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

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**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 March 31, 2002

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 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days. Yes X No __

The number of shares of Common Stock, no par value, outstanding as of May 3, 2002: 38,330,280.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

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

| | March 31, 2002 | Dec. 31, 2001 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $ 99,257 | $ 96,810 |
| Accounts and notes receivable | 87,020 | 79,274 |
| Income taxes recoverable | 1,058 | 5,410 |
| Inventories | 42,651 | 45,316 |
| Deferred income taxes | 15,912 | 16,022 |
| Prepaid expenses and other | 4,319 | 2,880 |
| Total current assets | 250,217 | 245,712 |
| Property, plant and equipment, at cost | 515,760 | 534,491 |
| Less accumulated depreciation | 261,266 | 267,148 |
| Net property, plant and equipment | 254,494 | 267,343 |
| Net non-current assets of Tredegar Biotech held for sale | 15,501 | - |
| Venture capital investments | 139,298 | 155,084 |
| Other assets and deferred charges | 63,158 | 60,404 |
| Goodwill and other intangibles | 131,227 | 136,488 |
| Total assets | $ 853,895 | $ 865,031 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | $ 42,089 | $ 46,507 |
| Accrued expenses | 48,177 | 47,637 |
| Current portion of long-term debt | 17,500 | 5,000 |
| Total current liabilities | 107,766 | 99,144 |
| Long-term debt | 246,814 | 259,498 |
| Deferred income taxes | 17,369 | 18,985 |
| Other noncurrent liabilities | 9,581 | 9,505 |
| Total liabilities | 381,530 | 387,132 |
| Shareholders' equity: | | |
| Common stock, no par value | 107,524 | 107,104 |
| Common stock held in trust for savings restoration plan | (1,212) | (1,212) |
| Unrealized gain on available-for-sale securities | 4,188 | 8,314 |
| Foreign currency translation adjustment | (8,125) | (6,007) |
| Loss on derivative financial instruments | (1,470) | (2,708) |
| Retained earnings | 371,460 | 372,408 |
| Total shareholders' equity | 472,365 | 477,899 |
| Total liabilities and shareholders' equity | $ 853,895 | $ 865,031 |

See accompanying notes to financial statements.

Tredegar Corporation
Consolidated Statements of Operations
(In Thousands)
(Unaudited)

| | Three Months Ended March 31 2002 | 2001 |
|---|---|---|
| Revenues: | | |
| Gross sales | $ 177,962 | $ 195,489 |
| Freight | 3,743 | 3,687 |
| Net sales | 174,219 | 191,802 |
| Other income (expense), net | (9,796) | (5,925) |
| Total | 164,423 | 185,877 |
| Costs and expenses: | | |
| Cost of goods sold | 137,400 | 156,855 |
| Selling, general and administrative | 13,330 | 11,942 |
| Research and development | 9,578 | 7,254 |
| Amortization of goodwill and other intangibles | 67 | 1,214 |
| Interest | 2,188 | 4,041 |
| Unusual items | 996 | 1,600 |
| Total | 163,559 | 182,906 |
| Income before income taxes | 864 | 2,971 |
| Income taxes | 281 | 1,070 |
| Net income | $ 583 | $ 1,901 |
| Earnings per share: | | |
| Basic | $ .02 | $ .05 |
| Diluted | .02 | .05 |
| Shares used to compute earnings per share: | | |
| Basic | 38,167 | 38,069 |
| Diluted | 38,855 | 38,809 |
| 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 2002 | 2001 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 583 | $ 1,901 |
| Adjustments for noncash items: | | |
| Depreciation | 8,439 | 7,849 |
| Amortization of intangibles | 67 | 1,214 |
| Deferred income taxes | 1,279 | 1,209 |
| Accrued pension income and postretirement benefits | (2,254) | (2,214) |
| Loss on venture capital investments | 9,756 | 6,648 |
| Changes in assets and liabilities: | | |
| Accounts and notes receivable | (5,481) | (3,342) |
| Inventories | 2,610 | 1,582 |
| Income taxes recoverable | 4,352 | (2,200) |
| Prepaid expenses and other | (98) | (37) |
| Accounts payable | (4,351) | 2,354 |
| Accrued expenses | (1,205) | (1,078) |
| Other, net | (430) | 539 |
| Net cash provided by operating activities | 13,267 | 14,425 |
| Cash flows from investing activities: | | |
| Capital expenditures | (7,404) | (13,576) |
| Venture capital investments | (5,590) | (4,351) |
| Proceeds from the sale of venture capital investments | 5,173 | 5,072 |
| Proceeds from property disposals and divestitures | 684 | 420 |
| Other, net | (2,388) | (425) |
| Net cash used in investing activities | (9,525) | (12,860) |
| Cash flows from financing activities: | | |
| Dividends paid | (1,531) | (1,524) |
| Net increase (decrease) in borrowings | (184) | 1,411 |
| Proceeds from exercise of stock options (including related income tax benefits realized) | 420 | 90 |
| Net cash used in financing activities | (1,295) | (23) |
| Increase in cash and cash equivalents | 2,447 | 1,542 |
| Cash and cash equivalents at beginning of period | 96,810 | 44,530 |
| Cash and cash equivalents at end of period | $ 99,257 | $ 46,072 |

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 March 31, 2002, and the consolidated results of operations and cash flows for the three months ended March 31, 2002 and 2001. 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, 2001. The results of operations for the three months ended March 31, 2002, are not necessarily indicative of the results to be expected for the full year.

2. The Financial Accounting Standards Board issued two new standards that primarily affect the accounting for acquisitions initiated after June 30, 2001, and the accounting for goodwill. We adopted these standards effective January 1, 2002. These standards prohibit amortization of goodwill but require annual impairment reviews that may result in the recognition of losses. We

have reclassified from intangible assets to goodwill approximately $396,000 related to Therics' workforce, which no longer qualifies as a separately identifiable intangible asset. We have made determinations as to what our reporting units are and what amounts of goodwill, intangible assets, other assets and liabilities should be allocated to those reporting units. We completed the transitional impairment test, which did not result in impairment of recorded goodwill. In accordance with this statement, amortization of goodwill was discontinued as of January 1, 2002. A reconciliation of previously reported net income and earnings per share to the amounts adjusted for the exclusion of goodwill amortization, net of related income taxes, is as follows:

| (In Thousands, except per share data) | 3 Months Ended March 31, 2001 |
|---|---|
| Reported net income | $ 1,901 |
| Goodwill amortization, net of tax | 741 |
| Adjusted net income | $ 2,642 |
| Basic earnings per share as reported | $ .05 |
| Adjustment to basic earnings per share | .02 |
| Adjusted basic earnings per share | $ .07 |
| Diluted earnings per share as reported | $ .05 |
| Adjustment to diluted earnings per share | .02 |
| Adjusted diluted earnings per share | $ .07 |

The carrying value of goodwill at January 1, 2002 of $134.7 million was composed of $100.7 million related to Film Products, $30.5 million related to Aluminum Extrusions and $3.5 million related to Tredegar Biotech. The goodwill related to Tredegar Biotech of $3.5 million has been included in "Net non-current assets of Tredegar Biotech held for sale" as of March 31, 2002 in the consolidated balance sheet on page 2.



The Financial Accounting Standards Board also issued a new standard affecting the accounting for impairment or disposal of long-lived assets. This standard was adopted effective January 1, 2002, and did not have a significant impact on the financial statements.

3. See page 13 for information on unusual items recognized in the first quarter of 2002 and 2001.

On March 22, 2002, we announced our intention to divest our biotech operations, Molecumetics and Therics. Our biotech operations had a combined 2001 operating loss of $21.7 million ($13.9 million or 36 cents per share after taxes). We expect to complete the divestitures by the end of 2002. The long-lived assets for these operations ($15.5 million at March 31, 2002) have been separately classified in the accompanying balance sheet as long-lived assets pending the structure of the divestitures.

4. A summary of our venture capital activities for the three months ended March 31, 2002 and 2001, is provided below:

| | (In Thousands) Three Months Ended March 31 2002 | 2001 |
|---|---|---|
| Carrying value, beginning of period | $ 155,084 | $232,259 |
| Activity for period (pre-tax): | | |
| New investments | 5,590 | 4,351 |
| Proceeds from the sale of investments, including receivables from security brokers | (5,173) | (10,332) |
| Realized gains | 3,721 | 7,245 |
| Realized losses, write-offs and write-downs | (13,477) | (13,893) |
| Increase (decrease) in net unrealized gain on available-for-sale securities | (6,447) | (20,173) |
| Carrying value, end of period | $ 139,298 | $199,457 |

Our remaining unfunded commitments to private venture capital funds totaled approximately $34.1 million at March 31, 2002, and $36.7 million at December 31, 2001.

A schedule of investments is provided on the next two pages.



Tredegar Corporation
Schedule of Investments at March 31, 2002 and December 31, 2001
(In Thousands, Except Per-Share Amounts)

| Investment | Symbol | Yrs. Held (a) | Description | Web Site (www.) | Public Commo Equivalents Shares Held | Closi Price |
|---|---|---|---|---|---|---|
| Securities of Public Companies Held: | | | | | | |
| Illumina, Inc. | ILMN | 3.4 | Fiber optic sensor technology for drug screening | illumina.com | 813 | $ 9.4 |
| Adolor Corporation | ADLR | 3.3 | Develops pain-management therapeutic drugs | adolor.com | - | |
| Vascular Solutions | VASC | 4.3 | Vascular access site closure system | vascularsolutions.com | 861 | 2.6 |
| SignalSoft Corporation | SGSF | 4.1 | Wireless caller location detection software | signalsoftcorp.com | 412 | 1.7 |
| Photon Dynamics, Inc. (e) | PHTN | 3.8 | Test and repair systems for flat panel display industry | photondynamics.com | 21 | 50.8 |
| Cisco Systems, Inc. (e) | CSCO | 2.5 | Worldwide leader in networking for the Internet | cisco.com | - | |
| Nortel Networks Corporation (e) | NT | 3.8 | Networking solutions and services | nortelnetworks.com | - | |
| CardioGenesis Corporation | CGCP | 7.8 | Coronary revascularization | eclipsesurg.com | - | |
| Openwave Systems, Inc. (e) | OPWV | 2.4 | Infrastructure applications for the Internet | openwave.com | - | |
| Total securities of public companies held | | | | | | |
| Securities of Private Companies Held: | | | | | | |
| CryoGen | | 6.5 | Micro-cryogenic catheters for medical applications | cyogen-inc.com | | |
| Sensitech Inc. | | 5.1 | Perishable product mgmt. solutions | sensitech.com | | |
| Songbird Medical, Inc. | | 4.7 | Disposable hearing aids | | | |
| Appliant, Inc. | | 4.5 | Software tools for managing executable software | appliant.com | | |
| HemoSense | | 4.4 | Point of care blood coagulation time test device | hemosense.com | | |
| Moai Technologies, Inc. | | 4.3 | System for holding auctions on the Internet | moai.com | | |
| Babycare, Ltd. | | 4.1 | Direct retailing of baby care products in China | | | |
| NovaLux, Inc. | | 3.9 | Blue-green light lasers | novalux.com | | |
| Xcyte Therapies, Inc. | | 3.7 | Develops drugs to treat cancer & other disorders | xcytetherapies.com | | |
| Advanced Diagnostics, Inc. | | 3.4 | 3-D medical imaging equipment | | | |
| EndoVasix, Inc. | | 3.2 | Device for treatment of ischemic strokes | endovasix.com | | |
| eWireless, inc. | | 3.2 | Technology linking cell phone users & advertising | ewireless.com | | |
| Cooking.com, Inc. | | 3.0 | Sales of cooking-related items over the Internet | cooking.com | | |
| MediaFlex.com | | 3.0 | Internet-based printing & publishing | mediaflex.com | | |
| eBabyCare Ltd. | | 2.8 | Sales of babycare products over the Internet in China | | | |
| Kodiak Technologies, Inc. | | 2.8 | Cooling products for organ & pharma transport | kodiaktech.com | | |
| Artemis Medical, Inc. | | 2.7 | Medical devices for breast cancer surgery | | | |
| CEPTYR, Inc. | | 2.7 | Develops small molecule drugs | ceptyr.com | | |
| ThinkFree.com | | 2.5 | Java-based software complementary to Microsoft Office | thinkfree.com | | |
| BroadRiver Communications | | 2.4 | Local DSL provider | purepacket.com | | |
| Quarry Technologies, Inc. | | 2.4 | Technology for delivery of differentiated service levels | quarrytech.com | | |
| FastTrack Systems, Inc. | | 2.2 | Clinical trial data management information systems | | | |
| Riveon, Inc. | | 2.1 | Web-based data mining software for business managers | | | |

| | | | |
|---|---|---|---|
| MedManage Systems Inc. | 2.0 | Management of prescription drug sampling programs | medmanagesystems.com |
| Infinicon, Inc. | 1.8 | Manufacturer of infiniband input/output products | infiniconsys.com |
| Cbyon, Inc. | 1.7 | Provider of software image data to assist surgeons | cybon.com |
| Extreme Devices | 1.5 | Manufacturer of integrated, solid-state electron source | |
| Locus Discovery, Inc. | 1.4 | Computational chemogenomics technology | locusdiscovery.com |
| eTunnels Inc. | 1.3 | VPNs across all ISPs and companies | etunnels.com |
| Elixir | 1.3 | Evaluation technology for anti-aging compounds | |
| Total securities of private companies held | | | |
| Limited partnership interests in private venture capital funds (period held of 1.3 - 9.5 years) (d) | | | |
| Total investments | | | |
| Estimated taxes on assumed disposal at fair value | | | |
| Estimated net asset value ("NAV") | | | |

See notes on page 8.



Tredegar Corporation
Schedule of Investments at March 31, 2002 and December 31, 2001
(In Thousands, Except Per-Share Amounts)

Notes:

(a) The period held for an investment in a company or a venture capital fund is computed using the initial investment date and the current valuation date. If a company has merged with another company, then the initial investment date is the date of the investment in the predecessor company.

(b) Amounts are shown net of carried interest estimated using realized and unrealized net gains to date. Amounts may change due to changes in estimated carried interest, and such changes are not expected to be material. Carried interest is the portion of value payable to portfolio managers based on realized net gains and is a customary incentive in the venture capital industry.

(c) Restricted securities are securities for which an agreement exists not to sell shares for a specified period of time, usually 180 days. Also included within the category of restricted securities are unregistered securities, the sale of which must comply with an exemption to the Securities Act of 1933 (usually SEC Rule 144). These unregistered securities are either the same class of stock that is registered and publicly traded or are convertible into a class of stock that is registered and publicly traded.

(d) At March 31, 2002, Tredegar had ownership interests in 28 venture capital funds, including an indirect interest in the following public companies, among others (disposition of shares held by venture funds, including distributions to limited partners, is at the sole discretion of the general partner of the fund):

| Indirect Investment | Symbol | Description | Indirect Interest In Common Shares | Closing Price | Average Restricted Stock Discount | Indirect Estimated Fair Value |
|---|---|---|---|---|---|---|
| Illumina, Inc. | ILMN | Fiber optic sensor technology for drug screening (illumina.com) | 199 | $ 9.46 | 20% | $ 1,507 |
| Array Biopharma | ARRY | Drug discovery research using innovative chemistry (arraybiopharma.com) | 95 | 12.95 | 20% | 981 |
| Universal Access, Inc. | UAXS | Wholesale provider of high bandwidth services (universalaccessinc.com) | 675 | 1.51 | 20% | 815 |
| Adolor Corporation | ADLR | Develops pain-management therapeutic drugs (adolor.com) | 88 | 11.15 | 20% | 784 |
| Seattle Genetics | SGEN | Biopharmaceuticals for treatment of cancers (seattlegenetics.com) | 104 | 5.25 | 20% | 435 |
| Exelixis Inc. | EXEL | Genomics-based drug discovery (exelixis.com) | 31 | 13.79 | 20% | 342 |
| Lucent Technologies, Inc. | LU | Developer and manufacturer of communications systems (lucent.com) | 71 | 4.73 | 0% | 336 |
| ASAT Holdings | ASTT | Provider of semiconductor assemply and testing services (asat.com) | 182 | 2.14 | 20% | 311 |

(e) Public company stock received from the acquisition of a private company in the portfolio.

(f) Our portfolio is subject to risks typically associated with investments in technology start-up companies, which include business failure, illiquidity and stock market volatility.



5. Comprehensive income (loss), defined as net income and other comprehensive income (loss), was a loss of $4.4 million for the first quarter of 2002 and a loss of $11.5 million for the first quarter of 2001. Other comprehensive income (loss) includes changes in unrealized gains and losses on available-for-sale securities, foreign currency translation adjustments and unrealized gains and losses on derivative financial instruments recorded net of deferred income taxes directly in shareholders' equity.

6. The components of inventories are as follows:

| (In Thousands) | March 31, 2002 | Dec. 31, 2001 |
|---|---|---|
| Finished goods | $ 8,252 | $ 8,407 |
| Work-in-process | 3,678 | 4,560 |
| Raw materials | 20,003 | 21,800 |
| Stores, supplies and other | 10,718 | 10,549 |
| Total | $ 42,651 | $ 45,316 |

7. 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 | 2002 | 2001 |
|---|---|---|
| Weighted average shares outstanding used to compute basic earnings per share | 38,167 | 38,069 |
| Incremental shares issuable upon the assumed exercise of stock options | 688 | 740 |
| Shares used to compute diluted earnings per share | 38,855 | 38,809 |

Incremental shares issuable upon the assumed exercise of outstanding stock options are computed using the average market price during the related period.

8. The effective tax rate from manufacturing operations, excluding unusual items, was 35.5% in both years. The overall effective tax rate decreased to 32.5% in the first quarter of 2002 from 36% in 2001. The change is due to the amount of non-deductible expenses relative to pretax income.



9. On April 30, 2002, we completed a $100 million 364-day revolving credit facility and terminated our $275 million revolver that would have matured in July 2002 (no amounts currently outstanding). The new facility has covenants and restrictions consistent with our existing debt; the most restrictive of which is a debt-to-capitalization limitation of 50%. At March 31, 2002,

this ratio was 36%. The new facility provides for interest to be charged at a base rate (generally the London Interbank Offered Rate ("LIBOR")) plus a spread that is dependent upon our quarterly debt-to-capitalization ratio. The fully borrowed spread over LIBOR charged at the various debt-to-capitalization levels are as follows:

| Credit Spread Under $100 Million 364-Day Revolving Credit Facility | |
|---|---|
| Debt-to-Total Capitalization Ratio | Fully-Borrowed Spread Over LIBOR (Basis Points) |
| › 40% and ‹= 50% | 125.0 |
| › 30% and ‹= 40% | 100.0 |
| ‹= 30% | 75.0 |

This short-term facility is an interim step to longer-term financing that we plan to initiate once the divestitures of Molecumetics and Therics have been completed.



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. Actual results could differ significantly from those estimates under different assumptions and conditions. We believe the following discussion addresses our most critical accounting policies, which are those that require management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

*Investments*

We have investments in private venture capital fund limited partnerships and early-stage technology companies, including the stock of privately held companies and the restricted and unrestricted stock of companies that have recently registered shares in initial public offerings. These investments individually represent voting ownership interests of less than 20%.

We write down or write off an investment and recognize a loss when events indicate the investment is permanently impaired. For private securities and ownership interests in private venture capital funds, permanent impairment is deemed to exist whenever the estimated fair value at quarterly valuation dates is below carrying value. For available-for-sale securities, permanent impairment is deemed to exist if analyst reports or other information on the company indicates that recovery of value above cost basis is unlikely within several quarters.

The fair value of securities of public companies is determined based on closing price quotations, subject to estimated restricted stock discounts. We estimate the fair value of securities of private companies using purchase cost, prices of recent significant private placements of securities of the same issuer, changes in financial condition and prospects of the issuer, and estimates of liquidation value. The fair value of ownership interests in private venture capital funds is based on our estimate of our distributable share of fund net assets using, among other information:

- The general partners' estimate of the fair value of non-marketable securities held by the funds (which is usually the indicative value from the latest round of financing or a reduced amount if events subsequent to the financing imply a lower valuation);
- Closing bid prices of publicly traded securities held by the funds, subject to estimated restricted stock discounts; and
- Fund formulas for allocating profits, losses and distributions.

Because of the inherent uncertainty associated with the valuations of restricted securities or securities for which there is no public market, estimates of fair value may differ significantly from the values that would have been used had a ready market for the securities existed. The portfolio is subject to risks typically associated with investments in technology start-up companies, which include business failure, illiquidity and stock market volatility. Furthermore, publicly traded stocks of emerging, technology-based companies usually have higher volatility and risk than the U.S. stock market as a whole.



*Impairment of Long-lived Identifiable Assets*

We regularly assess our long-lived assets for impairment when events or circumstances indicate that their carrying value may not be recoverable from future cash flows. Any necessary impairment charges are recorded when we do not believe the carrying value of the long-lived asset will be recoverable.

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

*Impairment of Goodwill*

On an annual basis we assess goodwill for impairment by comparing the fair value of our reporting units to their carrying amounts. If the carrying amounts of the reporting units exceed their fair values, we recognize an impairment charge.

*Pension Benefits*

We have noncontributory and contributory defined benefit (pension) plans covering most employees. Several statistical and other factors that attempt to anticipate future events are used in calculating the net benefit income or cost and benefit obligations related to the plans. These factors include assumptions about the discount rate, expected return on plan assets and rate of future compensation increases, as determined within certain guidelines. In addition, our actuarial consultants use subjective factors such as withdrawal and mortality rates to estimate the projected benefit obligation. The actuarial assumptions may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. These differences may result in a significant impact to the amount of net pension income or expense recorded in future periods.

## Results of Operations

### *First Quarter 2002 Compared with First Quarter 2001*

Net income for the first quarter of 2002 was $583,000 (2 cents per share) compared with $1.9 million (5 cents per share) in 2001. Results in 2002 include $7.2 million (18 cents per share) of realized after-tax losses from venture capital investments, compared with a loss of $5.3 million (13 cents per share) in the first quarter of 2001. Results in 2002 include net after-tax charges of $637,000 (2 cents per share) related to previously announced shutdowns of an aluminum plant in Texas and a films plant in Pennsylvania. Results in the first quarter of 2001 also include a net after-tax charge of $1 million (3 cents per share) related to the reorganization of our plastic films business. The first quarter of 2002 also includes a positive impact of $750,000 after taxes (2 cents per share) related to the elimination of goodwill amortization.

On March 22, 2002, we announced our intention to divest our biotech operations, Molecumetics and Therics, in order to focus on our plastics and aluminum manufacturing businesses. Our biotech operations had combined operating losses of $21.7 million in 2001 ($13.9 million or 36 cents per share after taxes), $7.2 million in the first quarter of 2002 ($4.7 million or 12 cents per share after taxes), and $4.1 million in the first quarter of 2001 ($2.6 million or 7 cents per share after taxes). We expect to complete the divestitures by the end of 2002.



Pretax realized gains and losses from venture capital investment activities are included in "Other income (expense), net" in the consolidated statements of income on page 3 and "Venture capital investments" in the operating profit table on page 15. Operating expenses (primarily management fee expenses) for our venture capital investment activities are classified in "Selling, general and administrative expenses" ("SG&A") in the consolidated statements of income and "Tredegar Investments" in the operating profit table.

During the quarter, the after-tax depreciation in the net asset value ("NAV") of our venture capital investments related to investment performance was $14.2 million. At March 31, 2002, the NAV of our venture capital investments was $166.6 million. For more information on our venture capital investment activities, see pages 16 to 18 and Note 4 on pages 6 to 8.

Overall, net sales in the first quarter of 2002 decreased 9.2% compared with the first quarter of 2001. In Aluminum Extrusions, net sales were down 9.4% due to a combination of lower volume and lower net selling prices. In Film Products, net sales were down 8.2% due primarily to raw material-driven price declines. For more information on net sales, see the business segment review beginning on page 15.

The gross profit margin increased to 21.1% from 18.2%. The higher gross profit margin was driven mainly by an increase in Film Products due to improved product and customer mix as well as increased operating efficiencies. The gross profit margin in Aluminum Extrusions was down slightly due to lower volume.

As a percentage of net sales, SG&A expenses increased to 7.7% compared with 6.2% in 2001, due primarily to overall lower sales.

R&D expenses increased to $9.6 million from $7.3 million last year due to higher spending at Molecumetics (up $900,000), higher spending at Therics in support of its development of bone replacement and reconstructive products (up $1.1 million) and higher product development spending at Film Products (up $265,000).

Unusual charges in the first quarter of 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 planned 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.

Unusual charges in the first quarter of 2001 totaled $1.6 million ($1 million after income taxes) related to the reorganization of our films business to more closely align cost structure with capacity utilization.

For more information on costs and expenses, see the business segment review beginning on page 15.



Interest income, which is included in "Other income (expense), net" in the consolidated statements of income, was $554,000 in the first quarter of 2002 and $688,000 in 2001. Despite a higher average cash and cash equivalents balance ($99 million in 2002 versus $51 million in 2001), interest income was down slightly due to lower average tax equivalent yield earned on cash equivalents (2% in 2002 and 5.4% in 2001). 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 was $2.2 million in the first quarter of 2002 compared with $4 million in 2001. Average debt outstanding and interest rates in the first quarters of 2002 and 2001 were as follows:

| (In Millions) | March 31, 2002 | March 31, 2001 |
|---|---|---|
| Floating-rate debt with interest charged on a rollover basis at one-month LIBOR: | | |
| Average outstanding debt balance | $ 175.0 | $ 250.0 |
| Average interest rate | 2.6% | 6.7% |
| 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 | - |
| Average interest rate | 4.8% | - |
| Fixed-rate and other debt: | | |
| Average outstanding debt balance | $ 14.5 | $ 15.0 |
| Average interest rate | 7.2% | 7.2% |
| Total debt: | | |
| Average outstanding debt balance | $ 264.5 | $ 265.0 |
| Average interest rate | 3.6% | 6.7% |

The effective tax rate from manufacturing operations, excluding unusual items, was 35.5% in both years. The overall effective tax rate decreased to 32.5% in the first quarter of 2002 from 36% in 2001. The change is due to the amount of non-deductible expenses relative to pretax income.



## Business Segment Review

The following tables present Tredegar's net sales and operating profit by segment for the first quarter ended March 31, 2002 and 2001:

Net Sales by Segment
(In Thousands)
(Unaudited)

| | Three Months Ended March 31 2002 | Three Months Ended March 31 2001 |
|---|---|---|
| Film Products | $ 88,909 | $ 96,830 |
| Aluminum Extrusions | 84,706 | 93,472 |
| Tredegar Biotech: | | |
| Molecumetics | 510 | 1,331 |
| Therics | 94 | 169 |
| Total net sales | $ 174,219 | $191,802 |

Operating Profit by Segment
(In Thousands)
(Unaudited)

| | Three Months Ended March 31 2002 | Three Months Ended March 31 2001 |
|---|---|---|
| Film Products: | | |
| Ongoing operations | $ 18,092 | $ 15,094 |
| Unusual items | (800) | (1,600) |
| Total Film Products | 17,292 | 13,494 |
| Aluminum Extrusions: | | |
| Ongoing operations | 5,353 | 6,381 |
| Unusual items | (196) | - |
| Total Aluminum Extrusions | 5,157 | 6,381 |
| Tredegar Biotech: | | |
| Molecumetics | (3,549) | (1,772) |
| Therics | (3,693) | (2,349) |
| Total Tredegar Biotech | (7,242) | (4,121) |
| Tredegar Investments: | | |
| Venture capital investments | (11,202) | (8,262) |
| Total operating profit | 4,005 | 7,492 |
| Interest income | 554 | 688 |
| Interest expense | 2,188 | 4,041 |
| Corporate expenses, net | 1,507 | 1,168 |
| Income before income taxes | 864 | 2,971 |
| Income taxes | 281 | 1,070 |
| Net income | $ 583 | $ 1,901 |

First-quarter sales in Film Products declined to $88.9 million from $96.8 million in 2001. The sales decline was primarily due to raw material-driven price declines. Overall volume remained flat at 77 million pounds. Volume for domestic diaper backsheet continued to decline; however, this was offset by increased volume of new products. Operating profit for the quarter, excluding unusual items, was $18.1 million, up 19.9% over the prior year. This increase in operating profit is primarily attributable to cost reduction efforts and improved product and customer mix as we continue our strategy of selling value-added specialty hygiene components to an expanding global customer base. Additionally, the elimination of goodwill amortization expense increased operating profit by $901,000.

In Aluminum Extrusions, first quarter sales were $84.7 million versus $93.5 million in 2001 (down 9.4%). Volume declined 4.5% to 56 million pounds from 58.7 million pounds. Operating profit, excluding unusual items, declined 16.1% to $5.4 million versus $6.4 million in 2001. The aluminum extrusions industry continued to be affected by weak economic conditions.

For our biotechnology operations (Molecumetics and Therics), revenue was down for the quarter to $604,000 from $1.5 million in 2001. The operating loss was $7.2 million versus $4.1 million in 2001. The higher losses reflect increased research and development spending and lower revenues.

The depreciation in NAV related to venture capital investment activities for the first quarter of 2002 and 2001 is summarized below:

| | (In Millions) Three Months Ended March 31 | |
|---|---|---|
| | 2002 | 2001 |
| Net realized gains, losses, write-downs and related operating expenses for venture capital investments reflected in Tredegar's consolidated statements of income (net of tax) | $ (7.2) | $ (5.3) |
| Change in unrealized appreciation of venture capital investments (net of tax) | (7.0) | (30.8) |
| After-tax depreciation in NAV related to investment performance | $ (14.2) | $ (36.1) |



The following companies held directly by us, or indirectly through our interests in other venture capital funds, accounted for most of the net depreciation in NAV during the current period:

| Investment | Reason for Change | (In Millions) Appreciation (Depreciation) in Estimated NAV First Quarter Ended March 31, 2002 |
|---|---|---|
| Public companies: | | |
| Illumina, Inc. | Change in stock price | $ (1.5) |
| Universal Access | Change in stock price | (1.0) |
| SignalSoft Corporation | Change in stock price | (0.8) |
| Private companies: | | |
| Venture capital funds | Various (lower valuations) | (1.7) |
| Appliant, Inc. | Lower valuation | (3.5) |
| MedManage Systems, Inc. | Lower valuation | (1.9) |
| Cbyon | Lower valuation | (1.8) |
| Other public and private companies | Various | (1.1) |
| Depreciation in NAV before operating expenses | | (13.3) |
| After-tax operating expenses | | (0.9) |
| Depreciation in NAV related to investment performance | | $ (14.2) |

The cost basis, carrying value and NAV of our venture capital investments is reconciled below:

| | (In Millions) March 31, 2002 | Dec. 31, 2001 |
|---|---|---|
| Cost basis of investments | $ 193.5 | $ 190.0 |
| Write-downs taken on securities held (charged to earnings) | (60.8) | (47.9) |
| Unrealized appreciation on public securities held by Tredegar (reflected directly in equity net of deferred income taxes) | 6.6 | 13.0 |
| Carrying value of investments reflected in the balance sheet | 139.3 | 155.1 |
| Unrealized appreciation in private securities held by Tredegar and in its indirect interest in all securities held by venture capital funds | 12.1 | 16.6 |
| Estimated fair value of venture capital investments | 151.4 | 171.7 |
| Estimated income taxes on assumed disposal at fair value | 15.2 | 6.6 |
| NAV of venture capital investments | $ 166.6 | $ 178.3 |



Changes in NAV for the quarter ended March 31, 2002 and 2001 are summarized below:

| | (In Millions) Three Months Ended March 31 | |
|---|---|---|
| | 2002 | 2001 |
| NAV at beginning of period | $ 178.3 | $ 335.0 |
| After-tax depreciation in NAV related to investment performance (net operating expenses) | (14.2) | (36.1) |
| After-tax operating expenses funded by Tredegar | .9 | 1.0 |
| New investments | 5.6 | 4.4 |
| Reduction in NAV due to the sale of investments | (4.0) | (7.8) |
| (Decrease) increase in NAV | (11.7) | (38.5) |
| NAV at end of the period | $ 166.6 | $ 296.5 |

## Liquidity and Capital Resources

Tredegar's total assets decreased to $853.9 million at March 31, 2002, from $865 million at December 31, 2001, due primarily to a decrease in the carrying value of venture capital investments of $15.8 million. The carrying value of venture capital investments decreased compared with December 31, 2001, due to the activity described in Note 4 on page 6. This decrease was partially offset by the following:

- Higher accounts receivable (up $7.7 million); and
- Higher prepaid pension asset (up $2.5 million) due to pension income recognized during the quarter.

The reasons for the change in cash and cash equivalents for the first quarter of 2002 and 2001, are summarized below:

| | (In Thousands) Three Months Ended March 31 | |
|---|---|---|
| | 2002 | 2001 |
| Cash and cash equivalents, beginning of period | $ 96,810 | $ 44,530 |
| Cash provided by (used in) operating activities net of capital expenditures and dividends | 4,332 | (675) |
| Proceeds from the exercise of stock options | 420 | 90 |
| Net (increase) decrease in borrowings | (184) | 1,411 |
| New venture capital investments, net of proceeds from disposals | (417) | 721 |
| Proceeds from divestitures and property disposals | 684 | 420 |
| Other, net | (2,388) | (425) |
| Net increase in cash and cash equivalents | 2,447 | 1,542 |
| Cash and cash equivalents, end of period | $ 99,257 | $ 46,072 |

In 2002, cash provided by continuing operating activities, net of capital expenditures and dividends, was $4.3 million compared with cash used in operating activities, net of capital expenditures and dividends, of $675,000 in 2001. This change is due primarily to:

- Higher cash generated by manufacturing operations;



- Lower capital expenditures (down $6.2 million); and
- Changes in working capital (an investment in working capital of $4.6 million in 2002 versus $2.7 million in 2001).

Capital expenditures in the first quarter of 2002 reflect the normal replacement of machinery and equipment and:

- Machinery and equipment purchased to upgrade lines at the Film Products' manufacturing facility in Kerkrade, The Netherlands;
- Machinery and equipment purchased for a new production line at the Film Products' plant in Terre Haute, Indiana; and
- Machinery and equipment purchased at the aluminum extrusion plant in Kentland, Indiana.

Debt outstanding of $264.3 million at March 31, 2002, consisted of a $250 million term loan, a note payable with a remaining balance of $10 million and other debt of $4.3 million. On April 30, 2002, we completed a $100 million 364-day revolving credit facility and terminated our $275 million revolver that would have matured in July 2002 (no amounts currently outstanding). The new facility has covenants and restrictions consistent with our existing debt; the most restrictive of which is a debt-to-capitalization limitation of 50%. At March 31, 2002, this ratio was 36%. The new facility provides for interest to be charged at a base rate (generally the London Interbank Offered Rate ("LIBOR")) plus a spread that is dependent upon our quarterly debt-to-capitalization ratio (see Note 9 on page 10). This short-term facility is an interim step to longer-term financing that we plan to initiate once the divestitures of Molecumetics and Therics have been completed.

Our future contractual payments related to debt and operating lease obligations are summarized below:

| | Payments Due by Period Ending March 31, (In Thousands) | | | | | |
|---|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 | Remainder | Total |
| Debt | $ 20,231 | $ 61,993 | $ 87,848 | $ 93,913 | $ 329 | $ 264,314 |
| Operating leases* | 3,312 | 3,045 | 2,640 | 2,260 | 8,468 | 19,725 |
| Total | $ 23,543 | $ 65,038 | $ 90,488 | $ 96,173 | $ 8,797 | $ 284,039 |

*   Future payments for operating leases are estimated on a straight-line basis using annual calendar year obligations.

## 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, emerging markets and technology stocks.

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; however, there is no assurance that higher ingot 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 2002 and 2001 are presented below:

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

| | Three Months Ended March 31 | | | |
|---|---|---|---|---|
| | 2002 | | 2001 | |
| | Exports From U.S. | Foreign Operations | Exports From U.S. | Foreign Operations |
| Canada | 3 % | 17 % | 3 % | 14 % |
| Europe | 4 | 8 | 1 | 6 |
| Latin America | 3 | 1 | 3 | 2 |
| Asia | 4 | 2 | 4 | 1 |
| Total | 14 % | 28 % | 11 % | 23 % |

* Based on consolidated net sales from manufacturing operations (excluding Tredegar Biotech and Tredegar Investments).

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.

We have investments in private venture capital fund limited partnerships and early-stage technology companies, including the stock of privately-held companies and the restricted and unrestricted stock of companies that have recently registered shares in initial public offerings. The portfolio is subject to risks typically associated with investments in technology start-up companies, which include business failure, illiquidity and stock market volatility. Furthermore, publicly traded stocks of emerging, technology-based companies have higher volatility and risk than the U.S. stock market as a whole. See pages 16-18 and Note 4 beginning on page 6 for more information.

Item 3.     Quantitative and Qualitative Disclosures About Market Risk

See discussion under "Quantitative and Qualitative Disclosures About Market Risk" beginning on page 19.



PART II - OTHER INFORMATION

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

(b) Reports on Form 8-K. No reports on Form 8-K have been filed for the quarter ended March 31, 2002.



**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)

Dated: May 13, 2002

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

Dated: May 13, 2002

/s/Michelle O. Mosier
Michelle O. Mosier
Corporate Controller
(Principal Accounting Officer)