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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2004

OR

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

For the transition period from ____________________ to ____________________

Commission file number 1-10258

Tredegar Corporation

(Exact Name of Registrant as Specified in Its Charter)

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes |X| No |_|

The number of shares of Common Stock, no par value, outstanding as of July 23, 2004: 38,420,200.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	June 30, 2004	Dec. 31, 2003
Assets		
Current assets:		
Cash and cash equivalents	$ 19,168	$ 19,943
Accounts and notes receivable, net	112,800	84,110
Income taxes recoverable	2,863	61,508
Inventories	48,860	49,572
Deferred income taxes	12,437	10,998
Prepaid expenses and other	5,532	5,015
Total current assets	201,660	231,146
Property, plant and equipment, at cost	594,439	580,087
Less accumulated depreciation	300,979	282,611
Net property, plant and equipment	293,460	297,476

Other assets and deferred charges	81,447	83,855
Goodwill and other intangibles	139,837	140,548
Total assets	$ 716,404	$ 753,025
Liabilities and Shareholders’ Equity		
Current liabilities:		
Accounts payable	$ 59,848	$ 46,706
Accrued expenses	46,124	42,456
Current portion of long-term debt	11,250	8,750
Total current liabilities	117,222	97,912
Long-term debt	77,530	130,879
Deferred income taxes	62,782	66,276
Other noncurrent liabilities	10,713	10,559
Total liabilities	268,247	305,626
Commitments and contingencies (Notes 1 and 2)		
Shareholders’ equity:		
Common stock, no par value	107,498	104,991
Common stock held in trust for savings restoration plan	(1,212)	(1,212)
Unearned compensation on restricted stock grants	(1,644)	—
Unrealized gain on available-for-sale securities	—	2,770
Foreign currency translation adjustment	8,155	9,997
Unrealized gain on derivative financial instruments	411	444
Minimum pension liability	(880)	(880)
Retained earnings	335,829	331,289
Total shareholders’ equity	448,157	447,399
Total liabilities and shareholders’ equity	$ 716,404	$ 753,025

See accompanying notes to financial statements.

Tredegar Corporation
Consolidated Statements of Income
(In Thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
Revenues:				
Sales	$ 216,053	$ 181,574	$ 411,972	$ 363,619
Other income (expense), net	352	428	6,458	1,151
	216,405	182,002	418,430	364,770
Costs and expenses:				
Cost of goods sold	177,483	149,836	341,227	299,337
Freight	5,468	4,532	10,295	8,720
Selling, general and administrative	14,805	12,313	28,432	25,201
Research and development	3,818	5,076	8,135	10,379
Amortization of intangibles	67	67	134	134
Interest expense	598	1,683	1,521	3,786
Plant shutdowns, asset impairments and restructurings	6,004	5,882	16,787	5,967
Unusual items	—	—	—	1,067
	208,243	179,389	406,531	354,591
Income before income taxes	8,162	2,613	11,899	10,179
Income taxes	2,983	932	4,291	3,639
Income from continuing operations	5,179	1,681	7,608	6,540
Discontinued operations:				
Loss from venture capital investment activities (including an after-tax loss on the sale of the venture capital investment portfolio of $49,216)	—	—	—	(49,516)

After-tax gain on the sale of intellectual property of Molecumetics	—	891	—	891
Income (loss) from discontinued operations	—	891	—	(48,625)
Net income (loss)	$ 5,179	$ 2,572	$ 7,608	$ (42,085)
Earnings (loss) per share:				
Basic:				
Continuing operations	$ .14	$ .04	$ .20	$ .17
Discontinued operations	—	.02	—	(1.28)
Net income (loss)	$ .14	$ .06	$ .20	$ (1.11)
Diluted:				
Continuing operations	$ .14	$ .04	$ .20	$ .17
Discontinued operations	—	.02	—	(1.26)
Net income (loss)	$ .14	$ .06	$ .20	$ (1.09)
Shares used to compute earnings (loss) per share:				
Basic	38,235	38,047	38,232	38,113
Diluted	38,427	38,418	38,431	38,498
Dividends per share	$ .04	$ .04	$ .08	$ .08

See accompanying notes to financial statements.

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

	Six Months Ended June 30	
	2004	**2003**
Cash flows from operating activities:		
Net income (loss)	$ 7,608	$ (42,085)
Adjustments for noncash items:		
Depreciation	16,162	15,669
Amortization of intangibles	134	134
Deferred income taxes	(2,365)	33,365
Accrued pension income and postretirement benefits	(2,042)	(2,204)
Loss on venture capital investments	—	70,256
Gain on sale of corporate assets	(6,547)	—
Loss on asset impairments and divestitures	12,476	2,023
Changes in assets and liabilities, net of effects of acquisitions and divestitures:		
Accounts and notes receivable	(29,774)	6,352
Inventories	72	(175)
Income taxes recoverable	58,633	(47,148)
Prepaid expenses and other	(622)	25
Accounts payable	13,824	6,129
Accrued expenses and income taxes payable	3,018	4,388
Other, net	(1,506)	704
Net cash provided by operating activities	69,071	47,433
Cash flows from investing activities:		
Capital expenditures	(24,737)	(26,083)
Venture capital investments	—	(2,807)
Proceeds from the sale of venture capital investments	—	21,504
Proceeds from the sale of corporate assets and property disposals	7,829	—
Other, net	521	(116)
Net cash used in investing activities	(16,387)	(7,502)
Cash flows from financing activities:		
Dividends paid	(3,068)	(3,050)
Debt principal payments	(60,849)	(29,188)

Borrowings	10,000	—
Repurchases of Tredegar common stock	—	(5,170)
Proceeds from exercise of stock options	458	623
Net cash used in financing activities	(53,459)	(36,785)
Increase (decrease) in cash and cash equivalents	(775)	3,146
Cash and cash equivalents at beginning of period	19,943	109,928
Cash and cash equivalents at end of period	$ 19,168	$ 113,074

See accompanying notes to financial statements.

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

1. In the opinion of management, the accompanying consolidated financial statements of Tredegar Corporation and Subsidiaries ("Tredegar") contain all adjustments necessary to present fairly, in all material respects, Tredegar's consolidated financial position as of June 30, 2004, the consolidated results of operations for the three and six months ended June 30, 2004 and 2003, and the consolidated cash flows for the six months ended June 30, 2004 and 2003. All such adjustments are deemed to be of a normal, recurring nature. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in Tredegar's Annual Report on Form 10-K for the year ended December 31, 2003. The results of operations for the three and six months ended June 30, 2004, are not necessarily indicative of the results to be expected for the full year.

2. Losses associated with plant shutdowns, asset impairments and restructurings in 2004 include:

   - A second-quarter pretax charge of $2.7 million for a write-down to expected net realizable value of the films business in Argentina held for sale (see table below for the net assets of this business);
   - A second-quarter pretax charge of $994,000 and a first-quarter pretax charge of $666,000 related to accelerated depreciation from plant shutdowns and restructurings in Film Products;
   - A second-quarter pretax charge of $879,000 related to the estimated loss on the sub-lease of a portion of the Therics facility in Princeton, New Jersey;
   - Second-quarter pretax charges of $575,000 in Film Products and $146,000 in Aluminum Extrusions related to asset impairments;
   - A second-quarter pretax charge of $300,000 and a first-quarter pretax charge of $537,000 related to severance and other employee-related costs associated with the planned shutdown of the films manufacturing facility in New Bern, North Carolina (these costs relate to 65 people and are being recognized over their remaining service period and we anticipate recognizing additional shutdown-related costs of approximately $2 million during the second half of 2004);
   - A second-quarter pretax charge of $300,000 related to the estimated loss on the sale of the previously shutdown films manufacturing facility in Manchester, Iowa;
   - A second-quarter pretax charge of $145,000 related to severance at Therics; and
   - A first-quarter pretax charge of $9.6 million related to the planned shutdown of an aluminum extrusions facility in Aurora, Ontario, including asset impairment charges of $7.1 million and severance and other employee-related costs of $2.5 million (these costs are contractually-related for 110 people and have been immediately accrued and we anticipate recognizing additional shutdown-related costs of $2.3 million over the next 7 months).

The net assets of the films business in Argentina held for sale included in Tredegar's consolidated balance sheet at June 30, 2004, are as follows:

Net Assets of the Films Business in Argentina Held for Sale Included in Tredegar's Consolidated Balance Sheet at June 30, 2004 (In Thousands)

Cash	$ 513
Accounts and notes receivable, net	1,415
Inventories	570
Prepaid expenses and other	547
Net property, plant and equipment	178

Total assets	3,223
Accounts payable	1,053
Accrued expenses	1,312
Noncurrent deferred income tax assets	(1,299)
Total liabilities	1,066
Net assets	$ 2,157

Losses associated with plant shutdowns, asset impairments and restructurings in 2003 include:

- Second-quarter pretax charges for severance costs in connection with restructurings in Film Products ($1.6 million), Therics ($1.2 million) and at corporate headquarters ($1.2 million; included in "Corporate expenses, net" in the operating profit by segment table in Note 8);
- A second-quarter pretax charge of $956,000 for asset impairments in Film Products;
- A second-quarter pretax charge of $388,000 related to an early retirement program for 10 people in Aluminum Extrusions;
- A second-quarter pretax charge of $549,000 related to the estimated loss on the sub-lease of a portion of the Therics facility in Princeton, New Jersey; and
- A second-quarter pretax charge of $53,000 and a first-quarter pretax charge of $85,000 for additional costs incurred related to previously announced plant shutdowns in Film Products.

A reconciliation of the beginning and ending balances of accrued expenses associated with plant shutdowns and divestitures for the period ended June 30, 2004 is as follows:

(In Thousands)	Severance	Asset Impairments	Accelerated Deprec.*	Other	Total
Balance, December 31, 2003	$ 2,106	$ —	$ —	$ 3,086	$ 5,192
Changes during 2004:					
Charges	3,379	10,816	1,660	932	16,787
Cash spent	(1,574)	—	—	(624)	(2,198)
Charged against assets	—	(10,816)	(1,660)	—	(12,476)
Reversed to income	—	—	—	(30)	(30)
Balance, June 30, 2004	$ 3,911	$ —	$ —	$ 3,364	$ 7,275

* Represents depreciation accelerated due to plant shutdowns and restructurings based on a remaining useful life of less than one year.

Gain on sale of corporate assets in 2004 includes a second-quarter pretax gain on the sale of land of $413,000 and a first-quarter pretax gain on the sale of public equity securities of $6.1

million. These gains are included in "Other income (expense), net" in the consolidated statements of income and separately shown in the operating profit by segment table in Note 8. There were no public equity securities held at June 30, 2004. There were no gains on the sale of corporate assets in the first half of 2003.

Unusual items in 2003 include a first-quarter pretax charge of $1.1 million related to an adjustment for depreciation at Therics based on Tredegar's decision to suspend divestiture efforts. There were no unusual items in the first half of 2004.

On March 7, 2003, Tredegar Investments, Inc. ("Tredegar Investments") reached definitive agreements to sell substantially all of its portfolio of private equity partnership interests to GS Vintage Funds II, which are investment partnerships managed by Goldman Sachs Asset Management's Private Equity Group. On the same date and in a separate transaction, Tredegar Investments also agreed to sell to W Capital Partners, an independent private equity manager, the subsidiary funds that hold substantially all of Tredegar Investments' direct venture capital investments. The sale of these fund interests included the assumption by the buyer of Tredegar Investments' obligations to make additional capital contributions to those funds in the future.

The sale to W Capital Partners of the subsidiary funds that hold the direct investments occurred on March 7, 2003. The sale of the private equity fund interests occurred in a series of closings.

The agreements governing these transactions contain customary contingent indemnification provisions that Tredegar believes will not have a material effect on its financial position or results of operations.

Net proceeds from the sales totaled $21.5 million. Additional proceeds of approximately $55 million were received in the first quarter of 2004 in the form of income tax recoveries related to the carry-back of

2003 capital losses generated by these sales against gains realized in 2000 by Tredegar Investments. We used $50 million to repay revolving credit debt in April 2004.

The operating results from venture capital investment activities have been reported as discontinued operations. Cash flows from venture capital investment activities have not been separately disclosed in the accompanying consolidated statements of cash flows. The loss from venture capital investment activities in 2003 of $70.9 million ($49.5 million after taxes) includes a loss on the sale of $70.3 million ($49.2 million after taxes). Discontinued operations for 2003 also include a gain of $1.4 million ($891,000 after taxes) on the sale of intellectual property of Molecumetics. Operations were ceased at Molecumetics on July 2, 2002.

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

	Three Months Ended June 30		Six Months Ended June 30	
(In Thousands)	**2004**	**2003**	**2004**	**2003**
Net income (loss)	$ 5,179	$ 2,572	$ 7,608	$ (42,085)
Other comprehensive income (loss), net of tax of approximately 35%:				
Available-for-sale securities adjustment:				
Unrealized net holding gains arising during the period	—	1,069	1,217	483
Reclassification adjustment for net gains realized in income	—	—	(3,987)	—
Available-for-sale securities adjustment	—	1,069	(2,770)	483
Foreign currency translation adjustment:				
Unrealized foreign currency translation adjustment arising during period	(2,391)	6,102	(2,982)	9,153
Reclassification adjustment of foreign currency translation loss included in income (relates to films business in Argentina held for sale - see Note 2)	1,140	—	1,140	—
Foreign currency translation adjustment	(1,251)	6,102	(1,842)	9,153
Derivative financial instrument adjustment	44	588	(33)	984
Minimum pension liability adjustment	—	—	—	—
Comprehensive income (loss)	$ 3,972	$ 10,331	$ 2,963	$ (31,465)

4. The components of inventories are as follows:

(In Thousands)	**June 30, 2004**	**Dec. 31, 2003**
Finished goods	$ 8,462	$ 9,190
Work-in-process	4,022	3,294
Raw materials	24,390	25,730
Stores, supplies and other	11,986	11,358
Total	$ 48,860	$ 49,572

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

	Three Months Ended June 30		Six Months Ended June 30	
(In Thousands)	**2004**	**2003**	**2004**	**2003**
Weighted average shares outstanding used to compute basic earnings per share	38,235	38,047	38,232	38,113
Incremental shares attributable to stock options and restricted stock	192	371	199	385

Shares used to compute diluted earnings per share	38,427	38,418	38,431	38,498

Incremental shares attributable to stock options and restricted stock are computed using the average market price during the related period. During the second quarter of 2004 and 2003 and the first six months of 2004 and 2003, 2,401,999, 2,447,225, 2,361,397 and 2,390,801, respectively, of average out-of-the-money options to purchase shares and unamortized shares of restricted stock were excluded from the calculation of incremental shares attributable to stock options and restricted stock.

6. We account for stock options granted to employees and directors in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation expense has been recognized since the exercise price of the options was equal to the fair value of the underlying common stock on the date of grant. Had compensation cost for stock option grants been determined based on the fair value of the options at the grant dates consistent with the method of accounting under Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation," our income and diluted earnings per share from continuing operations would have been reduced to the pro forma amounts indicated below:

	Three Months Ended June 30		**Six Months Ended June 30**	
(In Thousands, except per share data)	**2004**	**2003**	**2004**	**2003**
Income from continuing operations:				
As reported	$ 5,179	$ 1,681	$ 7,608	$ 6,540
Stock option-based compensation cost, net of tax, based on the fair value method	(597)	(545)	(1,591)	(1,090)
Pro forma income from continuing operations	$ 4,582	$ 1,136	$ 6,017	$ 5,450
Basic earnings per share from continuing operations:				
As reported	.14	.04	.20	.17
Pro forma	.12	.03	.16	.14
Diluted earnings per share from continuing operations:				
As reported	.14	.04	.20	.17
Pro forma	.12	.03	.16	.14

Options to purchase Tredegar and Therics stock were granted during the first and second quarters of 2004. Options to purchase Therics stock were granted only to Therics employees and these employees did not participate in grants of Tredegar stock options. No stock options were granted during the first and second quarters of 2003. A summary of the 2004 stock option grants and estimated fair values determined using the Black-Scholes options-pricing model is provided below:

(In Thousands Except Per-Share Amounts)

Assumptions Used in Determining Pro Forma Compensation Expense for Tredegar Stock Options Granted in 2004 & Other Data

Assumptions used in Black-Scholes options-pricing model:		Other assumptions and items:	
Dividend yield	1.15%	Vesting period (years)	2.0
Volatility percentage	45%	Tredegar stock options granted in:	
Weighted average risk-free interest rate	3.1%	2nd quarter 2004	8
Holding period (years):		1st quarter 2004	331
Management	5.0	Aggregate estimated fair value of options at date of grant:	
Other employees	3.0	2nd quarter 2004	$ 44
		1st quarter 2004	$ 1,635
Weighted average market price per share of underlying stock at date of grant (a):		Tredegar common stock issued and outstanding at 6/30/04	38,420
Management	$ 13.97	Tredegar stock options outstanding at 6/30/04:	
Other employees	$ 13.95	At an exercise price of < $20 per share	1,839
		At an exercise price of >= $20 per share	1,028
Weighted average estimated fair value of options per share at date of grant:		Total	2,867
Management	$ 5.54		

Other employees	$ 4.32

Assumptions Used in Determining Pro Forma Compensation Expense for Therics Stock Options Granted in 2004 & Other Data

Assumptions used in Black-Scholes options-pricing model:		Other assumptions and items:	
Dividend yield	0.0%	Vesting period (years)	0.4 - 4
Volatility percentage (b)	95%	Therics stock options granted in:	
Weighted average risk-free interest rate	4.0%	2nd quarter 2004	—
Holding period (years)	7.0	1st quarter 2004	30,809
Weighted average estimated fair value per share of underlying stock at date of grant (a)	$ .090	Aggregate estimated fair value of options at date of grant:	
Weighted average estimated fair value of options per share at date of grant		2nd quarter 2004	$ —
	$ .074	1st quarter 2004	$ 2,271
		Therics voting stock issued and outstanding at 6/30/04 (all held by Tredegar)	202,830
		Therics stock options outstanding at 6/30/04 (all held by Therics employees)	32,590

(a) Market price or estimated fair value of underlying stock equaled the stock option exercise price at date of grant.

(b) Volatility estimated for Therics based on Orthovita, Inc. (NASDAQ: VITA), a comparable company.

During the first quarter of 2004, we also granted 125,000 shares of restricted Tredegar common stock to senior management. The price on the date of grant was $13.95 per share, and compensation expense of $1.7 million ($1.1 million after taxes) is being amortized over the vesting period of five years, subject to accelerated vesting based on meeting certain financial targets.

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

	Pension Benefits for 3 Months Ended June 30		Other Post-Retirement Benefits for 3 Months Ended June 30	
(In Thousands)	**2004**	**2003**	**2004**	**2003**
Service cost	$ (1,456)	$ (1,396)	$ (29)	$ (26)
Interest cost	(3,266)	(2,810)	(140)	(150)
Employee contributions	101	83	—	—
Other	(29)	(25)	—	—
Expected return on plan assets	5,998	5,442	—	—
Amortization of prior service costs, gains or losses and net transition asset	(130)	(21)	12	11
Net periodic benefit income (cost)	$ 1,218	$ 1,273	$ (157)	$ (165)

	Pension Benefits for 6 Months Ended June 30		Other Post-Retirement Benefits for 6 Months Ended June 30	
(In Thousands)	**2004**	**2003**	**2004**	**2003**
Service cost	$ (2,643)	$ (2,781)	$ (57)	$ (51)
Interest cost	(6,022)	(5,597)	(279)	(299)
Employee contributions	157	166	—	—
Other	(45)	(50)	—	—
Expected return on plan assets	11,140	10,837	—	—
Amortization of prior service costs, gains or losses and net transition asset	(234)	(41)	25	20
Net periodic benefit income (cost)	$ 2,353	$ 2,534	$ (311)	$ (330)

We expect required contributions to our pension plans to be less than $500,000 in 2004. We fund our other post-retirement benefits (life insurance and health benefits) on a claims-made basis, which were $443,000 in 2003 and $321,000 in 2002. We expect higher cost trends to continue in this area in 2004. On December 8, 2003, the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the "Act") was signed into law. We have not yet determined if our prescription drug benefits are actuarially equivalent to the Act and when any federal subsidies would apply. Accordingly, our postretirement benefit obligation and related net periodic benefit cost do not reflect the possible effects of the Act on our benefit programs.

8. Information by business segment is reported below. There are no accounting transactions between segments and no allocations to segments. There have been no significant changes to identifiable assets by segment. Net sales (sales less freight) and operating profit from ongoing operations are the measures of sales and operating profit used by the chief operating decision maker of each segment for purposes of assessing performance.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2004	**2003**	**2004**	**2003**
Net Sales				
Film Products	$ 101,484	$ 88,410	$ 197,370	$ 181,794
Aluminum Extrusions	108,981	88,632	204,176	173,105
Therics	120	—	131	—
Total net sales	210,585	177,042	401,677	354,899
Add back freight	5,468	4,532	10,295	8,720
Sales as shown in the Consolidated Statements of Income	$ 216,053	$ 181,574	$ 411,972	$ 363,619
Operating Profit				
Film Products:				
Ongoing operations	$ 10,863	$ 10,104	$ 20,887	$ 24,032
Plant shutdowns, asset impairments and restructurings	(4,834)	(2,609)	(6,037)	(2,694)
Aluminum Extrusions:				
Ongoing operations	8,281	4,855	11,964	6,066
Plant shutdowns, asset impairments and restructurings	(146)	(388)	(9,726)	(388)
Therics:				
Ongoing operations	(2,543)	(3,306)	(5,034)	(6,603)
Restructurings	(1,024)	(1,704)	(1,024)	(1,704)
Unusual items	—	—	—	(1,067)
Total	10,597	6,952	11,030	17,642
Interest income	72	409	146	833
Interest expense	598	1,683	1,521	3,786
Gain on the sale of corporate assets	413	—	6,547	—
Corporate expenses, net	2,322	3,065	4,303	4,510
Income before income taxes	8,162	2,613	11,899	10,179
Income taxes	2,983	932	4,291	3,639
Income from continuing operations	5,179	1,681	7,608	6,540
Income (loss) from discontinued operations	—	891	—	(48,625)
Net income (loss)	$ 5,179	$ 2,572	$ 7,608	$ (42,085)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Executive Summary

Tredegar is a manufacturer of plastic films and aluminum extrusions. We also are developing and marketing bone graft substitutes through our Therics subsidiary. Tredegar's history includes a wide range of businesses. Some of these businesses were part of our spin-off from NewMarket Corporation (NYSE: NEU) (formerly Ethyl Corporation) in July of 1989, some were acquired and some were divested. We expect that our future will continue to include a portfolio of businesses, with particular emphasis on companies that have unique and sustainable technologies, products and services in attractive end markets.

Income from continuing operations was $5.2 million (14 cents per diluted share) in the second quarter of 2004 compared with $1.7 million (4 cents per diluted share) in 2003. For the first six months of 2004, income from continuing operations was $7.6 million (20 cents per diluted share) compared with $6.5 million (17 cents per diluted share) in 2003. Gains on the sale of corporate assets, losses related to unusual items, plant shutdowns, assets impairments and restructurings and discontinued operations are described in Note 2 on page 5. The business segment review begins on page 18.

The increase in second-quarter earnings was led by our aluminum extrusions business, where improved market conditions, higher volume and cost reductions boosted profits. Volume and profits in Film Products were also up, and we remain optimistic that near-term opportunities will lead to meaningful profit growth in this business by the end of this year or early 2005. We continue to monitor Therics closely and hope to see further acceptance of its new bone void filler products during the second half of 2004.

During the first quarter of 2004, we received tax refunds of approximately $55 million related to the sale of our venture capital investments (see Note 2 on page 5) and used $50 million to repay revolving credit debt in April 2004. Net capitalization and other credit measures are provided in the liquidity and capital resources section beginning on page 20.

Critical Accounting Policies

In the ordinary course of business, we make a number of estimates and assumptions relating to the reporting of results of operations and financial position in the preparation of financial statements in conformity with generally accepted accounting principles. We believe the estimates, assumptions and judgments described in the section "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies" of our Annual Report on Form 10-K for the year ended December 31, 2003, have the greatest potential impact on our financial statements, so we consider these to be our critical accounting policies. These policies include our accounting for impairment of long-lived assets and goodwill, pension benefits and deferred tax assets. These policies require management to exercise judgments that are often difficult, subjective and complex due to the necessity of estimating the effect of matters that are inherently uncertain. Actual results could differ significantly from those estimates under different assumptions and conditions. We believe the consistent application of these policies enables us to provide readers of our financial statements with useful and reliable information about our operating results and financial condition. There has been no significant change in these policies, or the estimates used in the application of these policies since our 2003 fiscal year-end.

Results of Operations

Second Quarter 2004 Compared with Second Quarter 2003

Overall, sales in the second quarter of 2004 increased 19% compared with 2003. Net sales (sales less freight) increased 14.8% in Film Products and 23% in Aluminum Extrusions due to higher volume (up 8.6% in Film Products and 7.7% in Aluminum Extrusions) and higher raw material-driven selling prices. For more information on net sales and volume, see the business segment review beginning on page 18.

Gross profit (sales minus cost of goods sold and freight) as a percentage of sales increased to 15.3% in the second quarter of 2004 from 15.0% in 2003. At Film Products, a slightly lower gross profit margin was driven primarily by higher raw material-driven selling prices, and partially offset by higher overall gross profit. At Aluminum Extrusions, the gross profit margin increased primarily due to higher volume, operating leverage (generally constant fixed costs until full capacity utilization is achieved) and improved operating efficiencies.

As a percentage of sales, selling, general and administrative ("SG&A") expenses increased slightly to 6.9% compared with 6.8% in 2003.

Research and development ("R&D") expenses declined to $3.8 million in the second quarter of 2004 from $5.1 million in 2003. R&D spending at Therics declined to $1.9 million in 2004 from $3.1 million in 2003 due to cost reduction efforts and the classification of certain costs as operating versus R&D consistent with the commercialization of the company's new bone void filler products. R&D spending at Film Products was $1.9 million in 2004 and 2003.

Losses associated with plant shutdowns, asset impairments and restructurings and gains from the sale of corporate assets are described in the six months review beginning on page 15.

For more information on costs and expenses, see the business segment review beginning on page 18. See Note 2 on page 5 for information on discontinued operations.

Interest income, which is included in "Other income (expense), net" in the consolidated statements of income, was $72,000 in 2004 and $409,000 in 2003. Interest income was down primarily due to lower average cash and cash equivalents balances (excess cash was used to repay debt in conjunction with our debt refinancing in October 2003). 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 our policy are safety of principal and liquidity.

Interest expense declined to $598,000 in the second quarter of 2004 compared with $1.7 million in 2003. Average debt outstanding and interest rates were as follows:

	Three Months Ended June 30	
(In Millions)	2004	2003
Floating-rate debt with interest charged on a rollover basis at one-month LIBOR:		
Average outstanding debt balance	$ 88.3	$ 186.5
Average interest rate	2.4%	2.0%
Floating-rate debt fixed via interest rate swaps in the second quarter of 2001 and maturing in the second quarter of 2003:		
Average outstanding debt balance	$ —	$ 40.4
Average interest rate	—	5.4%
Fixed-rate and other debt:		
Average outstanding debt balance	$ 5.3	$ 9.3
Average interest rate	7.9%	7.2%
Total debt:		
Average outstanding debt balance	$ 93.6	$ 236.2
Average interest rate	2.7%	2.8%

The effective tax rate from continuing operations was 36.5% in the second quarter of 2004, up from 35.7% in 2003. The increase is primarily due to an effective tax benefit recognized at 30.3% on the expected loss on the sale of our films operations in Argentina, partially offset by a higher proportion of income from foreign operations and favorable differences between foreign and U.S. effective tax rates.

Six Months 2004 Compared with Six Months 2003

Overall, sales in the first six months of 2004 increased 13.3% compared with 2003. Net sales (sales less freight) increased 8.6% in Film Products and 17.9% in Aluminum Extrusions due to higher volume (up 1% in Film Products and 7.6% in Aluminum Extrusions) and higher raw material-driven selling prices. For more information on net sales and volume, see the business segment review beginning on page 18.

Gross profit (sales minus cost of goods sold and freight) as a percentage of sales decreased to 14.7% in the first six months of 2004 from 15.3% in 2003. At Film Products, an overall lower gross profit margin was driven primarily by the loss of certain domestic backsheet business at the end of the first quarter of 2003, higher manufacturing costs on new products and slower than expected new product sales. At Aluminum Extrusions, the gross profit margin increased primarily due to higher volume, operating leverage (generally constant fixed costs until full capacity utilization is achieved) and improved operating efficiencies.

As a percentage of sales, SG&A expenses were flat at 6.9%.

R&D expenses declined to $8.1 million in the first six months of 2004 from $10.4 million in 2003. R&D spending at Therics declined to $4.3 million in 2004 from $6.3 million in 2003 due to cost reduction efforts and the classification of certain costs as operating versus R&D consistent with the commercialization of the company's new bone void filler products. R&D spending at Film Products was $3.8 million in 2004, down from $4 million in 2003.

Losses associated with plant shutdowns, asset impairments and restructurings in the first six months of 2004 include:

- A second-quarter pretax charge of $2.7 million for a write-down to net realizable value of the films business in Argentina held for sale (see table on page 6 for the net assets of this business);
- A second-quarter pretax charge of $994,000 and a first-quarter pretax charge of $666,000 related to accelerated depreciation from plant shutdowns and restructurings in Film Products;
- A second-quarter pretax charge of $879,000 related to the estimated loss on the sub-lease of a portion of the Therics facility in Princeton, New Jersey;
- Second-quarter pretax charges of $575,000 in Film Products and $146,000 in Aluminum Extrusions related to asset impairments;
- A second-quarter pretax charge of $300,000 and a first-quarter pretax charge of $537,000 related to severance and other employee-related costs associated with the planned shutdown of the films manufacturing facility in New Bern, North Carolina (these costs relate to 65 people and are being recognized over their remaining service period and we anticipate recognizing additional shutdown-related costs of approximately $2 million during the second half of 2004);

- A second-quarter pretax charge of $300,000 related to the estimated loss on the sale of the previously shutdown films manufacturing facility in Manchester, Iowa;
- A second-quarter pretax charge of $145,000 related to severance at Therics; and
- A first-quarter pretax charge of $9.6 million related to the planned shutdown of an aluminum extrusions facility in Aurora, Ontario, including asset impairment charges of $7.1 million and severance and other employee-related costs of $2.5 million (these costs are contractually-related for 110 people and have been immediately accrued and we anticipate recognizing additional shutdown-related costs of $2.3 million over the next 7 months).

Losses associated with plant shutdowns, asset impairments and restructurings in the first six months of 2003 include:

- Second-quarter pretax charges for severance costs in connection with restructurings in Film Products ($1.6 million), Therics ($1.2 million) and at corporate headquarters ($1.2 million; included in "Corporate expenses, net" in the operating profit by segment table on page 18);
- A second-quarter pretax charge of $956,000 for asset impairments in Film Products;
- A second-quarter pretax charge of $388,000 related to an early retirement program for 10 people in Aluminum Extrusions;
- A second-quarter pretax charge of $549,000 related to the estimated loss on the sub-lease of a portion of the Therics facility in Princeton, New Jersey; and
- A second-quarter pretax charge of $53,000 and a first-quarter pretax charge of $85,000 for additional costs incurred related to a previously announced plant shutdowns in Film Products.

We continue to focus on reducing costs and aligning our structure to meet the needs of our customers. Two areas that will generate savings are the shutdown of the films plant in New Bern, North Carolina (expected by early October) and the shutdown of the aluminum plant in Aurora, Ontario (expected in the first quarter of 2005). Annual cost savings from these moves are expected of about $4 million in Film Products and $2 million in Aluminum Extrusions. Related incremental cash expenditures to achieve these savings, some of which has already been spent, are about $7 million in Film Products and about $8 million in Aluminum Extrusions.

The gain on sale of corporate assets in 2004 includes a second-quarter pretax gain on the sale of land of $413,000 and a first-quarter pretax gain on the sale of public equity securities of $6.1 million. These gains are included in "Other income (expense), net" in the consolidated statements of income and separately shown in the operating profit by segment table on page 18. There were no public equity

securities held at June 30, 2004. There were no gains on the sale of corporate assets in the first half of 2003.

Unusual items in 2003 include a first-quarter pretax charge of $1.1 million related to an adjustment for depreciation at Therics based on Tredegar's decision to suspend divestiture efforts. There were no unusual items in the first half of 2004.

For more information on costs and expenses, see the business segment review beginning on page 18. See Note 2 on page 5 for information on discontinued operations.

Interest income, which is included in "Other income (expense), net" in the consolidated statements of income, was $146,000 in 2004 and $833,000 in 2003. Interest income was down primarily due to lower average cash and cash equivalents balances (excess cash was used to repay debt in conjunction with our debt refinancing in October 2003).

Interest expense declined to $1.5 million in the first six months of 2004 compared with $3.8 million in 2003. Average debt outstanding and interest rates were as follows:

	Six Months Ended June 30	
(In Millions)	**2004**	**2003**
Floating-rate debt with interest charged on a rollover basis at one-month LIBOR:		
Average outstanding debt balance	$ 113.2	$ 175.6
Average interest rate	2.4%	2.0%
Floating-rate debt fixed via interest rate swaps in the second quarter of 2001 and maturing in the second quarter of 2003:		
Average outstanding debt balance	$ —	$ 57.5
Average interest rate	—	5.4%
Fixed-rate and other debt:		
Average outstanding debt balance	$ 5.4	$ 9.7
Average interest rate	6.7%	7.2%

Total debt:		
Average outstanding debt balance	$ 118.6	$ 242.8
Average interest rate	2.6%	3.0%

The effective tax rate from continuing operations was 36.1% in the first six months of 2004, up from 35.8% in 2003. The increase is primarily due to an effective tax benefit recognized at 30.3% on the expected loss on the sale of our films operations in Argentina, partially offset by a higher proportion of income from foreign operations and favorable differences between foreign and U.S. effective tax rates.

Business Segment Review

The following tables present Tredegar's net sales and operating profit by segment for the second quarter and first six months of 2004 and 2003:

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

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
Net Sales				
Film Products	$ 101,484	$ 88,410	$ 197,370	$ 181,794
Aluminum Extrusions	108,981	88,632	204,176	173,105
Therics	120	—	131	—
Total net sales	210,585	177,042	401,677	354,899
Add back freight	5,468	4,532	10,295	8,720
Sales as shown in the Consolidated Statements of Income	$ 216,053	$ 181,574	$ 411,972	$ 363,619
Operating Profit				
Film Products:				
Ongoing operations	$ 10,863	$ 10,104	$ 20,887	$ 24,032
Plant shutdowns, asset impairments and restructurings	(4,834)	(2,609)	(6,037)	(2,694)
Aluminum Extrusions:				
Ongoing operations	8,281	4,855	11,964	6,066
Plant shutdowns, asset impairments and restructurings	(146)	(388)	(9,726)	(388)
Therics:				
Ongoing operations	(2,543)	(3,306)	(5,034)	(6,603)
Restructurings	(1,024)	(1,704)	(1,024)	(1,704)
Unusual items	—	—	—	(1,067)
Total	10,597	6,952	11,030	17,642
Interest income	72	409	146	833
Interest expense	598	1,683	1,521	3,786
Gain on the sale of corporate assets	413	—	6,547	—
Corporate expenses, net	2,322	3,065	4,303	4,510
Income before income taxes	8,162	2,613	11,899	10,179
Income taxes	2,983	932	4,291	3,639
Income from continuing operations	5,179	1,681	7,608	6,540
Income (loss) from discontinued operations	—	891	—	(48,625)
Net income (loss)	$ 5,179	$ 2,572	$ 7,608	$ (42,085)

Net sales (sales less freight) and operating profit from ongoing operations are the measures of sales and operating profit used by the chief operating decision maker of each segment for purposes of assessing performance.

Second-quarter net sales in Film Products were $101.5 million, up 14.8% from $88.4 million in 2003. Operating profit from ongoing operations was $10.9 million, up 7.5% from $10.1 million last year. Volume for the quarter increased 8.6% to 71.2 million pounds from 65.5 million pounds in 2003.

On a sequential basis, net sales, operating profit from ongoing operations and volume in the first quarter of 2004 were $95.9 million, $10.0 million and 69.1 million pounds, respectively.

Film Products has successfully introduced a variety of new elastic diaper laminates and feminine hygiene topsheet products to several global customers, and sales of new packaging and specialty films are increasing. We remain optimistic that near-term opportunities will lead to meaningful profit growth in this business by the end of this year or early 2005.

We continue to invest aggressively to support new global growth opportunities. The ongoing success of The Procter & Gamble Company's (P&G) new feminine pad topsheet, which was rolled out in Europe and Japan in 2003, is leading to new opportunities in other regions. While current capacity is sufficient to meet near-term demand, Film Products is increasing planned 2004 capital spending from $40 million to $55 million to support additional growth expectations for this product. This increase in capital expenditures is tied to contractual commitments. Capital spending in Film Products in the first six months of 2004 totaled $21.2 million compared with $21.5 million in 2003. More information on capital expenditures is provided in the liquidity and capital resources section beginning on page 20.

Year-to-date net sales in Film Products were $197.4 million versus $181.8 million in 2003. Operating profit from ongoing operations was $20.9 million compared to $24.0 million in 2003. Year-to-date volume increased slightly to 140.3 million pounds from 138.8 million pounds. Prior year results include sales of certain domestic backsheet that were discontinued at the end of the first quarter of 2003.

Second-quarter net sales in Aluminum Extrusions were $109.0 million, up 23% from $88.6 million in 2003. Volume was up 7.7% to 62.0 million pounds from 57.6 million pounds in 2003. Operating profit from ongoing operations increased 70.6% to $8.3 million from $4.9 million in 2003. The profit increase was driven by volume growth, higher selling prices and improved operating efficiencies. Shipments were up in all end markets, with the strongest growth in the commercial building and construction, transportation, and machinery and equipment sectors. Improved operating efficiencies included higher extrusion press productivity, some of which is related to higher volume levels.

Year-to-date net sales in Aluminum Extrusions were $204.2 million, up 17.9% from $173.1 million in 2003. Operating profit from ongoing operations for the six-month period nearly doubled to $12.0 from $6.1 in 2003. Year-to-date volume increased 7.6% to 120.0 million pounds, up from 111.6 million pounds in 2003. Trends on a year-to-date basis are consistent with second quarter results.

Capital expenditures in Aluminum Extrusions totaled $3 million for the first half of 2004 and are expected to be approximately $15 million for the year. Capital expenditures related to ongoing support and continuity is about $10 million annually, or approximately the same level as depreciation ($10.9 million in 2003). Capital expenditures expected in 2004 in excess of ongoing support and continuity is primarily due to the consolidation of some of our Canadian operations, including closing the plant in Aurora, Ontario. We plan to move the Aurora plant's largest press to the plant in Pickering, Ontario, and invest $8 million to upgrade the press and enlarge the facility. This consolidation is expected to reduce annual operating costs by approximately $2 million.

The second-quarter operating loss from ongoing operations at Therics was $2.5 million compared to a loss of $3.3 million in 2003. Therics launched its initial product line earlier this year. Net sales were $120,000 for the quarter, up from $11,000 in the first quarter. The year-to-date operating loss was $5.0 million compared to $6.6 million in 2003. Quarterly operating losses are expected to continue at about the second-quarter level until meaningful sales are achieved.

Liquidity and Capital Resources

Tredegar's total assets decreased to $716.4 million at June 30, 2004, from $753 million at December 31, 2003. In the first half of 2004, we received tax refunds of about $55 million related to the sale of the venture capital portfolio (see Note 2 on page 5) and used $50 million to repay revolver debt in April 2004. Other significant changes in balance sheet items since December 31, 2003, are summarized below:

- Accounts receivable increased by $28.7 million due primarily to seasonal year-end lows in Aluminum Extrusions and higher net sales for all businesses (net sales for the second quarter were up $33.5 million compared to the fourth quarter of 2003, and days sales outstanding remains in the 50-day range in Film Products and 45-day range in Aluminum Extrusions);

- Income taxes recoverable declined by $58.6 million due primarily to the receipt of the income tax refund related to the sale of the venture capital portfolio;

- Net property, plant and equipment declined by $4 million due primarily to the $7.1 million asset impairment recognized in the first quarter on the planned shutdown of the aluminum plant in Aurora, Ontario and other asset impairments during the first six months of 2004 in Film Products totaling $2.5 million, partially offset by capital expenditures in excess of depreciation of $8.6 million; and

- Accounts payable and accrued expenses increased $16.8 million due primarily to the timing of payments, higher raw material costs (resin and aluminum prices are up since the fourth quarter) and higher purchases in support of higher sales volume.

Cash provided by operating activities was $69.1 million in the first half of 2004 compared with $47.4 million in 2003. The increase is due primarily to the income tax refund, partially offset by higher working capital in the first half of 2004 compared with 2003 due to higher sales.

Cash used in investing activities was $16.4 million in the first half of 2004 compared with $7.5 million in 2003. The change is primarily attributable to proceeds from the sale of corporate assets and property disposals of $7.8 million in the first half of 2004 compared with proceeds from the sale of venture capital investments, net of investments made, of $18.7 million in 2003.

Capital expenditures in the first half of 2004 reflect the normal replacement of machinery and equipment and:

- Expansion of production capacity for apertured topsheet films (used in feminine hygiene pads) at our plant in Kerkrade, The Netherlands;
- Expansion of production capacity for elastic films (used as components in personal care products) at our plant in Lake Zurich, Illinois;
- Upgrade of production capacity for photopolymer films (used to protect circuit boards during the manufacturing process) at our plant in Lake Zurich, Illinois;
- Implementation of a new information system in Film Products;
- Construction of a new films plant in Guangzhou, China; and
- Expansion of capacity at our films plant in Shanghai, China.

Capital expenditures for all of 2004 are expected of about $55 million in Film Products and about $15 million in Aluminum Extrusions. See the business segment review beginning on page 18 for more information.

Net capitalization and indebtedness as defined under our Credit Agreement as of June 30, 2004 are as follows:

Net Capitalization and Indebtedness as of June 30, 2004
(In Thousands)

Net capitalization:	
Cash and cash equivalents	$ 19,168
Debt:	
Credit Agreement:	
Revolver	14,000
Term loan	69,375
Other debt	5,405
Total debt	88,780
Debt net of cash and cash equivalents	69,612
Shareholders’ equity	448,157
Net capitalization	$ 517,769
Indebtedness as defined in Credit Agreement:	
Total debt	$ 88,780
Face value of letters of credit	6,722
Indebtedness	$ 95,502

Under the Credit Agreement, revolving credit borrowings are permitted up to $125 million, and $110 million was unused at June 30, 2004. The credit spread and commitment fees charged on the unused amount under the Credit Agreement at various indebtedness-to-adjusted EBITDA levels are as follows:

Pricing Under Credit Agreement (Basis Points)

Indebtedness-to-Adjusted EBITDA Ratio	Credit Spread Over LIBOR		Commitment Fee
	Revolver	Term Loan	
> 2x but <= 3x	150	150	30

> 1x but <= 2x	125	125	25
<= 1x	100	100	20

At June 30, 2004, the interest cost on debt under the Credit Agreement was priced at one-month LIBOR plus the applicable credit spread of 125 basis points.

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

Computations of Adjusted EBITDA, Adjusted EBIT, Leverage Ratio and Interest Coverage Ratio as Defined in Credit Agreement Along with Related Most Restrictive Covenants As of June 30, 2004 (In Thousands)

Computations of adjusted EBITDA and adjusted EBIT as defined in Credit Agreement for the twelve months ended June 30, 2004:	
Net income	$ 23,342
Plus:	
After-tax losses related to discontinued operations	—
Total income tax expense for continuing operations	11,369
Interest expense	4,520
Depreciation and amortization expense for continuing operations	33,115
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 before maximum adjustment of $7,952)	22,246
Minus:	
After-tax income related to discontinued operations	(2,947)
Total income tax benefits for continuing operations	—
Interest income	(496)
All non-cash gains and income, plus cash gains and income not to exceed $10,000, for continuing operations that are classified as unusual, extraordinary or which are related to plant shutdowns, asset impairments and/or restructurings (cash-related before maximum adjustment of $13,087)	(10,000)
Plus or minus, as applicable, pro forma EBITDA adjustments associated with acquisitions and asset dispositions	118
Adjusted EBITDA as defined in Credit Agreement	81,267
Less: Depreciation and amortization expense for continuing operations (including pro forma for acquisitions and asset dispositions)	(33,151)
Adjusted EBIT as defined in Credit Agreement	$ 48,116
Computations of leverage and interest coverage ratios as defined in Credit Agreement:	
Leverage ratio (indebtedness-to-adjusted EBITDA)	1.18x
Interest coverage ratio (adjusted EBIT-to-interest expense)	10.65x
Most restrictive covenants as defined in Credit Agreement:	
Maximum permitted aggregate amount of dividends that can be paid by Tredegar during the term of the Credit Agreement	$ 100,000
Minimum adjusted shareholders’ equity permitted (increases by 50% of net income generated after September 30, 2003)	333,462
Maximum leverage ratio permitted:	
Ongoing	3.00x
Pro forma for acquisitions	2.50x
Minimum interest coverage ratio permitted	2.50x

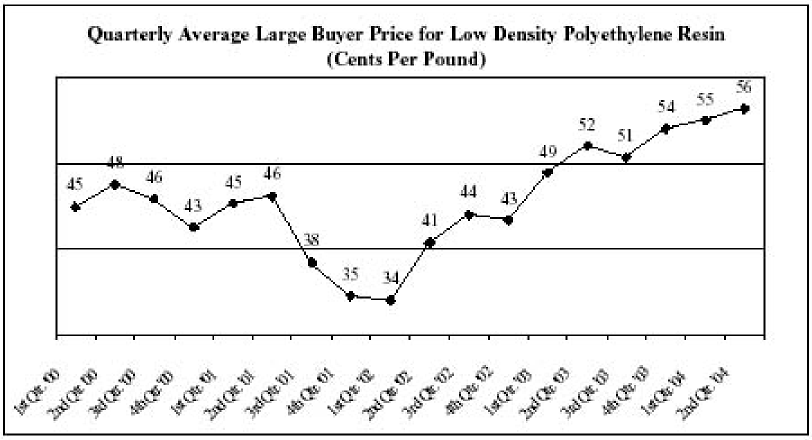
We believe that we are in compliance with all of our debt covenants. Noncompliance with any one or more of the debt covenants may have an adverse effect on financial condition or liquidity in the event such noncompliance cannot be cured or should we be unable to obtain a waiver from the lenders. Renegotiation of 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.

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.

Tredegar has exposure to the volatility of interest rates, polyethylene and polypropylene resin prices, aluminum ingot and scrap prices, energy prices, foreign currencies and emerging markets. See the section on liquidity and capital resources beginning on page 20 regarding Credit Agreement and interest rate exposures.

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

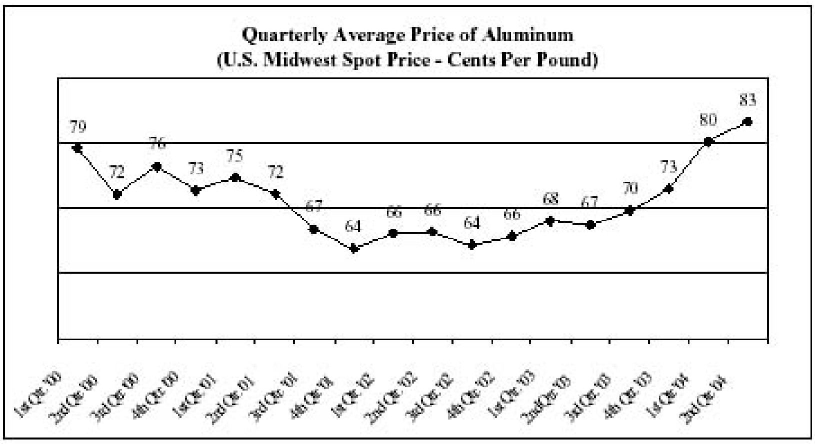
Resin costs for Film Products increased 26% in 2003. The changes in the price of low density polyethylene resin shown in the chart below (a primary raw material for Film Products) are generally reflective of the historical price changes of most of the resins that the company purchases.



Source: Quarterly averages computed by Tredegar using monthly data provided by Chemical Data Inc.

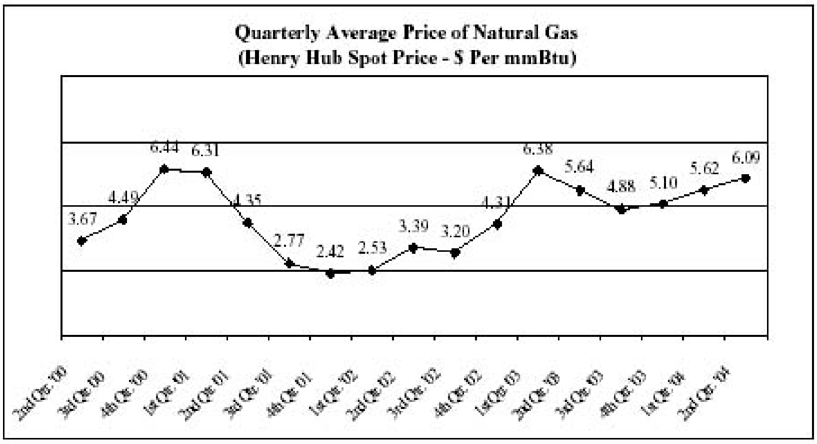
The price of resin is driven by several factors including supply and demand and the price of natural gas, ethane and ethylene. For a portion of the volume in Film Products, our most effective means of mitigating resin price fluctuations is by passing on resin price changes to customers. Some pass-through arrangements are on a time lag, where the impact of movement in resin prices is recovered in the subsequent quarter or quarters. Many of the mechanisms for pass-through with our customers are based on published prices. We estimate that pass-through arrangements have reduced the effects of resin price volatility by about 45% since the third quarter of 2001, with the remaining exposure resulting in a possible impact on quarterly operating profit of as much as $2 million.

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



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

In Aluminum Extrusions, we hedge from time-to-time a portion of our exposure to natural gas price volatility (see the chart below) by entering into fixed-price forward purchase contracts with our natural gas suppliers. During the first quarter of 2004, we had forward contracts with natural gas suppliers covering approximately 65% of our needs with an average fixed price of $5.38 per mmBtu. We had no forward contracts outstanding during the second quarter of 2004. We estimate that, in an unhedged situation, every $1 per mmBtu per month change in the market price of natural gas has a $150,000 impact on the monthly operating profit of Aluminum Extrusions.



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

We sell to customers in foreign markets through our foreign operations and through exports from U.S. plants. The percentage of sales from manufacturing operations related to foreign markets for the first half of 2004 and 2003 are as follows:

Percentage of Net Sales from Manufacturing Operations Related to Foreign Markets*

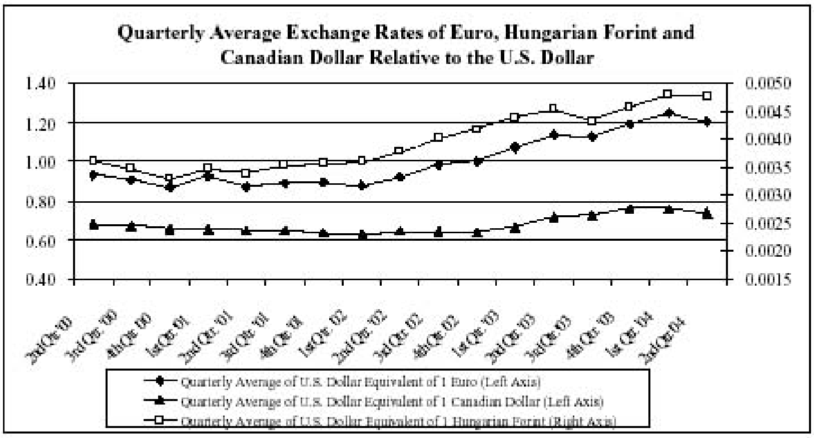
	Six Months Ended June 30			
	2004		2003	
	Exports From U.S.	Foreign Operations	Exports From U.S.	Foreign Operations
Canada	4%	17%	4%	18%
Europe	3	12	3	12
Latin America	2	2	3	2
Asia	3	3	3	2
Total	12%	34%	13%	34%

* Based on consolidated net sales from manufacturing operations (excludes Therics and discontinued operations).

We attempt to match the pricing and cost of our products in the same currency (except in Canada where about 70% of our sales of aluminum extrusions are U.S. Dollar-based) and generally view the volatility of foreign currencies and emerging markets, and the corresponding impact on earnings and cash flow, as part of the overall risk of operating in a global environment. Exports from the U.S. are generally denominated in U.S. Dollars. Our foreign currency exposure on income from foreign operations in Europe primarily relates to the Euro and the Hungarian Forint.

The relatively high percentage of U.S. Dollar-priced sales in Canada is partly due to the shifting of a large portion of the customers previously served by the aluminum extrusions plant in El Campo, Texas, in 2001. The resulting mismatch between the currency denomination of sales and costs causes lower U.S. Dollar translated profits when the Canadian Dollar appreciates since our costs are higher in U.S. Dollar equivalent terms while sales are mostly unaffected (the opposite effect occurs when the Canadian Dollar depreciates in value relative to the U.S. Dollar). We estimate that the appreciation of the Canadian Dollar relative to the U.S. Dollar during the first half of 2004 (up on average by 8.4% in the first half of 2004 compared with 2003 and 1% when comparing June 30, 2004 and 2003 exchange rates) had an adverse impact on the operating profit in Aluminum Extrusions of about $1.4 million compared with 2003. In Film Products, where we have been able to better match the currency of our sales and costs, we estimate that the appreciation of the Euro and Hungarian Forint relative to the U.S. Dollar in the first half of 2004 (up on average by 11.1% and 7.5%, respectively, in the first half of 2004 compared with 2003 and 6% and 12.5%, respectively, when comparing June 30, 2004 and 2003 exchange rates) had a positive impact on the operating profit in Film Products of about $500,000 compared with 2003.

We are continuing to review the loading of our aluminum extrusions plants in North America to optimize production mix and minimize cost in light of the increase in the U.S. Dollar equivalent cost structure of our plants in Canada.



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

Forward-Looking and Cautionary Statements

From time to time, we may make statements that may constitute "forward-looking statements" within the meaning of the "safe-harbor" provisions of the Private Securities Litigation Reform Act of 1995. 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. Factors that may cause such a difference include, but are not limited to the following:

General

- ***Our future performance is influenced by costs incurred by our operating companies including, for example, the cost of energy and raw materials.*** There is no assurance that we will be able to offset fully the effects of higher raw material costs through price increases. Further, there is no assurance that cost control efforts will be sufficient to offset any additional future declines in revenue or increases in energy, raw material or other costs.

- ***As part of our business strategy, we expect to pursue acquisitions of businesses or investments that have unique and sustainable technologies, products and services in attractive end markets.*** The success of this strategy will depend upon our ability to identify, acquire and finance such businesses and to achieve planned synergies and operating results, none of which can be assured.

Film Products

- ***Film Products is highly dependent on sales associated with one customer, P&G****.* P&G comprised 29% of Tredegar's net sales in 2003, 33% in 2002 and 31% in 2001. The loss or significant reduction of sales associated with P&G would have a material adverse effect on our business, as would delays in P&G rolling out products utilizing new technologies developed by Tredegar. While we have undertaken efforts to expand our customer base, there can be no assurance that such efforts will be successful, or that they will offset any delay or loss of sales and profits associated with P&G.

- ***Growth of Film Products depends on our ability to develop and deliver new products, especially in the personal care market****.* Personal care products are now being made with a variety of new materials, replacing traditional backsheet and other components. While we have substantial technical resources, there can be no assurance that our new products can be brought to market successfully, or if brought to market successfully, at the same level of profitability and market share of replaced films. A shift in customer preferences away from our technologies, our inability to develop and deliver new profitable products, or delayed acceptance of our new products in domestic or foreign markets, could have a material adverse effect on our business.

- ***Film Products operates in a field where our significant customers and competitors have substantial intellectual property portfolios****.* The continued success of this business depends on our ability not only to protect our own technologies and trade secrets, but also to develop and sell new products that do not infringe upon existing patents. Although we are not currently involved in any patent litigation, an unfavorable outcome of any such action could have a significant adverse impact on Film Products.

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

Aluminum Extrusions

- ***Sales volume and profitability of Aluminum Extrusions is cyclical and highly dependent on economic conditions of end-use markets in the United States and Canada, particularly in the construction, distribution and transportation industries.*** Our market segments are also subject to seasonal slowdowns during the winter months. From 1992 to the second quarter of 2000, profits in Aluminum Extrusions grew as a result of positive economic conditions in the markets we serve and manufacturing efficiencies. However, a slowdown in these markets in the second half of 2000 resulted in a 13% decline in sales volume and 28% decline in ongoing operating profit compared with the second half of 1999. The aluminum extrusions industry continued to be affected by poor economic conditions in 2001 and 2002. Our sales volume declined 23% and operating profit declined 49% in 2002 compared with 2000. In 2001, our sales volume declined 20% and operating profit declined 52% compared with 2000. The decline in ongoing operating profit during these periods at approximately two to three times the rate of the decline in sales volume illustrates the operating leverage inherent in our operations (fixed operating costs). Moreover, in 2003 higher energy and insurance costs and the appreciation of the Canadian Dollar against the U.S. Dollar had an adverse impact on operating profits. Any benefits associated with cost reductions and productivity improvements may not be sufficient to offset the adverse effects on profitability from pricing and margin pressure and higher bad debts that usually accompany a downturn.

- ***The markets for our products are highly competitive with product quality, service and price being the principal competitive factors***. As competitors increase capacity or reduce prices to increase business, there could be pressure to reduce prices to our customers. Aluminum Extrusions is under increasing domestic and foreign competitive pressures, including a growing presence of Chinese and other foreign imports in a number of markets. This competition could result in loss of market share due to a competitor's ability to produce at lower costs and sell at lower prices. There can be no assurance that we will be able to maintain current margins and profitability. Our continued success and prospects depend on our ability to retain existing customers and participate in overall industry cross-cycle growth.

Therics

- ***Therics has incurred losses since inception, and we are unsure when, or if, it will become profitable.*** We are in the initial stages of commercializing certain orthobiologic products that have received FDA clearances. There can be no assurance that any of these products can be brought to market successfully.

  The commercialization of new future products will require significant research, development, preclinical and clinical testing, and regulatory approvals. Where potential new products do not advance beyond early product development or do not demonstrate preclinical or clinical efficacy, they will not likely be commercialized. In addition, there can be no assurance that the FDA and other regulatory authorities will clear our products in a timely manner.

- ***Our ability to develop and commercialize products will depend on our ability to internally develop preclinical, clinical, regulatory, manufacturing and sales, distribution and marketing capabilities, or enter into arrangements with third parties to provide those functions***. We may not be successful in developing these capabilities or entering into agreements with third parties on favorable terms. To the extent we rely on third parties for these capabilities, our control over such activities may be reduced which could make us dependent upon these parties. The inability to develop or contract for these capabilities would significantly impair our ability to develop and commercialize products and thus our ability to become profitable.

  Related factors that may impair our ability to develop and commercialize products include our reliance on pre-clinical and clinical data concerning our products and product introductions by competing companies. Likewise, in the event we are unable to manufacture our products efficiently, our ability to commercialize products and thus our operating results will be negatively affected.

  We are relying to a significant degree on a sales force consisting of independent sales agents for the sale and marketing of our products. Market acceptance of our products, and thus our ability to become profitable, is largely dependent upon the competency of this sales force, whether they perform their duties in line with our expectations and their continued willingness to carry our products.

- ***Our ability to develop and commercialize products will depend on market acceptance of those products.*** We are dependent upon the willingness of the medical community to learn about and try our products and then switch from currently used products to our products. In the event the community is reluctant or unwilling to utilize our products, our ability to generate profits will be significantly impaired. Commercial success is also dependent upon third party payor acceptance of our products.

- ***Our ability to develop and commercialize certain products is dependent upon sufficient sources of supply for various raw materials.*** We may not be successful in procuring the types and quantities of raw materials necessary to commercialize certain orthobiologic products, which would significantly impair our ability to become profitable.

- ***Future sales and profits are dependent upon obtaining and maintaining all necessary regulatory approvals.*** We have received clearances from the FDA for certain products as medical devices, which approvals must be maintained in order to commercialize these products. Similar FDA approval will need to be obtained for any new products in order to market those products. In addition, depending upon where we intend to engage in marketing activities, we may need to obtain the necessary approvals from the regulatory agencies of the applicable jurisdictions. Failure to obtain and maintain the necessary regulatory approvals would significantly impair our ability to market our products and thus our ability to generate profits. Likewise, the marketing of our products and our profit generating capability would be impaired in the event approval of one or more of our products is limited or restricted by the FDA, either in conjunction with or subsequent to approval.

- ***We are highly dependent on several principal members of our management and scientific staff***. The loss of key personnel (or the inability to recruit key personnel) could have a material adverse effect on Therics' business and results of operations, and could inhibit product research and development, commercialization and sales and marketing efforts. Failure to retain and recruit executive management in key areas, including sales and marketing and product research and development, could prevent us from achieving our business objectives.

- ***We are dependent upon certain license rights, patents and other proprietary rights.*** Future success is dependent in part on our ability to maintain and enforce license, patent and other proprietary rights. Complex legal and technical issues define the strength and value of our intellectual property portfolio. While we own or license certain patents, the issuance of a patent does not establish conclusively either validity or enforceability.

- ***The patent positions of biotechnology firms generally are highly uncertain and involve complex legal and factual questions that can determine who has the right to develop a particular product***. No clear policy has emerged regarding the breadth of claims covered by biotechnology patents in the U.S. The biotechnology patent situation outside the U.S. is even more uncertain and is currently undergoing review and revision in many countries. Changes in, or different interpretations of, patent laws in the U.S. and other countries might allow others to use our discoveries or to develop and commercialize our products without any compensation to us.

- ***Our business exposes us to potential product liability claims.*** The testing, manufacturing, marketing and sale of our products subject us to product liability risk, an inherent risk for our industry. A successful product liability action against us may have a material adverse effect on our business. Moreover, present insurance coverage may not be adequate to cover potential future product liability claims.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See discussion under "Quantitative and Qualitative Disclosures About Market Risk" beginning on page 23.

Item 4. Controls and Procedures.

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934, we carried out an evaluation, with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (as defined under Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to Tredegar required to be included in our periodic SEC filings.

There has been no change in our internal control over financial reporting during the quarter ended June 30, 2004, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders.

Tredegar's Annual Meeting of Shareholders was held on April 29, 2004. The following sets forth the vote results with respect to each of the matters voted upon by shareholders at the meeting:

(a) *Election of Directors*

Nominee	Number of Votes "For"	Number of Votes "Withheld"
Donald T. Cowles	35,092,113	1,180,017
Richard W. Goodrum	32,472,943	3,799,187
John D. Gottwald	32,681,976	3,590,154
Thomas G. Slater, Jr.	32,489,800	3,782,330

There were no broker non-votes with respect to the election of directors.

The term of office for the following directors continued after the annual meeting and such directors were not up for election at the annual meeting:

Austin Brockenbrough, III
Phyllis Cothran
Floyd D. Gottwald, Jr.
William M. Gottwald
Norman A. Scher

Richard L. Morrill
R. Gregory Williams

(b) *Approval of 2004 Equity Incentive Plan*

Approval of the Tredegar Corporation 2004 Equity Incentive Plan:

Number of Votes "For"	Number of Votes "Against"	Number of Abstentions	Number of Broker Non-Votes
29,389,818	2,361,780	686,456	3,834,076

Item 6. Exhibits and Reports on Form 8-K.

(a) *Exhibit Nos.*

31.1 Certification of Norman A. Scher, President and Chief Executive Officer of Tredegar Corporation, pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of D. Andrew Edwards, Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer) of Tredegar Corporation, pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Norman A. Scher, President and Chief Executive Officer of Tredegar Corporation, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of D. Andrew Edwards, Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer) of Tredegar Corporation, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) *Reports on Form 8-K.*

On April 21, 2004, we furnished a Form 8-K with respect to our first quarter 2004 earnings press release dated April 21, 2004. On July 21, 2004, we furnished a Form 8-K with respect to our second quarter 2004 earnings press release dated July 21, 2004.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Tredegar Corporation
(Registrant)

Date: August 4, 2004

/s/ D. Andrew Edwards

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

EXHIBIT 31.1

Section 302 Certification

I, Norman A. Scher, President and Chief Executive Officer of Tredegar Corporation, certify that:

(1) I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 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)) 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) [Omitted in reliance on SEC Release No. 33-8238; 34-47986 Section III.E.]

(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: August 4, 2004

/s/ Norman A. Scher

Norman A. Scher
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

Section 302 Certification

I, D. Andrew Edwards, Vice President, Chief Financial Officer and Treasurer of Tredegar Corporation, certify that:

(1) I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 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)) 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) [Omitted in reliance on SEC Release No. 33-8238; 34-47986 Section III.E.]

(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: August 4, 2004

/s/ D. Andrew Edwards

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

EXHIBIT 32.1

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 Quarterly Report on Form 10-Q of Tredegar Corporation (the “Company”) for the period ending June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Norman A. Scher, 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; 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/ Norman A. Scher

Norman A. Scher
President and Chief Executive Officer
(Principal Executive Officer)
August 4, 2004

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

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 Quarterly Report on Form 10-Q of Tredegar Corporation (the “Company”) for the period ending June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, D. Andrew Edwards, 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/ D. Andrew Edwards

D. Andrew Edwards
Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer)
August 4, 2004

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.