

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2003

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

Indicate by check 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 No

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

The number of shares of Common Stock, no par value, outstanding as of April 30, 2003: 38,227,575.

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

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

| | <u>March 31, 2003</u> | <u>Dec. 31, 2002</u> |
|-------------------------------|---------------------------|--------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 131,662 | \$ 109,928 |
| Accounts and notes receivable | 86,662 | 92,892 |
| Income taxes recoverable | 6,482 | 12,863 |
| Inventories | 43,760 | 43,969 |
| Deferred income taxes | 9,392 | 20,976 |
| Prepaid expenses and other | 4,524 | 3,962 |

| | | |
|--|------------|------------|
| Total current assets | 282,482 | 284,590 |
| Property, plant and equipment, at cost | 529,650 | 505,093 |
| Less accumulated depreciation | 267,403 | 254,490 |
| Net property, plant and equipment | 262,247 | 250,603 |
| Net non-current assets of Therics held for sale | — | 10,406 |
| Venture capital investments | 3,897 | 93,765 |
| Income taxes recoverable related to sale of venture capital investment portfolio | 54,441 | — |
| Other assets and deferred charges | 67,925 | 66,316 |
| Goodwill and other intangibles | 138,205 | 132,282 |
| Total assets | \$ 809,197 | \$ 837,962 |

Liabilities and Shareholders' Equity

| | | |
|---|------------|------------|
| Current liabilities: | | |
| Accounts payable | \$ 40,787 | \$ 35,861 |
| Accrued expenses | 43,297 | 42,409 |
| Current portion of long-term debt | 61,250 | 55,000 |
| Total current liabilities | 145,334 | 133,270 |
| Long-term debt | 185,385 | 204,280 |
| Deferred income taxes | 50,526 | 27,443 |
| Other noncurrent liabilities | 10,200 | 10,037 |
| Total liabilities | 391,445 | 375,030 |
| Shareholders' equity: | | |
| Common stock, no par value | 106,531 | 108,389 |
| Common stock held in trust for savings restoration plan | (1,212) | (1,212) |
| Unrealized gain on available-for-sale securities | — | 586 |
| Foreign currency translation adjustment | (1,371) | (4,422) |
| Loss on derivative financial instruments | (446) | (842) |
| Minimum pension liability | (3,310) | (3,310) |
| Retained earnings | 317,560 | 363,743 |
| Total shareholders' equity | 417,752 | 462,932 |
| Total liabilities and shareholders' equity | \$ 809,197 | \$ 837,962 |

See accompanying notes to financial statements.

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

| | Three Months Ended March 31 | |
|-------------------------------------|--------------------------------|------------|
| | 2003 | 2002 |
| Revenues: | | |
| Net sales | \$ 177,857 | \$ 173,709 |
| Other income (expense), net | 723 | 50 |
| Total | 178,580 | 173,759 |
| Costs and expenses: | | |
| Cost of goods sold | 149,501 | 137,400 |
| Selling, general and administrative | 12,888 | 11,877 |

| | | |
|--|-------------------|---------------|
| Research and development | 5,303 | 5,616 |
| Amortization of intangibles | 67 | 67 |
| Interest | 2,103 | 2,188 |
| Unusual items | 1,152 | 996 |
| | <hr/> | <hr/> |
| Total | 171,014 | 158,144 |
| | <hr/> | <hr/> |
| Income from continuing operations before income taxes | 7,566 | 15,615 |
| Income taxes | 2,707 | 5,556 |
| | <hr/> | <hr/> |
| Income from continuing operations | 4,859 | 10,059 |
| Discontinued operations: | | |
| Loss from venture capital investment activities (net of tax of \$21.3 million in 2003 and \$4 million in 2002 and including an expected loss on the sale of the venture capital investment portfolio of \$49.2 million in 2003) | (49,516) | (7,169) |
| Loss from operations of Molecumetics (net of tax of \$1.2 million) | — | (2,307) |
| | <hr/> | <hr/> |
| Loss from discontinued operations | (49,516) | (9,476) |
| | <hr/> | <hr/> |
| Net income (loss) | \$(44,657) | \$ 583 |
| | <hr/> | <hr/> |
| Earnings (loss) per share: | | |
| Basic: | | |
| Continuing operations | \$.13 | \$.26 |
| Discontinued operations | (1.30) | (.24) |
| | <hr/> | <hr/> |
| Net income (loss) | \$ (1.17) | \$.02 |
| | <hr/> | <hr/> |
| Diluted: | | |
| Continuing operations | \$.12 | \$.26 |
| Discontinued operations | (1.28) | (.24) |
| | <hr/> | <hr/> |
| Net income (loss) | \$ (1.16) | \$.02 |
| | <hr/> | <hr/> |
| Shares used to compute earnings (loss) per share: | | |
| Basic | 38,179 | 38,167 |
| Diluted | 38,578 | 38,855 |
| | <hr/> | <hr/> |
| Dividends per share | \$.04 | \$.04 |

See accompanying notes to financial statements.

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

| | Three Months Ended March 31 | |
|--|--|-------------|
| | 2003 | 2002 |
| | <hr/> | <hr/> |
| Cash flows from operating activities: | | |
| Net income (loss) | \$(44,657) | \$ 583 |
| Adjustments for noncash items: | | |
| Depreciation | 7,824 | 8,439 |
| Amortization of intangibles | 67 | 67 |
| Deferred income taxes | 33,048 | 1,279 |
| Accrued pension income and postretirement benefits | (1,332) | (2,254) |
| Loss on venture capital investments | 70,256 | 9,756 |
| Changes in assets and liabilities: | | |
| Accounts and notes receivable | 7,401 | (5,481) |
| Inventories | 846 | 2,610 |
| Income taxes recoverable | (48,043) | 4,352 |

| | | |
|--|-------------------|------------------|
| Prepaid expenses and other | (515) | (98) |
| Accounts payable | 4,448 | (4,351) |
| Accrued expenses | 1,196 | (1,205) |
| Other, net | 1,203 | (430) |
| | <hr/> | <hr/> |
| Net cash provided by operating activities | 31,742 | 13,267 |
| | <hr/> | <hr/> |
| Cash flows from investing activities: | | |
| Capital expenditures | (11,929) | (7,404) |
| Venture capital investments | (2,807) | (5,590) |
| Proceeds from the sale of venture capital investments | 21,504 | 5,173 |
| Other, net | (747) | (1,704) |
| | <hr/> | <hr/> |
| Net cash provided by (used in) investing activities | 6,021 | (9,525) |
| | <hr/> | <hr/> |
| Cash flows from financing activities: | | |
| Dividends paid | (1,526) | (1,531) |
| Net decrease in borrowings | (12,645) | (184) |
| Repurchases of Tredegar common stock | (1,939) | — |
| Proceeds from exercise of stock options (including related income tax benefits realized) | 81 | 420 |
| | <hr/> | <hr/> |
| Net cash used in financing activities | (16,029) | (1,295) |
| | <hr/> | <hr/> |
| Increase in cash and cash equivalents | 21,734 | 2,447 |
| Cash and cash equivalents at beginning of period | 109,928 | 96,810 |
| | <hr/> | <hr/> |
| Cash and cash equivalents at end of period | \$ 131,662 | \$ 99,257 |
| | <hr/> | <hr/> |

See accompanying notes to financial statements.

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

- 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 March 31, 2003, and the consolidated results of operations and cash flows for the three months ended March 31, 2003 and 2002. 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, 2002. The results of operations for the three months ended March 31, 2003, are not necessarily indicative of the results to be expected for the full year.
- See page 10 for information on unusual items recognized in the first quarter of 2003 and 2002.

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.

As of March 31, 2003, \$21.5 million in net proceeds from the sales had been received. An additional \$54.4 million of proceeds, in the form of income tax recoveries, are expected in mid-2004 from the carry-back of 2003 capital losses generated by these sales against gains realized in 2000 by Tredegar Investments.

The agreements governing these transactions contain customary contingent indemnification provisions that Tredegar believes will no have a material effect on its financial position or results of operations.

The operating results from venture capital investment activities have been reported as discontinued operations and results for prior periods have been restated. Cash flows from venture capital investment activities have not been separately disclosed in the accompanying statement of cash flows. Discontinued

operations for the three months ended March 31, 2003, also include an after-tax charge of \$49.2 million for the expected loss on the sale.

Discontinued operations for 2002 also include an after-tax loss of \$2.3 million related to Molecumetics, our former biotech subsidiary that ceased operations on July 2, 2002. The tangible assets of Molecumetics were sold during the fourth quarter of 2002.

During the first quarter, we suspended efforts to sell Therics, Inc. ("Therics") our biotech subsidiary, pending a reassessment of strategic options. As a result, the long-lived assets of Therics are no longer classified as held for sale and an adjustment of \$1.1 million to catch up depreciation was recorded during the first quarter as an unusual item.

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

| (In Thousands) | Three Months Ended March 31 | |
|---|--------------------------------|------------|
| | 2003 | 2002 |
| Net income (loss) | \$ (44,657) | \$ 583 |
| Other comprehensive income (loss) | | |
| Available-for-sale securities adjustment, net of reclassification adjustment | (586) | (4,126) |
| Foreign currency translation adjustment | 3,051 | (2,118) |
| Derivative financial instrument adjustment | 395 | 1,239 |
| Minimum pension liability adjustment | — | — |
| Comprehensive loss | \$ (41,797) | \$ (4,422) |

4. The components of inventories are as follows:

| (In Thousands) | March 31, 2003 | Dec. 31, 2002 |
|----------------------------|-------------------|------------------|
| Finished goods | \$ 8,931 | \$ 7,841 |
| Work-in-process | 3,806 | 3,905 |
| Raw materials | 21,140 | 21,076 |
| Stores, supplies and other | 9,883 | 11,147 |
| Total | \$43,760 | \$43,969 |

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

| (In Thousands) | Three Months Ended March 31 | |
|---|--------------------------------|--------|
| | 2003 | 2002 |
| Weighted average shares outstanding used to compute basic earnings per share | 38,179 | 38,167 |
| Incremental shares issuable upon the assumed exercise of stock options | 399 | 688 |
| Shares used to compute diluted earnings per share | 38,578 | 38,855 |

Incremental shares issuable upon the assumed exercise of outstanding stock options are computed using the average market price during the related period. At March 31, 2003, 2,447,225 options were excluded from the calculation of incremental shares issuable upon the assumed exercise of stock options due to their anti-dilutive effect on earnings per share for the period.

6. Pursuant to our stock option plans, 594,500 stock options were granted during the first quarter of 2002 and none were granted during the first quarter of 2003. The 2002 stock options were granted to officers, management and other employees.

We account for the fair value of 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 our stock-based compensation plans 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:

| (In Thousands) | Three Months Ended March 31 | |
|--|--------------------------------|-----------|
| | 2003 | 2002 |
| Income from continuing operations: | | |
| As reported | \$ 4,859 | \$ 10,059 |
| Stock-based compensation cost, net of tax, based on the fair value method | (545) | (567) |
| Pro forma income from continuing operations | \$ 4,314 | \$ 9,492 |
| Diluted earnings per share from continuing operations: | | |
| As reported | .12 | .26 |
| Pro forma | .11 | .24 |

For the purposes of the above presentation, the fair value of each option was estimated as of the grant date using the Black-Scholes option-pricing model. The weighted-average assumptions used in this model are provided below:

| | 2002 |
|---|---------|
| Dividend yield | .9% |
| Volatility percentage | 45.0% |
| Weighted average risk-free interest rate | 4.7% |
| Holding period (years): | |
| Officers | 7.0 |
| Management | 5.0 |
| Other employees | 3.0 |
| Weighted average market price at date of grant: | |
| Officers and management | \$18.71 |
| Other employees | \$18.90 |
| Estimated weighted average fair value of options per share at date of grant: | |
| Officers | \$ 9.14 |
| Management | \$ 8.02 |
| Other employees | \$ 6.20 |

7. 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 other than for Tredegar Investments due to the sale of substantially all of our venture capital investment portfolio (see Note 2).

| (In Thousands) | Three Months Ended March 31 | |
|-----------------------|--------------------------------|-----------|
| | 2003 | 2002 |
| Net sales by segment: | | |
| Film Products | \$ 93,384 | \$ 88,909 |

| | | |
|--|------------|------------|
| Aluminum Extrusions | 84,473 | 84,706 |
| Therics | — | 94 |
| <hr/> | | |
| Total net sales | \$ 177,857 | \$ 173,709 |
| <hr/> | | |
| Operating profit by segment: | | |
| Film Products: | | |
| Ongoing operations | \$ 13,928 | \$ 18,092 |
| Unusual items | (85) | (800) |
| | <hr/> | <hr/> |
| | 13,843 | 17,292 |
| | <hr/> | <hr/> |
| Aluminum Extrusions: | | |
| Ongoing operations | 1,211 | 5,353 |
| Unusual items | — | (196) |
| | <hr/> | <hr/> |
| | 1,211 | 5,157 |
| | <hr/> | <hr/> |
| Therics: | | |
| Ongoing operations | (3,297) | (3,693) |
| Unusual items | (1,067) | — |
| | <hr/> | <hr/> |
| | (4,364) | (3,693) |
| | <hr/> | <hr/> |
| Total operating profit | 10,690 | 18,756 |
| Interest income | 424 | 554 |
| Interest expense | 2,103 | 2,188 |
| Corporate expenses, net | 1,445 | 1,507 |
| <hr/> | | |
| Income from continuing operations before taxes | \$ 7,566 | \$ 15,615 |
| <hr/> | | |

8. The effective tax rate from continuing operations for the three months ended March 31, 2003, was 35.8% compared with 35.6% for the three months ended March 31, 2002.
9. On April 16, 2003, we extended our \$100 million 364-day credit facility for one year. This short-term facility is an interim step to longer-term financing that we hope to complete by September 30, 2003. There are no amounts currently borrowed under this facility.

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

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 ending December 31, 2002, 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, investments, deferred tax assets and pension benefits. 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 2002 fiscal year-end.

Results of Operations

First Quarter 2003 Compared with First Quarter 2002

The net loss for the first quarter of 2003 was \$44.7 million (\$1.16 per share) compared with net income of \$583,000 (2 cents per share) in 2002. Net income from continuing operations was \$4.9 million (12 cents per share) in 2003 compared with \$10.1 million (26 cents per share) in 2002.

On March 7, 2003, Tredegar Investments reached definitive agreements to sell substantially all of its venture capital investment portfolio. As of March 31, 2003, \$21.5 million in net proceeds from the sales had been received. An additional \$54.4 million of proceeds, in the form of income tax recoveries, are expected in mid-2004 from the carry-back of 2003 capital losses generated by these sales against gains realized in 2000 by Tredegar Investments.

The operating results from venture capital investment activities have been reported as discontinued operations and results for prior periods have been restated. Discontinued operations for the three months ended March 31, 2003, also include an after-tax charge of \$49.2 million for the expected loss on the sale.

Discontinued operations for 2002 also include an after-tax loss of \$2.3 million related to Molecumetics. On July 2, 2002, the operations of Molecumetics ceased and its tangible assets were sold during the fourth quarter of 2002.

During the first quarter, we suspended efforts to sell Therics pending a reassessment of strategic options. As a result, the long-lived assets of Therics are no longer classified as held for sale and an adjustment of \$1.1 million to catch up depreciation was recorded during the first quarter of 2003 as an unusual item.

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Overall, net sales in 2003 increased 2.4% compared with 2002. The increase is attributable to Film Products, where net sales rose 5%. In Aluminum Extrusions, net sales were flat. For more information on net sales, see the business segment review beginning on page 12.

The gross profit margin decreased to 15.9% in 2003 from 20.9% in 2002. The lower gross profit margin was driven mainly by Aluminum Extrusions, where profits declined sharply. Industry conditions for Aluminum Extrusions have yet to show signs of recovery, making it increasingly difficult to operate efficiently at low volume levels. Also, significantly higher energy and insurance costs were major factors contributing to the decline in profit margin in Aluminum Extrusions.

As a percentage of net sales, selling, general and administrative ("SG&A") expenses increased to 7.2% compared with 6.8% in 2002, due primarily to higher expenses in Film Products in support of additional sales and marketing efforts and lower overall pension income.

Research and development ("R&D") expenses decreased slightly from \$5.6 million to \$5.3 million in 2003 due primarily to reduced spending at Therics (down approximately \$300,000). R&D spending in Film Products was flat.

Unusual charges in 2003 totaled \$1.2 million (\$748,000 after income taxes) and included:

- a pretax charge of \$1.1 million related to a catch-up adjustment for depreciation at Therics based on our decision to suspend divestiture efforts; and
- a pretax charge of \$85,000 for additional costs incurred related to previously announced plant shutdowns in Film Products.

Unusual charges in 2002 totaled approximately \$1 million (\$637,000 after income taxes) and included:

- a pretax charge of \$800,000 for severance and other employee-related costs related to the shutdown of the film products plant in Carbondale, Pennsylvania; and
- a pretax charge of \$196,000 for costs incurred in the transfer of business related to the shutdown of the aluminum extrusions plant in El Campo, Texas.

For more information on costs and expenses, see the business segment review beginning on page 12.

Interest income, which is included in "Other income (expense), net" in the consolidated statements of income, was \$424,000 in 2003 and \$554,000 in 2002. Despite a higher average cash and cash equivalents balance (\$117 million in 2003 versus \$99 million in 2002), interest income was down slightly due to lower average tax equivalent yield earned on cash equivalents (1.45% in 2003 and 2.2% in 2002). 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.

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Interest expense was \$2.1 million in 2003 compared with \$2.2 million in 2002. Average debt outstanding and interest rates were as follows:

| (In Millions) | Three Months Ended March 31 | |
|---------------|--------------------------------|------|
| | 2003 | 2002 |
| | | |

| | | |
|--|----------|----------|
| Floating-rate debt with interest charged on a rollover basis at one-month LIBOR: | | |
| Average outstanding debt balance | \$ 164.3 | \$ 175.0 |
| Average interest rate | 2.2% | 2.6% |
| 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 | \$ 75.0 | \$ 75.0 |
| Average interest rate | 5.4% | 5.4% |
| Fixed-rate and other debt: | | |
| Average outstanding debt balance | \$ 9.3 | \$ 14.5 |
| Average interest rate | 7.2% | 7.2% |
| <hr/> | | |
| Total debt: | | |
| Average outstanding debt balance | \$ 248.6 | \$ 264.5 |
| Average interest rate | 3.2% | 3.6% |

The effective tax rate from continuing operations was 35.8% in the first quarter of 2003 and 35.6% in 2002.

Business Segment Review

The following tables present Tredegar's net sales and operating profit by segment for the first quarter ended March 31, 2003 and 2002:

Net Sales by Segment (In Thousands) (Unaudited)

| | Three Months Ended March 31 | |
|---------------------|--------------------------------|------------|
| | 2003 | 2002 |
| Film Products | \$ 93,384 | \$ 88,909 |
| Aluminum Extrusions | 84,473 | 84,706 |
| Therics | — | 94 |
| | <hr/> | <hr/> |
| Total net sales | \$ 177,857 | \$ 173,709 |

Operating Profit by Segment (In Thousands) (Unaudited)

| | Three Months Ended March 31 | |
|------------------------|--------------------------------|-----------|
| | 2003 | 2002 |
| Film Products: | | |
| Ongoing operations | \$ 13,928 | \$ 18,092 |
| Unusual items | (85) | (800) |
| | <hr/> | <hr/> |
| | 13,843 | 17,292 |
| | <hr/> | <hr/> |
| Aluminum Extrusions: | | |
| Ongoing operations | 1,211 | 5,353 |
| Unusual items | — | (196) |
| | <hr/> | <hr/> |
| | 1,211 | 5,157 |
| | <hr/> | <hr/> |
| Therics: | | |
| Ongoing operations | (3,297) | (3,693) |
| Unusual items | (1,067) | — |
| | <hr/> | <hr/> |
| | (4,364) | (3,693) |
| | <hr/> | <hr/> |
| Total operating profit | 10,690 | 18,756 |
| Interest income | 424 | 554 |

| | | |
|---|-------------|---------|
| Interest expense | 2,103 | 2,188 |
| Corporate expenses, net | 1,445 | 1,507 |
| | <hr/> | <hr/> |
| Income from continuing operations before income taxes | 7,566 | 15,615 |
| Income taxes | 2,707 | 5,556 |
| | <hr/> | <hr/> |
| Income from continuing operations | 4,859 | 10,059 |
| Loss from discontinued operations | (49,516) | (9,476) |
| | <hr/> | <hr/> |
| Net (loss) income | \$ (44,657) | \$ 583 |
| | <hr/> | <hr/> |

First-quarter sales in Film Products were \$93.4 million, up 5% from \$88.9 million in 2002. Operating profit for the quarter, excluding unusual items was \$13.9 million compared with \$18.1 million in the prior year. Volume for the quarter was 73 million pounds, down 5% from 77 million pounds in 2002. Operating profit and volume were down compared to last year due primarily to the loss of certain domestic backsheet products which, as expected, were no longer being sold at the end of the quarter. Additionally, compared with prior year, operating profits were negatively affected by increasing resin prices, particularly during the latter part of the quarter. Profits for the quarter exceeded our expectations due primarily to sales of apertured and elastic components. Our strategy is based on expanding sales of apertured, elastic, breathable and specialty products for global personal care, specialty and packaging markets. With the decline of our domestic backsheet business behind us, this growing portion of our business now comprises 83% of our Film Products revenues and margins are higher than those of domestic backsheet. We expect domestic backsheet revenues to level off around \$40 million per year.

On April 24, 2003, we announced that Film Products plans to build a new manufacturing facility in Guangzhou, China, to meet growing demand for our products throughout China and the rest of Asia. The new plant, which is expected to begin production by the end of 2004, will make components used primarily in personal care products such as sanitary napkins and diapers. Our current, smaller operations in Guangzhou will be relocated to the new facility.

In Aluminum Extrusions, first-quarter sales were relatively flat at \$84.5 million in 2003 versus \$84.7 million in 2002. Operating profit, excluding unusual items, declined 78% to \$1.2 million versus \$5.4 million in 2002. Volume declined 4% to 54 million pounds from 56 million pounds in 2002. Industry conditions have yet to show signs of recovery, making it increasingly difficult to operate efficiently at low volume levels. Significantly higher energy and insurance costs were also major factors contributing to the decline in operating profit. We are aggressively exploring opportunities to make substantial reductions in our cost structure and improve near-term performance.

For Therics, the operating loss, excluding unusual items, was \$3.3 million in 2003 compared with \$3.7 million in 2002. The lower losses are primarily attributable to decreased R&D spending (down \$345,000).

Liquidity and Capital Resources

Tredegar's total assets decreased to \$809.2 million at March 31, 2003, from \$838 million at December 31, 2002, due primarily to the impact of the sale of substantially all of the venture capital investment portfolio. In addition to the sale of the venture capital investment portfolio, accounts receivable decreased \$6.2 million.

Cash provided by operating activities was \$31.7 million in 2003 compared with \$13.3 million in 2002. The increase is due primarily to a decrease in the level of working capital.

Cash provided by investing activities was \$6 million in 2003 compared with cash used in investing activities of \$9.5 million in 2002. The change is primarily attributable to proceeds from the sale of venture capital investments, net of investments made, of \$18.7 million in 2003 versus a net investment of \$417,000 in 2002. This was offset somewhat by higher capital expenditures, an increase of \$4.5 million.

Capital expenditures in the first quarter of 2003 reflect the normal replacement of machinery and equipment and:

- Machinery and equipment purchased to upgrade lines and expand capacity at our films plant in Kerkrade, The Netherlands;
- Expansion of capacity at our films plant in Shanghai, China; and

- Machinery and equipment purchased to upgrade our wastewater treatment system at our aluminum extrusions plant in Newnan, Georgia.

Cash used in financing activities was \$16 million in 2003 versus \$1.3 million in 2002. This change is attributable to repayments of debt in the total amount of \$12.6 million in 2003. In addition, we repurchased 156,000 shares of our common stock for a total of \$1.9 million in 2003.

Debt outstanding of \$246.6 million at March 31, 2003, consisted of a \$237.5 million term loan, a note payable with a remaining balance of \$5 million and other debt of \$4.1 million. On April 16, 2003, we extended our \$100 million 364-day credit facility for one year. This short-term facility is an interim step to longer-term financing that we hope to complete by September 30, 2003. There are no amounts currently borrowed under this facility.

Quantitative and Qualitative Disclosures About Market Risk

Tredegar has exposure to the volatility of interest rates, polyethylene and polypropylene resin prices, aluminum ingot and scrap prices, foreign currencies and emerging markets.

Changes in resin prices, and the timing of those changes, could have a significant impact on profit margins in Film Products; however, those changes are generally followed by a corresponding change in selling prices. Profit margins in Aluminum Extrusions are sensitive to fluctuations in aluminum ingot and scrap prices, but are also generally followed by a corresponding change in selling prices. Profit margins in our businesses are also affected by fluctuations in the energy markets. There is no assurance that higher raw material and energy costs can be passed along to customers.

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. To hedge our exposure to aluminum price volatility 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 aluminum, based on scheduled deliveries.

We sell to customers in foreign markets through our foreign operations and through exports from U.S. plants. The percentage of consolidated net sales from manufacturing operations related to foreign markets for the first quarter of 2003 and 2002 are presented below:

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

| | Three Months Ended March 31 | | | |
|---------------|-----------------------------|--------------------|-------------------|--------------------|
| | 2003 | | 2002 | |
| | Exports From U.S. | Foreign Operations | Exports From U.S. | Foreign Operations |
| Canada | 4% | 16% | 3% | 17% |
| Europe | 3 | 11 | 4 | 8 |
| Latin America | 3 | 2 | 3 | 1 |
| Asia | 3 | 2 | 4 | 2 |
| Total | 13% | 31% | 14% | 28% |

* Based on consolidated net sales from manufacturing operations.

We attempt to match the pricing and cost of our products in the same currency 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. We believe that our exposure to the Canadian Dollar has been substantially neutralized by the U.S. Dollar-based spread (the difference between selling prices and aluminum costs) generated from Canadian casting operations and exports from Canada to the U.S.

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 Film Products and Aluminum Extrusions 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 positively impact results or that such efforts could be increased to a level that offsets any additional future declines in revenue or increases in energy or raw material costs.

Film Products

- **Film Products is highly dependent on sales associated with one customer, P&G.** P&G comprised 33% of our net sales in 2002, 31% in 2001 and 28% in 2000. 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. See the business segment review beginning on page 29 for a discussion regarding the loss of P&G's domestic diaper backsheet business.
- **Growth of Film Products depends on our ability to develop and deliver new products, especially in the personal care market, which comprised over 75% of Film Products' net sales in each of the last three years.** 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, the 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 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). 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 imports in a number of markets. This competition could result in loss of market share due to 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

- **Efforts to sell Therics have been suspended pending a reassessment of our strategic options.** We will

continue to incur losses as we support Therics' operations during the reassessment process. There is no assurance we will realize any return on our continuing investment in Therics.

- ***Therics has incurred losses since inception, and we are unsure when, or if, it will become profitable.*** We have not brought any drug delivery systems or bone replacement products to commercialization. There can be no assurance that any new drug delivery systems or bone replacement products can be brought to market successfully. 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 and sales 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. Further, our reliance upon third parties for these capabilities could reduce our control over such activities and could make us dependent upon these parties. Our inability to develop or contract for these capabilities would significantly impair our ability to develop and commercialize products.
- ***We are highly dependent on several principal members of our management and scientific staff.*** The loss of key personnel could have a material adverse effect on Therics' business and results of operations, and could inhibit product development and commercialization efforts. In addition, recruiting and retaining qualified scientific personnel to perform future R&D work is critical to our success. Competition for experienced scientists is intense. Failure to recruit and retain executive management and scientific personnel on acceptable terms could prevent us from achieving our business objectives.
- ***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 United States. The biotechnology patent situation outside the United States is even more uncertain and is currently undergoing review and revision in many countries. Changes in, or different interpretations of, patent laws in the United States and other countries might allow others to use our discoveries or to develop and commercialize our products without any compensation to us.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See discussion under "Quantitative and Qualitative Disclosures About Market Risk" beginning on page 14.

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Item 4. Controls and Procedures.

Within the 90 days prior to the filing date of this report, we carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-14 under the Securities Exchange Act of 1934. Based upon that evaluation, the chief 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.

Subsequent to the date we carried out our evaluation, there have been no significant changes in our internal controls or in other factors that could significantly affect these internal controls.

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PART II — OTHER INFORMATION

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

(a) *Exhibit Nos.*

99.1 Certification of the Chief Executive Officer as required by Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 Certification of the principal financial officer as required by Section 906 of the Sarbanes-Oxley Act of 2002.

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

On March 20, 2003, we filed a Form 8-K dated March 6, 2003, with respect to the sale by Tredegar Investments of its venture capital investment portfolio.

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: May 12, 2003

/s/ D. Andrew Edwards

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

Date: May 12, 2003

/s/ Michelle O. Mosier

Michelle O. Mosier
Corporate Controller
(Principal Accounting Officer)

CEO CERTIFICATION

I, Norman A. Scher, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tredegar Corporation (the "Company");
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this quarterly report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Company and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the Company's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data and have identified for the Company's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls; and

6. The Company's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 12, 2003

/s/ Norman A. Scher

Norman A. Scher
President and Chief Executive Officer

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PRINCIPAL FINANCIAL OFFICER CERTIFICATION

I, D. Andrew Edwards, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tredegar Corporation (the "Company");
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this quarterly report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Company and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the Company's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data and have identified for the Company's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls; and

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6. The Company's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 12, 2003

/s/ D. Andrew Edwards

D. Andrew Edwards

Vice President, Finance and Treasurer
(Principal Financial Officer)

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**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 quarter ending March 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Norman A. Scher, 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
Chief Executive Officer
May 12, 2003

A signed original of this written statement required by Section 906 has been provided to Tredegar Corporation and will be retained by Tredegar Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

This certificate is being submitted in accordance with the procedure provided in Section III of SEC Release No. 33-8212, 34-47551, IC-25967 (March 21, 2003) for treatment as a document "accompanying" the Quarterly Report on Form 10-Q to which it is attached and not as a document "filed" as part of such Quarterly Report. This certificate shall not be deemed incorporated by reference into any of Tredegar Corporation's Securities Act registration statements.

**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 quarter ending March 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, D. Andrew Edwards, principal financial 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/ D. Andrew Edwards

D. Andrew Edwards
Principal Financial Officer
May 12, 2003

A signed original of this written statement required by Section 906 has been provided to Tredegar Corporation and will be retained by Tredegar Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

This certificate is being submitted in accordance with the procedure provided in Section III of SEC Release No. 33-8212, 34-47551, IC-25967 (March 21, 2003) for treatment as a document "accompanying" the Quarterly Report on Form 10-Q to which it is attached and not as a document "filed" as part of such Quarterly Report. This certificate shall not be deemed incorporated by reference into any of Tredegar Corporation's Securities Act registration statements.