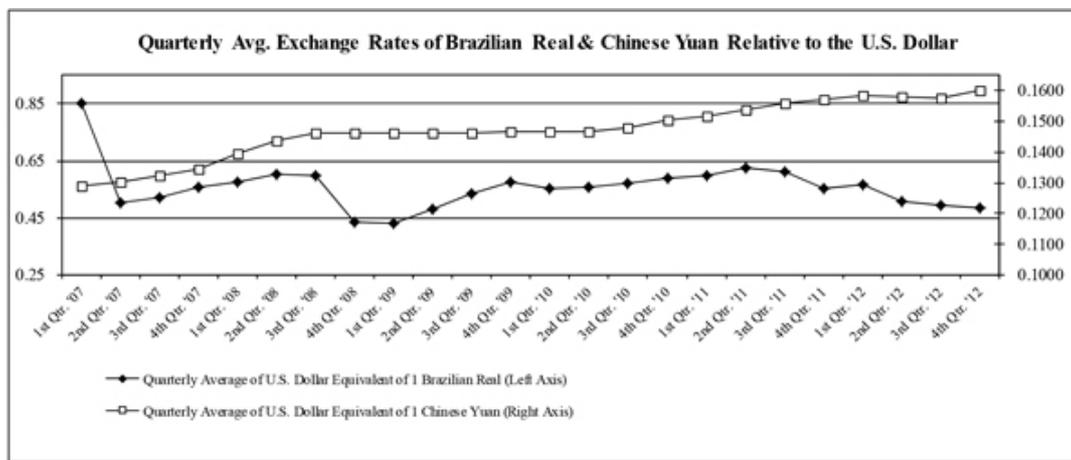
For flexible packaging films produced in Brazil, we price our products in U.S. Dollars, and key raw materials are also priced in U.S. Dollars. However, certain production costs, such as conversion costs and other fixed costs, are priced in Brazilian Real, which exposes our operating margins to some currency exposure. In general, when the U.S. Dollar is strengthening versus the Brazilian Real, operating results will benefit from relatively lower costs, and when the U.S. Dollar is weakening versus the Brazilian Real, operating results will be negatively impacted from relatively higher costs.

Trends for the Euro are shown in the chart below:



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

Trends for the Brazilian Real and Chinese Yuan are shown in the chart below:



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

Business Segment Review

Net sales and operating profit from ongoing operations are the measures of sales and operating profit used by the chief operating decision maker for purposes of assessing performance.

Film Products

Net Sales. See the executive summary beginning on page 20 for the discussion of net sales (sales less freight) in Film Products in 2012 compared with 2011.

In Film Products, net sales were \$535.5 million in 2011, an increase of 2.8% from \$520.7 million in 2010. Volume decreased to 218.7 million pounds in 2011 from 221.2 million pounds in 2010. Net sales in 2011 increased compared to 2010 due to the acquisition of Terphane and an increase in average selling prices from the pass-through of higher average resin prices, partially offset by lower volume in surface protection films and personal care materials.

[Table of Contents](#)

The slowdown in end-user demand for large-sized LCD panels, particularly in the high-end segment, negatively impacted the volumes of our surface protection films. In addition, reduced consumer demand for applications that utilize our premium personal care films also contributed to the reduction in sales volume. Terphane generated net sales of \$28.3 million subsequent to its acquisition in October 2011.

Operating Profit. See the executive summary beginning on page 20 for the discussion of operating profit in Film Products in 2012 compared with 2011.

Operating profit from ongoing operations was \$59.5 million in 2011, a decrease of 10.8% compared with \$66.7 million in 2010. Operating profit from ongoing operations decreased in 2011 compared to 2010 due to the lower sales volumes in surface protection materials and personal care films. The impact of lower volumes was partially offset by a reduction in the unfavorable impact of the lag in the pass-through of higher resin costs, additional operating profits generated by the acquisition of Terphane, cost reduction efforts and improved manufacturing efficiencies in 2011, and favorable changes in the U.S. dollar value of currencies for operations outside the U.S. The estimated impact of the lag in the pass-through of changes in average resin costs was a negative \$0.8 million in 2011 and a negative \$6.4 million in 2010. The estimated favorable impact from U.S. dollar value currencies for operations outside the U.S. was \$1.8 million in 2011 compared with 2010. Terphane had operating profit of \$3.0 million from the acquisition date through December 31, 2011, which included \$0.9 million of amortization expense and \$0.9 million of one-time reimbursements for customs duties.

Identifiable Assets. Identifiable assets in Film Products decreased to \$551.8 million at December 31, 2012, from \$574.6 million at December 31, 2011, due primarily to the depreciation of property, plant and equipment and amortization of identifiable intangible assets, partially offset by current year capital expenditures. See the assets and liabilities section beginning on page 29 for further discussion on changes in assets and liabilities.

Identifiable assets in Film Products increased to \$574.6 million at December 31, 2011, from \$368.9 million at December 31, 2010, due primarily to the acquisition of Terphane.

Depreciation, Amortization and Capital Expenditures. Depreciation and amortization for Film Products was \$39.2 million in 2012, \$36.3 million in 2011 and \$34.4 million in 2010. The increase in depreciation and amortization in 2012 compared with 2011 is primarily related to the acquisition of Terphane (\$10.2 million in 2012 compared to \$2.1 million in 2011), partially offset by lower depreciation expense as certain assets becoming fully depreciated. The increase in depreciation and amortization in 2011 compared to 2010 is related to the acquisition of Terphane. We estimate depreciation and amortization expense for Film Products will be approximately \$37 million in 2013.

Capital expenditures totaled \$30.5 million in 2012, \$13.1 million in 2011 and \$15.8 million in 2010. Capital expenditures in 2012 include approximately \$19.6 million for the project to expand capacity at our manufacturing facility in Cabo de Santo Agostinho, Brazil. Capital expenditures in 2011 primarily included the normal replacement of machinery and equipment. Capital expenditures in 2010 included the construction of our new manufacturing facility in India as well as capital spending to support growth initiatives. Capital expenditures in 2013 are estimated to be approximately \$80 million, which includes approximately \$49 million in capital expenditures for a project that will expand capacity at our manufacturing facility in Cabo de Santo Agostinho, Brazil.

Aluminum Extrusions (Continuing Operations)

Net Sales and Operating Profit. See the executive summary beginning on page 20 for the discussion of net sales (sales less freight) and operating profit from ongoing operations of Aluminum Extrusions in 2012 compared with 2011.

Net sales in Aluminum Extrusions were \$240.4 million in 2011, an increase of 20.4% from \$199.6 million in 2010. Operating profit from ongoing operations was \$3.5 million, a positive change of \$7.7 million from operating losses from ongoing operations of \$4.2 million in 2010. Volume was 108.0 million pounds in 2011 compared to 94.9 million pounds in 2010.

The increase in net sales was due to higher volumes and an increase in average selling prices driven by higher average aluminum costs. Sales volume increased 13.8% in 2011 compared to 2010 as we developed new customer opportunities and were able to support key customers who continue to demonstrate strength in a difficult business environment. The improvement in results from ongoing operations in 2011 reflects higher volumes.

Table of Contents

Identifiable Assets. Identifiable assets in Aluminum Extrusions were \$129.3 million at December 31, 2012, \$78.7 million at December 31, 2011 and \$81.7 million at December 31, 2010. The increase in identifiable assets between December 31, 2011 and December 31, 2012 can be primarily attributed to the acquisition of AACOA. The decrease of \$3.0 million at the end of 2011 compared to 2010 is mainly due to depreciation of property, plant and equipment and lower capital expenditures in 2011.

Depreciation, Amortization and Capital Expenditures. Depreciation and amortization for Aluminum Extrusions was \$10.0 million in 2012, \$8.3 million in 2011 and \$9.1 million in 2010. The increase in 2012 compared to 2011 is primarily attributed to approximately \$2.4 million in accelerated depreciation on property, plant and equipment associated with shutdown of the Kentland manufacturing facility and impact of the acquisition of AACOA (\$1.0 million in additional depreciation and amortization expense in the fourth quarter of 2012), partially offset by certain assets becoming fully depreciated and lower than normal capital expenditures in 2012, 2011 and the second half of 2010. The decrease between 2011 compared to 2010 is primarily attributed to certain assets becoming fully depreciated and lower than normal capital expenditures in 2011 and the second half of 2010. We estimate depreciation and amortization expense for Aluminum Extrusions to be approximately \$8.5 million in 2013.

Capital expenditures totaled \$2.3 million in 2012, \$2.7 million in 2011 and \$4.3 million in 2010. Capital expenditures are estimated to be approximately \$19 million in 2013, which includes approximately \$15 million for an 18-month project that will expand our capacity at the manufacturing facility in Newnan, Georgia. This additional capacity will primarily serve the automotive industry.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See discussion of “Quantitative and Qualitative Disclosures about Market Risk” beginning on page 34 in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See the index on page 44 for references to the report of the independent registered public accounting firm, the consolidated financial statements and selected quarterly financial data.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), we carried out an evaluation, with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Tredegar's internal control over financial reporting is designed to provide reasonable assurance to Tredegar's management and board of directors regarding the reliability of financial reporting and the preparation and fair presentation of published financial statements in accordance with U.S. generally accepted accounting principles and includes policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorization of our management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the consolidated financial statements.

Internal control over financial reporting includes the controls themselves, monitoring (including internal auditing practices) and actions taken to correct deficiencies as identified.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In conducting its assessment of the effectiveness of our internal controls over financial reporting, management excluded its acquisition of AACOA, Inc., which was acquired by Tredegar on October 1, 2012 and is included in Tredegar's 2012 consolidated financial statements and constituted less than 8% of consolidated total assets and less than 3% of consolidated total sales for the year then ended. Based on their evaluation under the framework in *Internal Control—Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2012.

The effectiveness of our internal control over financial reporting as of December 31, 2012 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included on page 45.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended December 31, 2012, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information concerning directors and persons nominated to become directors of Tredegar to be included in our Proxy Statement under the headings “Election of Directors” and “Tredegar’s Board of Directors” is incorporated herein by reference.

The information concerning corporate governance to be included in the Proxy Statement under the headings “Board Meetings, Meetings of Non-Management Directors and the Board Committees” and “Corporate Governance” is incorporated herein by reference.

The information to be included in the Proxy Statement under the heading “Section 16(a) Beneficial Ownership Reporting Compliance” is incorporated herein by reference.

Set forth below are the names, ages and titles of our executive officers:

<u>Name</u>	<u>Age</u>	<u>Title</u>
Nancy M. Taylor	53	President and Chief Executive Officer
Duncan A. Crowdis	60	President, The William L. Bonnell Company, Inc. and Corporate Vice President
Mary Jane Hellyar	59	President, Tredegar Film Products Corporation and Corporate Vice President
A. Brent King	44	Vice President, General Counsel and Corporate Secretary
Kevin A. O’Leary	54	Vice President, Chief Financial Officer and Treasurer
Larry J. Scott	62	Vice President, Audit

Nancy M. Taylor. Ms. Taylor was elected President and Chief Executive Officer effective February 1, 2010. Prior to February 1, 2010, Ms. Taylor was President of Tredegar Films Products Corporation and Executive Vice President. She was elected Executive Vice President effective January 1, 2009. She was elected President of Tredegar Film Products Corporation effective April 5, 2005. She was elected Senior Vice President effective November 1, 2004. Ms. Taylor served as Senior Vice President, Strategy and Special Projects from November 1, 2004 until April 5, 2005.

Duncan A. Crowdis. As the Company has previously announced, Mr. Crowdis intends to retire effective June 1, 2013. Mr. Crowdis was elected Vice President of the Company effective January 1, 2009. Mr. Crowdis was elected President of The William L. Bonnell Company, Inc. on June 13, 2005, and continues to serve in such capacity. Mr. Crowdis served as Plant Manager of The William L. Bonnell Company, Inc. from March 2005 until June 2005. He previously served as Chief Process Officer of The William L. Bonnell Company, Inc. from December 2002 until March 2005.

Mary Jane Hellyar. Ms. Hellyar was elected Vice President of the Company and President of Tredegar Film Products Corporation on September 24, 2012. Ms. Hellyar served as Chief Executive Officer of TechnoCorp Energy OLED from September 2009 until returning to retirement in September 2010. She served as President of Eastman Kodak Company’s Film Photofinishing and Entertainment Group from September 2005 until retiring from Kodak in June 2009.

A. Brent King. Mr. King was elected Vice President, General Counsel and Corporate Secretary on October 20, 2008, the date that he joined Tredegar. From October 2005 until October 2008, he served as General Counsel at Hilb Rogal & Hobbs Company. Mr. King was Vice President and Assistant Secretary for Hilb Rogal & Hobbs Company from October 2001 to October 2008. He served as Associate General Counsel for Hilb Rogal & Hobbs Company from October 2001 to October 2005.

[Table of Contents](#)

Kevin A. O’Leary. Mr. O’Leary was elected Vice President, Chief Financial Officer and Treasurer effective December 11, 2009. He was appointed Vice President, Finance, of Tredegar Film Products Corporation, effective January 1, 2009 until December 11, 2009 and served as Director, Finance, of Tredegar Film Products Corporation from October 2008 until January 2009. Mr. O’Leary previously served as Vice President, Finance—Mergers and Acquisitions of the Avery Dennison Retail Information Services Group (“Avery Dennison RIS”), a division of Avery Dennison Corporation from March 2007 through August 2008. He served as General Manager of the Printer Systems division of Avery Dennison RIS from February 2006 through February 2007 and as Director, Finance, of Avery Dennison RIS from August 2004 through January 2006.

Larry J. Scott. Mr. Scott was elected Vice President, Audit, on May 24, 2000.

We have adopted a Code of Conduct that applies to all of our directors, officers and employees (including our chief executive officer, chief financial officer and principal accounting officer) and have posted the Code of Conduct on our website. All amendments to or waivers from any provision of our Code of Conduct applicable to the chief executive officer, chief financial officer and principal accounting officer will be disclosed on our website. Our Internet address is www.tredegar.com. The information on or that can be accessed through our website is not, and shall not be deemed to be, a part of this report or incorporated into other filings we make with the SEC.

Item 11. EXECUTIVE COMPENSATION

The information to be included in the Proxy Statement under the headings “Compensation of Directors,” “Board Meetings, Meetings of Non-Management Directors and Board Committees—Executive Compensation Committee Interlocks and Insider Participation,” “Compensation Discussion and Analysis,” “Executive Compensation Committee Report” and “Compensation of Executive Officers” is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information to be included in the Proxy Statement under the heading “Stock Ownership” is incorporated herein by reference. The following table summarizes information with respect to equity compensation plans under which securities are authorized for issuance as of December 31, 2012.

<u>Plan Category</u>	<u>Column (a)</u> Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	<u>Column (b)</u> Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	<u>Column (c)</u> Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans, Excluding Securities Reflected in Column (a)
Equity compensation plans approved by security holders	*1,312,400	\$ 17.81	2,607,001
Equity compensation plans not approved by security holders	—	—	—
Total	1,312,400	\$ 17.81	2,607,001

* Includes performance stock units that give the holder the right to receive shares of Tredegar common stock upon the satisfaction of certain performance criteria.

[Table of Contents](#)

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information to be included in the Proxy Statement under the headings “Certain Relationships and Related Transactions”, “Tredegar’s Board of Directors” and “Board Meetings, Meetings of Non-Management Directors and Board Committees” is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following is incorporated herein by reference:

- Information on accounting fees and services to be included in the Proxy Statement under the heading “Audit Fees;” and
- Information on the Audit Committee’s procedures for pre-approving certain audit and non-audit services to be included in the Proxy Statement under the heading “Board Meetings, Meetings of Non-Management Directors and Board Committees—Audit Committee Matters.”

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

- (a) List of documents filed as a part of the report:
- (1) Financial statements:

Tredegar Corporation
Index to Financial Statements and Supplementary Data

[Report of Independent Registered Public Accounting Firm](#)

Financial Statements:

[Consolidated Balance Sheets as of December 31, 2012 and 2011](#)

[Consolidated Statements of Income for the Years Ended December 31, 2012, 2011 and 2010](#)

[Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2012, 2011 and 2010](#)

[Consolidated Statements of Cash Flows for the Years Ended December 31, 2012, 2011 and 2010](#)

[Consolidated Statements of Shareholders’ Equity for the Years Ended December 31, 2012, 2011 and 2010](#)

[Notes to Financial Statements](#)

Page
45

46

47

48

49

50

51-84

- (2) Financial statement schedules:
None.

- (3) Exhibits:
See Exhibit Index on pages 91-93.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Tredegar Corporation:

In our opinion, the accompanying balance sheets and related statements of income, comprehensive income, cash flows and shareholders' equity, present fairly, in all material respects, the financial position of Tredegar Corporation and its subsidiaries (the "Company") at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in "Management's Report on Internal Control Over Financial Reporting" appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in "Management's Report on Internal Control Over Financial Reporting", management has excluded AACOA, Inc. ("AACOA") from its assessment of internal control over financial reporting as of December 31, 2012 because they were acquired by the Company in a business combination during 2012. We have also excluded AACOA from our audit of internal controls over financial reporting. AACOA is a wholly-owned business whose total assets and revenues represent approximately 8% and 2%, respectively of the related consolidated financial statement amounts as of and for the year ended December 31, 2012.

/s/ PricewaterhouseCoopers LLP
Richmond, Virginia
March 1, 2013

[Table of Contents](#)

CONSOLIDATED BALANCE SHEETS

Tredegar Corporation and Subsidiaries

December 31	2012	2011
(In Thousands, Except Share Data)		
Assets		
Current assets:		
Cash and cash equivalents	\$ 48,822	\$ 68,939
Accounts and other receivables, net of allowance for doubtful accounts and sales returns of \$3,552 in 2012 and \$3,539 in 2011	100,237	97,785
Income taxes recoverable	2,886	2,592
Inventories	74,670	61,290
Deferred income taxes	5,614	7,133
Prepaid expenses and other	6,780	7,780
Current assets of discontinued operation	—	343
Total current assets	<u>239,009</u>	<u>245,862</u>
Property, plant and equipment, at cost:		
Land and land improvements	12,537	19,118
Buildings	110,961	106,237
Machinery and equipment	625,655	620,360
Total property, plant and equipment	<u>749,153</u>	<u>745,715</u>
Less accumulated depreciation	<u>495,736</u>	<u>488,464</u>
Net property, plant and equipment	253,417	257,251
Goodwill and other intangibles	241,180	223,432
Other assets and deferred charges	49,559	36,886
Noncurrent assets of discontinued operation	—	17,179
Total assets	<u>\$ 783,165</u>	<u>\$ 780,610</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 82,067	\$ 72,884
Accrued expenses	42,514	40,888
Current liabilities of discontinued operation	—	1,967
Total current liabilities	<u>124,581</u>	<u>115,739</u>
Long-term debt	128,000	125,000
Deferred income taxes	60,773	70,769
Other noncurrent liabilities	97,559	71,834
Noncurrent liabilities of discontinued operation	—	361
Total liabilities	<u>410,913</u>	<u>383,703</u>
Commitments and contingencies (Notes 16 and 19)		
Shareholders' equity:		
Common stock (no par value):		
Authorized 150,000,000 shares;		
Issued and outstanding—32,069,370 shares in 2012 and 32,057,281 in 2011 (including restricted stock)	15,195	14,357
Common stock held in trust for savings restoration plan (64,654 shares in 2012 and 61,577 in 2011)	(1,401)	(1,343)
Accumulated other comprehensive income (loss):		
Foreign currency translation adjustment	131	11,693
Gain (loss) on derivative financial instruments	993	(406)
Pension and other postretirement benefit adjustments	(103,471)	(90,672)
Retained earnings	460,805	463,278
Total shareholders' equity	<u>372,252</u>	<u>396,907</u>
Total liabilities and shareholders' equity	<u>\$ 783,165</u>	<u>\$ 780,610</u>

See accompanying notes to financial statements.

[Table of Contents](#)**CONSOLIDATED STATEMENTS OF INCOME**

Tredegar Corporation and Subsidiaries

Years Ended December 31 (In Thousands, Except Per-Share Data)	2012	2011	2010
Revenues and other:			
Sales	\$ 882,188	\$ 794,420	\$ 738,200
Other income (expense), net	18,119	3,213	(1,182)
	<u>900,307</u>	<u>797,633</u>	<u>737,018</u>
Costs and expenses:			
Cost of goods sold	712,660	654,087	594,987
Freight	24,846	18,488	17,812
Selling, general and administrative	73,717	67,808	67,729
Research and development	13,162	13,219	13,625
Amortization of intangibles	5,806	1,399	466
Interest expense	3,590	1,926	1,136
Asset impairments and costs associated with exit and disposal activities	5,022	1,917	773
Total	<u>838,803</u>	<u>758,844</u>	<u>696,528</u>
Income from continuing operations before income taxes	61,504	38,789	40,490
Income taxes	18,319	10,244	13,649
Income from continuing operations	43,185	28,545	26,841
Income (loss) from discontinued operations, net of tax	(14,934)	(3,690)	186
Net income	<u>\$ 28,251</u>	<u>\$ 24,855</u>	<u>\$ 27,027</u>
Earnings (loss) per share:			
Basic:			
Continuing operations	\$ 1.35	\$.89	\$.83
Discontinued operations	(.47)	(.12)	.01
Net income	<u>\$.88</u>	<u>\$.77</u>	<u>\$.84</u>
Diluted:			
Continuing operations	\$ 1.34	\$.89	\$.82
Discontinued operations	(.46)	(.12)	.01
Net income	<u>\$.88</u>	<u>\$.77</u>	<u>\$.83</u>

See accompanying notes to financial statements.

[Table of Contents](#)**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

Tredegar Corporation and Subsidiaries

Years Ended December 31	2012	2011	2010
(In Thousands, Except Per-Share Data)			
Net income	\$ 28,251	\$ 24,855	\$27,027
Other comprehensive income (loss):			
Foreign currency translation adjustment:			
Unrealized foreign currency translation adjustment net of tax of \$897 in 2012 and tax benefit of \$505 in 2011 and \$1,443 in 2010)	(11,562)	(9,098)	(2,678)
Reclassification adjustment of foreign currency translation gain included in income (net of tax of \$1,497 in 2011)	—	(2,781)	—
Derivative financial instruments adjustment (net of tax of \$818 in 2012, a tax benefit of \$423 in 2011 and \$287 in 2010)	1,399	(686)	(478)
Pension & other post-retirement benefit adjustments			
Net gains or losses and prior service costs (net of tax benefit of \$11,145 in 2012, \$20,032 in 2011 and \$2,135 in 2010)	(19,285)	(34,664)	(2,838)
Amortization of prior service costs and net gains or losses (net of tax of \$3,749 in 2012, \$2,232 in 2011 and \$1,732 in 2010)	6,486	3,863	2,995
Other comprehensive income (loss)	(22,962)	(43,366)	(2,999)
Comprehensive income (loss)	\$ 5,289	\$ (18,511)	\$24,028

See accompanying notes to financial statements.

[Table of Contents](#)

CONSOLIDATED STATEMENTS OF CASH FLOWS

Tredegar Corporation and Subsidiaries

Years Ended December 31 (In Thousands)	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:			
Net income	\$ 28,251	\$ 24,855	\$ 27,027
Adjustments for noncash items:			
Depreciation	43,463	43,336	43,122
Amortization of intangibles	5,806	1,399	466
Deferred income taxes	(762)	2,108	(6,392)
Accrued pension and postretirement benefits	8,311	2,481	1,125
(Gain) loss on an investment accounted for under the fair value method	(16,100)	(1,600)	2,200
(Gain) loss on sale of assets	1,219	(653)	(15)
Loss on asset impairments	2,185	1,376	608
Changes in assets and liabilities, net of effects of acquisitions and divestitures:			
Accounts and notes receivables	9,454	(4,737)	(10,981)
Inventories	(9,913)	2,410	(7,717)
Income taxes recoverable	3,193	(1,254)	(2,627)
Prepaid expenses and other	1,883	(271)	(969)
Accounts payable and accrued expenses	9,105	(282)	2,942
Other, net	(3,509)	2,597	(2,380)
Net cash provided by operating activities	<u>82,586</u>	<u>71,765</u>	<u>46,409</u>
Cash flows from investing activities:			
Acquisitions, net of cash acquired	(57,936)	(180,975)	(5,500)
Capital expenditures	(33,252)	(15,880)	(20,418)
Net proceeds from the sale of Fallings Springs, LLC	12,071	—	—
Proceeds from the sale of assets and other	3,557	1,622	3,768
Net cash used in investing activities	<u>(75,560)</u>	<u>(195,233)</u>	<u>(22,150)</u>
Cash flows from financing activities:			
Borrowings	93,250	125,000	—
Debt principal payments and financing costs	(91,604)	(89)	(2,815)
Dividends paid	(30,782)	(5,761)	(5,141)
Repurchases of Tredegar common stock	—	—	(35,141)
Proceeds from exercise of stock options and other	2,400	1,242	980
Net cash provided by (used in) financing activities	<u>(26,736)</u>	<u>120,392</u>	<u>(42,117)</u>
Effect of exchange rate changes on cash	<u>(407)</u>	<u>(1,176)</u>	<u>386</u>
Increase (decrease) in cash and cash equivalents	<u>(20,117)</u>	<u>(4,252)</u>	<u>(17,472)</u>
Cash and cash equivalents at beginning of period	<u>68,939</u>	<u>73,191</u>	<u>90,663</u>
Cash and cash equivalents at end of period	<u>\$ 48,822</u>	<u>\$ 68,939</u>	<u>\$ 73,191</u>
Supplemental cash flow information:			
Interest payments	\$ 2,992	\$ 1,966	\$ 911
Income tax payments (refunds), net	14,721	8,594	23,539

See accompanying notes to financial statements.

[Table of Contents](#)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Tredegar Corporation and Subsidiaries

	Common Stock		Retained Earnings	Trust for Savings Restoration Plan	Accumulated Other Comprehensive Income (Loss)			
	Shares	Amount			Foreign Currency Translation	Gain (Loss) on Derivative Financial Instruments	Pension & Other Post-retirement Benefit Adjust.	Total Shareholders' Equity
(In Thousands, Except Share and Per-Share Data)								
Balance January 1, 2010	33,887,550	\$ 41,137	\$422,277	\$(1,322)	\$ 26,250	\$ 758	\$(60,028)	\$429,072
Net income	—	—	27,027	—	—	—	—	27,027
Foreign currency translation adjustment (net of tax benefit of \$1,443)	—	—	—	—	(2,678)	—	—	(2,678)
Derivative financial instruments adjustment (net of tax benefit of \$287)	—	—	—	—	—	(478)	—	(478)
Net gains or losses and prior service costs (net of tax benefit of \$2,135)	—	—	—	—	—	—	(2,838)	(2,838)
Amortization of prior service costs and net gains or losses (net of tax of \$1,732)	—	—	—	—	—	—	2,995	2,995
Cash dividends declared (\$.16 per share)	—	—	(5,141)	—	—	—	—	(5,141)
Stock-based compensation expense	55,298	3,952	—	—	—	—	—	3,952
Issued upon exercise of stock options (including related income tax of \$204) & other	65,225	776	—	—	—	—	—	776
Repurchases of Tredegar common stock	(2,124,900)	(35,141)	—	—	—	—	—	(35,141)
Tredegar common stock purchased by trust for savings restoration plan	—	—	10	(10)	—	—	—	—
Balance December 31, 2010	31,883,173	10,724	444,173	(1,332)	23,572	280	(59,871)	417,546
Net income	—	—	24,855	—	—	—	—	24,855
Foreign currency translation adjustment (net of tax benefit of \$2,002)	—	—	—	—	(11,879)	—	—	(11,879)
Derivative financial instruments adjustment (net of tax benefit of \$423)	—	—	—	—	—	(686)	—	(686)
Net gains or losses and prior service costs (net of tax benefit of \$20,032)	—	—	—	—	—	—	(34,664)	(34,664)
Amortization of prior service costs and net gains or losses (net of tax of \$2,232)	—	—	—	—	—	—	3,863	3,863
Cash dividends declared (\$.18 per share)	—	—	(5,761)	—	—	—	—	(5,761)
Stock-based compensation expense	119,698	2,897	—	—	—	—	—	2,897
Issued upon exercise of stock options (including related income tax benefit of \$76) & other	54,410	736	—	—	—	—	—	736
Tredegar common stock purchased by trust for savings restoration plan	—	—	11	(11)	—	—	—	—
Balance December 31, 2011	32,057,281	14,357	463,278	(1,343)	11,693	(406)	(90,672)	396,907
Net income	—	—	28,251	—	—	—	—	28,251
Foreign currency translation adjustment (net of tax of \$897)	—	—	—	—	11,562	—	—	11,562
Derivative financial instruments adjustment (net of tax of \$818)	—	—	—	—	—	1,399	—	1,399
Net gains or losses and prior service costs (net of tax benefit of \$11,145)	—	—	—	—	—	—	(19,285)	(19,285)
Amortization of prior service costs and net gains or losses (net of tax of \$3,749)	—	—	—	—	—	—	6,486	6,486
Cash dividends declared (\$.96 per share)	—	—	(30,782)	—	—	—	—	(30,782)
Stock-based compensation expense	78,299	2,516	—	—	—	—	—	2,516
Issued upon exercise of stock options (including related income tax benefit of \$144) & other	143,366	2,031	—	—	—	—	—	2,031
Shares received from the sale of Falling Springs, LLC	(209,576)	(3,709)	—	—	—	—	—	(3,709)
Tredegar common stock purchased by trust for savings restoration plan	—	—	58	(58)	—	—	—	—
Balance December 31, 2012	32,069,370	\$ 15,195	\$460,805	\$(1,401)	\$ 131	\$ 993	\$(103,471)	\$372,252

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Tredegar Corporation and Subsidiaries

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations. Tredegar Corporation and subsidiaries (collectively “Tredegar,” “we,” “us” or “our”) are primarily engaged in the manufacture of plastic films and aluminum extrusions. See Notes 10 and 18 regarding restructurings and Note 3 regarding discontinued operations.

Basis of Presentation. The consolidated financial statements include the accounts and operations of Tredegar and all of its majority-owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation. On February 12, 2008, we sold our aluminum extrusions business in Canada, and on November 20, 2012, we sold our mitigation banking business, Falling Springs, LLC (“Falling Springs”). All historical results for these businesses have been reflected as discontinued operations in these financial statements; however, cash flows for discontinued operations have not been separately disclosed in the consolidated statements of cash flows. See Note 3 regarding discontinued operations.

The preparation of financial statements in conformity with United States (“U.S.”) generally accepted accounting principles (“U.S. GAAP”) requires us to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Foreign Currency Translation. The financial statements of subsidiaries located outside the U.S., where the local currency is the functional currency, are translated into U.S. Dollars using exchange rates in effect at the period end for assets and liabilities and average exchange rates during each reporting period for results of operations. Adjustments resulting from the translation of these financial statements are reflected as a separate component of shareholders’ equity. We have no subsidiaries located outside the U.S. where the U.S. Dollar is the functional currency.

Transaction and remeasurement gains or losses included in income were not material in 2012, 2011 and 2010. These amounts do not include the effects between reporting periods that exchange rate changes have on income of our locations outside the U.S. that result from translation into U.S. Dollars.

Cash and Cash Equivalents. Cash and cash equivalents consist of cash on hand in excess of daily operating requirements and highly liquid investments with original maturities of three months or less. At December 31, 2012 and 2011, Tredegar had cash and cash equivalents of \$48.8 million and \$68.9 million, respectively, including funds held in locations outside the U.S. of \$28.6 million and \$42.3 million, respectively.

Our policy permits investment of excess cash in marketable securities that have the highest credit ratings and maturities of less than one year. The primary objectives of the policy are safety of principal and liquidity.

Accounts and Other Receivables. Accounts receivable are stated at the amount invoiced to customers less allowances for doubtful accounts and sales returns. Accounts receivable are non-interest bearing and arise from the sale of product to customers under typical industry trade terms. Notes receivable are not significant. Past due amounts are determined based on established terms and charged-off when deemed uncollectible. The allowance for doubtful accounts is determined based on our assessment of probable losses taking into account past due amounts, customer credit profile, historical experience and current economic conditions. Other receivables include value-added taxes related to certain foreign subsidiaries and other miscellaneous receivables due within one year.

Inventories. Inventories are stated at the lower of cost or market, with cost determined on the last-in, first-out (“LIFO”) basis, the weighted average cost or the first-in, first-out basis. Cost elements included in work-in-process and finished goods inventories are raw materials, direct labor and manufacturing overhead.

Property, Plant and Equipment. Accounts include costs of assets constructed or purchased, related delivery and installation costs and interest incurred on significant capital projects during their construction periods. Expenditures for renewals and betterments also are capitalized, but expenditures for repairs and maintenance are expensed as incurred. The cost and accumulated depreciation applicable to assets retired or sold are removed from the respective accounts, and gains or losses thereon are included in income.

[Table of Contents](#)

Capital expenditures for property, plant and equipment include capitalized interest. Capitalized interest included in capital expenditures for property, plant and equipment were not material in 2012, 2011 and 2010.

Depreciation is computed primarily by the straight-line method based on the estimated useful lives of the assets, which except for certain isolated exceptions, range from 10 to 25 years for buildings and land improvements and 2 to 15 years for machinery and equipment. The average depreciation period for machinery and equipment is approximately 10 years in Film Products and for the continuing operations of Aluminum Extrusions.

Investments in Private Entities with Less Than or Equal to 50% Voting Ownership Interest. We account for our investments in private entities where our voting ownership is less than or equal to 50% based on the facts and circumstances surrounding the investment. We are required to account for investments under the consolidation method in situations where we are the primary beneficiary of a variable interest entity. The primary beneficiary is the party that has a controlling financial interest in a variable interest entity. We are deemed to have a controlling financial interest if we have (i) the power to direct activities of the variable interest entity that most significantly impact its economic performance and (ii) the obligation to absorb losses or the right to receive benefits from the variable interest entity that could potentially be significant to its operations.

If we are not deemed to be the primary beneficiary in an investment in a variable interest entity then we select either: (i) the fair value method or (ii) either (a) the cost method if we do not have significant influence over operating and financial policies of the investee or (b) the equity method if we do have significant influence.

U.S. GAAP requires disclosure of the level within the fair value hierarchy in which fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3).

Goodwill and Other Intangibles. The excess of the purchase price over the fair value of identifiable net assets of acquired companies is allocated to goodwill. We assess goodwill for impairment when events or circumstances indicate that the carrying value may not be recoverable, or, at a minimum, on an annual basis (December 1st of each year). Our significant reporting units in Film Products include Polyethylene and Polypropylene Films and PET Films. We have two reporting units in Aluminum Extrusions, Bonnell and AACOA. All goodwill in Aluminum Extrusions is associated with the AACOA reporting unit. Each of our reporting units has separately identifiable operating net assets (operating assets including goodwill and intangible assets net of operating liabilities).

We estimate the fair value of our reporting units using discounted cash flow analysis and comparative enterprise value-to-EBITDA (earnings before interest, taxes, depreciation and amortization) multiples. The goodwill of Polyethylene and Polypropylene Films was tested for impairment at the annual testing date, with the estimated fair value of this reporting unit substantially exceeding the carrying value of its net assets. The goodwill of PET Films was also tested for impairment at December 1, 2012, with the estimated fair value of this reporting unit exceeding the carrying value of its net assets by approximately 23%. The goodwill of AACOA is associated with the October 2012 acquisition of AACOA, Inc. ("AACOA"), and carrying value of its net assets approximate the estimated fair value of this reporting unit at December 1, 2012.

Impairment of Long-Lived Assets. We review long-lived assets for possible impairment when events indicate that an impairment may exist. For assets to be held and used in operations, if events indicate that an asset may be impaired, we estimate the future unlevered pre-tax cash flows expected to result from the use of the asset and its eventual disposition. Assets are grouped for this purpose at the lowest level for which there are identifiable and independent cash flows. If the sum of these undiscounted pre-tax cash flows is less than the carrying amount of the asset, an impairment loss is calculated. Measurement of the impairment loss is the amount by which the carrying amount exceeds the estimated fair value of the asset group.

Assets that are held for sale are reported at the lower of their carrying amount or estimated fair value less cost to sell, with an impairment loss recognized for any write-down required.

[Table of Contents](#)

Pension Costs and Postretirement Benefit Costs Other than Pensions. Pension costs and postretirement benefit costs other than pensions are accrued over the period employees provide service to Tredegar. Liabilities and expenses for pension plans and other postretirement benefits are determined using actuarial methodologies and incorporate significant assumptions, including the rate used to discount the future estimated liability, the long-term rate of return on plan assets, and several assumptions relating to the employee workforce. We recognize the funded status of our pension and other postretirement plans in the accompanying consolidated balance sheets. Our policy is to fund our pension plans at amounts not less than the minimum requirements of the Employee Retirement Income Security Act (“ERISA”) of 1974 and to fund postretirement benefits other than pensions when claims are incurred.

Revenue Recognition. Revenue from the sale of products, which is shown net of estimated sales returns and allowances, is recognized when title has passed to the customer, the price of the product is fixed and determinable, and collectability is reasonably assured. Amounts billed to customers related to freight have been classified as sales in the accompanying consolidated statements of income. The cost of freight has been classified as a separate line in the accompanying consolidated statements of income. Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction between Tredegar and its customers (such as value-added taxes) are accounted for on a net basis and therefore excluded from revenues.

Research & Development (“R&D”) Costs. R&D costs are expensed as incurred and include primarily salaries, wages, employee benefits, equipment depreciation, facility costs and the cost of materials consumed relating to R&D efforts. R&D costs include a reasonable allocation of indirect costs.

Income Taxes. Income taxes are recognized during the period in which transactions enter into the determination of income for financial reporting purposes, with deferred income taxes being provided at enacted statutory tax rates on the differences between the financial reporting and tax bases of assets and liabilities (see Note 17). Deferred U.S. federal income taxes have not been provided on the undistributed earnings for Terphane Ltda. (a subsidiary of Film Products) because of our intent to permanently reinvest these earnings. The cumulative amount of untaxed earnings was \$23.0 million at December 31, 2012. We accrue U.S. federal income taxes on unremitted earnings of all other foreign subsidiaries. The benefit of an uncertain tax position is included in the accompanying financial statements when we determine that it is more likely than not that the position will be sustained, based on the technical merits of the position, if the taxing authority examines the position and the dispute is litigated. This determination is made on the basis of all the facts, circumstances and information available as of the reporting date.

Earnings Per Share. Basic earnings per share is computed using the weighted average number of shares of common stock outstanding. Diluted earnings per share is computed using the weighted average common and potentially dilutive common equivalent shares outstanding, determined as follows:

	2012	2011	2010
Weighted average shares outstanding used to compute basic earnings per share	32,032,343	31,931,962	32,291,556
Incremental shares attributable to stock options and restricted stock	160,233	281,212	280,565
Shares used to compute diluted earnings per share	32,192,576	32,213,174	32,572,121

Incremental shares attributable to stock options and restricted stock are computed using the average market price during the related period. During 2012, 2011 and 2010, the average out-of-the-money options to purchase shares that were excluded from the calculation of incremental shares attributable to stock options and restricted stock was 632,050, 293,704 and 324,558, respectively.

Stock-Based Employee Compensation Plans. Compensation expense is recorded on all share-based awards based upon its calculated fair value over the requisite service period using the graded-vesting method. The fair value of stock option awards was estimated as of the grant date using the Black-Scholes options-pricing model. The fair value of restricted stock awards was estimated as of the grant date using our closing stock price on that date.

[Table of Contents](#)

The assumptions used in this model for valuing Tredegar stock options granted in 2012, 2011 and 2010 are as follows:

	2012	2011	2010
Dividend yield	.9%	.9%	.9%
Weighted average volatility percentage	48.7%	46.4%	46.6%
Weighted average risk-free interest rate	1.0%	2.5%	2.7%
Holding period (years):			
Officers	6.0	6.0	6.0
Management	5.0	5.0	5.0
Weighted average exercise price at date of grant (also weighted average market price at date of grant):			
Officers	\$19.30	\$19.84	\$17.18
Management	19.40	19.73	17.13

The dividend yield is the dividend yield on our common stock at the date of grant, which we believe is a reasonable estimate of the expected yield during the holding period. We calculate expected volatility based on the historical volatility of our common stock using a sequential period of historical data equal to the expected holding period of the option. We have no reason to believe that future volatility for this period is likely to differ from the past. The assumed risk-free interest rate is based on observed interest rates (zero coupon U.S. Treasury debt securities) appropriate for the expected holding period. The expected holding period and forfeiture assumptions are based on historical experience. Estimated forfeiture assumptions are reviewed through the vesting period. Adjustments are made if actual forfeitures differ from previous estimates. The cumulative effect of a change in estimated forfeitures is recognized in the period of the change.

Tredegar stock options granted during 2012, 2011 and 2010, and related estimated fair value at the date of grant, are as follows:

	2012	2011	2010
Stock options granted (number of shares):			
Officers	99,600	140,500	190,000
Management	82,500	95,300	126,000
Total	<u>182,100</u>	<u>235,800</u>	<u>316,000</u>
Estimated weighted average fair value of options per share at date of grant:			
Officers	\$ 8.07	\$ 8.55	\$ 7.47
Management	7.81	8.03	7.00
Total estimated fair value of stock options granted (in thousands)	\$ 1,449	\$ 1,966	\$ 2,301

Additional disclosure of Tredegar stock options is included in Note 13.

Financial Instruments. We use derivative financial instruments for the purpose of hedging aluminum price volatility and currency exchange rate exposures that exist as part of transactions associated with our ongoing business operations. Our derivative financial instruments are designated as and qualify as cash flow hedges and are recognized in the accompanying balance sheet at fair value. A change in the fair value of the derivative that is highly effective as and that is designated and qualifies as a cash flow hedge is recorded in other comprehensive income. Gains and losses reported in other comprehensive income (loss) are reclassified to earnings in the periods in which earnings are affected by the variability of cash flows of the hedged transaction. Such gains and losses are reported on the same line as the underlying hedged item, and the cash flows related to financial instruments are classified in the consolidated statements of cash flows in a manner consistent with those of the transactions being hedged. Any hedge ineffectiveness (which represents the amount by which the changes in the fair value of the derivative exceed the variability in the cash flows of the forecasted transaction) is recorded in current period earnings. The amount of gains and losses recognized for hedge ineffectiveness were not material in 2012, 2011 and 2010.

[Table of Contents](#)

Our policy requires that we formally document all relationships between hedging instruments and hedged items, as well as our risk management objective and strategy for undertaking various hedge transactions. We also formally assess (both at the hedge's inception and on an ongoing basis) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. When it is determined that a derivative is not (or has ceased to be) highly effective as a hedge, we discontinue hedge accounting prospectively.

As a policy, we do not engage in speculative or leveraged transactions, nor do we hold or issue financial instruments for trading purposes. Additional disclosure of our utilization of derivative hedging instruments is included in Note 9.

Comprehensive Income (Loss). Comprehensive income (loss) is defined as net income or loss and other comprehensive income or loss. Other comprehensive income (loss) includes changes in foreign currency translation adjustments, unrealized gains and losses on derivative financial instruments, prior service costs and net gains or losses from pension and other postretirement benefit plans arising during the period and amortization of these prior service costs and net gains or losses adjustments, all recorded net of deferred income taxes.

Recently Issued Accounting Standards. In July 2012, the Financial Accounting Standards Board ("FASB") issued updated guidance for testing indefinite-lived intangible assets for impairment. The revised standard provides entities with an option to perform a "qualitative" assessment to determine whether further testing is necessary when performing an annual impairment assessment for indefinite-lived intangible assets other than goodwill. This new standard is comparable to the guidance finalized last year for goodwill impairment testing. An entity can still choose to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to the quantitative impairment test. The revised standard is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. We do not expect that this FASB accounting standard will have a material impact on our financial statements and disclosures.

2 ACQUISITIONS

On October 1, 2012, The William L. Bonnell Company, Inc. acquired 100% ownership of AACOA. AACOA operates production facilities in Elkhart, Indiana and Niles, Michigan. Its primary markets include consumer durables, machinery and equipment and transportation. The acquisition will add fabrication capabilities to Aluminum Extrusions' current array of products and services while providing AACOA with large press capabilities and enhanced geographic sales coverage in a variety of end-use markets.

After certain post-closing adjustments (primarily related to working capital transferred), the purchase price, net of cash acquired, was \$54.6 million. The purchase price was funded using financing secured from our existing \$350 million revolving credit facility.

Table of Contents

Based upon management's preliminary valuation of the fair value of tangible and intangible assets acquired (net of cash acquired) and liabilities assumed, the preliminary estimated purchase price allocation is as follows:

<u>(In Thousands)</u>	
Accounts receivable	\$12,477
Inventories	4,708
Property, plant & equipment	15,116
Identifiable intangible assets:	
Customer relationships	4,800
Trade names	4,800
Proprietary technology	3,400
Noncompete agreements	1,600
Other assets (current & noncurrent)	42
Trade payables & accrued expenses	(6,574)
Total identifiable net assets	40,369
Purchase price, net of cash received	54,625
Goodwill	<u>\$14,256</u>

The goodwill and other intangible asset balances associated with this acquisition will be deductible for tax purposes. Intangible assets acquired in the purchase of AACOA are being amortized over the following periods:

<u>Identifiable Intangible Asset</u>	<u>Useful Life (Yrs)</u>
Customer relationships	10
Proprietary technology	6-10
Trade names	Indefinite
Noncompete agreements	2

The final purchase price continues to be subject to certain post-closing contractual adjustments. If information becomes available that would indicate adjustments are required to the purchase price or the purchase price allocation prior to the end of the measurement period for finalizing the purchase price allocation, such adjustments will be included in the purchase price allocation retrospectively.

On October 14, 2011, TAC Holdings, LLC (the "Buyer") and Tredegar Film Products Corporation, which are indirect and direct, respectively, wholly-owned subsidiaries of Tredegar, entered into a Membership Interest Purchase Agreement (the "Purchase Agreement") with Gaucho Holdings, B.V. (the "Seller") an indirect, wholly-owned subsidiary of Vision Capital Partners VII LP ("Vision Capital"). On October 24, under the terms of the Purchase Agreement, the Buyer acquired from the Seller 100% of the outstanding equity interests of Terphane Holdings, LLC ("Terphane").

Terphane operates manufacturing facilities in Cabo de Santo Agostinho, Brazil and Bloomfield, New York. It is a producer of thin polyester films in Latin America with a growing presence in strategic niches in the U.S. Polyester films have specialized properties, such as heat resistance and barrier protection, that make them uniquely suited for the fast-growing flexible packaging market. We expect that the acquisition of Terphane will allow us to extend our product offerings into adjacent specialty films markets and to expand in Latin America.

All post-closing adjustments related to the purchase price for Terphane have been resolved in 2012. Adjustments to the purchase price were made retrospectively as if the accounting had been completed on the acquisition date. Upon completing these post-closing adjustments, which were primarily related to working capital transferred, the total purchase price (net of cash acquired) was \$182.7 million. The purchase price was funded using available cash (net of cash received) of approximately \$57.7 million and financing of \$125 million secured from Tredegar's former revolving credit facility.

Table of Contents

Based upon management's valuation of the fair value of tangible and intangible assets acquired (net of cash acquired) and liabilities assumed, the final estimated purchase price allocation is as follows:

<u>(In Thousands)</u>	
Accounts receivable	\$ 14,321
Inventories	23,437
Property, plant & equipment	86,963
Identifiable intangible assets:	
Customer relationships	32,600
Proprietary technology	14,700
Trade names	9,400
Noncompete agreements	2,300
Other assets (current & noncurrent)	3,680
Trade payables	(17,471)
Other liabilities (current & noncurrent)	(12,216)
Deferred taxes	(38,167)
Total identifiable net assets	119,547
Purchase price, net of cash received	182,761
Goodwill	<u>\$ 63,214</u>

None of the goodwill or other intangible assets will be deductible for tax purposes. Intangible assets acquired in the purchase of Terphane are being amortized over the following periods:

<u>Identifiable Intangible Asset</u>	<u>Useful Life (Yrs)</u>
Customer relationships	12
Proprietary technology	10
Trade names	Indefinite
Noncompete agreements	2

The financial position and results of operations for AACOA have been consolidated with Tredgar subsequent to October 1, 2012. For the year ended December 31, 2012, the consolidated results of operations included sales of \$19.9 million and net income from continuing operations of \$1.0 million related to AACOA. The financial position and results of operations for Terphane have been consolidated with Tredgar subsequent to October 24, 2011. For the year ended December 31, 2012 and 2011, the consolidated results of operations included sales of \$143.3 million and \$29.2 million, respectively, and net income from continuing operations of \$17.4 million and \$2.0 million, respectively, related to Terphane.

The following unaudited supplemental pro forma data presents our consolidated revenues and earnings as if the acquisitions of Terphane and AACOA had been consummated on January 1, 2011. The pro forma results are not necessarily indicative of our consolidated revenues and earnings if the acquisition and related borrowing had been consummated on January 1, 2011. Supplemental unaudited pro forma results for the years ended December 31, 2012 and 2011 are as follows:

<u>(In Thousands, Except Per Share Data)</u>	<u>2012</u>	<u>2011</u>
Sales	\$946,594	\$1,009,601
Income from continuing operations	44,816	43,407
Earnings per share from continuing operations:		
Basic	\$ 1.40	\$ 1.36
Diluted	1.39	1.35

[Table of Contents](#)

The above supplemental unaudited pro forma amounts reflect the application of the following adjustments in order to present the consolidated results as if the acquisitions and related borrowings had occurred on January 1, 2011:

- Adjustment for additional depreciation and amortization expense associated with the adjustments to property, plant and equipment, and intangible assets associated with purchase accounting;
- Additional interest expense and financing fees associated with borrowing arrangements used to fund the acquisitions of Terphane and AACOA and the elimination of historical interest expense associated with historical borrowings of Terphane and AACOA that were not assumed by Tredegar;
- Adjustments to eliminate transactions-related expenses associated with the October 2011 acquisition of Terphane and the October 2012 acquisition of AACOA;
- Adjustments related to the elimination of foreign currency remeasurement gains associated with long-term borrowings of Terphane that were not assumed by Tredegar;
- Adjustments for the estimated net income tax benefit associated with the previously described adjustments; and
- Adjustments to income tax expense for AACOA as it had previously elected to be treated as an S-Corp for federal income tax purposes.

On February 3, 2010, we purchased the assets of Bright View Technologies Corporation (“Bright View”) for \$5.5 million. Bright View is a developer and producer of high-value microstructure-based optical films for the LED (light emitting diode) and fluorescent lighting markets. The primary identifiable intangible assets purchased in the transaction were patented and unpatented technology, which are being amortized over a weighted average period of 12 years.

3 DISCONTINUED OPERATIONS

On November 20, 2012, Tredegar Real Estate Holdings, Inc., a wholly-owned subsidiary, sold its membership interests in Falling Springs to Arc Ventures, LC for \$16.6 million. Arc Ventures, LC is a Virginia limited liability company affiliated with John D. Gottwald, a member of our Board of Directors. The purchase price was comprised of \$12.8 million of cash and 209,576 shares of common stock of Tredegar owned by Arc Ventures, LC. The corresponding loss on sale of \$3.1 million, which includes transaction-related expenses of \$0.5 million, and the results of operations related to Falling Springs have been classified as discontinued operations for all periods presented. For the years ended December 31, 2012, 2011 and 2010, sales of \$3.2 million, \$3.2 million and \$2.3 million, respectively, have been reclassified to discontinued operations, and net income of \$0.5 million, \$0.7 million and \$0.2 million have been reclassified to discontinued operations in 2012, 2011 and 2010, respectively. Falling Springs was formerly a component of the Other segment.

On February 12, 2008, we sold our aluminum extrusions business in Canada for approximately \$25.0 million to an affiliate of H.I.G. Capital. In 2012 and 2011, accruals of \$13.4 million (\$13.4 million net of tax) and \$4.4 million (\$4.4 million net of tax) were made for indemnifications under the purchase agreement related to environmental matters.

All historical results for these businesses as well as the assets and liabilities included in the historical statements of positions have been reflected as discontinued operations; however, cash flows for discontinued operations have not been separately disclosed in the consolidated statements of cash flows.

4 INVESTMENTS

In August 2007 and December 2008, we made an aggregate investment of \$7.5 million in Intelliject, Inc. (“Intelliject”), a privately held specialty pharmaceutical company. Intelliject seeks to set a new standard in drug/device combination pharmaceuticals designed to enable superior treatment outcomes, improved cost effectiveness and intuitive patient administration. Our ownership interest on a fully diluted basis is approximately 20%, and the investment is accounted for under the fair value method. At the time of our initial investment, we elected the fair value option over the equity method of accounting since our investment objectives were similar to those of venture capitalists, which typically do not have controlling financial interests. We recognized an unrealized gain of \$16.1 million (\$10.2 million after taxes) in 2012 attributed to various factors, most notably:

- a favorable adjustment to the timing and amount of anticipated cash flows derived from updated marketing research;
- the passage of time as anticipated cash flows associated with achieving product development commercialization milestones are discounted at 55% for their high degree of risk; and
- a reduction in the weighted average cost of capital used to discount cash flows in our valuation in the first quarter to reflect the completion of certain process testing and a reassessment of the risk associated with the timing for obtaining final marketing approval from the U.S. Food and Drug Administration (“FDA”) for the company’s first product.

We recognized an unrealized gain of \$1.6 million (\$1.0 million after taxes) in 2011 attributed to the appreciation of our interest upon changes in the market dynamics and pricing associated with an upcoming product introduction and the addition of projects to the product pipeline. In 2010, we recognized an unrealized loss of \$2.2 million (\$1.4 million after taxes) for the estimated changes in the fair value of our investment after Intelliject, which had its new drug application to the FDA accepted for review during the fourth quarter, reassessed its projected timeframe for obtaining final marketing approval from the FDA. Unrealized gains (losses) associated with this investment are included in “Other income (expense), net” in the consolidated statements of income and separately stated in the segment operating profit table in Note 5.

At December 31, 2012 and 2011, the estimated fair value of our investment (included in “Other assets and deferred charges” in the consolidated balance sheets) was \$33.7 million and \$17.6 million, respectively. Subsequent to our most recent investment (December 15, 2008), and until the next round of financing, we believe fair value estimates are based upon Level 3 inputs since there is no secondary market for our ownership interest. In addition, Intelliject did not have any product sales as of December 31, 2012. Their first product launched in the first quarter of 2013. Accordingly, until the next round of financing or any other significant financial transaction, value estimates will primarily be based on assumptions relating to meeting product development and commercialization milestones, cash flow projections (projections of development and commercialization milestone payments, sales, costs, expenses, capital expenditures and working capital investment) and discounting of these factors for the high degree of risk. As a result, any future changes in the estimated fair value of our ownership interest will likely be attributed to a new round of financing, a merger or initial public offering or adjustments to the timing or magnitude of cash flows associated with development and commercialization milestones. If Intelliject does not meet its development and commercialization milestones and there are indications that the amount or timing of its projected cash flows or related risks are unfavorable versus our most recent valuation, or a new round of financing or other significant financial transaction indicates a lower enterprise value, then our estimate of the fair value of our ownership interest in the company is likely to decline. Adjustments to the estimated fair value of our investment will be made in the period upon which such changes can be quantified.

The fair market valuation of our interest in Intelliject is sensitive to changes in the weighted average cost of capital used to discount cash flow projections for the high degree of risk associated with meeting development and commercialization milestones as anticipated. The weighted average cost of capital used in the fair market valuation of our interest in Intelliject was 55% at December 31, 2012 and 60% at December 31, 2011. At December 31, 2012, the effect of a 500 basis point decrease in the weighted average cost of capital assumption would have further increased the fair value of our interest in Intelliject by approximately \$6 million, and a 500 basis point increase in the weighted average cost of capital assumption would have decreased the fair value of our interest by approximately \$5 million.

Table of Contents

Had we not elected to account for our investment under the fair value method, we would have been required to use the equity method of accounting. The condensed balance sheets for Intelliject at December 31, 2012 and 2011 and related condensed statements of operations for the last three years ended December 31, 2012, that were reported to us by Intelliject, are provided below:

(In Thousands)	December 31,		December 31,	
	2012	2011	2012	2011
Assets:			Liabilities & Equity:	
Cash & cash equivalents	\$53,288	\$ 9,625	Current liabilities	\$13,405 \$ 1,185
Other current assets	686	4,894	Non-current liabilities	1,449 738
Other long-term assets	4,278	691	Long term debt, net of discount	14,696 —
Identifiable intangibles assets	2,152	1,868	Redeemable preferred stock	20,995 20,017
			Equity	9,859 (4,862)
Total assets	<u>\$60,404</u>	<u>\$17,078</u>	Total liabilities & equity	<u>\$60,404</u> <u>\$17,078</u>

	2012	2011	2010
Revenues & Expenses:			
Revenues	\$ 38,179	\$ 8,839	\$ 29,099
Expenses and other, net	(13,073)	(10,474)	(10,426)
Income tax (expense) benefit	(9,642)	927	(6,584)
Net income (loss)	<u>\$ 15,464</u>	<u>\$ (708)</u>	<u>\$ 12,089</u>

The audited financial statements and accompanying footnotes of Intelliject as of December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011 and 2010 have been included as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission.

On April 2, 2007, we invested \$10.0 million in Harbinger Capital Partners Special Situations Fund, L.P. (“Harbinger”), a private investment fund that is subject to limitations on withdrawal. There is no secondary market for interests in the fund. Our investment in Harbinger, which represents less than 2% of its total partnership capital, is accounted for under the cost method. We recorded unrealized losses of \$1.1 million (\$0.7 million after taxes) and \$0.6 million (\$0.4 million after taxes) on our investment in Harbinger in 2012 and 2011, respectively, as a result of a reduction in the estimated fair value of our investment that is not expected to be temporary. The December 31, 2012 and 2011 carrying value in the consolidated balance sheets (included in “Other assets and deferred charges”) was \$3.6 million and \$5.2 million, respectively. The carrying value at December 31, 2012 reflected Tredegar’s cost basis in its investment in Harbinger, net of total withdrawal proceeds received and unrealized losses. Withdrawal proceeds were \$0.5 million in 2012 and \$0.6 million in 2011. The timing and amount of future installments of withdrawal proceeds was not known as of December 31, 2012. There were no realized gains or losses associated with our investment in Harbinger in 2012, 2011 and 2010. Gains on our investment in Harbinger, if any, will be recognized when the amounts expected to be collected from our withdrawal from the investment are known, which will likely be when cash in excess of our remaining carrying value is received. Losses will be recognized if management believes it is probable that future withdrawal proceeds will not exceed the remaining carrying value.

5 BUSINESS SEGMENTS

Our primary business segments are Film Products and Aluminum Extrusions. In February 2010, we started reporting an additional segment, Other, comprised of the start-up operations of Bright View and Falling Springs. Effective January 1, 2012, the operations and results of Bright View were incorporated into Film Products to leverage research and development efforts and accelerate new product development. Prior year balances for Bright View have been reclassified to Film Products to conform with the current year presentation. As discussed in Note 3, Falling Springs was divested in the fourth quarter of 2012. All historical results for this business have been reflected as discontinued operations. With the sale of Falling Springs, there is no longer an Other segment to report.

[Table of Contents](#)

Information by business segment and geographic area for the last three years is provided below. There were no accounting transactions between segments and no allocations to segments. Net sales (sales less freight) and operating profit from ongoing operations are the measures of sales and operating profit used by the chief operating decision maker for purposes of assessing performance. Film Products' net sales to The Procter & Gamble Company ("P&G") totaled \$264.0 million in 2012, \$280.3 million in 2011 and \$273.1 million in 2010. These amounts include plastic film sold to others that convert the film into materials used with products manufactured by P&G.

<i>(In Thousands)</i>	<i>Net Sales</i>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Film Products	\$ 611,877	\$535,540	\$520,749
Aluminum Extrusions	245,465	240,392	199,639
Total net sales	857,342	775,932	720,388
Add back freight	24,846	18,488	17,812
Sales as shown in consolidated statements of income	<u>\$882,188</u>	<u>\$794,420</u>	<u>\$738,200</u>

<i>(In Thousands)</i>	<i>Operating Profit</i>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Film Products:			
Ongoing operations	\$ 69,950	\$59,493	\$66,718
Plant shutdowns, asset impairments, restructurings and other (a)	(109)	(6,807)	(758)
Aluminum Extrusions:			
Ongoing operations	9,037	3,457	(4,154)
Plant shutdowns, asset impairments, restructurings and other (a)	(5,427)	58	493
Total	73,451	56,201	62,299
Interest income	418	1,023	709
Interest expense	3,590	1,926	1,136
Gain (loss) on investment accounted for under the fair value method (a)	16,100	1,600	(2,200)
Stock option-based compensation expense	1,432	1,940	2,064
Corporate expenses, net (a)	23,443	16,169	17,118
Income from continuing operations before income taxes	61,504	38,789	40,490
Income taxes (a)	18,319	10,244	13,649
Income from continuing operations	43,185	28,545	26,841
Income (loss) from discontinued operations (a)	(14,934)	(3,690)	186
Net income (loss)	<u>\$ 28,251</u>	<u>\$24,855</u>	<u>\$27,027</u>

- (a) See Notes 1, 3, 4 and 18 for more information on losses associated with plant shutdowns, asset impairments and restructurings, unusual items, gains or losses from sale of assets, gains or losses on an investment accounted for under the fair value method and other items.
- (b) We recognize in the balance sheets the funded status of each of our defined benefit pension and other postretirement plans. The funded status of our defined benefit pension plan was a net liability of \$83.3 million, \$57.8 million and \$8.3 million in "Other noncurrent liabilities" as of December 31, 2012, 2011 and 2010. See Note 14 for more information on our pension and other postretirement plans.
- (c) The difference between total consolidated sales as reported in the consolidated statements of income and segment and geographic net sales reported in this note is freight of \$24.8 million in 2012, \$18.5 million in 2011 and \$17.8 million in 2010.
- (d) Information on exports and foreign operations are provided on the next page. Cash and cash equivalents includes funds held in locations outside the U.S. of \$28.6 million, \$42.3 million and \$35.7 million at December 31, 2012, 2011 and 2010, respectively. Export sales relate almost entirely to Film Products. Operations outside the U.S. in The Netherlands, Hungary, China, Italy (sold in 2011), Brazil and India also relate to Film Products. Sales from our locations in The Netherlands, Hungary and Italy are primarily to customers located in Europe. Sales from our locations in China (Guangzhou and Shanghai) are primarily to customers located in China, but also include other customers in Asia. Sales activity at the new film products manufacturing facility in India were not significant in 2011.

[Table of Contents](#)

		<i>Identifiable Assets</i>	
<i>(In Thousands)</i>		2012	2011
Film Products		\$551,842	\$574,571
Aluminum Extrusions		129,279	78,661
Subtotal		681,121	653,232
General corporate (b)		53,222	40,917
Cash and cash equivalents (d)		48,822	68,939
Continuing operations		783,165	763,088
Discontinued operations		—	17,522
Total		\$783,165	\$780,610

<i>(In Thousands)</i>	<i>Depreciation and Amortization</i>			<i>Capital Expenditures</i>		
	2012	2011	2010	2012	2011	2010
Film Products	\$39,202	\$36,315	\$34,448	\$30,484	\$13,107	\$15,839
Aluminum Extrusions	9,984	8,333	9,054	2,332	2,697	4,339
Subtotal	49,186	44,648	43,502	32,816	15,804	20,178
General corporate	73	75	74	436	76	236
Continuing operations	49,259	44,723	43,576	33,252	15,880	20,414
Discontinued operations	10	12	12	—	—	4
Total	\$49,269	\$44,735	\$43,588	\$33,252	\$15,880	\$20,418

		<i>Net Sales by Geographic Area (d)</i>		
<i>(In Thousands)</i>		2012	2011	2010
United States		\$480,041	\$462,479	\$414,617
Exports from the United States to:				
Asia		57,639	56,050	68,818
Canada		46,948	49,428	50,534
Europe		5,186	6,171	8,572
Latin America		3,145	4,413	2,684
Operations outside the United States:				
Brazil		121,373	43,528	24,302
The Netherlands		67,758	80,509	81,945
Hungary		41,285	33,824	23,645
China		30,636	32,740	35,999
India		3,331	—	—
Italy		—	6,790	9,272
Total (c)		\$857,342	\$775,932	\$720,388

<i>(In Thousands)</i>	<i>Identifiable Assets by Geographic Area (d)</i>		<i>Property, Plant & Equipment, Net by Geographic Area (d)</i>	
	2012	2011	2012	2011
United States (b)	\$412,822	\$369,173	\$ 126,072	\$ 119,650
Operations outside the United States:				
Brazil	181,663	191,695	77,723	80,992
The Netherlands	37,076	40,973	19,443	24,850
China	25,167	28,469	16,584	18,931
Hungary	17,887	16,480	7,782	7,326
India	6,506	6,442	4,653	4,705
General corporate (b)	53,222	40,917	1,160	797
Cash and cash equivalents (d)	48,822	68,939	n/a	n/a
Continuing operations	783,165	763,088	253,417	257,251
Discontinued operations	—	17,522	—	23
Total	\$783,165	\$780,610	\$ 253,417	\$ 257,274

See footnotes on prior page and a reconciliation of net sales to sales as shown in the consolidated statements of income.

[Table of Contents](#)

<u>(In Thousands)</u>	<i>Net Sales by Product Group</i>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Film Products:			
Personal care materials	\$327,161	\$352,376	\$358,597
Flexible packaging films	138,028	28,256	—
Surface protection films	69,627	69,452	85,451
Polyethylene overwrap and polypropylene films	63,796	67,282	61,148
Films for other markets	13,265	18,174	15,553
Subtotal	611,877	535,540	520,749
Aluminum Extrusions:			
Nonresidential building & construction	165,159	166,229	134,467
Residential building & construction	23,555	31,444	29,554
Distribution	15,227	14,700	9,793
Consumer durables	12,259	4,784	3,532
Transportation	11,757	13,176	15,058
Machinery & equipment	8,773	5,665	2,571
Electrical	6,140	4,394	4,664
Other	2,595	—	—
Subtotal	245,465	240,392	199,639
Total	\$857,342	\$775,932	\$720,388

See footnotes on prior pages and a reconciliation of net sales to sales as shown in the consolidated statements of income.

6 ACCOUNTS AND OTHER RECEIVABLES

Accounts and other receivable consist of the following:

<u>(In Thousands)</u>	<u>2012</u>	<u>2011</u>
Trade, less allowance for doubtful accounts and sales returns of \$3,552 in 2012 and \$3,539 in 2011	\$ 96,686	\$95,470
Other	3,551	2,315
Total	\$100,237	\$97,785

A reconciliation of the beginning and ending balances of the allowance for doubtful accounts and sales returns for the three years ended December 31, 2012 is as follows:

<u>(In Thousands)</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 3,539	\$ 5,286	\$ 5,299
Charges to expense	1,589	1,525	1,779
Recoveries	(1,076)	(1,489)	(1,633)
Write-offs	(588)	(2,508)	(25)
Foreign exchange and other	88	725	(134)
Balance, end of year	\$ 3,552	\$ 3,539	\$ 5,286

7 INVENTORIES

Inventories consist of the following:

<u>(In Thousands)</u>	<u>2012</u>	<u>2011</u>
Finished goods	\$16,138	\$ 11,103
Work-in-process	7,451	6,874
Raw materials	28,758	24,148
Stores, supplies and other	22,323	19,165
Total	<u>\$74,670</u>	<u>\$61,290</u>

Inventories stated on the LIFO basis amounted to \$10.9 million at December 31, 2012 and \$12.1 million at December 31, 2011, which are below replacement costs by approximately \$20.5 million at December 31, 2012 and \$20.2 million at December 31, 2011. During 2012, 2011 and 2010, certain inventories accounted for on a LIFO basis declined, which resulted in cost of goods sold being stated at below current replacement costs, by approximately \$2.7 million in 2012 (\$1.1 million in Film Products and \$1.6 million in Aluminum Extrusions), \$1.1 million in Film Products in 2011 and \$2.6 million in 2010 (\$0.9 million in Film Products and \$1.7 million in Aluminum Extrusions).

8 GOODWILL AND OTHER INTANGIBLE ASSETS

The components of goodwill and other intangibles at December 31, 2012 and 2011, and related amortization periods for continuing operations are as follows:

<u>(In Thousands)</u>	<u>2012</u>	<u>2011</u>	<u>Amortization Periods</u>
Goodwill	\$177,181	\$ 165,372	Not amortized
Other identifiable intangibles			
Customer relationships (cost basis of \$37,400 in 2012 and \$32,600 in 2011)	31,163	30,850	10-12 years
Proprietary technology (cost basis of \$21,516 in 2012 and \$18,116 in 2011)	17,145	16,042	Not more than 15 years
Tradenames	13,332	9,049	Indefinite life
Non-compete agreements (cost basis of \$4,302 in 2012 and \$2,702 in 2011)	2,359	2,119	2 years
Total carrying value of other intangibles	<u>63,999</u>	<u>58,060</u>	
Total carrying value of goodwill and other intangibles	<u>\$241,180</u>	<u>\$223,432</u>	

A reconciliation of the beginning and ending balance of goodwill for each of the three years in the period ended December 31, 2012 is as follows:

<u>(In Thousands)</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net carrying value of goodwill, beginning of year	\$165,372	\$ 103,639	\$ 104,290
Acquisitions	14,256	63,214	—
Increase (decrease) due to foreign currency translation	(2,447)	(1,481)	(651)
Net carrying value of goodwill, end of year	<u>\$177,181</u>	<u>\$165,372</u>	<u>\$103,639</u>

Based on the severity of the economic downturn and its impact on the sales volumes of our aluminum extrusions business, the resulting operating loss in the first quarter of 2009, possible future losses and the uncertainty in the amount and timing of an economic recovery, a goodwill impairment charge of \$30.6 million (\$30.6 million after taxes) was recognized in Aluminum Extrusions in 2009. At December 31, 2012, the goodwill balance was \$162.9 million for Film Products and \$14.3 million for Aluminum Extrusions.

[Table of Contents](#)

Amortization expense for continuing operations over the next five years is expected to be as follows:

Year	Amount (In Thousands)
2013	\$ 6,786
2014	5,628
2015	4,903
2016	4,891
2017	4,891

9 FINANCIAL INSTRUMENTS

We use derivative financial instruments for the purpose of hedging margin exposure from fixed-price forward sales contracts in Aluminum Extrusions and currency exchange rate exposures that exist as part of ongoing business operations (primarily in Film Products). Our derivative financial instruments are designated as and qualify as cash flow hedges and are recognized in the consolidated balance sheet at fair value. The fair value of derivative instruments recorded on the consolidated balance sheets are based upon Level 2 inputs. If individual derivative instruments with the same counterparty can be settled on a net basis, we record the corresponding derivative fair values as a net asset or net liability.

In the normal course of business, we enter into fixed-price forward sales contracts with certain customers for the future sale of fixed quantities of aluminum extrusions at scheduled intervals. In order to hedge our margin exposure created from the fixing of future sales prices relative to volatile raw material (aluminum) costs, we enter into a combination of forward purchase commitments and futures contracts to acquire or hedge aluminum, based on the scheduled purchases for the firm sales commitments. The fixed-price firm sales commitments and related hedging instruments generally have durations of not more than 12 months, and the notional amount of aluminum futures contracts that hedged future purchases of aluminum to meet fixed-price forward sales contract obligations was \$6.2 million (6.7 million pounds of aluminum) at December 31, 2012 and \$10.8 million (11.0 million pounds of aluminum) at December 31, 2011.

The table below summarizes the location and gross amounts of aluminum derivative contract fair values in the consolidated balance sheets as of December 31, 2012 and 2011:

(In Thousands)	December 31, 2012		December 31, 2011	
	Balance Sheet Account	Fair Value	Balance Sheet Account	Fair Value
Derivatives Designated as Hedging Instruments				
Asset derivatives:				
Aluminum futures contracts	Prepaid expenses and other	\$ 226	Accrued expenses	\$ 21
Liability derivatives:				
Aluminum futures contracts	Prepaid expenses and other	\$ 88	Accrued expenses	\$ 677
Derivatives Not Designated as Hedging Instruments				
Asset derivatives:				
Aluminum futures contracts		\$ —	Accrued expenses	\$ 18
Liability derivatives:				
Aluminum futures contracts		\$ —	Accrued expenses	\$ 18

In the event that a counterparty to an aluminum fixed-price forward sales contract chooses not to take delivery of its aluminum extrusions, the customer is contractually obligated to compensate us for any losses on the related aluminum futures and/or forward purchase contracts through the date of cancellation. The offsetting asset and liability positions for derivatives not designated as hedging instruments included in the table above are associated with the unwinding of aluminum futures contracts that relate to such cancellations.

[Table of Contents](#)

We have future fixed Euro-denominated contractual payments for equipment being purchased as part of our multi-year capacity expansion project at our film products manufacturing facility in Cabo de Santo Agostinho, Brazil. We are using fixed rate Euro forward contracts with various settlement dates through November 2013 to hedge exchange rate exposure on these obligations. We had fixed rate forward contracts with outstanding notional amounts of €9.9 million as of December 31, 2012 (none at December 31, 2011).

The table below summarizes the location and gross amounts of foreign currency forward contract fair values in the consolidated balance sheets as of December 31, 2012 (none at December 31, 2011):

(In Thousands)	December 31, 2012	
	Balance Sheet Account	Fair Value
Derivatives Designated as Hedging Instruments		
Asset derivatives:	Prepaid expenses	
Foreign currency forward contracts	and other	\$948

We receive Euro-based royalty payments relating to our operations in Europe. From time to time we use zero-cost collar currency options to hedge a portion of our exposure to changes in cash flows due to variability in U.S. Dollar and Euro exchange rates. There were no outstanding notional amounts on these collars at December 31, 2012 and 2011 as there were no derivatives outstanding related to the hedging of royalty payments with currency options.

The counterparties to our forward purchase commitments are major aluminum brokers and suppliers, and the counterparties to our aluminum futures contracts are major financial institutions. Fixed-price forward sales contracts are only made available to our best and most credit-worthy customers. The counterparties to our foreign currency futures and zero-cost collar contracts are major financial institutions.

The pretax effect on net income (loss) and other comprehensive income (loss) of derivative instruments classified as cash flow hedges and described in the previous paragraphs for years ended December 31, 2012, 2011, and 2010 is summarized in the tables below:

(In Thousands)	Cash Flow Derivative Hedges					
	Aluminum Futures Contracts			Foreign Currency Forwards and Options		
	2012	2011	2010	2012	2011	2010
Years Ended December 31,						
Amount of pre-tax gain (loss) recognized in other comprehensive income	\$ (232)	\$ (802)	\$ (102)	\$ 1,421	\$—	\$ (284)
Location of gain (loss) reclassified from accumulated other comprehensive income into net income (effective portion)	Cost of sales	Cost of sales	Cost of sales			Selling, general and admin. exp.
Amount of pre-tax gain (loss) reclassified from accumulated other comprehensive income to net income (effective portion)	\$ (1,026)	\$ 308	\$ 641	\$ —	\$—	\$ (271)

Gains and losses on the ineffective portion of derivative instruments or derivative instruments that were not designated as hedging instruments were not significant in 2012, 2011 and 2010. For the years ended December 31, 2012, 2011 and 2010, unrealized net losses from hedges that were discontinued were not significant. As of December 31, 2012, we expect \$0.1 million of unrealized after-tax gains on derivative instruments reported in accumulated other comprehensive income to be reclassified to earnings within the next 12 months.

[Table of Contents](#)

10 ACCRUED EXPENSES

Accrued expenses consist of the following:

(In Thousands)	2012	2011
Payrolls, related taxes and medical and other benefits	\$ 7,088	\$ 4,700
Vacation	6,124	6,864
Contractual indemnification claims (see note 3)	4,316	4,740
Incentive compensation	3,840	3,003
Taxes other than federal income and payroll	3,056	3,350
Deferred revenue	2,564	1,863
Workers' compensation and disabilities	2,457	2,599
Other	13,069	13,769
Total	<u>\$42,514</u>	<u>\$40,888</u>

A reconciliation of the beginning and ending balances of accrued expenses associated with asset impairments and costs associated with exit and disposal activities for each of the three years in the period ended December 31, 2012 is as follows:

(In Thousands)	Severance	Long-Lived Asset Impairments	Other (a)	Total
Balance at January 1, 2010	\$ 823	\$ —	\$ 3,158	\$ 3,981
2010:				
Charges	165	608	—	773
Cash spent	(751)	—	(1,565)	(2,316)
Charged against assets	—	(608)	—	(608)
Balance at December 31, 2010	237	—	1,593	1,830
2011:				
Charges	541	1,367	—	1,908
Cash spent	(581)	—	(1,593)	(2,174)
Charged against assets	—	(1,367)	—	(1,367)
Balance at December 31, 2011	197	—	—	197
2012:				
Charges	1,562	1,077	2,255	4,894
Cash spent	(1,463)	—	(1,670)	(3,133)
Charged against assets	—	(1,077)	—	(1,077)
Balance at December 31, 2012	<u>\$ 296</u>	<u>\$ —</u>	<u>\$ 585</u>	<u>\$ 881</u>

- (a) Other includes primarily accrued losses on a sub-lease at a facility in Princeton, New Jersey and other shutdown-related costs associated with the shutdown of our aluminum extrusions manufacturing facility in Kentland, Indiana.

See Note 18 for more information on plant shutdowns, asset impairments and restructurings of continuing operations.

11 DEBT AND CREDIT AGREEMENTS

On April 23, 2012, we entered into a \$350 million five-year, unsecured revolving credit facility (the “Credit Agreement”), with an option to increase that amount by an additional \$75 million. The Credit Agreement replaced our previous \$300 million four-year, unsecured revolving credit facility that was due to expire on June 21, 2014. In connection with the refinancing, we borrowed \$102 million under the Credit Agreement, which was used, together with available cash on hand, to repay all indebtedness under our previous revolving credit facility.

Borrowings under the Credit Agreement bear an interest rate of LIBOR plus a credit spread and commitment fees charged on the unused amount under the Credit Agreement at various indebtedness-to-adjusted-EBITDA levels as follows:

Pricing Under Credit Revolving Agreement (Basis Points)

Indebtedness-to-Adjusted EBITDA Ratio	Credit Spread Over LIBOR	Commitment Fee
> 2.0x but <= 3.0x	200	35
> 1.0x but <=2.0x	175	30
<= 1.0x	150	25

At December 31, 2012, the interest cost on debt borrowed under the Credit Agreement was priced at one-month LIBOR plus the applicable credit spread of 150 basis points.

The most restrictive covenants in the Credit Agreement include:

- Maximum indebtedness-to-adjusted EBITDA of 3.0x;
- Minimum adjusted EBIT-to-interest expense of 2.5x;
- Maximum aggregate distributions to shareholders over the term of the Credit Agreement of \$100 million plus, beginning with the fiscal quarter ended March 31, 2012, 50% of net income; and
- Minimum shareholders’ equity at any point during the term of the Credit Agreement of at least \$320 million increased on a cumulative basis at the end of each fiscal quarter, beginning with the fiscal quarter ended March 31, 2012, by an amount equal to 50% of net income (to the extent positive).

At December 31, 2012, based upon the most restrictive covenants within the Credit Agreement, available credit under the Credit Agreement was approximately \$199 million. Total debt due and outstanding at December 31, 2012 is summarized below:

Debt Due and Outstanding at December 31, 2011 (In Thousands)

Year Due	Credit Agreement	Other	Total Debt Due
2013	\$ —	\$ —	\$ —
2014	—	—	—
2015	—	—	—
2016	—	—	—
2017	128,000	—	128,000
Total	\$ 128,000	\$ —	\$ 128,000

We believe we were in compliance with all of our debt covenants as of December 31, 2012. Noncompliance with any 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 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.

12 SHAREHOLDER RIGHTS AGREEMENT

Pursuant to an Amended and Restated Rights Agreement, dated as of June 30, 2009, with Computershare Investor Services, as Rights Agent (essentially renewing and extending our Rights Agreement, dated as of June 30, 1999), as amended, one right is attendant to each share of our common stock (“Right”). All Rights outstanding under the previous Rights Plan remain outstanding under the Amended and Restated Rights Agreement.

Each Right entitles the registered holder to purchase from Tredegar one one-hundredth of a share of Participating Cumulative Preferred Stock, Series A (the “Preferred Stock”), at an exercise price of \$150 (the “Purchase Price”). The Rights will become exercisable, if not earlier redeemed, only if a person or group acquires 15% or more of the outstanding shares of our common stock (thereby becoming an “Acquiring Person”) or announces a tender offer that would result in ownership by a person or group of 15% or more of our common stock. Any action by a person or group whose beneficial ownership was reported on Amendment No. 4 to the Schedule 13D filed with respect to Tredegar on March 20, 1997, cannot cause such person or group to become an Acquiring Person and thereby cause the Rights to become exercisable.

Each holder of a Right, upon the occurrence of certain events, will become entitled to receive, upon exercise and payment of the Purchase Price, Preferred Stock (or in certain circumstances, cash, property or other securities of Tredegar or a potential acquirer) having a value equal to twice the amount of the Purchase Price.

The Rights are scheduled to expire on June 30, 2019.

13 STOCK OPTION AND STOCK AWARD PLANS

We have one equity incentive plan under which stock options may be granted to purchase a specified number of shares of common stock at a price no lower than the fair market value on the date of grant and for a term not to exceed 10 years. In addition, we have one other equity incentive plan under which there are options that remain outstanding, but no future grants can be made. Prior to 2012, employee options ordinarily vest two years from the date of grant. Employee options granted in 2012 and thereafter ordinarily vest over a four year period, with a quarter of the options granted vesting on each year on the grant date anniversary. The option plans also permit the grant of stock appreciation rights (“SARs”), stock, restricted stock, stock unit awards and incentive awards. Restricted stock grants ordinarily vest three years from the date of grant based upon continued employment and/or the achievement of certain performance targets. No SARs have been granted since 1992 and none are currently outstanding.

A summary of our stock options outstanding at December 31, 2012, 2011 and 2010, and changes during those years, is presented below:

	Number of Options	Option Exercise Price/Share			Weighted Average
		Range			
Outstanding at January 1, 2010	796,175	\$ 13.95	to	\$ 19.52	\$ 16.29
Granted	316,000	16.66	to	17.54	17.15
Forfeited and Expired	(29,325)	13.95	to	18.12	16.37
Exercised	(65,575)	13.95	to	15.80	15.04
Outstanding at December 31, 2010	1,017,275	13.95	to	19.52	16.64
Granted	235,800	16.87	to	19.84	19.79
Forfeited and Expired	(51,800)	13.95	to	19.84	16.78
Exercised	(79,775)	13.95	to	18.12	15.11
Outstanding at December 31, 2011	1,121,500	14.06	to	19.84	17.40
Granted	182,100	18.51	to	19.40	19.34
Forfeited and Expired	(50,300)	15.80	to	19.84	19.34
Exercised	(176,600)	14.72	to	18.12	16.33
Outstanding at December 31, 2012	1,076,700	\$ 14.06	to	\$ 19.84	\$ 17.81

[Table of Contents](#)

The following table summarizes additional information about stock options outstanding and exercisable at December 31, 2012:

Range of Exercise Prices	Options Outstanding at December 31, 2012			Options Exercisable at December 31, 2012		
	Shares	Weighted Average		Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (In Thousands)
		Remaining Contractual Life (Years)	Exercise Price			
\$ — to \$ 15.00	35,500	2.9	\$ 14.20	35,500	\$ 14.20	\$ 221
15.01 to 17.00	218,800	3.5	15.79	217,000	15.78	1,006
17.01 to 20.00	822,400	5.0	18.51	462,300	17.66	1,276
Total	1,076,700	4.7	\$ 17.81	714,800	\$ 16.92	\$ 2,503

The following table summarizes additional information about non-vested restricted stock outstanding at December 31, 2012:

	Non-vested Restricted Stock			Maximum Non-vested Restricted Stock Units Issuable Upon Satisfaction of Certain Performance Criteria		
	Number of Shares	Wgt. Ave. Grant Date	Grant Date Fair Value	Number of Shares	Wgt. Ave. Grant Date	Grant Date Fair Value
		Fair Value/Sh.	(In Thousands)		Fair Value/Sh.	(In Thousands)
Outstanding at January 1, 2010	45,750	\$ 17.70	\$ 810	72,175	\$ 17.64	\$ 1,273
Granted	56,717	17.23	977	82,750	16.83	1,393
Vested	(8,284)	17.84	(148)	—	—	—
Forfeited	(333)	18.12	(6)	(4,000)	17.10	(68)
Outstanding at December 31, 2010	93,850	17.40	1,633	150,925	17.21	2,598
Granted	51,360	19.42	997	88,900	19.32	1,718
Vested	(18,060)	17.20	(311)	(66,925)	17.68	(1,183)
Forfeited	(1,000)	17.13	(17)	(87,900)	16.93	(1,488)
Outstanding at December 31, 2011	126,150	18.25	2,302	85,000	19.35	1,645
Granted	94,949	19.06	1,810	87,200	18.79	1,638
Vested	(60,357)	18.01	(1,087)	—	—	—
Forfeited	(16,842)	18.82	(317)	(80,400)	19.31	(1,553)
Outstanding at December 31, 2012	143,900	\$ 18.82	\$ 2,708	91,800	\$ 18.85	\$ 1,730

The total intrinsic value of stock options exercised was \$0.5 million in 2012, \$0.4 million in 2011 and \$0.2 million in 2010. The grant-date fair value of stock option-based awards vested was \$2.1 million in 2012, \$1.9 million in 2011 and \$1.9 million in 2010. As of December 31, 2012, there was unrecognized compensation cost of \$0.8 million related to stock option-based awards and \$1.3 million related to non-vested restricted stock and other stock-based awards. This cost is expected to be recognized over the remaining weighted average period of 0.9 years for stock option-based awards and 1.6 years for non-vested restricted stock and other stock-based awards.

Stock options exercisable totaled 714,800 at December 31, 2012 and 600,400 shares at December 31, 2011. Stock options available for grant totaled 2,607,001 shares at December 31, 2012.

14 RETIREMENT PLANS AND OTHER POSTRETIREMENT BENEFITS

We sponsor noncontributory defined benefit (pension) plans covering most employees. The plans for salaried and hourly employees currently in effect are based on a formula using the participant's years of service and compensation or using the participant's years of service and a dollar amount. The plan is closed to new participants, and based on plan changes announced in 2006, pay for active participants of the plan was frozen as of December 31, 2007.

In addition to providing pension benefits, we provide postretirement life insurance and health care benefits for certain groups of employees. Tredegar and retirees share in the cost of postretirement health care benefits, with employees hired on or before January 1, 1993, receiving a fixed subsidy to cover a portion of their health care premiums. We eliminated prescription drug coverage for Medicare-eligible retirees as of January 1, 2006. Consequently, we are not eligible for any federal subsidies.

The following tables reconcile the changes in benefit obligations and plan assets in 2012 and 2011, and reconcile the funded status to prepaid or accrued cost at December 31, 2012 and 2011:

(In Thousands)	Pension Benefits		Other Post-Retirement Benefits	
	2012	2011	2012	2011
Change in benefit obligation:				
Benefit obligation, beginning of year	\$272,436	\$247,969	\$ 8,422	\$ 7,350
Service cost	3,657	3,361	58	54
Interest cost	13,084	13,024	385	395
Effect of actuarial (gains) losses related to the following:				
Discount rate change	26,843	16,986	549	414
Retirement rate assumptions and mortality table adjustments	—	6,314	—	(52)
Retiree medical participation rate change	—	—	—	449
Other	(1,372)	(3,399)	(243)	122
Benefits paid	(12,363)	(11,819)	(292)	(310)
Benefit obligation, end of year	\$302,285	\$272,436	\$ 8,879	\$ 8,422
Change in plan assets:				
Plan assets at fair value, beginning of year	\$214,647	\$239,706	\$ —	\$ —
Actual return on plan assets	14,455	(13,413)	—	—
Employer contributions	2,296	173	292	310
Benefits paid	(12,363)	(11,819)	(292)	(310)
Plan assets at fair value, end of year	\$219,035	\$214,647	\$ —	\$ —
Funded status of the plans	\$ (83,250)	\$ (57,789)	\$ (8,879)	\$ (8,422)
Amounts recognized in the consolidated balance sheets:				
Prepaid benefit cost	\$ —	\$ —	\$ —	\$ —
Accrued benefit liability	(83,250)	(57,789)	(8,879)	(8,422)
Net amount recognized	\$ (83,250)	\$ (57,789)	\$ (8,879)	\$ (8,422)

[Table of Contents](#)

Assumptions used for financial reporting purposes to compute net benefit income or cost and benefit obligations for continuing operations, and the components of net periodic benefit income or cost for continuing operations, are as follows:

(In Thousands, Except Percentages)	Pension Benefits			Other Post-Retirement Benefits		
	2012	2011	2010	2012	2011	2010
Weighted-average assumptions used to determine benefit obligations:						
Discount rate	4.21%	4.95%	5.45%	4.10%	4.90%	5.35%
Rate of compensation increases	n/a	n/a	n/a	n/a	n/a	n/a
Weighted-average assumptions used to determine net periodic benefit cost:						
Discount rate	4.95%	5.45%	5.70%	4.90%	5.35%	5.75%
Rate of compensation increases	n/a	n/a	n/a	n/a	n/a	n/a
Expected long-term return on plan assets	7.75%	8.00%	8.25%	n/a	n/a	n/a
Components of net periodic benefit cost:						
Service cost	\$ (3,657)	\$ (3,361)	\$ (3,315)	\$ (58)	\$ (54)	\$ (76)
Interest cost	(13,084)	(13,024)	(13,071)	(385)	(395)	(467)
Expected return on plan assets	19,108	20,448	20,530	—	—	—
Amortization of prior service costs and gains or losses	(10,377)	(6,359)	(4,806)	241	264	79
Settlement/curtailment	(99)	—	—	—	—	—
Net periodic benefit cost	<u>\$ (8,109)</u>	<u>\$ (2,296)</u>	<u>\$ (662)</u>	<u>\$ (202)</u>	<u>\$ (185)</u>	<u>\$ (464)</u>

Net benefit income or cost is determined using assumptions at the beginning of each year. Funded status is determined using assumptions at the end of each year. Pension and other postretirement liabilities for continuing operations of \$92.1 million and \$66.2 million are included in “Other noncurrent liabilities” in the consolidated balance sheets at December 31, 2012 and 2011, respectively. The amount of our accumulated benefit obligation is the same as our projected benefit obligation.

At December 31, 2012, the effect of a 1% change in the health care cost trend rate assumptions would be immaterial.

Expected benefit payments for continuing operations over the next five years and in the aggregate for 2018-2022 are as follows:

(In Thousands)	Pension Benefits	Other Post-Retirement Benefits
2013	\$13,797	\$ 474
2014	14,559	492
2015	15,316	507
2016	15,883	522
2017	16,442	530
2018—2022	89,505	2,731

Table of Contents

Amounts recognized in 2012, 2011 and 2010 before related deferred income taxes in accumulated other comprehensive income consist of:

(In Thousands)	Pension			Other Post-Retirement		
	2012	2011	2010	2012	2011	2010
Prior service cost (benefit)	\$ (887)	\$ (1,890)	\$ (2,966)	\$ —	\$ —	\$ —
Net actuarial (gain) loss	<u>167,009</u>	<u>148,364</u>	<u>102,037</u>	<u>(855)</u>	<u>(1,401)</u>	<u>(2,598)</u>

The amounts before related deferred income taxes in accumulated other comprehensive income that are expected to be recognized as components of net periodic benefit or cost during 2013 are as follows:

(In Thousands)	Pension	Other Post-Retirement
Prior service cost (benefit)	\$ (1,184)	\$ —
Net actuarial (gain) loss	<u>15,943</u>	<u>(162)</u>

The percentage composition of assets held by pension plans for continuing operations at December 31, 2012, 2011 and 2010 are as follows:

	% Composition of Plan Assets at December 31,		
	2012	2011	2010
Pension plans related to continuing operations:			
Fixed income securities	<u>14.7%</u>	<u>9.7%</u>	1.9%
Large/mid-capitalization equity securities	<u>10.9</u>	<u>15.9</u>	22.3
Small-capitalization equity securities	<u>5.4</u>	<u>6.2</u>	6.7
International and emerging market equity securities	<u>10.0</u>	<u>14.3</u>	21.6
Total equity securities	<u>26.3</u>	<u>36.4</u>	50.6
Private equity and hedge funds	<u>50.0</u>	<u>41.8</u>	42.7
Other assets	<u>9.0</u>	<u>12.1</u>	4.8
Total for continuing operations	<u>100.0%</u>	<u>100.0%</u>	100.0%

Our targeted allocation percentage for pension plan assets and the expected long-term rate of return on assets is as follows:

	Target % Composition of Plan Assets *	Expected Long-term Return %
Pension plans related to continuing operations:		
Fixed income securities	<u>32.0%</u>	<u>5.5%</u>
Large/mid-capitalization equity securities	<u>10.0</u>	<u>9.0</u>
Small-capitalization equity securities	<u>4.0</u>	<u>10.2</u>
International and emerging market equity securities	<u>13.0</u>	<u>9.9</u>
Total equity securities	<u>27.0</u>	<u>9.6</u>
Private equity and hedge funds	<u>41.0</u>	<u>8.4</u>
Other assets	<u>—</u>	<u>—</u>
Total for continuing operations	<u>100.0%</u>	<u>7.8%</u>

* Target percentages for the composition of plan assets represents a neutral position within the approved range of allocations for such assets.

[Table of Contents](#)

Expected long-term returns are estimated by asset class and generally are based on inflation-adjusted historical returns, volatilities, risk premiums and managed asset premiums. The portfolio of fixed income securities is structured with maturities that generally match estimated benefit payments over the next 1-2 years. Other assets are primarily comprised of cash and contracts with insurance companies. Our primary investment objective is to maximize total return with a strong emphasis on the preservation of capital. We believe that over the long term a diversified portfolio of fixed income securities, equity securities, hedge funds and private equity funds has a better risk-return profile than fixed income securities alone. The average remaining duration of benefit payments for our pension plans is about 13 years. We expect our required contributions to be approximately \$0.2 million in 2013.

Estimates of the fair value of assets held by our pension plans are provided by third parties not affiliated with Tredegar. At December 31, 2012, the pension plan assets are categorized by level within the fair value measurement hierarchy as follows:

(In Thousands)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2012				
Large/mid-capitalization equity securities	\$ 23,845	\$ 23,845	\$ —	\$ —
Small-capitalization equity securities	11,914	11,914	—	—
International and emerging market equity securities	21,827	8,814	13,013	—
Fixed income securities	32,150	18,080	14,070	—
Private equity and hedge funds	109,690	—	101,334	8,356
Other assets	10,256	10,256	—	—
Total plan assets at fair value	<u>\$209,682</u>	<u>\$ 72,909</u>	<u>\$128,417</u>	<u>\$ 8,356</u>
Contracts with insurance companies	9,353			
Total plan assets, December 31, 2012	<u>\$219,035</u>			
December 31, 2011				
Large/mid-capitalization equity securities	\$ 34,095	\$ 31,490	\$ 2,605	\$ —
Small-capitalization equity securities	13,281	13,281	—	—
International and emerging market equity securities	30,611	30,611	—	—
Fixed income securities	20,895	10,960	9,935	—
Private equity and hedge funds	89,620	—	82,628	6,992
Other assets	16,899	11,899	5,000	—
Total plan assets at fair value	<u>\$205,401</u>	<u>\$ 98,241</u>	<u>\$100,168</u>	<u>\$ 6,992</u>
Contracts with insurance companies	9,246			
Total plan assets, December 31, 2011	<u>\$214,647</u>			

[Table of Contents](#)

For fair value measurements of plan assets using significant unobservable inputs (Level 3), a reconciliation of the balances from January 1, 2011 to December 31, 2012 are as follows:

<u>(In Thousands)</u>	<u>Private equity and hedge funds</u>
Balance at January 1, 2011	\$ 8,042
Purchases	2,554
Sales	(663)
Distributions	(2,673)
Actual return on plan assets still held at year end	(268)
Transfers in and/or out of Level 3	—
Balance at December 31, 2011	\$ 6,992
Purchases	3,767
Sales	—
Distributions	(2,094)
Actual return on plan assets still held at year end	(309)
Transfers in and/or out of Level 3	—
Balance at December 31, 2012	\$ 8,356

We also have a non-qualified supplemental pension plan covering certain employees. Effective December 31, 2005, further participation in this plan was terminated and benefit accruals for existing participants were frozen. The plan was designed to restore all or a part of the pension benefits that would have been payable to designated participants from our principal pension plans if it were not for limitations imposed by income tax regulations. The projected benefit obligation relating to this unfunded plan was \$2.8 million at December 31, 2012 and \$2.6 million at December 31, 2011. Pension expense recognized for this plan was \$0.1 million in 2012, \$0.1 million in 2011 and \$0.2 million in 2010. This information has been included in the preceding pension benefit tables.

Approximately 101 employees at our films manufacturing facility in Kerkrade, The Netherlands are covered by a collective bargaining agreement that includes participation in a multi-employer pension plan. Pension expense recognized for participation in this plan, which is equal to required contributions, was \$0.5 million in 2012, \$0.6 million in 2011 and \$0.6 million in 2010. This information has been excluded from the preceding pension benefit tables.

15 SAVINGS PLAN

We have a savings plan that allows eligible employees to voluntarily contribute a percentage of their compensation up to Internal Revenue Service (“IRS”) limitations. Effective January 1, 2007, the provisions of the savings plan provided the following benefits for salaried and certain hourly employees:

- The company makes matching contributions to the savings plan of \$1 for every \$1 of employee contribution. The maximum matching contribution is 6% of base pay for 2007-2009 and 5% of base pay thereafter.
- The savings plan includes immediate vesting for active employees of past matching contributions as well as future matching contributions when made (compared with the previous 5-year graded vesting) and automatic enrollment at 3% of base pay unless the employee opts out or elects a different percentage.

We also have a non-qualified plan that restores matching benefits for employees suspended from the savings plan due to certain limitations imposed by income tax regulations. Charges recognized for these plans were \$2.5 million in 2012, \$2.5 million in 2011 and \$2.6 million in 2010. Our liability under the restoration plan was \$1.6 million at December 31, 2012 (consisting of 78,615 phantom shares of common stock) and \$1.6 million at December 31, 2011 (consisting of 70,588 phantom shares of common stock) and valued at the closing market price on those dates.

[Table of Contents](#)

The Tredegar Corporation Benefits Plan Trust (the "Trust") purchased 7,200 shares of our common stock in 1998 for \$0.2 million and 46,671 shares of our common stock in 1997 for \$1.0 million, as a partial hedge against the phantom shares held in the restoration plan. There have been no shares purchased since 1997 except for re-invested dividends. The cost of the shares held by the Trust is shown as a reduction to shareholders' equity in the consolidated balance sheets.

16 RENTAL EXPENSE AND CONTRACTUAL COMMITMENTS

Rental expense for continuing operations was \$3.6 million in 2012, \$3.2 million in 2011 and \$2.9 million in 2010. Rental commitments under all non-cancelable operating leases for continuing operations as of December 31, 2012, are as follows:

Year	Amount (In Thousands)
2013	\$ 2,156
2014	1,968
2015	1,297
2016	1,198
2017	1,208
Remainder	1,100
Total	<u>\$ 8,927</u>

Contractual obligations for plant construction and purchases of real property and equipment amounted to \$16.4 million at December 31, 2012. Film Products has various contractual commitments of approximately \$14 million in 2013 associated with our multi-year capacity expansion project in Cabo de Santo Agostinho.

17 INCOME TAXES

Income from continuing operations before income taxes and income taxes are as follows:

(In Thousands)	2012	2011	2010
Income from continuing operations before income taxes:			
Domestic	\$35,488	\$29,491	\$30,430
Foreign	26,016	9,298	10,060
Total	<u>\$61,504</u>	<u>\$38,789</u>	<u>\$40,490</u>
Current income taxes:			
Federal	\$10,905	\$ 2,958	\$14,329
State	796	639	1,409
Foreign	7,372	4,500	4,308
Total	<u>19,073</u>	<u>8,097</u>	<u>20,046</u>
Deferred income taxes:			
Federal	1,212	3,243	(6,225)
State	163	(211)	(771)
Foreign	(2,129)	(885)	599
Total	<u>(754)</u>	<u>2,147</u>	<u>(6,397)</u>
Total income taxes	<u>\$18,319</u>	<u>\$10,244</u>	<u>\$13,649</u>

[Table of Contents](#)

The significant differences between the U.S. federal statutory rate and the effective income tax rate for continuing operations are as follows:

	Percent of Income Before Income Taxes for Continuing Operations		
	2012	2011	2010
Income tax expense at federal statutory rate	35.0	35.0	35.0
Valuation allowance for capital loss carry-forwards	1.9	.9	.5
State taxes, net of federal income tax benefit	1.1	1.7	.9
Unremitted earnings from foreign operations	.6	1.8	1.3
Non-deductible expenses	.3	.8	.3
Non-deductible acquisition expenses	—	3.5	—
Write-off of tax receivable from indemnification	—	—	1.8
Research and development tax credit	—	(1.0)	(.8)
Deduction for divestiture of subsidiary stock	—	(15.3)	—
Valuation allowance for foreign operating loss carry-forwards	(.1)	1.4	1.3
Reversal of income tax contingency accruals and tax settlements	(.5)	.3	.6
Changes in estimates related to prior year tax provision	(.5)	(.1)	(4.1)
Domestic Production Activities Deduction	(.6)	—	(1.1)
Foreign rate differences	(.6)	(.7)	(1.8)
Tax incentive	(7.0)	(1.8)	—
Other	.2	(.1)	(.2)
Effective income tax rate	<u>29.8</u>	<u>26.4</u>	<u>33.7</u>

The Brazilian federal statutory income tax rate is a composite of 34.0% (25.0% of income tax and 9.0% of social contribution on income). Terphane's manufacturing facility in Brazil is the beneficiary of certain income tax incentives that allow for a reduction in the statutory Brazilian federal income tax rate levied on the operating profit of its products. These incentives produce a current tax rate of 15.25% for Terphane Ltda. (6.25% of income tax and 9.0% social contribution on income). The current incentives will expire at the end of 2014, but we anticipate that we will qualify for additional incentives that will extend beyond 2014. The benefit from the tax incentives was \$4.3 million (13 cents per share) and \$0.7 million (2 cents per share) in 2012 and 2011, respectively.

[Table of Contents](#)

Deferred tax liabilities and deferred tax assets at December 31, 2012 and 2011, are as follows:

(In Thousands)	2012	2011
Deferred tax liabilities:		
Amortization of goodwill	\$47,956	\$48,407
Depreciation	34,110	40,754
Foreign currency translation gain adjustment	8,795	8,638
Derivative financial instruments	568	—
Total deferred tax liabilities	<u>91,429</u>	<u>97,799</u>
Deferred tax assets:		
Pensions	30,488	21,169
Employee benefits	10,532	9,841
Excess capital losses and book/tax basis differences on investments	4,923	5,514
Asset write-offs, divestitures and environmental accruals	3,234	3,177
Inventory	2,086	2,439
Tax benefit on state and foreign NOL and credit carryforwards	1,676	1,898
Allowance for doubtful accounts and sales returns	756	919
Timing adjustment for unrecognized tax benefits on uncertain tax positions, including portion relating to interest and penalties	236	360
Derivative financial instruments	—	249
Other	974	1,024
Deferred tax assets before valuation allowance	<u>54,905</u>	<u>46,590</u>
Less: Valuation allowance	<u>18,635</u>	<u>12,427</u>
Total deferred tax assets	<u>36,270</u>	<u>34,163</u>
Net deferred tax liability	<u>\$55,159</u>	<u>\$63,636</u>
Included in the balance sheet:		
Noncurrent deferred tax liabilities in excess of assets	\$60,773	\$70,769
Current deferred tax assets in excess of liabilities	5,614	7,133
Net deferred tax liability	<u>\$55,159</u>	<u>\$63,636</u>

Except as noted below, we believe that it is more likely than not that future taxable income will exceed future tax deductible amounts thereby resulting in the realization of deferred tax assets. A valuation allowance of \$1.3 million at December 31, 2012 and 2011, respectively, is provided against the tax benefit on state and foreign net operating loss carryforwards for possible future tax benefits on domestic state and foreign operating losses generated by certain foreign and domestic subsidiaries that may not be recoverable in the carry-forward period. In addition, the valuation allowance for excess capital losses from investments and other related items was increased from \$9.3 million at December 31, 2011 to \$15.5 million at December 31, 2012 due to changes in the relative amounts of capital gains and losses generated during the year. The amount of the deferred tax asset considered realizable, however, could be adjusted in the near term if estimates of the fair value of certain investments during the carryforward period change. The valuation allowance for asset impairments in foreign jurisdictions where we believe it is more likely than not that the deferred tax asset will not be realized increased from \$1.8 million in 2011 to \$1.9 million in 2012.

[Table of Contents](#)

A reconciliation of our unrecognized uncertain tax positions since January 1, 2010, is shown below:

(In Thousands)	Years Ended December 31,		
	2012	2011	2010
Balance at beginning of period	\$ 1,025	\$ 1,065	\$ 996
Increase (decrease) due to tax positions taken in:			
Current period	432	185	184
Prior period	(21)	10	493
Increase (decrease) due to settlements with taxing authorities	(398)	—	(375)
Reductions due to lapse of statute of limitations	(128)	(235)	(233)
Balance at end of period	\$ 910	\$ 1,025	\$ 1,065

Additional information related to our unrecognized uncertain tax positions since January 1, 2010 is summarized below:

(In Thousands)	Years Ended December 31,		
	2012	2011	2010
Gross unrecognized tax benefits on uncertain tax positions (reflected in current income tax and other noncurrent liability accounts in the balance sheet)	\$ 910	\$ 1,025	\$ 1,065
Deferred income tax assets related to unrecognized tax benefits on uncertain tax positions (reflected in deferred income tax accounts in the balance sheet)	(212)	(219)	(234)
Net unrecognized tax benefits on uncertain tax positions, which would impact the effective tax rate if recognized	698	806	831
Interest and penalties accrued on deductions taken relating to uncertain tax positions (approximately \$(300), \$200 and \$(400) reflected in income tax expense in the income statement in 2012, 2011 and 2010, respectively, with the balance shown in current income tax and other noncurrent liability accounts in the balance sheet)	60	373	125
Related deferred income tax assets recognized on interest and penalties	(23)	(141)	(46)
Interest and penalties accrued on uncertain tax positions net of related deferred income tax benefits, which would impact the effective tax rate if recognized	37	232	79
Total net unrecognized tax benefits on uncertain tax positions reflected in the balance sheet, which would impact the effective tax rate if recognized	\$ 735	\$ 1,038	\$ 910

We claimed an ordinary loss on the write-off of our investment in our aluminum extrusions operations in Canada (sold in February 2008) on our 2008 consolidated tax return (included in discontinued operations in the consolidated statement of income in 2007). During an audit, the IRS challenged the ordinary nature of the loss, asserting that the loss should be re-characterized as capital in nature. Had the IRS prevailed in final, non-appealable determinations, it is possible that the matter would have resulted in additional tax payments of up to \$12 million, plus any interest and penalties. Prior to issuing a Notice of Deficiency, however, the IRS revised their audit report to allow the ordinary loss treatment to stand. The audit findings have been confirmed by the IRS Joint Committee review, and we expect no further challenge on this issue.

Tredegar and its subsidiaries file income tax returns in the U.S., various states and jurisdictions outside the U.S. Except for refund claims and amended returns, the IRS has provided written confirmation that they do not plan to make any additional changes to our U.S. consolidated tax returns for the years prior to 2010, although the federal statute of limitations was extended for the tax years 2006-2009 through December 31, 2013. With few exceptions, Tredegar and its subsidiaries are no longer subject to state or non-U.S. income tax examinations by tax authorities for years before 2009. We believe that it is reasonably possible that approximately \$0.1 million of the balance of unrecognized state tax positions may be recognized within the next twelve months as a result of a lapse of the statute of limitations.

18 LOSSES ASSOCIATED WITH PLANT SHUTDOWNS, ASSET IMPAIRMENTS AND RESTRUCTURINGS, UNUSUAL ITEMS, GAINS FROM SALE OF ASSETS AND OTHER ITEMS

Losses associated with plant shutdowns, asset impairments, restructurings and other charges for continuing operations in 2012 (as shown in the segment operating profit table in Note 5) totaled \$5.5 million (\$3.6 million after taxes), and unless otherwise noted below, are also included in “Asset impairments and costs associated with exit and disposal activities” in the consolidated statements of income. Results in 2012 included:

- A fourth quarter charge of \$0.9 million (\$0.5 million after taxes), a third quarter charge of \$0.8 million (\$0.5 million after taxes), a second quarter charge of \$1.0 million (\$0.7 million after taxes) and a first quarter charge of \$0.9 million (\$0.5 million after taxes) associated with the shutdown of the aluminum extrusions manufacturing facility in Kentland, Indiana, which includes accelerated depreciation for property, plant and equipment of \$2.4 million (included in “Cost of goods sold” in the consolidated statements of income), severance and other employee related expenses of \$1.2 million and other shutdown-related charges of \$2.3 million, partially offset by adjustments to inventories accounted for under the LIFO method of \$1.5 million (included in “Cost of goods sold” in the consolidated statements of income) and gains on the sale of equipment of \$0.8 million (included in “Other income (expense), net” in the consolidated statements of income);
- A fourth quarter gain of \$1.3 million (\$0.7 million after taxes) in Film Products (included in “Other income (expense), net” in the consolidated statements of income) associated with an insurance recovery on idle equipment that was destroyed in a fire at an outside warehouse;
- A fourth quarter charge of \$0.9 million (\$0.6 million after taxes) and a third quarter charge of \$0.3 million (\$0.2 million after taxes) for acquisition-related expenses (included in “Selling, general and administrative expenses” in the consolidated statements of income) associated with the acquisition of AACOA by Aluminum Extrusions (see discussion below for further detail);
- A fourth quarter charge of \$0.1 million (\$0.1 million after taxes), a third quarter charge of \$0.1 million (\$0.1 million after taxes), a second quarter charge of \$0.6 million (\$0.4 million after taxes) and a first quarter charge of \$0.3 million (\$0.2 million after taxes) for integration-related expenses (included in “Selling, general and administrative expenses” in the consolidated statements of income) associated with the Film Products acquisition of Terphane;
- A fourth quarter gain of \$1.1 million (\$0.6 million after taxes) related to the sale of a previously shutdown film products manufacturing facility in LaGrange, Georgia;
- A second quarter charge of \$0.8 million (\$0.5 million after taxes) for asset impairments associated with a previously shutdown film products manufacturing facility in LaGrange, Georgia;
- A fourth quarter charge of \$0.2 million (\$0.1 million after taxes) and a second quarter charge of \$0.1 million (\$46,000 after taxes) in Film Products and a first quarter charge of \$0.2 million (\$0.1 million after taxes) in Aluminum Extrusions for severance and other employee-related costs in connection with restructurings;
- A fourth quarter charge of \$0.2 million (\$0.2 million after taxes) for asset impairments in Film Products;
- A fourth quarter charge of \$0.2 million (\$0.1 million after taxes) for integration-related expenses (included in “Selling, general and administrative expenses” in the consolidated statements of income) associated with the Aluminum Extrusions’ acquisition of AACOA;
- A fourth quarter charge of \$0.1 million (\$0.1 million after taxes) associated with purchase accounting adjustments made to the value of inventory sold by Aluminum Extrusions after its acquisition of AACOA (included in “Cost of goods sold” in the consolidated statements of income); and
- A fourth quarter charge of \$0.1 million (\$49,000 after taxes) related to expected future environmental costs at our aluminum extrusions manufacturing facility in Newnan, Georgia (included in “Cost of goods sold” in the consolidated statements of income).

Total acquisition-related expenses (included in “Selling, general and administrative expenses” in the consolidated statements of income) associated with the acquisition of AACOA by Aluminum Extrusions were \$2.0 million in 2012. Acquisitions-related expenses of \$0.8 million were recorded to “Corporate expenses, net” in the segment operating profit table in Note 5 during the first and second quarters of 2012, and as noted above, acquisitions-related expenses of \$1.2 million were recorded to “Losses associated with plant shutdowns, asset impairments, restructurings and other charges” for Aluminum Extrusions in the segment operating profit table in Note 5 during the third and fourth quarters of 2012.

[Table of Contents](#)

Results in 2012 include an unrealized gain from our investment in Intelliject of \$16.1 million (\$10.2 million after taxes), which is accounted for under the fair value method. An unrealized loss on our investment in Harbinger of \$1.1 million (\$0.7 million after taxes) was recorded in 2012 as a result of a reduction in the fair value of our investment that is not expected to be temporary. See Note 4 for additional information on investments.

The estimated fair value of machinery and equipment that was evaluated for impairment was primarily based on our estimates of the proceeds that we would receive if and/or when assets are sold. Our estimates of the remaining fair value for the related machinery and equipment were based on both Level 2 and 3 inputs as defined under U.S. GAAP.

Aluminum Extrusions closed its manufacturing facility in Kentland, Indiana in August 2012. The plant, whose core market was residential construction, previously employed 146 people. We estimate that charges incurred related to the shutdown will be approximately \$4.5 million, and include accelerated depreciation on property, plant and equipment of approximately \$2.4 million, severance and other employee-related charges of approximately \$1.2 million and other shutdown-related costs of approximately \$1 million. Other shutdown-related costs are primarily comprised of equipment transfers and plant shutdown charges, partially offset by adjustment for inventories accounted for under the LIFO method. Most of these shutdown charges, which include cash expenditures of approximately \$3.5 million, are expected to be recognized over an 18 month period.

Losses associated with plant shutdowns, asset impairments, restructurings and other charges for continuing operations in 2011 (as shown in the segment operating profit table in Note 5) totaled \$6.8 million (\$0.3 million gain after taxes), and unless otherwise noted below, are also included in "Asset impairments and costs associated with exit and disposal activities" in the consolidated statements of income. Results in 2011 included:

- A fourth quarter charge of \$2.5 million (\$2.2 million after taxes) and a third quarter charge of \$2.3 million (\$2.2 million after taxes) for acquisition-related expenses (included in "Selling, general and administrative expenses" in the consolidated statements of income) associated with the Film Products acquisition of Terphane;
- A fourth quarter charge of \$0.6 million (\$0.4 million after taxes) and a second quarter charge of \$0.8 million (\$0.5 million after taxes) for asset impairments in Film Products;
- A third quarter gain of \$1.0 million (\$6.6 million after taxes) on the divestiture of our film products business in Roccamontepiano, Italy (included in "Other income (expense), net" in the consolidated statements of income), which includes the recognition of previously unrealized foreign currency translation gains of \$4.3 million that were associated with the business;
- A fourth quarter charge of \$0.7 million (\$0.5 million after taxes) associated with purchase accounting adjustments made to the value of inventory sold by Film Products after its purchase of Terphane (included in "Cost of goods sold" in the consolidated statements of income);
- A fourth quarter charge of \$0.1 million (\$39,000 after taxes), a third quarter charge of \$0.2 million (\$0.1 million after taxes) and a second quarter charge of \$0.3 million (\$0.2 million after taxes) for severance and other employee-related costs in connection with restructurings in Film Products;
- A fourth quarter charge of \$0.4 million (\$0.3 million after taxes) for integration-related expenses (included in "Selling, general and administrative expenses" in the consolidated statements of income) associated with the Film Products acquisition of Terphane; and
- A fourth quarter benefit of \$39,000 (\$24,000 after taxes), a third quarter charge of \$43,000 (\$27,000 after taxes), a second quarter benefit of \$0.1 million (\$0.1 million after taxes), and a first quarter charge of \$32,000 (\$20,000 after taxes) for timing differences between the recognition of realized losses on aluminum futures contracts and related revenues from the delayed fulfillment by customers of fixed-price forward purchase commitments (included in "Cost of goods sold" in the consolidated statements of income).

Results in 2011 include an unrealized gain from the write-up of our investment in Intelliject of \$1.6 million (\$1.0 million after taxes), which is accounted for under the fair value method. An unrealized loss on our investment in Harbinger of \$0.6 million (\$0.4 million after taxes) was recorded in 2011 as a result of a reduction in the fair value of our investment that is not expected to be temporary. See Note 4 for additional information on investments.

[Table of Contents](#)

The estimated fair value of machinery and equipment that was evaluated for impairment was primarily based on our estimates of the proceeds that we would receive if and/or when assets are sold. Our estimates of the remaining fair value for the related machinery and equipment were based on both Level 2 and 3 inputs as defined under U.S. GAAP.

Losses associated with plant shutdowns, asset impairments, restructurings and other charges for continuing operations in 2010 (as shown in the segment operating profit table in Note 5) totaled \$0.3 million (\$0.3 million after taxes), and unless otherwise noted below, are also included in "Asset impairments and costs associated with exit and disposal activities" in the consolidated statements of income. Results in 2010 included:

- A fourth quarter benefit of \$0.4 million (\$0.3 million after taxes), a third quarter benefit of \$14,000 (\$9,000 after taxes), a second quarter benefit of \$23,000 (\$14,000 after taxes), and a first quarter benefit of \$0.4 million (\$0.3 million after taxes) for timing differences between the recognition of realized losses on aluminum futures contracts and related revenues from the delayed fulfillment by customers of fixed-price forward purchase commitments (included in "Cost of goods sold" in the consolidated statements of income);
- Fourth quarter charges of \$0.3 million (\$0.2 million after taxes) and a second quarter charge of \$0.3 million (\$0.3 million after taxes) for an asset impairment in Film Products;
- A fourth quarter charge of \$0.4 million (\$0.2 million after taxes) related to expected future environmental costs at our aluminum extrusions manufacturing facility in Newnan, Georgia (included in "Cost of goods sold" in the consolidated statements of income);
- A third quarter charge of \$0.1 million (\$0.1 million after taxes) and a first quarter charge of \$0.1 million (\$35,000 after taxes) for severance and other employee-related costs in connection with restructurings in Film Products;
- A second quarter gain of \$0.1 million (\$0.1 million after taxes) related to the sale of previously impaired equipment (included in "Other income (expense), net" in the consolidated statements of income) at our film products manufacturing facility in Pottsville, Pennsylvania; and
- A second quarter loss of \$44,000 (\$26,000 after taxes) and a first quarter loss of \$0.1 million (\$36,000 after taxes) on the disposal of equipment (included in "Other income (expense), net" in the consolidated statements of income) from a previously shutdown films manufacturing facility in LaGrange, Georgia.

Results in 2010 include an unrealized loss from the write-down of our investment in Intellject of \$2.2 million (\$1.4 million after taxes), which is accounted for under the fair value method. See Note 4 for additional information on investments.

The impairment charges in Film Products were recognized to write down the machinery and equipment to the lower of their carrying value or estimated fair value. The estimated fair value of machinery and equipment that was evaluated for impairment was primarily based on our estimates of the proceeds that we would receive if and/or when assets are sold. Our estimates of the remaining fair value for the related machinery and equipment were based on both Level 2 and 3 inputs as defined under U.S generally accepted accounting principles.

19 CONTINGENCIES

We are involved in various stages of investigation and remediation relating to environmental matters at certain current and former plant locations. Where we have determined the nature and scope of any required environmental remediation activity, estimates of cleanup costs have been obtained and accrued. As we continue efforts to maintain compliance with applicable environmental laws and regulations, additional contingencies may be identified. If additional contingencies are identified, our practice is to determine the nature and scope of those contingencies, obtain and accrue estimates of the cost of remediation, and perform remediation. We do not believe that additional costs that could arise from those activities will have a material adverse effect on our financial position. However, those costs could have a material adverse effect on quarterly or annual operating results at that time.

We are involved in various other legal actions arising in the normal course of business. After taking into consideration information we deemed relevant, we believe that we have sufficiently accrued for probable losses and that the actions will not have a material adverse effect on our financial position. However, the resolution of the actions in a future period could have a material adverse effect on quarterly or annual operating results at that time.

[Table of Contents](#)

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 transaction, or in which the sellers or third parties involved in the transaction agree to indemnify us, 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 and the amount is reasonably estimable. We disclose contingent liabilities if the probability of loss is reasonably possible and material.

In 2011, we were notified by U.S. Customs and Border Protection (“U.S. Customs”) that certain film products exported by Terphane to the U.S. since November 6, 2008 could be subject to duties associated with an antidumping duty order on imported PET films from Brazil. We contested the applicability of these antidumping duties to the films exported by Terphane, and we filed a request with the U.S. Department of Commerce (“Commerce”) for clarification about whether the film products at issue are within the scope of the antidumping duty order. On January 8, 2013, Commerce issued a scope ruling confirming that the films are not subject to the order, provided that Terphane can establish to the satisfaction of U.S. Customs that the performance enhancing layer on those films is greater than 0.00001 inches thick. The films at issue are manufactured to specifications that exceed that threshold. On February 6, 2013, certain U.S. producers of PET film filed a summons with the U.S. Court of International Trade to appeal the scope ruling from Commerce. If U.S. Customs ultimately were to require the collection of antidumping duties because Commerce’s scope ruling was overturned on appeal, or otherwise, indemnifications for related liabilities are specifically provided for under the Purchase Agreement.

20 SELECTED QUARTERLY FINANCIAL DATA

Tredegar Corporation and Subsidiaries
(In Thousands, Except Per-Share Amounts)
(Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2012				
Sales	\$216,643	\$215,859	\$216,648	\$233,038
Gross profit	35,450	33,435	38,087	37,710
Income from continuing operations	7,737	7,388	14,210	13,850
Income (loss) from discontinued operations	(4,739)	(35)	(6,783)	(3,377)
Net income	<u>\$ 2,998</u>	<u>\$ 7,353</u>	<u>\$ 7,427</u>	<u>\$ 10,473</u>
Earnings (loss) per share:				
Basic				
Continuing operations	\$.24	\$.23	\$.44	\$.43
Discontinued operations	(.15)	—	(.21)	(.10)
Net income	<u>\$.09</u>	<u>\$.23</u>	<u>\$.23</u>	<u>\$.33</u>
Diluted				
Continuing operations	\$.24	\$.23	\$.44	\$.43
Discontinued operations	(.15)	—	(.21)	(.10)
Net income	<u>\$.09</u>	<u>\$.23</u>	<u>\$.23</u>	<u>\$.33</u>
Shares used to compute earnings (loss) per share:				
Basic	32,010	32,051	32,052	32,016
Diluted	<u>32,393</u>	<u>32,101</u>	<u>32,101</u>	<u>32,176</u>
2011				
Sales	\$191,520	\$200,674	\$201,184	\$201,042
Gross profit	29,665	28,858	32,108	31,214
Income from continuing operations	6,796	6,027	12,241	3,481
Income (loss) from discontinued operations	(128)	(324)	495	(3,733)
Net income (loss)	<u>\$ 6,668</u>	<u>\$ 5,703</u>	<u>\$ 12,736</u>	<u>\$ (252)</u>
Earnings (loss) per share:				
Basic				
Continuing operations	\$.21	\$.19	\$.38	\$.11
Discontinued operations	—	(.01)	.02	(.12)
Net income (loss)	<u>\$.21</u>	<u>\$.18</u>	<u>\$.40</u>	<u>\$ (.01)</u>
Diluted				
Continuing operations	\$.21	\$.19	\$.38	\$.11
Discontinued operations	—	(.01)	.02	(.12)
Net income (loss)	<u>\$.21</u>	<u>\$.18</u>	<u>\$.40</u>	<u>\$ (.01)</u>
Shares used to compute earnings (loss) per share:				
Basic	31,854	31,946	31,952	31,975
Diluted	<u>32,262</u>	<u>32,205</u>	<u>32,060</u>	<u>32,328</u>

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TREDEGAR CORPORATION
(Registrant)

Dated: March 1, 2013

By /s/ Nancy M. Taylor
Nancy M. Taylor
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 1, 2013.

<u>Signature</u>	<u>Title</u>
<u>/s/ Nancy M. Taylor</u> (Nancy M. Taylor)	President, Chief Executive Officer and Director (Principal Executive Officer)
<u>/s/ Kevin A. O'Leary</u> (Kevin A. O'Leary)	Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)
<u>/s/ Frasier W. Brickhouse, II</u> (Frasier W. Brickhouse, II)	Corporate Controller and Assistant Treasurer (Principal Accounting Officer)
<u>/s/ R. Gregory Williams</u> (R. Gregory Williams)	Chairman of the Board of Directors
<u>/s/ William M. Gottwald</u> (William M. Gottwald)	Vice Chairman of the Board of Directors
<u>/s/ Austin Brockenbrough, III</u> (Austin Brockenbrough, III)	Director
<u>/s/ Donald T. Cowles</u> (Donald T. Cowles)	Director

Table of Contents

<u>/s/ George C. Freeman, III</u> (George C. Freeman, III)	Director
<u>/s/ John D. Gottwald</u> (John D. Gottwald)	Director
<u>/s/ Richard L. Morrill</u> (Richard L. Morrill)	Director
<u>/s/ George A. Newbill</u> (George A. Newbill)	Director
<u>/s/ Thomas G. Slater, Jr.</u> (Thomas G. Slater, Jr.)	Director

EXHIBIT INDEX

- 2.1 Stock Purchase Agreement, made as of October 1, 2012, by and among The William L. Bonnell Company, Inc., AACOA, Inc., the shareholders of AACOA, Inc., and Daniel G. Formsma, as the representative of the shareholders of AACOA, Inc. (filed as Exhibit 2.1 to Tredegar Corporation's ("Tredegar's") Current Report on Form 8-K (File No. 1-10258), filed on October 3, 2012, and incorporated herein by reference). (Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. Tredegar agrees to furnish supplementally to the Securities and Exchange Commission a copy of any omitted exhibit or schedule upon request)
- 2.2 Membership Interest Purchase Agreement, dated as of October 14, 2011, by and among TAC Holdings, LLC, Gaucho Holdings B.V. and Tredegar Film Products Corporation (filed as Exhibit 2.1 to Tredegar's Current Report on Form 8-K (File No. 1-10258), filed on October 19, 2011, and incorporated herein by reference). (Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. Tredegar agrees to furnish supplementally to the Securities and Exchange Commission a copy of any omitted exhibit or schedule upon request)
- 3.1 Amended and Restated Articles of Incorporation of Tredegar (filed as Exhibit 3.1 to Tredegar's Annual Report on Form 10-K (File No. 1-10258) for the year ended December 31, 2004, and incorporated herein by reference)
- 3.2 Amended and Restated Bylaws of Tredegar (filed as Exhibit 3.2 to Tredegar's Current Report on Form 8-K (File No. 1-10258), filed on May 27, 2011, and incorporated herein by reference)
- 3.3 Articles of Amendment (filed as Exhibit 3.3 to Tredegar's Annual Report on Form 10-K (File No. 1-10258) for the year ended December 31, 2004, and incorporated herein by reference)
- 4.1 Form of Common Stock Certificate (filed as Exhibit 4.1 to Tredegar's Annual Report on Form 10-K (File No. 1-10258) for the year ended December 31, 2004, and incorporated herein by reference)
- 4.2 Amended and Restated Rights Agreement, dated as of June 30, 2009, by and between Tredegar and National City Bank, as Rights Agent (filed as Exhibit 1 to Amendment No. 2 to Tredegar's Registration Statement on Form 8-A/A (File No. 1-10258) filed on July 1, 2009, and incorporated herein by reference)
- 4.2.1 Amendment to Amended and Restated Rights Agreement, dated as of June 30, 2009, between Tredegar and Computershare Trust Company, N.A., as Rights Agent (filed as Exhibit 2 to Amendment No. 3 to Tredegar's Registration Statement on Form 8-A/A (File No. 1-10258) filed on September 2, 2011, and incorporated herein by reference)
- 4.2.2 Amendment No. 2 to Amended and Restated Rights Agreement, dated as of June 30, 2009, between Tredegar and Computershare Trust Company, N.A., as Rights Agent (filed as Exhibit 3 to Amendment No. 3 to Tredegar's Registration Statement on Form 8-A/A (File No. 1-10258) filed on September 2, 2011, and incorporated herein by reference)
- 4.3 Credit Agreement, dated as of April 23, 2012, among Tredegar Corporation, as borrower, the lenders named therein, JPMorgan Chase Bank, N.A., as administrative agent, SunTrust Bank, as syndication agent, and Citizens Bank of Pennsylvania, HSBC Bank USA, National Association, PNC Bank, National Association, and U.S. Bank National Association, as co-documentation agents (filed as Exhibit 4.1 to Tredegar's Current Report on Form 8-K (File No. 1-10258), filed on April 26, 2012, and incorporated herein by reference)
- 4.3.1 Guaranty, dated as of April 23, 2012, by and among the subsidiaries of Tredegar Corporation listed on the signature pages thereto in favor of JPMorgan Chase Bank, N.A., as administrative agent, for the ratable benefit of the Holders of Guaranteed Obligations (filed as Exhibit 4.2 to Tredegar's Current Report on Form 8-K (File No. 1-10258), filed on April 26, 2012, and incorporated herein by reference)
- 4.4 Credit Agreement, dated as of June 21, 2010, among Tredegar, as borrower, the lenders named therein, JPMorgan Chase Bank, N.A., as administrative agent, SunTrust Bank, as syndication agent, and Bank of America, N.A., HSBC Bank USA, National Association and U.S. Bank National Association, as co-documentation agents (filed as Exhibit 4.3 to Tredegar's Current Report on Form 8-K (File No. 1-10258), filed on June 22, 2010, and incorporated herein by reference)
- 10.1 Reorganization and Distribution Agreement, dated as of June 1, 1989, between Tredegar and Ethyl Corporation (filed as Exhibit 10.1 to Tredegar's Annual Report on Form 10-K (File No. 1-10258) for the year ended December 31, 2004, and incorporated herein by reference)
- *10.2 Employee Benefits Agreement, dated as of June 1, 1989, between Tredegar and Ethyl Corporation (filed as Exhibit 10.2 to Tredegar's Annual Report on Form 10-K (File No. 1-10258) for the year ended December 31, 2004, and incorporated herein by reference)
- 10.3 Tax Sharing Agreement, dated as of June 1, 1989, between Tredegar and Ethyl Corporation (filed as Exhibit 10.3 to Tredegar's Annual Report on Form 10-K (File No. 1-10258) for the year ended December 31, 2004, and incorporated herein by reference)

Table of Contents

- 10.4 Indemnification Agreement, dated as of June 1, 1989, between Tredegar and Ethyl Corporation (filed as Exhibit 10.4 to Tredegar's Annual Report on Form 10-K (File No. 1-10258) for the year ended December 31, 2004, and incorporated herein by reference)
- *10.5 Tredegar Industries, Inc. Retirement Benefit Restoration Plan (filed as Exhibit 10.7 to Tredegar's Annual Report on Form 10-K (File No. 1-10258) for the year ended December 31, 2004, and incorporated herein by reference)
- *10.5.1 Amendment to the Tredegar Industries, Inc. Retirement Benefit Restoration Plan (filed as Exhibit 10.7.1 to Tredegar's Annual Report on Form 10-K (File No. 1-10258) for the year ended December 31, 2004, and incorporated herein by reference)
- *10.6 Tredegar Industries, Inc. Savings Plan Benefit Restoration Plan (filed as Exhibit 10.8 to Tredegar's Annual Report on Form 10-K (File No. 1-10258) for the year ended December 31, 2004, and incorporated herein by reference)
- *10.6.1 Resolutions of the Executive Committee of the Board of Directors of Tredegar Corporation adopted on December 28, 2004 (effective as of December 31, 2004) amending the Tredegar Corporation Retirement Savings Plan Benefit Restoration Plan (filed as Exhibit 10.9.1 to Tredegar's Current Report on Form 8-K (File No. 1-10258), filed on December 30, 2004, and incorporated herein by reference)
- *10.7 Tredegar Amended and Restated Incentive Plan (filed as Exhibit 10.9 to Tredegar's Annual Report on Form 10-K (File No. 1-10258) for the year ended December 31, 2005, and incorporated herein by reference)
- *10.8 Tredegar 2004 Equity Incentive Plan as Amended and Restated Effective March 27, 2009 (filed as Annex 1 to Tredegar's Definitive Proxy Statement on Schedule 14A (File No. 1-10258) filed on April 14, 2009 and incorporated herein by reference)
- *10.9 Transfer Agreement, by and between Therics, Inc. and Therics, LLC, dated as of June 30, 2005 (filed as Exhibit 10.17 to Tredegar's Current Report on Form 8-K (File No. 1-10258), filed on July 1, 2005, and incorporated herein by reference)
- 10.10 Intellectual Property Transfer Agreement, by and between Therics, Inc. and Therics, LLC, dated as of June 30, 2005 (filed as Exhibit 10.18 to Tredegar's Current Report on Form 8-K (File No. 1-10258), filed on July 1, 2005, and incorporated herein by reference)
- 10.11 Unit Purchase Agreement, by and between Therics, Inc., Therics, LLC and Randall R. Theken, dated as of June 30, 2005 (filed as Exhibit 10.19 to Tredegar's Current Report on Form 8-K (File No. 1-10258), filed on July 1, 2005, and incorporated herein by reference)
- 10.12 Payment Agreement, by and between Therics, Inc. and Therics, LLC, dated as of June 30, 2005 (filed as Exhibit 10.20 to Tredegar's Current Report on Form 8-K (File No. 1-10258), filed on July 1, 2005, and incorporated herein by reference)
- *10.13 Form of Notice of Stock Award and Stock Award Terms and Conditions (filed as Exhibit 10.1 to Tredegar's Current Report on Form 8-K (File No. 1-10258), filed on February 16, 2011, and incorporated herein by reference)
- *10.14 Form of Notice of Stock Unit Award and Stock Unit Award Terms and Conditions (filed as Exhibit 10.2 to Tredegar's Current Report on Form 8-K (File No. 1-10258), filed on February 16, 2011, and incorporated herein by reference)
- *10.15 Form of Notice of Nonstatutory Stock Option Grant and Nonstatutory Stock Option Terms and Conditions (filed as Exhibit 10.3 to Tredegar's Current Report on Form 8-K (File No. 1-10258), filed on February 16, 2011, and incorporated herein by reference)
- *10.16 Form of Notice of Stock Award and Stock Award Terms and Conditions (filed as Exhibit 10.18 to Tredegar's Current Report on Form 8-K (File No. 1-10258), filed February 19, 2009, and incorporated herein by reference)
- *10.17 Severance Agreement, effective as of January 31, 2010, between Tredegar and Nancy M. Taylor (filed as Exhibit 10.19 to Tredegar's Current Report on Form 8-K (File No. 1-10258), filed March 5, 2010, and incorporated herein by reference)
- *10.18 Form of Notice of Stock Unit Award and Stock Unit Award Terms and Conditions (filed as Exhibit 10.1 to Tredegar's Current Report on Form 8-K (File No. 1-10258), filed on March 5, 2012, and incorporated herein by reference)
- *10.19 Form of Notice of Stock Award and Stock Award Terms and Conditions (filed as Exhibit 10.2 to Tredegar's Current Report on Form 8-K (File No. 1-10258), filed on March 5, 2012, and incorporated herein by reference)
- *10.20 Form of Notice of Nonstatutory Stock Option Grant and Nonstatutory Stock Option Terms and Conditions (filed as Exhibit 10.3 to Tredegar's Current Report on Form 8-K (File No. 1-10258), filed on March 5, 2012, and incorporated herein by reference)
- 10.21 Consulting Agreement, dated March 28, 2012, between the Company and MOMO Partners LLC and Monica Moretti (filed as Exhibit 10.1 to Tredegar's Current Report on Form 8-K (File No. 1-10258), filed on March 29, 2012, and incorporated herein by reference)

Table of Contents

*10.22	Change in Control Severance Agreement, effective March 23, 2012, between the Company and Kevin A. O’Leary (filed as Exhibit 10.2 to Tredegar’s Current Report on Form 8-K (File No. 1-10258), filed on March 29, 2012, and incorporated herein by reference)
*10.23	Change in Control Severance Agreement, effective March 23, 2012, between the Company and A. Brent King (filed as Exhibit 10.3 to Tredegar’s Current Report on Form 8-K (File No. 1-10258), filed on March 29, 2012, and incorporated herein by reference)
*10.24	Change in Control Severance Agreement, effective September 24, 2012, between the Company and Mary Jane Hellyar (filed as Exhibit 10.1 to Tredegar’s Current Report on Form 8-K (File No. 1-10258), filed on September 24, 2012, and incorporated herein by reference)
+*10.25	Summary of Director Compensation for Fiscal 2012
+21	Subsidiaries of Tredegar
+23.1	Consent of PriceWaterhouseCoopers, LLC, Independent Registered Public Accounting Firm
+23.2	Consent of Dixon Hughes Goodman, LLP, Independent Registered Public Accounting Firm
+31.1	Certification of Nancy M. Taylor, President and Chief Executive Officer of Tredegar Corporation, pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
+31.2	Certification of Kevin A. O’Leary, Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer) of Tredegar Corporation, pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
+32.1	Certification of Nancy M. Taylor, President and Chief Executive Officer of Tredegar Corporation, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
+32.2	Certification of Kevin A. O’Leary, Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer) of Tredegar Corporation, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
+99	Intelliject, Inc., separate financial statements and Report of Independent Registered Accounting Firm
101	XBRL Instance Document and Related Items

* Denotes compensatory plans or arrangements or management contracts.

+ Filed herewith

Summary of Director Compensation for Fiscal 2012

Each member of the Board of Directors who is not an employee of Tredegar or any of its subsidiaries receives the following annual retainers, payable in equal quarterly installments in arrears:

Non-Employee Director	\$68,000
Chairman of the Board	\$30,000
Audit Committee Chairperson	\$16,000
Non-Chair Member of the Audit Committee	\$ 9,500
Executive Compensation Committee Chairperson	\$11,000
Non-Chair Member of the Executive Compensation Committee	\$ 7,000
Nominating and Governance Committee Chairperson	\$ 7,500
Non-Chair Member of the Nominating and Governance Committee	\$ 4,500
Executive Committee Chairperson	\$ 9,000
Non-Chair Member of the Executive Committee	\$ 4,500
Member of the Investment Policy Committee	\$ 625

The retainer paid to non-employee directors is paid \$34,000 in cash and \$34,000 in the form of a stock award. The stock award is determined based on the closing price of Tredegar common stock as reported on the New York Stock Exchange composite on the date of grant.

Tredegar Corporation

<u>Entity</u>	<u>State of Incorporation</u>
Tredegar Corporation	Virginia
AACOA, Inc.	Michigan
AACOA Extrusions, Inc.	Michigan
AFBS, Inc.	Virginia
Bon L Aluminum LLC	Virginia
Bon L Campo Limited Partnership	Virginia
Bon L Holdings LLC	Virginia
Bon L Manufacturing Company	Virginia
The William L Bonnell Company, Inc.	Georgia
Bright View Technologies Corporation	Virginia
El Campo GP, LLC	Virginia
Guangzhou Tredegar Film Products Company Limited	China
Idlewood Properties, Inc.	Virginia
Jackson River Mountain Properties, LLC	Virginia
TAC Holdings LLC	Virginia
Terphane Acquisition Corp. II	Cayman Islands
Terphane Holdings LLC	Delaware
Terphane Inc.	Delaware
Terphane Limitada	Brazil
Tredegar Brasil Industria de Plasticos Ltda.	Brazil
Tredegar Far East Corporation	Virginia
Tredegar Film Products B.V.	The Netherlands
Tredegar Film Products Company Shanghai, Limited	China
Tredegar Film Products Corporation	Virginia
Tredegar Film Products (Europe), Inc.	Virginia
Tredegar Film Products India Private Limited	India
Tredegar Film Products Kft.	Hungary
Tredegar Film Products (Korea), Inc.	Korea
Tredegar Film Products - Lake Zurich, LLC	Virginia
Tredegar Film Products (Latin America), Inc.	Virginia
Tredegar Film Products (U.S.) LLC	Virginia
Tredegar Films Development, Inc.	Virginia
Tredegar Films RS Converting, LLC	Virginia
Tredegar Investments, Inc.	Virginia
Tredegar Investments II, Inc.	Virginia
Tredegar Performance Films Inc.	Virginia
Tredegar Real Estate Holdings, Inc.	Virginia

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (File No. 33-31047, File No. 33-50276, File No. 333-12985, File No. 333-63487, File No. 333-88177, File No. 333-120132, File No. 333-115423, File No. 33-64647, File No. 333-66562, File No. 33-57268) of Tredegar Corporation of our report dated March 1, 2013 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Richmond, Virginia
March 1, 2013

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (File No. 33-31047, File No. 33-50276, File No. 333-12985, File No. 333-63487, File No. 333-88177, File No. 333-120132, File No. 333-115423, File No. 33-64647, File No. 333-66562, File No. 33-57268) of Tredegar Corporation of our report dated February 13, 2013, relating to the financial statements of Intelliject, Inc. as of December 31, 2012 and 2011, and for each of the years in the three-year period ended December 31, 2012, which is included as an exhibit in the Form 10-K of Tredegar Corporation for the year ended December 31 2012.

/s/ Dixon Hughes Goodman LLP

Richmond, Virginia
February 28, 2013

Section 302 Certification

I, Nancy M. Taylor, certify that:

- (1) I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2012, of Tredegar Corporation;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
- (5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2013

/s/ Nancy M. Taylor

Nancy M. Taylor
President and Chief Executive Officer
(Principal Executive Officer)

Section 302 Certification

I, Kevin A. O'Leary, certify that:

- (1) I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2012, of Tredegar Corporation;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
- (5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2013

/s/ Kevin A. O'Leary

Kevin A. O'Leary,
Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of Tredegar Corporation (the "Company") for the year ended December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Nancy M. Taylor, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Nancy M. Taylor

Nancy M. Taylor
President and Chief Executive Officer
(Principal Executive Officer)
March 1, 2013

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of Tredegar Corporation (the "Company") for the year ended December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kevin A. O'Leary, Vice President, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Kevin A. O'Leary

Kevin A. O'Leary

Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer)

March 1, 2013

Financial Statements
Years Ended
December 31, 2012, 2011 and 2010

Intelliject, Inc.

Intelliject, Inc.
Contents

	Page
<i>Independent Auditors' Report</i>	1
<i>Financial Statements</i>	
<i>Balance Sheets</i>	2
<i>Statements of Operations</i>	3
<i>Statements of Changes in Stockholders' Equity</i>	4
<i>Statements of Cash Flows</i>	5
<i>Notes to Financial Statements</i>	6-24

Independent Auditors' Report

Board of Directors

Intelliject, Inc.

We have audited the accompanying financial statements of ***Intelliject, Inc.***, which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of operations, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2012, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ***Intelliject, Inc.*** as of December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

/s/ Dixon Hughes Goodman LLP
Richmond, Virginia
February 13, 2013

Intelliject, Inc.

Balance Sheets

December 31, 2012 and 2011

(Next Page)

*Intelliject, Inc.**Balance Sheets*

<u>December 31,</u>	<u>2012</u>	<u>2011</u>
Assets		
Current assets		
Cash and cash equivalents	\$53,288,171	\$ 9,625,386
Other receivables	4,427	66,340
Income taxes receivable	—	4,404,874
Prepaid expenses	681,763	422,603
Total current assets	<u>53,974,361</u>	<u>14,519,203</u>
Property and equipment		
Furniture and equipment	147,266	144,431
Manufacturing equipment	1,180,901	879,483
Leasehold improvements	34,993	34,993
Construction in progress	3,348,426	—
	<u>4,711,586</u>	<u>1,058,907</u>
Less—accumulated depreciation and amortization	<u>(689,707)</u>	<u>(450,089)</u>
Property and equipment—net	<u>4,021,879</u>	<u>608,818</u>
Other assets		
Security and other deposits	57,339	81,771
Patents—net	2,151,442	1,868,376
Other long-term assets	198,961	—
Total other assets	<u>2,407,742</u>	<u>1,950,147</u>
Total assets	<u>\$60,403,982</u>	<u>\$17,078,168</u>

	2012	2011
Liabilities, Redeemable Preferred Stock, and Stockholders' Equity		
Current liabilities		
Accounts payable—trade	\$ 1,259,042	\$ 857,186
Accrued expenses	2,754,439	327,804
Income taxes payable	9,391,475	—
Total current liabilities	<u>13,404,956</u>	<u>1,184,990</u>
Long-term liabilities		
Other long-term liabilities	522,920	26,979
Long-term debt—net of discount	14,695,603	—
Deferred tax liability	484,694	269,375
Deferred compensation	441,989	441,989
Total long-term liabilities	<u>16,145,206</u>	<u>738,343</u>
Total liabilities	<u>29,550,162</u>	<u>1,923,333</u>
Commitments and contingencies		
Redeemable preferred stock		
Series B-1 Preferred Stock, redeemable and convertible (\$0.001 par value; 1,988,780 shares authorized 2012; issued and outstanding—none) (\$0.001 par value; 1,906,280 shares authorized 2011; issued and outstanding—none)		
Series A-4 Preferred Stock, redeemable and convertible (\$0.001 par value; 3,689,840 shares authorized; issued and outstanding—none)		
Series B Preferred Stock, redeemable and convertible (\$0.001 par value; 1,988,780 shares authorized 2012; issued and outstanding 1,906,254) (\$0.001 par value; 1,906,280 shares authorized 2011; issued and outstanding 1,906,254)	6,217,459	5,912,462
Series A-3 Preferred Stock, redeemable and convertible (\$0.001 par value; 3,689,840 shares authorized; issued and outstanding 3,689,840)	10,585,168	10,097,692
Series A-2 Preferred Stock, redeemable and convertible (\$0.001 par value; 2,737,380 shares authorized; issued and outstanding 2,737,380)	4,192,036	4,006,292
Total redeemable preferred stock	<u>20,994,663</u>	<u>20,016,446</u>
Stockholders' equity		
Series A-1 Preferred Stock (\$0.001 par value; 462,000 shares authorized; issued and outstanding 462,000)	462	462
Common stock (\$0.001 par value; 16,939,140 shares authorized 2012; issued and outstanding 5,522,035) (\$0.001 par value; 16,856,640 shares authorized 2011; issued and outstanding 5,369,539)	5,522	5,370
Paid-in capital	(9,672,393)	(9,907,513)
Retained earnings	19,525,566	5,040,070
Total stockholders' equity	<u>9,859,157</u>	<u>(4,861,611)</u>
Total liabilities, redeemable preferred stock, and stockholders' equity	<u>\$60,403,982</u>	<u>\$17,078,168</u>

The accompanying notes are an integral part of these financial statements.

Intelliject, Inc.**Statements of Operations**

<u>Year Ended December 31,</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Revenue	<u>\$38,179,348</u>	<u>\$ 8,839,100</u>	<u>29,098,526</u>
Costs and expenses			
Research and development	6,559,676	4,834,825	8,128,021
General and administrative	5,333,875	5,652,471	3,099,918
Total costs and expenses	<u>11,893,551</u>	<u>10,487,296</u>	<u>11,227,939</u>
Operating income (loss)	26,285,797	(1,648,196)	17,870,587
Other income (expense)			
Gain (loss) on disposal of equipment	(49)	—	741,404
Interest expense	(1,181,360)	—	—
Interest income	1,466	13,010	60,516
Other income (expense), net	<u>(1,179,943)</u>	<u>13,010</u>	<u>801,920</u>
Income (loss) before income taxes	25,105,854	(1,635,186)	18,672,507
Income tax (expense) benefit	<u>(9,642,141)</u>	<u>926,865</u>	<u>(6,583,579)</u>
Net income (loss)	<u>\$15,463,713</u>	<u>\$ (708,321)</u>	<u>\$12,088,928</u>

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Stockholders' Equity

Years ended December 31, 2012, 2011, and 2010

	Series A-1 Preferred Stock	Common Stock	Paid-In Capital	Retained Earnings (Accumulated Deficit)	Total
Balance (deficit)—December 31, 2009	\$ 462	\$ 5,217	\$ (10,361,013)	\$ (4,367,773)	\$ (14,723,107)
Dividends accrued on redeemable preferred stock	—	—	—	(997,220)	(997,220)
Stock compensation	—	—	193,701	—	193,701
Shares issued upon exercise of stock options/warrants	—	69	40,217	—	40,286
Net income	—	—	—	12,088,928	12,088,928
Balance (deficit)—December 31, 2010	\$ 462	\$ 5,286	\$ (10,127,095)	\$ 6,723,935	\$ (3,397,412)
Dividends accrued on redeemable preferred stock	—	—	—	(975,544)	(975,544)
Stock compensation	—	—	183,930	—	183,930
Shares issued upon exercise of stock options/warrants	—	84	35,652	—	35,736
Net loss	—	—	—	(708,321)	(708,321)
Balance (deficit)—December 31, 2011	\$ 462	\$ 5,370	\$ (9,907,513)	\$ 5,040,070	\$ (4,861,611)
Dividends accrued on redeemable preferred stock	—	—	—	(978,217)	(978,217)
Stock compensation	—	—	150,678	—	150,678
Shares issued upon exercise of stock options/warrants	—	152	84,442	—	84,594
Net income	—	—	—	15,463,713	15,463,713
Balance (deficit)—December 31, 2012	\$ 462	\$ 5,522	\$ (9,672,393)	\$ 19,525,566	\$ 9,859,157

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

Year Ended December 31,	2012	2011	2010
Cash flows from operating activities			
Net income (loss)	\$ 15,463,713	\$ (708,321)	\$ 12,088,928
Adjustments to reconcile to net cash from operating activities:			
Depreciation	240,157	168,261	124,765
Amortization of patents	106,673	180,162	154,815
Amortization of rent inducement	(2,041)	(299)	(7,263)
Amortization of debt discount	56,370	—	—
Amortization of debt issuance costs	36,845	—	—
(Gain) loss on disposal of equipment	49	—	(741,404)
Deferred taxes	215,319	3,579,000	(1,000,269)
Stock compensation	150,678	183,930	193,701
Change in:			
Other receivables	61,913	127,872	(190,742)
Prepaid expenses	(259,160)	(86,465)	(268,642)
Security and other deposits	24,432	237,000	(86,345)
Accrued expenses	2,428,676	(354,743)	(5,428)
Account payable-trade	401,856	52,131	296,549
Income taxes (receivable)/ payable	13,796,349	(3,070,258)	(1,334,616)
Other long-term liabilities	135,174	(795)	27,774
Deferred revenue	—	(8,839,100)	(14,098,526)
Net cash from operating activities	32,857,003	(8,531,625)	(4,846,703)
Cash flows from investing activities			
Proceeds from disposal of equipment	—	—	1,148,587
Patent costs	(389,739)	(398,351)	(162,369)
Purchase of property and equipment	(3,653,267)	(299,775)	(195,179)
Net cash from investing activities	(4,043,006)	(698,126)	791,039
Cash flows from financing activities			
Proceeds from exercise of options/warrants	84,594	35,736	40,286
Proceeds from long-term borrowings	15,000,000	—	—
Costs incurred for debt issuance	(235,806)	—	—
Net cash from financing activities	14,848,788	35,736	40,286
Net change in cash and cash equivalents	43,662,785	(9,194,015)	(4,015,378)
Cash and cash equivalents—beginning of period	9,625,386	18,819,401	22,834,779
Cash and cash equivalents—end of period	\$ 53,288,171	\$ 9,625,386	\$ 18,819,401
Supplemental disclosure of cash flow information			
Cash paid for interest (net of amounts capitalized)	\$ 805,437	\$ —	\$ —
Cash paid for income taxes	\$ 35,347	\$ 55,833	\$ 8,918,464
Cash received from refunds of income taxes paid	\$ 4,404,874	\$ 1,491,440	\$ —
Supplemental disclosure of noncash investing and financing activities			
Allocation of long term debt proceeds to warrant	\$ 360,767	\$ —	\$ —
Additional liabilities incurred for purchase of patent rights	\$ —	\$ —	\$ (100,000)

The accompanying notes are an integral part of these financial statements.

1. Organization and Nature of Business

Intelliject, Inc. (Company), headquartered in Richmond, Virginia, develops and commercializes a new generation of life saving proprietary pharmaceutical products. The Company seeks to set a new standard in drug/device combination pharmaceuticals that will enable superior treatment outcomes, improved cost effectiveness, and intuitive patient administration.

For its first product partnership, the Company engaged in a competitive process with multiple prospective partners. As described in Note 3, "Licensing Agreement," the Company ultimately selected the term sheet from sanofi-aventis U.S. LLC (Sanofi) and subsequently negotiated and executed a License and Development Agreement in 2009 granting certain manufacturing and commercialization rights in North America to a novel epinephrine auto-injector utilizing certain of the Company's technology platforms. Under the terms of the agreement, the Company led the development and regulatory approval efforts associated with the epinephrine auto-injector. In 2012, the Company received notice of approval by the U.S. Food and Drug Administration (FDA) and by Health Canada of the applications related to the epinephrine auto-injector, which will be commercialized by Sanofi in the United States and Canada under the brand names of Auvi-Q™ and Allerject™, respectively. The Company has certain co-promotion rights in North America and retains full commercial rights to the epinephrine auto-injector in all rest of world territories. The Company assisted Sanofi in achieving manufacturing start-up activities (Sanofi is responsible for manufacturing and commercialization) that resulted in the manufacture during 2012 of product for commercial launch. The Company has earned and received milestones as further described in Note 3 in connection with fulfilling its obligations under the agreement.

The Company continues to develop additional products for other targeted therapeutic areas that leverage its intellectual property and know-how with the goal of creating pharmaceutical products that provide superiority over the existing standards of care, improved cost effectiveness and superior patient preference. Prior to 2012, the Company was classified as a development stage entity, but matured to a commercial stage company supported by the approval of Auvi-Q and Allerject, each with scheduled market launches in the first quarter of 2013, and a late stage product pipeline in the central nervous system, diabetes and cardiovascular therapeutic areas. The Company plans to self-commercialize certain of its pipeline products and to partner with companies on other pipeline products. For the next product in its pipeline, the Company expects to submit its application to the FDA in the second half of 2013.

2. Summary of Significant Accounting Policies

Changes in Presentation

Certain items presented on the financial statements and in the footnotes in prior periods have been modified to conform to the current presentation, as noted below.

As described in Note 1, the Company was classified as a development stage entity in years prior to 2012, and therefore, the number of periods presented in the financial statements has been modified from prior years to conform to the presentation in 2012.

In addition, in 2012, the Company became subject to certain additional financial reporting requirements as a result of the reporting requirements of one of the Company's publicly-traded stockholders in connection with that stockholder's investment in the Company. The Company's financial statements must be included as an exhibit to the stockholder's financial statements filed with the Securities and Exchange Commission (SEC) pursuant to Rule 3-09 of Regulation S-X, which requires the Company to report certain amounts in its financial statements in accordance with SEC rules that differ in form and content from that otherwise required of private companies that comply with generally accepted accounting practices in the United States (GAAP). As a result, certain of the amounts and disclosures reported in prior periods have been modified to conform to the 2012 presentation, including the number of annual periods presented in the financial statements and the classification of the Company's redeemable preferred stock on the balance sheet as described in Note 10.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand in excess of daily operating requirements and highly liquid investments purchased with original maturities of three months or less. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

CDARS Deposit Placement Agreement

In 2009, the Company entered into a Certificate of Deposit Account Registry Service (CDARS) program under which a financial institution assisted the Company in placing funds in institutions whose accounts were insured by the Federal Deposit Insurance Corporation (FDIC) and in principal amounts that, when aggregated with interest to accrue over the term of the certificate of deposit (CD), would not exceed the Standard Maximum Deposit Insurance Amount for deposits of one depositor at one institution. At December 31, 2011, a total of approximately \$6,590,000 was placed by the Company with the CDARS registry service into short-term CDs with maturity dates less than ninety days. In May 2012, the Company ceased participation in the CDARS program.

Concentrations

At times, the Company may have cash and cash equivalents at financial institutions in excess of FDIC insured limits. Until May 2012, the Company utilized the CDARS registry service to minimize this risk. Since that time, the Company has placed its cash and cash equivalents with financial institutions where the Company's management periodically monitors the credit ratings of those financial institutions based on publicly available data. At December 31, 2012 and 2011, there were no balances of cash and cash equivalents in excess of insured limits based on the bank balances.

Based on the Company's operations at December 31, 2012, the primary sources of revenue applicable to the Company are derived from the License and Development Agreement with Sanofi for the epinephrine auto-injector (see Notes 1 and 3). The Company continues to develop additional products for other targeted therapeutic areas and has a late stage product pipeline in certain areas (see Note 1).

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments reflected in the balance sheets for cash and cash equivalents, receivables, prepaid expenses, other current assets, accounts payable and accrued expenses approximate their fair values due to their short maturities.

Property and Equipment

Property and equipment includes costs of assets constructed or purchased, related delivery and installation costs

and interest incurred on significant capital projects during their construction periods. Improvements and replacements of property and equipment are capitalized. Maintenance and repairs that do not improve or extend the lives of property and equipment are charged to expense as incurred. When assets are sold or retired, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reported in the statements of operations. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method for financial statement purposes and on the modified accelerated cost recovery method for income tax purposes.

The estimated useful lives for property and equipment are as follows:

Furniture and equipment	3-5 years
Manufacturing equipment	5 years
Leasehold improvements	3-5 years

Accounting for the Impairment of Long-Lived Assets

The Company reviews long-lived assets for possible impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Asset impairment is determined to exist if estimated future undiscounted cash flows are less than the carrying amount. If the undiscounted cash flow is less than the carrying amount of the asset, an impairment loss is recognized and such loss is computed based on the estimated fair value of the asset, generally determined on a discounted cash flow basis. For the periods ended December 31, 2012, 2011, and 2010, respectively, no impairment losses were recorded.

Patents

As a result of the Company's research and development efforts, the Company has obtained, applied for, or is applying for, a number of patents to protect proprietary technology and inventions. The Company capitalizes direct and incremental costs paid to third parties to create or protect patents. Patents are carried at cost less accumulated amortization which is calculated on a straight-line basis over the remaining life of the patent class which approximates its remaining useful life.

Accrued Expenses

As part of the process of preparing financial statements, management is required to estimate accrued expenses. This process involves identifying services that have been performed on the Company's behalf and estimating the level of service performed and the associated cost incurred for such service where the Company has not been invoiced or otherwise notified of the actual cost. Examples of estimated accrued expenses include, but are not limited to, professional service fees, contract clinical service fees, fees paid to contract manufacturers in conjunction with the production of clinical components or materials, and fees paid to third party data collection organizations and investigators in conjunction with the clinical trials.

In connection with such service fees, management's estimates are most affected by its projections of the timing of services provided relative to the actual level of services incurred by such service providers. The majority of the Company's service providers invoice monthly in arrears for services performed. In the event that management does not identify certain costs that have begun to be incurred, or under or over estimates the level of services performed, or the costs of such services, actual expenses could differ from such estimates. The date on which certain services commence, the level of services performed on or before a given date, and the cost of such services are often subjective determinations. Management makes these judgments based upon the facts and circumstances known to it and accrues for such costs in accordance with GAAP. This is done as of each balance sheet date in the financial statements.

Research and Development Expenses

Research and development expenses include costs directly attributable to the conduct of research and development programs, including the cost of salaries and benefits, materials, supplies, costs related to research collaboration, and the costs of services provided by outside contractors. All costs associated with research and development are expensed as incurred.

Revenue Recognition

Based on the Company's current operations and license agreement, the primary sources of revenue applicable to the Company include upfront license payments, milestone payments and royalties on product sales. Revenue arrangements with multiple deliverables are reviewed to determine the appropriate method of revenue recognition taking into consideration a number of factors, including whether the various elements can be considered separate units of accounting, whether there is objective and reliable evidence of fair value for these elements, and whether there is a separate earnings process associated with a particular element of an agreement. Specifically, the Company accounts for each of these items as follows:

- Upfront, licensing-type fees. Upfront, licensing-type payments are assessed to determine whether or not the licensee is able to obtain any stand-alone value from the license. Where this is not the case, the Company does not consider the license deliverable to be a separate unit of accounting, and the revenue is deferred with revenue recognition for the license fee being assessed in conjunction with the other deliverables that constitute the combined unit of accounting.
- Milestone payments. Milestone payments are assessed on an individual basis and revenue is recognized from these milestone payments when earned provided that (i) the milestone event is substantive and its achievability was not reasonably assured at the inception of the agreement, (ii) the milestone represents the culmination, or progress towards the culmination, of an earnings process and (iii) the milestone payment is non-refundable. Where separate milestones do not meet these criteria, the Company would default to a performance-based model, with revenue recognition following delivery of effort as compared to an estimate of total expected effort.
- Royalties. The Company recognizes revenue from royalties based on licensees' sales of products or services using the Company's licensed products under the respective licensing agreement. Royalties are recognized as earned in accordance with the contract terms when royalties from licensees can be reasonably estimated and collectibility is reasonably assured. If the collectibility of a royalty amount is not reasonably assured, royalties are recognized as revenue when the cash is received.
- Combined units of accounting. Where there are multiple deliverables combined as a single unit of accounting, revenues are deferred and recognized over the period during which the Company remains obligated to perform services or deliver product. The specific methodology for the recognition of the revenue (e.g., straight-line or according to specific performance criteria) is determined on a case-by-case basis according to the facts and circumstances applicable to a given contract.

Payments received in excess of revenues recognized are recorded as deferred revenue until such time as the revenue recognition criteria have been met.

Share-Based Compensation

The Company measures the share-based compensation cost at grant date, based on the estimated fair value of the award, and recognizes the cost as expense on a straight-line basis (net of estimated forfeitures) over the requisite service period, if any, which generally is the vesting period. Fair value is determined based on a valuation performed by an independent third party firm to establish the exercise price for equity awards at the time of the grant. The Company uses the Black-Scholes formula to value the shares or options awarded.

Income Taxes

Income taxes are recognized during the period in which transactions enter into the determination of income for financial reporting purposes and the Company accounts for income taxes using the liability method. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates that will be in effect when these differences reverse. The Company provides a valuation allowance against net deferred tax assets unless, based upon the available evidence, it is more likely than not that the deferred tax asset will be realized.

In order for the Company to record the benefit of a tax position in its financial statements, it must determine that it is more likely than not that the position will be sustained, based on the technical merits of the position, if the taxing authority examines the position and the dispute is litigated. The determination is made on the basis of all the facts, circumstances and information available as of the reporting date. The Company has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2012. Tax years ending on or after December 31, 2009 remain subject to examination by federal and state tax authorities, with the exception that the Company's federal tax return for the year ended December 31, 2011 was audited in 2012. The Company's practice is to recognize interest and penalties related to income tax matters as a component of income tax expense. To date, there have been de minimis interest or penalties charged to the Company in relation to the underpayment of income taxes.

The Company began recording income taxes as of January 1, 2009 following the conversion of Intelliject, LLC, a limited liability company, into Intelliject, Inc., a C corporation. Prior to that point, no income tax provision had been included in the financial statements since all income, losses, deductions and credits were passed through to and reportable by the members of Intelliject, LLC on their respective income tax returns.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Subsequent Events

The Company evaluated all subsequent events through February 13, 2013, the date the financial statements were available to be issued.

3. Licensing Agreement

In November 2009, the Company entered into a License and Development Agreement granting Sanofi exclusive rights to develop and commercialize a novel epinephrine auto-injector in North America (License Agreement) utilizing certain of the Company's intellectual property. In exchange for these rights, the Company received a non-refundable upfront payment of \$25 million and eligibility to receive development and commercialization milestones of up to \$205 million as well as double digit tiered royalties on the net sales of the epinephrine auto-injector commercialized under the License Agreement in the defined field of use and territory. In addition to the non-refundable upfront payment, the Company has also received non-refundable milestones totaling \$53.2 million to date and remains eligible to receive additional non-refundable milestone payments of up to \$150 million, as well as the double digit tiered royalties on the net sales of the epinephrine auto-injector products. Under the License Agreement, the Company was responsible for development and for obtaining regulatory approval, while Sanofi has responsibility for manufacturing and commercialization. The Company also retained certain co-promotion rights in the territory.

The Company received a non-refundable upfront payment of \$25 million upon execution of the License Agreement. The License Agreement contains multiple elements and was evaluated in accordance with arrangements containing multiple deliverables. The License Agreement, the execution of which represented one deliverable, requires that members of the Company participate on several joint-planning committees covering aspects of development, manufacturing and commercialization. The Company concluded that its participation on certain joint-planning committees until certain regulatory approval and commercial readiness activities were completed was a deliverable rather than only protective of the Company's interests. In addition, the Company determined that completion of its development and pre-commercialization efforts during the time prior to regulatory approval and commercial readiness of the epinephrine auto-injector was also part of the same deliverable under the License Agreement. Further, the Company concluded that the upfront license payment did not have value to Sanofi on a stand-alone basis without the benefit of the specified development activities that the Company was to perform and its participation on joint-planning committees. Therefore, the Company determined that these multiple deliverables were properly combined as a single unit of accounting and that the \$25 million upfront payment should be deferred and recognized as revenue on a straight-line basis from the time of execution of the License Agreement through the period the Company had the substantial performance obligations described above. The upfront payment has been fully recognized.

The Company received a \$15 million payment in 2010 upon achieving a development milestone, which was contingent upon the issuance of certain valid patents under specified U.S. patent applications filed by the Company covering specified claims within those patent applications. Management determined that the issuance of the specified claims within the patents, and thus the achievement of the milestone, enhanced the value of the Company's intellectual property licensed under the License Agreement. The payment related to past performance and the culmination of an earnings process and was reasonable relative to other deliverables and payment terms in the License Agreement. In addition, the milestone payment was non-refundable and its achievability was not reasonably assured at the inception of the License Agreement. Therefore, the Company recognized the entire \$15 million as revenue in 2010.

The Company received a \$38.2 million payment in 2012 upon achieving a development milestone, which was contingent upon obtaining final approval from the FDA and assisting Sanofi in achieving certain manufacturing scale up activities. The payment related to past performance and the culmination of an earnings process and was reasonable relative to other deliverables and payment terms in the License Agreement. In addition, the milestone payment was non-refundable and its achievability was not reasonably assured at the inception of the License Agreement. Therefore, the Company recognized the entire \$38.2 million as revenue in 2012.

During the years ended December 31, 2012, 2011 and 2010, the Company recognized approximately \$38.2 million, \$8.8 million, and \$29.1 million, respectively, of revenue in connection with the payments described above under the License Agreement.

4. Property and Equipment

Property and equipment consisted of the following as of December 31:

	<u>2012</u>	<u>2011</u>
Furniture and equipment	\$ 147,266	\$ 144,431
Manufacturing equipment	1,180,901	879,483
Leasehold improvements	34,993	34,993
Construction in progress	3,348,426	—
	<u>4,711,586</u>	<u>1,058,907</u>
Less—accumulated depreciation and amortization	(689,707)	(450,089)
	<u>\$4,021,879</u>	<u>\$ 608,818</u>

In accordance with the License Agreement described in Note 3, the Company sold to Sanofi certain pieces of manufacturing equipment in 2010. The Company received cash proceeds of approximately \$1.1 million and recognized a gain on the sale of equipment of approximately \$0.7 million in 2010. Following the sale of the equipment, Sanofi permitted the Company to utilize the manufacturing equipment to the extent reasonably necessary in order for the Company to carry out its obligations under the License Agreement.

5. Patents

Patents consisted of the following as of December 31:

	<u>2012</u>	<u>2011</u>
Patents	\$2,911,798	\$2,522,059
Less—accumulated amortization	(760,356)	(653,683)
	<u>\$2,151,442</u>	<u>\$1,868,376</u>

Based on the net patent balance at December 31, 2012, the amortization expense for the next five years is estimated to be approximately \$176,300 for each of the years ending December 31, 2013, 2014, 2015, 2016, and 2017 for a combined total of approximately \$881,500 over the five year period.

In 2007, the Company in-licensed non-exclusive rights to certain patents owned by another party. In exchange for these rights, the Company agreed to pay a total of \$525,000 over specified periods of time and in conjunction with certain milestones, a 4% royalty up to a maximum of \$225,000 beginning in 2010, and issued shares of common stock to the other party with a value determined at the time to be approximately \$335,000. For five years from the effective date of the agreement, the Company and the other party were each required to contribute towards third party costs and expenses required to prepare, file, prosecute, maintain and enforce the patent rights. In a separate royalty agreement, the other party agreed to pay the Company 4% of net revenue it received for the use or license to third parties of any product that incorporated any of the patents in-licensed to the Company. In 2010, having paid the other party \$425,000 in accordance with the terms of the original agreement, the Company executed an amendment to the agreement such that in exchange for a final payment of \$225,000 made in 2010, the Company had no further obligations to make any additional payments in conjunction with milestones or royalties, and the licenses granted to the Company became fully-paid. The impact of this amendment also resulted in a \$100,000 non-cash reduction in liabilities during 2010.

6. Debt

As part of its capital strategy and in order to accelerate the development of certain of its pipeline products in 2012, the Company explored options to raise capital in a manner that would not be dilutive to stockholders such as would occur if additional equity capital was raised. In May 2012, the Company entered into a Loan and Security Agreement (Loan Agreement) with Hercules Technology Growth Capital, Inc. (Hercules). Under the terms of the Loan Agreement, the Company borrowed \$15 million at an interest rate of the greater of (i) 11.0% or (ii) 11.0% plus the prime rate reported in the Wall Street Journal minus 5.25%, and issued to Hercules a secured term promissory note evidencing the loan. The loan is secured by all of the Company's assets, excluding intellectual property, as to which the security interest is in the proceeds of the sale of the intellectual property. The Company may be required to prepay the loan in the event of a change of control. The loan specifies certain reporting requirements to Hercules and contains customary covenants, including certain restrictions on borrowing, asset transfers, placing liens or security interests on the Company's assets including its intellectual property, mergers and acquisitions, and distributions to stockholders, including payment of dividends and the redemption or repurchase of stock. The Company was in compliance with its covenants under the Loan Agreement as of December 31, 2012.

Based on the terms of the Loan Agreement and the achievement of certain defined milestone events, the Company will make interest only payments from the date of the Loan Agreement for a period of 18 months through December 1, 2013. Following the interest only period, the Company will repay the principal and interest in 30 equal monthly installments. The term loan maturity date is June 1, 2016.

The Company will be obligated to pay an end of term charge of \$900,000 at the earlier of the loan maturity date, the date the Company prepays the obligations, or the date the obligations become due and payable for any other reason. This end of term fee will be accrued on the balance sheet in other long-term liabilities and expensed to interest expense over the term of the Loan Agreement. The Company may prepay the loan subject to certain prepayment charges which decline over the term of the loan. The Company also incurred certain debt issuance costs related to the Loan Agreement of approximately \$236,000 which are recorded on the balance sheet in other long-term assets and which will be expensed to interest expense over the term of the Loan Agreement.

In conjunction with the loan, the Company issued to Hercules a warrant to purchase preferred stock of the Company. The warrant is currently exercisable for 82,500 shares of Series B Preferred Stock with an exercise price of \$5.00 per share. The warrant is immediately exercisable and expires the earlier to occur of (i) ten years after the date of issuance (expiration in May 2022), or (ii) 5 years after the Company's initial public offering, if applicable. If the Company is acquired, the warrant will terminate upon the acquisition subject to certain conditions and levels of cash consideration. Under certain conditions, if the Company has a future round of equity financing, the warrant could be modified to represent the right to purchase certain shares of the future preferred stock class.

The Company estimated the fair value of the warrant using the Black-Scholes option valuation model with the following assumptions: expected term of ten years, a risk-free interest rate of 1.77%, and an expected volatility of 60%. The Company applied the relative fair value method to allocate the \$15 million proceeds received under the Loan Agreement between the loan and warrant. The carrying amount assigned to the loan was approximately \$14.6 million and was recorded as long term debt on the Company's balance sheet. The Company believes the amortized book value of the loan at December 31, 2012 represents the approximate fair value of the outstanding debt as of such date. The fair value allocated to the warrant of approximately \$0.4 million was recorded as a liability in other long-term liabilities on the Company's balance sheet since a warrant to acquire redeemable equity which is puttable at the option of the holder must be reported as a liability. Future changes in the fair value of the warrant liability will result in increases or decreases in interest expense. The initial fair value allocated to the warrant of \$0.4 million was recorded as a debt discount to the loan and consequently a reduction to the carrying value of the \$15 million par value loan and is being amortized as additional interest expense over the term of the loan. At December 31, 2012, this warrant remained outstanding and exercisable.

As of December 31, 2012, the annual maturities of principal under the Company's loan for each of the years ending December 31 are as follows:

2013	\$ —
2014	5,492,720
2015	6,137,613
2016	3,369,667
Total	<u>\$15,000,000</u>

The amount of interest expense reflected on the statement of operations related to the loan includes the stated interest rate on the loan as well as amounts which are being recorded in interest expense over the term of the loan for debt issuance costs, end of term fee, changes in the fair value of the warrant liability, and the discount recorded on the debt in the computation of its fair value.

The amount of interest cost incurred during the year ended December 31, 2012 totaled approximately \$1,278,600, of which approximately \$97,300 was capitalized.

7. Income Taxes

The Company began recording income taxes as of January 1, 2009 following the conversion of Intelliject, LLC, a limited liability company, into Intelliject, Inc., a C corporation. Prior to that point, no income tax provision had been included in the financial statements since all income, losses, deductions and credits were passed through to and reportable by the members of Intelliject, LLC on their respective income tax returns.

Deferred income taxes reflect the net tax effects of net operating loss and tax credit carryovers and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company had no net deferred tax asset as of December 31, 2012 and 2011. The Company had a net deferred tax liability of approximately \$484,700 and \$269,400 recorded in long-term liabilities at December 31, 2012 and 2011, respectively, which resulted primarily from temporary differences principally related to depreciation, amortization, compensation expense related to stock options, and deferred compensation.

The components of income tax expense (benefit) for the years ended December 31, 2012, 2011 and 2010 were as follows:

	2012	2011	2010
Current income taxes:			
Federal	\$8,205,979	\$(3,849,673)	\$ 6,267,434
State	1,220,843	(656,192)	1,316,414
Total	<u>9,426,822</u>	<u>(4,505,865)</u>	<u>7,583,848</u>
Deferred income taxes:			
Federal	175,854	3,036,193	(845,703)
State	39,465	542,807	(154,566)
Total	<u>215,319</u>	<u>3,579,000</u>	<u>(1,000,269)</u>
Total income taxes	<u>\$9,642,141</u>	<u>\$ (926,865)</u>	<u>\$ 6,583,579</u>

The following is a reconciliation between the U.S. federal statutory income tax rate and the effective income tax rate:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Federal statutory income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit	3.3	3.3	3.6
Federal tax credits	—	12.3	(5.1)
Changes in estimates related to state tax provision	—	6.2	—
Other	0.1	(0.1)	1.8
Effective income tax rate	<u>38.4%</u>	<u>56.7%</u>	<u>35.3%</u>

8. Commitments and Contingencies

Employee Agreements

The Company has entered into various employment agreements with its management team that generally provide for certain terms, including among other things, certain levels of compensation, bonuses, fringe benefits, severance pay and covenants not to compete and that extend for various periods of time subject to earlier termination or renewal per the agreements.

The Company also has issued certain equity awards and options to purchase common shares to members of the management team that vest over defined periods of time. In addition, the agreements for certain members of the management team provide for the issuance of future common stock options upon the achievement of specific milestones (see Note 11).

Deferred Compensation

The Company entered into deferred compensation agreements effective in 2006 with certain then current officers of the Company. The deferred compensation payable represents unfunded, nonqualified deferred compensation for services rendered by the officers prior to July 21, 2006. The deferred compensation liability will be payable upon a change in control, as defined in the deferred compensation agreements.

Indemnification of Officers and Directors

The Company, as permitted under Delaware law and in accordance with its bylaws, indemnifies its officers and directors for certain events or occurrences, subject to certain limits, while the officer or director is or was serving at the Company's request in such capacity. The Company has a director and officer insurance policy that limits its exposure and may enable it to recover some or all of any future amounts paid.

Operating Leases

In 2007, the Company entered into a lease for approximately 4,600 square feet of office space in Richmond, Virginia, the term of which was originally scheduled to end on September 30, 2010. The Company executed an amendment to the lease in July 2010, increasing the total space under lease to approximately 6,100 square feet and extending the term to December 31, 2015. The Company has an early termination right to end the lease effective December 31, 2013, provided the Company gives the required notice to the landlord, pays the defined early termination costs, and meets certain other requirements. The renovation of the office space under the amended lease was completed in early 2011 and costs incurred for improvements related to the renovations are reflected in leasehold improvements on the balance sheets.

The Company is required to pay minimum annual rent and estimated additional rent in monthly installments. Rent expense incurred for the years ended December 31, 2012, 2011 and 2010 for this lease totaled approximately \$111,100, \$111,500, and \$91,800, respectively. Approximately \$27,000 and \$29,000 was included in liabilities on the balance sheets as deferred rent at December 31, 2012 and 2011, respectively. Future minimum lease payments for each year ending December 31 approximate \$116,500 for 2013, \$120,100 for 2014, and \$123,700 for 2015.

Product Development, Services, Equipment and Supply Agreements

The Company entered into various agreements with third parties to assist in the development and testing of the epinephrine auto-injector, which was licensed to Sanofi as described in Note 3. In addition, as the Company continues to develop its pipeline products, it has entered into various agreements related to the development, manufacture and supply of its pipeline products. A summary of the key estimated obligations under those agreements, substantially all of which are expected to be satisfied in 2013, follows.

Drug Products Analytics Agreement

In 2008, the Company entered into several laboratory service proposal agreements with another party to support the Company's analytical testing needs for its epinephrine auto-injector. According to the terms of the agreement, the other party will provide the Company with drug development testing and analysis as further described in the individual project agreements. This party also provides analytical testing and other support for pipeline products under development by the Company. Any project may be terminated by either party upon thirty days prior written notice. As of December 31, 2012, the Company had executed agreements with the other party that contain remaining costs estimated to be in the range of \$225,000 to \$250,000.

Services Agreement

In 2012, the Company entered into a services agreement with another party to develop the Company's pipeline products. Under the terms of the agreement, the other party will produce pipeline product to support clinical and stability studies, manage tool and equipment builds, conduct scale-up design verification, and perform other development or manufacturing qualification activities. As of December 31, 2012, the Company had executed agreements with the other party that contain remaining costs estimated to be in the range of \$800,000 to \$1,000,000.

Automated Assembly Equipment Agreement

In 2012, the Company entered into an agreement for the design and construction of a semi-automated assembly line for its pipeline products, which will assemble all device and drug components, electronics, labeling and case. As of December 31, 2012, the Company had executed agreements with the other party that contain remaining costs estimated to be in the range of \$2,000,000 to \$2,100,000.

Component Assembly Equipment Agreement

In 2012, the Company entered into an agreement for the design, manufacture, and installation of a fully automated assembly and inspection equipment for components in the Company's pipeline products. As of December 31, 2012, the Company had executed agreements with the other party that contain remaining costs estimated to be in the range of \$700,000 to \$800,000.

Clinical Study Agreement

In 2012, the Company entered into an agreement with another party to conduct activities associated with a clinical study of one of the Company's pipeline products. As of December 31, 2012, the Company had executed agreements with the other party that contain remaining costs estimated to be in the range of \$300,000 to \$350,000.

Supply Agreement—Epinephrine

In 2009, the Company entered into a supply agreement for the bulk active pharmaceutical ingredient known as epinephrine base. Under the agreement, the Company is required to purchase at least four kilograms per calendar year of the epinephrine base beginning with the year of approval of the Company's finished pharmaceutical delivery device by the FDA and commercial launch of the device at initial prices that fluctuate with the U.S. dollar – euro exchange rate. The agreement will be effective for 5 years and shall thereafter be automatically extended for successive one year terms, unless written notice of termination is given. The annual minimum requirement to purchase totals approximately \$102,000 based on current prices. The supplier self insures for product liability and therefore the Company is at risk if the supplier does not have adequate assets to cover product liability issues. The Company has 30 days after the receipt of any shipment from the supplier to subject the epinephrine base to quality control testing to determine conformity to the specifications, which could minimize the risk of product liability claims against the supplier.

Contingencies

On January 19, 2011, the Company was sued by King Pharmaceuticals, Inc. and Meridian Medical Technologies, Inc., which were purchased by Pfizer, Inc., in which it was alleged that the Company's proposed epinephrine auto-injector product infringed specified claims of a patent owned by Meridian. On February 16, 2012, the parties (together with Pfizer and Sanofi) settled the lawsuit. According to the terms of the settlement, the Company and Sanofi agreed to launch Auvi-Q in the U.S. no earlier than November 15, 2012. No cash was paid or received by the Company in connection with the settlement.

From time to time, the Company may become involved in claims and other legal matters arising in the ordinary course of business, including patent litigation, product liability, and commercial litigation. At December 31, 2012, management was not aware of any matters, individually or in the aggregate, that were expected to have a material adverse affect on the financial position, results of operations or cash flows of the Company.

9. Defined Contribution Retirement Plan

In 2011, the Company adopted a 401(k) defined contribution plan which permits eligible employees to voluntarily contribute a portion of their compensation up to limits established by the Internal Revenue Service. The plan permits the Company to make discretionary contributions; however, the Company has made no employer contributions to the plan to date.

10. Redeemable Preferred Stock

The rights and terms of each class of redeemable preferred stock are outlined below followed by information related to the required SEC classification of these securities. See Note 11 for additional information regarding the rights of stockholders and provisions that relate to the redeemable preferred stock. The terms that have been capitalized below are defined in the Certificate of Incorporation of Intelliject, Inc.

Series A-2 Preferred Stock, Redeemable and Convertible

From and after the date of issuance, the shares of Series A-2 Preferred Stock accrue dividends at the rate of 6% per annum. The date of issuance of a share of Series A-2 Preferred is the date such corresponding Class D Share of Intelliject, LLC was originally issued and dividends are cumulative. The Series A-2 Original Issue Price was

\$1.11241 per share adjusted for any stock dividends, splits and recapitalizations. Shares of Series A-2 Preferred may, at the option of the holder, be converted at any time into shares of Common Stock on a one for one basis adjusted for any stock dividends, splits and recapitalizations. At any time on or after the fourth year anniversary of the Original Issue Date (January 1, 2013) but prior to the seventh year anniversary (January 1, 2016), the holders of at least 66 2/3% of the outstanding Series A-2 Preferred shall have the right to cause the Company to purchase and redeem all, but not less than all, of the Series A-2 Preferred in three equal installments for a per share purchase price equal to the Original Issue Price plus accrued dividends. No redemption of the Series A-2 Preferred shall occur without the prior consent of the holders of greater than 50% of the then outstanding shares of Series A-3/A-4 Preferred and holders of at least 80% of the then outstanding shares of Series B/B-1 Preferred. No shares of Series A-2 Preferred acquired by the Company shall be reissued. Each share of Series A-2 Preferred shall automatically be converted into shares of Common Stock at any time upon the affirmative election of the holders of at least 65% of the outstanding shares of the Series B/B-1 Preferred, Series A-3/A-4 Preferred and Series A-2 Preferred, voting together as a single class, or immediately upon the closing of a firmly underwritten public offering under the Securities Act of 1933, as amended, subject to certain requirements.

As of December 31, 2012 and 2011, accrued dividends for the Series A-2 Preferred totaling \$1,147,041 and \$961,297, respectively, had been recorded in stockholders' equity, but not paid. The amount reported on the balance sheet for Series A-2 Preferred represents the proceeds from the original issuance of the stock plus the amount of accrued but unpaid dividends, which equals the redemption amount.

Series A-3/A-4 Preferred Stock, Redeemable and Convertible

From and after the date of the issuance of any shares of Series A-3/A-4 Preferred Stock, dividends accrue at the rate of 6% per annum. The date of issuance of a share of Series A-3 Preferred is the date such corresponding Class F Share of Intelliject, LLC was originally issued and dividends are cumulative. The Series A-3/A-4 Original Issue Price was \$2.16579 per share adjusted for any stock dividends, splits and recapitalizations. Shares of Series A-3/A-4 Preferred may, at the option of the holder, be converted at any time into shares of Common Stock on a one for one basis adjusted for any stock dividends, splits and recapitalizations. Subject to certain exceptions, if the Company issues or sells additional shares of common stock or common stock deemed to be issued for an effective price less than the then effective Series A-3 Preferred Conversion Price, the then existing Series A-3 Preferred Conversion Price shall be reduced based on a weighted average formula. If any holder of shares of Series A-3 Preferred does not participate in a financing triggering a reduction in the Series A-3 Preferred Conversion Price, then each share of Series A-3 Preferred held by such holder shall automatically be converted into a share of Series A-4 Preferred and the Series A-4 Preferred Conversion Price shall not be reduced. Such converted Series A-3 Preferred shall be retired and cancelled. At any time on or after the fourth year anniversary of the Original Issue Date (January 1, 2013) but prior to the seventh year anniversary (January 1, 2016), the holders of greater than 50% of the outstanding Series A-3/A-4 Preferred shall have the right to cause the Company to purchase and redeem all, but not less than all, of the Series A-3/A-4 Preferred in three equal installments. No shares of Series A-3/A-4 Preferred acquired by the Company shall be reissued. Each share of Series A-3/A-4 Preferred shall automatically be converted into shares of Common Stock at any time upon the affirmative election of the holders of at least 65% of the outstanding shares of the Series B/B-1 Preferred, Series A-3/A-4 Preferred and Series A-2 Preferred, voting together as a single class, or immediately upon the closing of a firmly underwritten public offering under the Securities Act of 1933, as amended, subject to certain requirements.

As of December 31, 2012 and 2011, accrued dividends for the Series A-3 Preferred totaling \$2,593,728 and \$2,106,252, respectively, had been recorded in stockholders' equity, but not paid. The amount reported on the balance sheet for Series A-3 Preferred represents the proceeds from the original issuance of the stock plus the amount of accrued but unpaid dividends, which equals the redemption amount. No Series A-4 Preferred Stock has been issued.

Series B/B-1 Preferred Stock, Redeemable and Convertible

From and after the date of issuance of any shares of Series B/B-1 Preferred Stock, dividends accrue at the rate of 6% per annum. The Series B/B-1 Original Issue Price was \$2.62293 per share adjusted for any stock dividends, splits and recapitalizations. Any shares of Series B/B-1 Preferred may, at the option of the holder, be converted at any time into shares of Common Stock on a one for one basis adjusted for any stock dividends, splits and recapitalizations. Subject to certain exceptions, if the Company issues or sells additional shares of common stock or common stock deemed to be issued for an effective price less than the then effective Series B Preferred Conversion Price, the then existing Series B Preferred Conversion Price shall be reduced based on a weighted average formula. In the event any holder of shares of Series B Preferred does not participate in a financing triggering a reduction in the Series B Preferred Conversion Price, then each share of Series B Preferred shall automatically be converted into one share of Series B-1 Preferred and the Series B-1 Preferred Conversion Price shall not be reduced. At any time on or after the fourth year anniversary of the Original Issue Date (January 1, 2013) but prior to the seventh year anniversary (January 1, 2016), the holders of at least 80% of the then outstanding shares of Series B/B-1 Preferred shall have the right to cause the Company to purchase and redeem all, but not less than all, of the Series B/B-1 Preferred in three equal installments. No shares of Series B/B-1 acquired by the Company shall be reissued. Each share of Series B/B-1 Preferred shall automatically be converted into shares of Common Stock at any time upon the affirmative election of the holders of at least 65% of the outstanding shares of the Series B/B-1 Preferred, Series A-3/A-4 Preferred and Series A-2 Preferred, voting together as a single class, or immediately upon the closing of a firmly underwritten public offering under the Securities Act of 1933, as amended, subject to certain requirements.

As of December 31, 2012 and 2011, accrued dividends for the Series B Preferred totaling \$1,217,488 and \$912,491, respectively, had been recorded in stockholders' equity, but not paid. The amount reported on the balance sheet for Series B Preferred represents the proceeds from the original issuance of the stock plus the amount of accrued but unpaid dividends, which equals the redemption amount. No Series B-1 Preferred Stock has been issued.

Required SEC Classification

As described in Note 2, the Company must comply with certain SEC reporting and disclosure requirements for the year ended December 31, 2012, including the presentation of the Company's redeemable preferred stock. The Company's redeemable preferred stock contains provisions which give the holders of those securities the right to cause the Company to purchase and redeem such securities for cash under certain circumstances at the Original Issue Price plus accrued dividends as described above. Therefore, these securities are redeemable, or puttable to the Company, at the option of the holders and outside the control of the Company during the defined time period of January 1, 2013 to December 31, 2015. In years prior to 2012, the redeemable preferred stock was reported as an element of permanent stockholders' equity in accordance with GAAP.

Since the SEC has specific guidance related to the classification of redeemable equity securities which contain redemption provisions that are outside the control of the Company, the Company must distinguish such redeemable preferred stock from permanent equity and report these securities on the face of the balance sheet in the mezzanine section between liabilities and stockholders' equity without regard to any assessment by management as to the likelihood of such redemption feature ever being exercised. As such, solely due to the SEC reporting requirements with which the Company must now comply, the amounts in prior years have been reported in the mezzanine section of the balance sheet to conform to the required 2012 presentation.

The changes in the balance for each series of redeemable preferred stock are presented in the chart below.

<u>Redeemable Preferred Stock</u>	<u>Series B Preferred Stock</u>	<u>Series A-3 Preferred Stock</u>	<u>Series A-2 Preferred Stock</u>	<u>Total Redeemable Preferred Stock</u>
Balance at December 31, 2009	\$5,304,139	\$ 9,116,081	\$3,623,462	\$18,043,682
Dividends accrued	304,159	495,467	197,594	997,220
Balance at December 31, 2010	5,608,298	9,611,548	3,821,056	19,040,902
Dividends accrued	304,164	486,144	185,236	975,544
Balance at December 31, 2011	5,912,462	10,097,692	4,006,292	20,016,446
Dividends accrued	304,997	487,476	185,744	978,217
Balance at December 31, 2012	<u>\$6,217,459</u>	<u>\$10,585,168</u>	<u>\$4,192,036</u>	<u>\$20,994,663</u>

11. Stockholders' Equity and Rights of Stockholders

Effective January 1, 2009, Intelliject, LLC, a Virginia limited liability company, merged with and into Intelliject, Inc., a Delaware corporation, with Intelliject, Inc. being the surviving entity. Upon the effectiveness of the merger, each share issued and outstanding of Intelliject, LLC was converted into and exchanged for certain defined amounts of stock of Intelliject, Inc. The Class A Shares of Intelliject, LLC became common stock of Intelliject, Inc., Class B Shares became Series A-1 Preferred Stock, Class D Shares became A-2 Preferred Stock, and Class F Shares became Series A-3 Preferred Stock. The convertible promissory notes issued by Intelliject, LLC automatically converted into shares of Series B Preferred Stock of Intelliject, Inc. In addition, Intelliject, Inc. also assumed and continued any and all membership interest option, warrant, incentive and other equity-based award plans and reserved for issuance shares of common stock for each share of Class E Shares reserved under each Equity Plan.

See Note 10 for additional information about the terms and rights of the redeemable preferred stock, as well as its classification on the balance sheet.

In March 2010, following stockholder approval, the Company amended its stock incentive plan to increase the number of shares of Common Stock reserved for issuance thereunder by 1,000,000 shares from 2,306,000 to 3,306,000 shares of Common Stock. In addition, the Company amended its Certificate of Incorporation to increase the authorized shares of Common Stock of the Company by 1,000,000 from 15,856,640 to 16,856,640 shares of Common Stock.

Under the terms of the Company's stock incentive plan, as amended, the maximum aggregate number of Common Stock shares that may be granted under the plan is 3,306,000 shares. At December 31, 2012, those shares were designated as follows: outstanding options and warrants granted to purchase a total of 2,145,839 shares of Common Stock, commitments to issue additional options to purchase 136,000 shares of Common Stock upon the achievement of specific performance milestones, and shares available for future issuance totaling 719,266 shares of Common Stock. At December 31, 2012, a total of 304,895 shares had been exercised.

In May 2012, following stockholder approval, the Company amended its Certificate of Incorporation to increase the number of authorized Common Stock of the Company by 82,500 shares to 16,939,140 shares, the number of Preferred Stock by 165,000 shares to 14,556,620 shares, the number of designated Series B Preferred Stock by 82,500 shares to 1,988,780 shares and the number of designated Series B-1 Preferred Stock by 82,500 shares to 1,988,780 shares. This Amendment was required to authorize the issuance of a warrant for 82,500 shares of Series B Preferred Stock to Hercules Technology Growth Capital, Inc. (see Note 6).

The rights and terms of each class of non-redeemable preferred stock are outlined below. The terms that have been capitalized below are defined in the Certificate of Incorporation of Intelliject, Inc.

Series A-1 Preferred Stock

Series A-1 Preferred Stock will not be entitled to any dividends under any circumstances. In addition, so long as any shares of Series B/B-1 Preferred, Series A-3/A-4 Preferred, or Series A-2 Preferred are outstanding, the Company shall not make any distribution on or redeem the Series A-1 Preferred Stock, except in certain limited circumstances as described in the Certificate of Incorporation. Shares of Series A-1 Preferred are not convertible into any other shares of stock. The Company shall have the right, the Series A-1 Call Right, to purchase all of the Series A-1 Preferred Shares in one installment for a per share purchase price equal to two times the Series A-1 Original Issue Price, \$0.65747 per share. No shares of Series A-1 Preferred acquired by the Company shall be reissued.

Liquidation Rights

Upon any liquidation, dissolution, or winding up of the Company, before any distribution or payment shall be made to the holders of any Series A-3/A-4 Preferred, Series A-2 Preferred, Series A-1 Preferred, or Common Stock, the holders of Series B/B-1 Preferred shall be entitled to be paid out of the assets of the Company, for each share of Series B/B-1 Preferred held by them, an amount per share equal to the Series B/B-1 Original Issue Price plus any unpaid accrued dividends. After payment of the full liquidation preference amount to each holder of Series B/B-1 Preferred, before any distribution or payment shall be made to the holders of any Series A-2 Preferred, Series A-1 Preferred, or Common Stock, the holders of the Series A-3/A-4 Preferred shall be entitled to be paid out of the assets of the Company, for each share of Series A-3/A-4 Preferred held by them, an amount per share equal to the Series A-3/A-4 Original Issue Price plus any unpaid accrued dividends. After the payment of the full liquidation preference amounts to the holders of the Series B/B-1 Preferred and the holders of the Series A-3/A-4 Preferred, before any distribution or payment shall be made to the holders of any Series A-1 Preferred or Common Stock, the holders of Series A-2 Preferred shall be entitled to be paid out of the assets of the Company, for each share of Series A-2 Preferred held by them, an amount per share equal to the Series A-2 Original Issue Price plus any unpaid accrued dividends. After the payment of the full liquidation preference amounts to the holders of the Series B/B-1 Preferred, Series A-3/A-4 Preferred, and Series A-2 Preferred, before any distribution or payment shall be made to the holders of the Common Stock, the holders of the Series A-1 Preferred shall be entitled to be paid out of the assets of the Company, for each share of Series A-1 Preferred held by them, an amount equal to two times the Series A-1 Original Issue Price. After the payment of the full liquidation preference amounts to the holders of the Series B/B-1 Preferred, Series A-3/A-4 Preferred, Series A-2 Preferred and Series A-1 Preferred, the assets of the Company shall be distributed ratably to the holders of the Common Stock, Series B/B-1 Preferred, Series A-3/A-4 Preferred, and Series A-2 Preferred on an as-if-converted to Common Stock basis.

Voting and Change of Control Agreement

Effective as of the Conversion Date, the preferred stockholders and the common stockholders have entered into a Voting and Change of Control Agreement with the Company, which places certain restrictions on the voting of the shares, and if a Change of Control has been approved, requires the holders to take all necessary actions in connection with the consummation of a change of control transaction.

Right of First Refusal Agreement

Effective as of the Conversion Date, the preferred stockholders and the common stockholders have entered into a Right of First Refusal Agreement with the Company in order to provide certain restrictions on the transfer of capital stock, to grant first refusal and co-sale rights to the Company and to certain of the preferred stockholders, and to provide for obligations to participate in certain sales of capital stock of the Company.

Investor Rights Agreement

Effective as of the Conversion Date, the holders of Series A-2 Preferred, Series A-3/A-4 Preferred, and Series B/B-1 Preferred have entered into an Investor Rights Agreement with the Company which grants certain information and preemptive rights to these holders.

Amended and Restated Registration Rights Agreement

Effective as of the Conversion Date, the Company and two major investors have entered into an Amended and Restated Registration Rights Agreement which under certain specified conditions requires the Company to register the Common Stock issuable or issued upon the conversion of the Series A-3/A-4 Preferred Stock and the Common Stock issuable or issued upon the conversion of the Series B/B-1 Preferred Stock.

12. Share-Based Compensation

The Company has a stock option plan under which stock options may be granted to purchase a specified number of shares of common stock. Option awards are granted with an exercise price equal to the Company's estimate of fair value of its common stock at the date of grant, based on a valuation performed by an independent third party firm. Options vest over various periods of time and generally may be exercised within ten years of the date of grant.

A summary of outstanding vesting shares, options and warrants is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Fair Value
Nonvested — December 31, 2009	1,321,689	\$ 0.39	\$ 0.21
Granted	476,000	\$ 1.39	\$ 0.73
Vested	(600,082)	\$ 0.49	\$ 0.28
Nonvested — December 31, 2010	1,197,607	\$ 0.74	\$ 0.39
Granted	77,297	\$ 1.52	\$ 0.79
Vested	(579,894)	\$ 0.66	\$ 0.35
Nonvested — December 31, 2011	695,010	\$ 0.89	\$ 0.47
Granted	45,000	\$ 1.85	\$ 0.94
Vested	(455,031)	\$ 0.70	\$ 0.37
Cancelled	(43,297)	\$ 1.52	\$ 0.79
Nonvested — December 31, 2012	<u>241,682</u>	\$ 1.31	\$ 0.69

	Shares	Weighted Average Exercise Price	Weighted Average Fair Value
Vested — December 31, 2012	2,320,157	\$ 0.72	\$ 0.48
Vested — December 31, 2011	2,017,622	\$ 0.71	\$ 0.49

A total of 304,895 and 152,399 vested shares had been exercised as of December 31, 2012 and 2011, respectively. The weighted average exercise price of shares exercised during the years ended December 31, 2012 and 2011 was \$0.55 and \$0.43, respectively. The total intrinsic value of stock options exercised during the years ended December 31, 2012 and 2011 was \$197,523 and \$91,409, respectively.

Included in the table and totals above are 416,000 shares of common stock awarded to an officer in July 2006 that vested over a specified period and became fully vested during the year ended December 31, 2010. A total of 1,904,157 and 1,601,622 vested warrant and option shares were available for exercise at December 31, 2012 and 2011, respectively. The grant-date fair value of stock option based awards vested during the years ended December 31, 2012 and 2011 was \$167,603 and \$200,882, respectively.

Total compensation expense in connection with the shares in the table above in the amount of \$150,678, \$183,930, and \$193,701 was recorded during the years ended December 31, 2012, 2011 and 2010, respectively. The Company anticipates recording additional compensation expense of approximately \$148,000 as these shares vest over the weighted average period of 1.81 years.

The following table summarizes additional information about stock options outstanding and exercisable at December 31, 2012:

Options Outstanding				Options Exercisable			
Range of Exercise Price	Number of Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Shares Exercisable	Weighted Average Exercise Price of Shares Exercisable	Weighted Average Remaining Contractual Life (Years)	
\$ 0.37 to \$ 2.17	2,145,839	6.54	\$ 0.71	1,904,157	\$ 0.63	6.41	

The fair value of each award is estimated on the date of grant using the Black-Scholes formula that uses the assumptions noted below. The risk-free rate is the United States Treasury daily yield for the expected term of the award. The volatility was based on a range of small capitalized publicly traded medical device and drug delivery companies.

Expected volatility	60%
Expected term	5 years
Risk-free rate	0.82%—5.10%

13. Subsequent Events

On January 1, 2013, the Transaction Account Guarantee program, which provided unlimited FDIC backing of non-interest bearing transaction accounts, expired such that the FDIC standard maximum insurance amount per depositor per account returned to \$250,000. Effective January 1, 2013, the Company's cash balance in excess of that limit is not covered by FDIC insurance.

On January 2, 2013, the American Taxpayer Relief Act of 2012 was enacted which, among other things, reinstated retroactively to January 1, 2012 the research tax credit for qualified research as stated in Section 41 of the Internal Revenue Code. Since GAAP accounting and financial reporting requires the effects of tax law changes to be recognized in the period in which the new legislation is enacted, the Company will record a research credit related to operations for the year ended December 31, 2012 of approximately \$0.3 million for GAAP purposes in the year ending December 31, 2013. However, the research tax credit will be recognized in the Company's 2012 income tax return.

On January 15, 2013, the Company granted options to employees to purchase 136,000 shares of common stock. These option shares had previously been reported within the total amount of committed option shares (see Note 11).

In late January 2013, Sanofi commenced commercial sales of Auvi-Q and Allerject in the U.S. and Canada, respectively. Under the terms of the License Agreement, the Company is entitled to double digit tiered royalties on the net sales of these products (see Note 3).

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