

GUGGENHEIM STRATEGIC OPPORTUNITIES FUND

Form N-CSRS

February 06, 2013

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

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-21982

Guggenheim Strategic Opportunities Fund

(Exact name of registrant as specified in charter)

2455 Corporate West Drive, Lisle, IL 60532

(Address of principal executive offices) (Zip code)

Kevin M. Robinson

2455 Corporate West Drive, Lisle, IL 60532

(Name and address of agent for service)

Registrant's telephone number, including area code: (630) 505-3700

Date of fiscal year end: May 31

Date of reporting period: November 30, 2012

Item 1. Reports to Stockholders.

The registrant's semi-annual report transmitted to shareholders pursuant to Rule 30e-1 under the Investment Company Act of 1940, as amended (the "Investment Company Act"), is as follows:

WWW.GUGGENHEIMINVESTMENTS.COM/GOF

... YOUR WINDOW TO THE LATEST, MOST UP-TO-DATE INFORMATION ABOUT THE GUGGENHEIM STRATEGIC OPPORTUNITIES FUND

The shareholder report you are reading right now is just the beginning of the story. Online at www.guggenheiminvestments.com/gof, you will find:

- Daily, weekly and monthly data on share prices, net asset values, distributions and more
- Portfolio overviews and performance analyses
- Announcements, press releases and special notices
- Fund and adviser contact information

Guggenheim Partners Investment Management, LLC and Guggenheim Funds Investment Advisors, LLC are continually updating and expanding shareholder information services on the Fund's website, in an ongoing effort to provide you with the most current information about how your Fund's assets are managed, and the results of our efforts. It is just one more small way we are working to keep you better informed about your investment in the Fund.

November 30, 2012

DEAR SHAREHOLDER

We thank you for your investment in the Guggenheim Strategic Opportunities Fund (the “Fund”). This report covers the Fund’s performance for the semiannual period ended November 30, 2012.

The Fund’s investment objective is to maximize total return through a combination of current income and capital appreciation. The Fund seeks to achieve that objective by combining a credit-managed fixed-income portfolio with access to a diversified pool of alternative investments and equity strategies. The Fund pursues a relative value-based investment philosophy, which utilizes quantitative and qualitative analysis to seek to identify securities or spreads between securities that deviate from their perceived fair value and/or historical norms. There is no guarantee that the perceived fair value will be achieved.

All Fund returns cited—whether based on net asset value (“NAV”) or market price—assume the reinvestment of all distributions. For the six-month period ended November 30, 2012, the Fund provided a total return based on market price of 2.50% and a total return based on NAV of 10.62%. As of November 30, 2012, the Fund’s market price of \$20.65 per share represented a premium of 2.94% to its NAV of \$20.06 per share. The market value of the Fund’s shares fluctuates from time to time and it may be higher or lower than the Fund’s NAV.

In each month from June 2012 through November 2012, the Fund paid a monthly dividend of \$0.154 per share. The dividend as of November 30, 2012, represents an annualized distribution rate of 8.9% based on the Fund’s closing market price of \$20.65 on November 30, 2012. The Fund announced an increase in its monthly dividend to \$0.1694 per share, effective with its December 2012 dividend.

During the six months ended November 30, 2012, the Fund raised approximately \$24.0 million by offering additional shares to the public. The offering of additional shares of the Fund was made in recognition of continued investor demand for the Fund’s unique investment strategy and strong performance track record. The additional shares offered to the public were priced at a premium to the Fund’s NAV.

Guggenheim Funds Investment Advisors, LLC (the “Adviser”) serves as the investment adviser to the Fund. Guggenheim Partners Investment Management, LLC (formerly, Guggenheim Partners Asset Management, LLC) (“GPIM” or the “Sub-Adviser”) serves as the Fund’s investment sub-adviser and is responsible for the management of the Fund’s portfolio of investments. Each of the Adviser and the Sub-Adviser is an affiliate of Guggenheim Partners, LLC (“Guggenheim”), a global diversified financial services firm.

We encourage shareholders to consider the opportunity to reinvest their distributions from the Fund through the Dividend Reinvestment Plan (“DRIP”), which is described in detail on page 39 of this report. When shares trade at a discount to NAV, the DRIP takes advantage of the discount by reinvesting the monthly dividend distribution in common shares of the Fund purchased in the market at a price less than NAV. Conversely, when the market price of the Fund’s common shares is at a premium above NAV, the DRIP reinvests participants’ dividends in newly-issued common shares at NAV, subject to an IRS limitation that the purchase price cannot be more than 5% below the market price per share. The DRIP provides a cost-effective means to accumulate additional shares and enjoy the benefits of compounding returns over time. Since the Fund endeavors to maintain a stable monthly distribution, the DRIP effectively provides an income averaging technique, which causes shareholders to accumulate a larger number of Fund shares when the market price is depressed than when the price is higher.

To learn more about the Fund’s performance and investment strategy, we encourage you to read the Questions & Answers section of this report, which begins on page 4. You’ll find information on GPIM’s investment philosophy,

views on the economy and market environment, and detailed information about the factors that impacted the Fund's performance.

We appreciate your investment and look forward to serving your investment needs in the future. For the most up-to-date information on your investment, please visit the Fund's website at www.guggenheiminvestments.com/gof.

Sincerely,

Donald C. Cacciapaglia
Chief Executive Officer
Guggenheim Strategic Opportunities Fund

December 31, 2012

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QUESTIONS & ANSWERS

November 30, 2012

Guggenheim Strategic Opportunities Fund (the “Fund”) is managed by a team of seasoned professionals at Guggenheim Partners Investment Management, LLC (“GPIM”). This team includes B. Scott Miner, Chief Executive Officer and Chief Investment Officer; Anne Bookwalter Walsh, CFA, JD, Senior Managing Director; and James W. Michal, Director and Portfolio Manager. In the following interview, the investment team discusses the market environment and the Fund’s performance for the six-month period ended November 30, 2012.

What is the Fund’s investment objective and how is it pursued?

The Guggenheim Strategic Opportunities Fund (the “Fund”) seeks to maximize total return through a combination of current income and capital appreciation. The Fund pursues a relative value-based investment philosophy, which utilizes quantitative and qualitative analysis to seek to identify securities or spreads between securities that deviate from their perceived fair value and/or historical norms. There is no guarantee that the perceived fair value of the Fund’s portfolio investments will be achieved. GPIM seeks to combine a credit-managed fixed income portfolio with access to a diversified pool of alternative investments and equity strategies.

The Fund seeks to achieve its investment objective by investing in a wide range of fixed income and other debt and senior equity securities (“income securities”) selected from a variety of credit qualities and sectors, including, but not limited to, corporate bonds, loans and loan participations, structured finance investments, U.S. government and agency securities, mezzanine and preferred securities and convertible securities, and in common stocks, limited liability company interests, trust certificates and other equity investments (“common equity securities,” exposure to which is obtained primarily by investing in exchange traded funds, or ETFs) that GPIM believes offer attractive yield and/or capital appreciation potential, including employing a strategy of writing (selling) covered call and put options on such equities. GPIM believes the volatility of the Fund can be reduced by diversifying across a large number of sectors and securities, many of which historically have not been highly correlated to one another. To achieve the targeted level of diversification, the Fund has primarily invested in exchange traded funds.

Under normal market conditions:

- The Fund may invest up to 60% of its total assets in fixed income securities rated below investment grade (commonly referred to as “junk bonds”);
- The Fund may invest up to 20% of its total assets in non-U.S. dollar denominated fixed income securities of corporate and governmental issuers located outside the U.S., including up to 10% of total assets in fixed income securities of issuers located in emerging markets;
- The Fund may invest up to 50% of its total assets in common equity securities; and
- The Fund may invest up to 30% of its total assets in investment funds that primarily hold (directly or indirectly) investments in which the Fund may invest directly of which amount, up to 20% of the Fund’s total assets in investment funds that are registered as investment companies under the Investment Company Act of 1940, as amended (the “1940 Act”) to the extent permitted by applicable law and related interpretations of the staff of the U.S. Securities and Exchange Commission.

GPIM’s investment process is a collaborative effort between its Portfolio Construction Group, which utilizes tools such as a proprietary risk optimization model to determine allocation of assets among a variety of sectors, and its Sector Specialists, who are responsible for security selection within these sectors and for implementing securities transactions.

The Fund may use financial leverage (borrowing) to finance the purchase of additional securities. Although financial leverage may create an opportunity for increased return for shareholders, it also results in additional risks and can magnify the effect of any losses. There is no assurance that the strategy will be successful. If income and gains earned on securities purchased with the financial leverage proceeds are greater than the cost of the financial leverage, common shareholders' return will be greater than if financial leverage had not been used. Conversely, if the income or gains from the securities purchased with the proceeds of financial leverage are less than the cost of the financial leverage, common shareholders' return will be less than if financial leverage had not been used.

What were the significant events affecting the economy and market environment over the past six months?

The U.S. economy continues its positive expansion although the risks of delinquencies, weak consumer demand, and the knock-on effect of Europe continue to weigh on the market. Unprecedented policy actions by the Federal Reserve ("the Fed") continue to provide ample liquidity and accommodation to stimulate growth of the U.S. economy. Recent Fed action, such as the third round of quantitative easing announced in September 2012, shows an increased tolerance for potentially higher levels of inflation. The Fed was aggressive in its policy action by announcing an open-ended bond purchasing program that focused on agency mortgages. Operation Twist, the Fed's program of buying longer duration Treasury securities while simultaneously selling shorter duration securities, was also extended.

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The U.S. election at the beginning of November may have had a small short-term effect on the market's perception of the path and pace towards economic recovery. Improving housing data and private payrolls have largely driven U.S. GDP growth, though perceived uncertainty surrounding consumer demand and unemployment continues to make it difficult for the corporate sector to make investment decisions with respect to hiring and capital investment. U.S. capital markets will largely be focused on the political decisions made in December with respect to the U.S. fiscal cliff and the impending legislation changes.

Central banks around the world have tagged along with U.S. policymakers and are engaging in their own forms of accommodative policy actions, which should continue to benefit risk assets and assets linked to inflation. While the European Central Bank has made considerable strides to reduce stress emanating from troubled Eurozone nations, it is evident that restructuring of toxic debt will take considerable time and effort. The Eurozone currency still remains at a relatively high value compared to the U.S. dollar, which makes European countries less competitive with respect to exports – the exchange rate between the Euro/USD finished at 1.298 €/€ to close November. Despite all of these headwinds, the U.S. economy appears to have the momentum, albeit at a slow pace, to withstand an imminent European recession.

How did the Fund perform for the six months ended November 30, 2012?

All Fund returns cited—whether based on net asset value (“NAV”) or market price—assume the reinvestment of all distributions. For the six-month period ended November 30, 2012, the Fund provided a total return based on market price of 2.50% and a total return based on NAV of 10.62%.

As of November 30, 2012, the Fund's market price of \$20.65 per share represented a premium of 2.94% to its NAV of \$20.06 per share. The closing price of the Fund's shares as of May 31, 2012, was \$21.08, which represented a premium of 10.95% to the NAV of \$19.00. The market value of the Fund's shares fluctuates from time to time and it may be higher or lower than the Fund's NAV. Past performance is not a guarantee of future results.

In each month from June 2012 through November 2012, the Fund paid a monthly dividend of \$0.154 per share. The dividend as of November 30, 2012, represents an annualized distribution rate of 8.9% based on the Fund's closing market price of \$20.65 on November 30, 2012. Of course, the Fund's distribution rate is not constant and is subject to change based on the performance of the Fund.

What were the major contributors to or detractors from performance?

Performance of the Fund was strong, as leveraged credit markets (consisting primarily of high yield bonds and bank loans) registered gains over the period and also helped collateralized loan obligations (“CLO”) spreads tighten. Monetary stimulus provided by central banks across the globe, combined with elevated demand by investors for yield, drove spreads and overall yields tighter.

Global equity markets, structured credit, and corporate bonds rallied on the back of monetary stimulus, with the main drivers of positive performance being high yield corporate bonds, asset-backed securities (“ABS”) and CLOs. Macroeconomic-themed trades were another positive contributor, as monetary stimulus boosted gold and European equities. The Fund continues to remain overweight spread duration and underweight effective duration, given the macroeconomic forecast.

Detractors to performance included several corporate credit positions that experienced mark-to-market weakness given specific credit or industry outlooks. GPIM continues to believe that corporate fundamentals will remain positive, as accommodation and low borrowing rates remain supportive of corporate credits.

From an asset allocation perspective, sustained periods of low nominal interest rates coupled with improving corporate fundamentals increase the attractiveness of higher yielding, fixed income securities. We continue to see value in fundamentally strong, but seemingly out-of-favor, lower-rated securities, particularly in high yield bonds and bank loans.

What have market conditions been like for the Fund over the past six months?

Even though the U.S. debt and deficit issues continue to loom large, the global macroeconomic picture has undoubtedly improved over the past several months. The headline risk of European disintegration has diminished with ongoing progress towards a banking union, and ultimately towards a fiscal union in Europe.

Bank loans and high yield bonds continue to provide value down the credit spectrum, primarily in CCCs and select single Bs. Bank loans may also offer investors protection against rising rates, seniority in the capital structure and covenant protection. CLO activity also remains strong with year to date volume already higher than the past three years combined (2009-2011). Despite strong issuance, CLO spreads across the capital structure continue to tighten as outstanding volume continues to shrink, and investors are driven to other asset classes such as CLOs for wider spreads.

New issue U.S. ABS credit performance expectations remain firm, particularly in well-covered transactions backed by commercial loans and assets. While U.S. economic data has been mixed, the performance of the consumer and corporate credits underlying ABS has been stable and supportive of ABS performance at expected levels. Supply volumes are increasing but remain below the repayment of older deals, creating a net supply shortfall and firm spreads. European holdings of U.S. structured products have been reduced substantially post-crisis, and should not pose

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as large of a threat to the market as in past years. Overall trading pressures and changes in bank regulatory capital may affect trading volumes and dealer appetite to hold structured product risk assets.

How did other markets perform in this environment?

For the six-month period ended November 30, 2012, investors realized the highest returns from the most risky assets such as domestic and international equity markets, followed by the U.S. high yield and leveraged loan markets, while U.S. government debt provided the lowest returns.

The Standard & Poor's 500 Index (the "S&P 500"), which is generally regarded as an indicator of the broader U.S. stock market, rose 9.32% (this and all other returns cited in this section are total return). Foreign markets were much stronger, as the Morgan Stanley Capital International ("MSCI") Europe-Australasia-Far East ("EAFE") Index, which is comprised of approximately 1,100 companies in 20 developed countries in Europe and the Pacific Basin, rose 18.16% and the MSCI Emerging Market Index, which measures market performance in global emerging markets, rose 12.63%, for the six months ended November 30, 2012.

In the bond market, the Barclays U.S. Treasury Composite Index, which includes Treasury securities of all maturities, returned 0.57%. The Barclays U.S. Aggregate Bond Index (the "Barclays Aggregate"), which is a proxy for the U.S. investment-grade bond market, returned 1.99% for the period, while the Barclays U.S. Corporate High Yield Index (which tracks nearly 2,000 U.S. non-investment grade bonds) returned 8.54%. The Credit Suisse Leveraged Loan Index, which tracks approximately 1,500 syndicated bank loans, returned 4.71% for the period. Reflecting the Federal Reserve's continuing accommodative monetary policy, interest rates on short-term securities remained at their lowest levels in many years; the return of the Barclays 1-3 Month U.S. Treasury Bill Index was 0.04% for the same period.

What is the Fund's leverage strategy?

Since leverage adds to performance when the cost of leverage is less than the total return generated by investments, the use of leverage contributed to the Fund's total return during this period. The purpose of leverage (borrowing) is to fund the purchase of additional securities that provide the potential for increased income and greater appreciation to common shareholders than could be achieved from an unlevered portfolio. Leverage results in greater NAV volatility and entails more downside risk than an unlevered portfolio.

As of November 30, 2012, the amount of leverage was approximately 29.6% of total assets. GPIM employs leverage through two vehicles: reverse repurchase agreements, under which the Fund transfers securities to a counterparty and receives cash which can be used for additional investments, and a committed financing facility through a leading investment bank.

Index Definitions

Indices are unmanaged and reflect no expenses. It is not possible to invest directly in an index.

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Barclays U.S. Aggregate Bond Index represents securities that are U.S. domestic, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

The Barclays U.S. Corporate High Yield Index is an unmanaged index of below investment grade bonds issued by U.S. corporations.

The Barclays U.S. Treasury Composite Index includes public obligations of the U.S. Treasury. Treasury bills are excluded by the maturity constraint but are part of a separate Short Treasury Index. In addition, certain special issues, such as state and local government series bonds (SLGs), as well as U.S. Treasury TIPS, are excluded. STRIPS are excluded from the index because their inclusion would result in double-counting. Securities in the index roll up to the U.S. Aggregate, U.S. Universal, and Global Aggregate Indices. The U.S. Treasury Index was launched on January 1, 1973.

The Barclays 1-3 Month U.S. Treasury Bill Index tracks the performance of U.S. Treasury bills with a remaining maturity of one to three months. U.S. Treasury bills, which are short-term loans to the U.S. government, are full-faith-and-credit obligations of the U.S. Treasury and are generally regarded as being free of any risk of default.

The Credit Suisse Leveraged Loan Index is an Index designed to mirror the investable universe of the \$US-denominated leveraged loan market.

The MSCI EAFE Index is a capitalization weighted measure of stock markets in Europe, Australasia and the Far East.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization weighted index that is designed to measure equity market performance in the global emerging markets.

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Risks and Other Considerations

The views expressed in this report reflect those of the portfolio managers only through the report period as stated on the cover. These views are subject to change at any time, based on market and other conditions and should not be construed as a recommendation of any kind. The material may also include forward looking statements that involve risk and uncertainty, and there is no guarantee that any predictions will come to pass. There can be no assurance that the Fund will achieve its investment objectives. The value of the Fund will fluctuate with the value of the underlying securities. Historically, closed-end funds often trade at a discount to their net asset value.

Asset-Backed Securities Risk: ABS involve certain risks in addition to those presented by mortgage-backed securities. Therefore, there is the possibility that recoveries on the underlying collateral may not, in some cases, be available to support payments on these securities. ABS do not have the benefit of the same security interest in the underlying collateral as mortgage-backed securities and are more dependent on the borrower's ability to pay and may provide the Fund with a less effective security interest in the related collateral than do mortgage-related securities. The collateral underlying ABS may constitute assets related to a wide range of industries and sectors. For example, ABS can be collateralized with credit card and automobile receivables. Credit card receivables are generally unsecured, and the debtors are entitled to the protection of a number of state and federal consumer credit laws, many of which give debtors the right to set off certain amounts owed on the credit cards, thereby reducing the balance due. Most issuers of automobile receivables permit the servicers to retain possession of the underlying obligations. If the servicer were to sell these obligations to another party, there is a risk that the purchaser would acquire an interest superior to that of the holders of the related automobile receivables. In addition, because of the large number of vehicles involved in a typical issuance and technical requirements under state laws, the trustee for the holders of the automobile receivables may not have an effective security interest in all of the obligations backing such receivables. If the economy of the United States deteriorates, defaults on securities backed by credit card, automobile and other receivables may increase, which may adversely affect the value of any ABS owned by the Fund. In addition, these securities may provide the Fund with a less effective security interest in the related collateral than do mortgage-related securities. Therefore, there is the possibility that recoveries on the underlying collateral may not, in some cases, be available to support payments on these securities.

The Credit CARD Act of 2009 imposes new regulations on the ability of credit card issuers to adjust the interest rates and exercise various other rights with respect to indebtedness extended through credit cards. The Fund and the Sub-Adviser cannot predict what effect, if any, such regulations might have on the market for ABS and such regulations may adversely affect the value of ABS owned by the Fund.

Most issuers of automobile receivables permit the servicers to retain possession of the underlying obligations. If the servicer were to sell these obligations to another party, there is a risk that the purchaser would acquire an interest superior to that of the holders of the related automobile receivables. In addition, because of the large number of vehicles involved in a typical issuance and technical requirements under state laws, the trustee for the holders of the automobile receivables may not have an effective security interest in all of the obligations backing such receivables. In recent years, certain automobile manufacturers have been granted access to emergency loans from the U.S. Government and have experienced bankruptcy. As a result of these events, the value of securities backed by receivables from the sale or lease of automobiles may be adversely affected.

If the economy of the United States deteriorates, defaults on securities backed by credit card, automobile and other receivables may increase, which may adversely affect the value of any ABS owned by the Fund. In addition, these securities may provide the Fund with a less effective security interest in the related collateral than do mortgage-related securities. Therefore, there is the possibility that recoveries on the underlying collateral may not, in some cases, be

available to support payments on these securities.

Below Investment-Grade Securities Risk: The Fund may invest in income securities rated below investment grade or, if unrated, determined by the Sub-Adviser to be of comparable credit quality, which are commonly referred to as “high-yield” or “junk” bonds. Investment in securities of below investment-grade quality involves substantial risk of loss. Income securities of below investment-grade quality are predominantly speculative with respect to the issuer’s capacity to pay interest and repay principal when due and therefore involve a greater risk of default or decline in market value due to adverse economic and issuer-specific developments.

Senior and Second Lien Secured Loans Risk: The Fund’s investments in senior loans and second lien secured floating-rate loans are typically below investment grade and are considered speculative because of the credit risk of their issuers. The risks associated with senior loans of below investment grade quality are similar to the risks of other lower-grade income securities. Second lien loans are second in right of payment to senior loans and therefore are subject to the additional risk that the cash flow of the borrower and any property securing the loan may be insufficient to meet scheduled payments after giving effect to the senior-secured obligations of the borrower. Second lien loans are expected to have greater price volatility and exposure to losses upon default than senior loans and may be less liquid.

Structured Finance Investments Risk: The Fund’s structured finance investments may include residential and commercial mortgage-related and asset-backed securities issued by governmental entities and private issuers, collateralized debt obligations and risk-linked securities. These securities entail considerable risk, including many of the risks described above (e.g.,

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market risk, credit risk, interest rate risk and prepayment risk). The value of collateralized debt obligations also may change because of changes in the market's perception of the underlying collateral of the pool, the creditworthiness of the servicing agent for or the originator of the pool, or the financial institution or entity providing credit support for the pool. Returns on risk linked securities are dependent upon such events as property or casualty damages which may be caused by such catastrophic events as hurricanes or earthquakes or other unpredictable events.

Mezzanine Investments Risk: Mezzanine investments are subject to the same risks associated with investment in senior loans, second lien loans and other lower-grade income securities. Mezzanine investments are expected to have greater price volatility than senior loans and second lien loans and may be less liquid.

Preferred Stock Risk: Preferred stock is inherently more risky than the bonds and other debt instruments of the issuer, but typically less risky than its common stock. Preferred stocks may be significantly less liquid than many other securities, such as U.S. Government securities, corporate debt and common stock.

Convertible Securities Risk: As with all income securities, the market values of convertible securities tend to decline as interest rates increase and, conversely, to increase as interest rates decline. Convertible securities also tend to reflect the market price of the underlying stock in varying degrees, depending on the relationship of such market price to the conversion price in the terms of the convertible security.

Equity Risk: Common equity securities' prices fluctuate for a number of reasons, including changes in investors' perceptions of the financial condition of an issuer, the general condition of the relevant stock market, and broader domestic and international political and economic events. **Real Estate Securities Risk:** Because of the Fund's ability to invest in securities of companies in the real estate industry and to make indirect investments in real estate, it is subject to risks associated with the direct ownership of real estate, including declines in the value of real estate; general and local economic conditions; increased competition; and changes in interest rates. Because of the Fund's ability to make indirect investments in natural resources and physical commodities, and in real property asset companies, the Fund is subject to risks associated with such real property assets, including supply and demand risk, depletion risk, regulatory risk and commodity pricing risk.

Personal Property Asset Company Risk: The Fund may invest in personal property asset companies such as special situation transportation assets. The risks of special situation transportation assets include cyclical supply and demand for transportation assets and risk of decline in the value of transportation assets and rental values.

Private Securities Risk: Private securities have additional risk considerations than investments in comparable public investments.

Inflation/Deflation Risk: There is a risk that the value of assets or income from investments will be worth less in the future as inflation decreases the value of money.

Dividend Risk: Dividends on common stock and other common equity securities which the Fund may hold are not fixed but are declared at the discretion of an issuer's board of directors. There is no guarantee that the issuers of the common equity securities in which the Fund invests will declare dividends in the future or that, if declared, they will remain at current levels or increase over time.

Portfolio Turnover Risk: The Fund's annual portfolio turnover rate may vary greatly from year to year. A higher portfolio turnover rate results in correspondingly greater brokerage commissions and other transactional expenses that are borne by the Fund. High portfolio turnover may result in an increased realization of net short-term capital gains by

the Fund which, when distributed to common shareholders, will be taxable as ordinary income. Additionally, in a declining market, portfolio turnover may create realized capital losses.

Derivatives Risk: The Fund may be exposed to certain additional risks should the Sub-Adviser use derivatives as a means to synthetically implement the Fund's investment strategies. If the Fund enters into a derivative instrument whereby it agrees to receive the return of a security or financial instrument or a basket of securities or financial instruments, it will typically contract to receive such returns for a predetermined period of time. During such period, the Fund may not have the ability to increase or decrease its exposure. In addition, such customized derivative instruments will likely be highly illiquid, and it is possible that the Fund will not be able to terminate such derivative instruments prior to their expiration date or that the penalties associated with such a termination might impact the Fund's performance in a material adverse manner. Furthermore, derivative instruments typically contain provisions giving the counterparty the right to terminate the contract upon the occurrence of certain events. If a termination were to occur, the Fund's return could be adversely affected as it would lose the benefit of the indirect exposure to the reference securities and it may incur significant termination expenses.

Foreign Securities and Emerging Markets Risk: Investing in foreign issuers may involve certain risks not typically associated with investing in securities of U.S. issuers due to increased exposure to foreign economic, political and legal developments, including favorable or unfavorable changes in currency exchange rates, exchange control regulations, expropriation or nationalization of assets, imposition of withholding taxes on payments and possible difficulty in obtaining and enforcing judgments against foreign entities. Furthermore, issuers of foreign securities and obligations are subject to different, often less comprehensive, accounting, reporting and disclosure requirements than domestic issuers. The securities and obligations of some foreign companies and foreign markets are less liquid and at times more volatile than comparable U.S. securities, obligations and markets. These risks may be more pronounced to the extent that the Fund invests a significant amount of its assets in companies located in one region and to the extent that the Fund invests in securities of issuers in emerging markets. Heightened risks of investing in emerging markets include: smaller market capitalization of securities markets, which may suffer periods of relative illiquidity; significant price volatility; restrictions on foreign investment; and possible repatriation of investment income and capital.

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Financial Leverage Risk: Although the use of Financial Leverage by the Fund may create an opportunity for increased after-tax total return for the Common Shares, it also results in additional risks and can magnify the effect of any losses. If the income and gains earned on securities purchased with Financial Leverage proceeds are greater than the cost of Financial Leverage, the Fund's return will be greater than if Financial Leverage had not been used. Conversely, if the income or gains from the securities purchased with such proceeds does not cover the cost of Financial Leverage, the return to the Fund will be less than if Financial Leverage had not been used. Financial Leverage involves risks and special considerations for shareholders, including the likelihood of greater volatility of net asset value and market price of and dividends on the Common Shares than a comparable portfolio without leverage; the risk that fluctuations in interest rates on borrowings that the Fund must pay will reduce the return to the Common Shareholders; and the effect of Financial Leverage in a declining market, which is likely to cause a greater decline in the net asset value of the Common Shares than if the Fund were not leveraged, which may result in a greater decline in the market price of the Common Shares. There can be no assurance that a leveraging strategy will be implemented or that it will be successful during any period during which it is employed.

In addition to the risks described above, the Fund is also subject to: Income Securities Risk, Foreign Currency Risk, Risks Associated with the Fund's Covered Call Option Strategy, Investment Funds Risk, Private Investment Funds Risk, Affiliated Investment Funds Risk, Synthetic Investments Risk, Risks of Real Property Asset Companies, Inflation/Deflation Risk, Anti- Takeover Provisions, Market Discount Risk, and Current Developments Risks. Please see www.guggenheiminvestments.com/gof for a more detailed discussion about Fund risks and considerations.

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FUND SUMMARY (Unaudited)

November 30, 2012

Fund Statistics

| | |
|--|-----------|
| Share Price | \$20.65 |
| Common Share Net Asset Value | \$20.06 |
| Premium/Discount to NAV | 2.94% |
| Net Assets Applicable to Common Shares (\$000) | \$242,349 |

Total Returns

| (Inception 7/27/07) | Market | NAV |
|---|--------|--------|
| Six Month | 2.50% | 10.62% |
| One Year | 11.95% | 19.28% |
| Three Year - average annual ¹ | 20.21% | 19.31% |
| Five Year - average annual ¹ | 16.66% | 12.57% |
| Since Inception - average annual ¹ | 12.32% | 12.32% |

Performance data quoted represents past performance, which is no guarantee of future results and current performance may be lower or higher than the figures shown. For the most recent month-end performance figures, please visit www.guggenheiminvestments.com/gof. The investment return and principal value of an investment will fluctuate with changes in the market conditions and other factors so that an investor's shares, when sold, may be worth more or less than their original cost.

¹Investors should also be aware that these returns were primarily achieved during favorable market conditions and may not be sustainable.

| Top Ten Holdings | % of Long-Term Investments |
|--|----------------------------|
| SPDR S&P 500 ETF Trust | 5.2% |
| iShares Russell 2000 Index Fund | 3.6% |
| Aerco Ltd., Series 2A, Class A3 (Jersey) | 2.5% |
| Rockwall CDO Ltd., Series 2007-1A, Class A1LA (Cayman Islands) | 2.2% |
| Airplanes Pass-Through Trust, Series 2001-1A, Class A9 | 2.0% |
| Fortress Credit Opportunities I LP, Series 2005-1A, Class A1 | 1.9% |
| Nomura Resecuritization Trust, Series 2012-1R, Class A | 1.5% |
| Eastland CLO Ltd., Series 2007-1A, Class A2B (Cayman Islands) | 1.2% |
| Telos CLO Ltd., Series 2006-1A, Class A2 (Cayman Islands) | 1.0% |
| Attentus CDO Ltd., Series 2007-3A, Class A1B (Cayman Islands) | 1.0% |

*Less than 0.1%

Portfolio composition and holdings are subject to change daily. For more information, please visit www.guggenheiminvestments.com/gof. The above summaries are provided for informational purposes only and should not be viewed as recommendations. Past performance does not guarantee future results.

**Ratings shown are assigned by one or more Nationally Recognized Statistical Credit Rating Organizations (“NRSRO”), such as Standard & Poor’s, Moody’s and Fitch. The ratings are an indication of an issuer’s creditworthiness and typically range from AAA or Aaa (highest) to D (lowest). When two or more ratings are available, the lower rating is used; and when only one is available, that rating is used. The Non-Rated category consists of securities that have not been rated by an NRSRO. U.S. Treasury securities and U.S. Government Agency securities are not rated but deemed to be equivalent to securities rated AA+/Aaa.

10 | GOF | GUGGENHEIM STRATEGIC OPPORTUNITIES FUND SEMIANNUAL REPORT

PORTFOLIO OF INVESTMENTS (Unaudited)

November 30, 2012

| | Principal Amount | Description | Rating * | Coupon Maturity | Optional Call Provisions** | Value |
|---|---------------------|--------------------------------------|-------------|--------------------|----------------------------------|-----------------------|
| | | Long-Term Investments – 147.3% | | | | |
| | 19,554 | | | | | |
| Income taxes | 5,300 | | | 4,814 | | 9,857 6,904 |
| Income (loss) from continuing operations | 6,487 | | | 8,865 | | (22,330) 12,650 |
| Loss from discontinued operations | - | | | (207) | | - (930) |
| Net income (loss) | \$ 6,487 | | | \$ 8,658 | | \$ (22,330) \$11,720 |
| Earnings (loss) per share: | | | | | | |
| Basic: | | | | | | |
| Continuing operations | \$.19 | | | \$.26 | | \$ (.66) \$.37 |
| Discontinued operations | - | | | (.01) | | - (.03) |
| Net income (loss) | \$.19 | | | \$.25 | | \$ (.66) \$.34 |
| Diluted: | | | | | | |
| Continuing operations | \$.19 | | | \$.26 | | \$ (.66) \$.37 |
| Discontinued operations | - | | | (.01) | | - (.03) |
| Net income (loss) | \$.19 | | | \$.25 | | \$ (.66) \$.34 |
| Shares used to compute earnings (loss) per share: | | | | | | |
| Basic | 33,876 | | | 33,997 | | 33,871 34,231 |
| Diluted | 33,971 | | | 34,211 | | 33,871 34,445 |
| Dividends per share | \$.04 | | | \$.04 | | \$.08 \$.08 |

See accompanying notes to financial statements.

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

| | Six Months Ended June 30 | |
|---|-----------------------------|-----------|
| | 2009 | 2008 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$(22,330) | \$11,720 |
| Adjustments for noncash items: | | |
| Depreciation | 19,663 | 22,379 |
| Amortization of intangibles | 60 | 63 |
| Goodwill impairment charge | 30,559 | - |
| Deferred income taxes | 2,160 | 7,123 |
| Accrued pension and postretirement benefits | (1,267) | (2,825) |
| Loss on asset impairments and divestitures | - | 3,337 |
| Gain on sale of assets | (1,004) | - |
| Changes in assets and liabilities, net of effects of acquisitions and divestitures: | | |
| Accounts and notes receivable | 9,732 | (25,162) |
| Inventories | 8,055 | 15,913 |
| Income taxes recoverable | 5,995 | (9,803) |
| Prepaid expenses and other | 2,221 | 828 |
| Accounts payable and accrued expenses | (522) | 2,086 |
| Other, net | (1,333) | 2,180 |
| Net cash provided by operating activities | 51,989 | 27,839 |
| Cash flows from investing activities: | | |
| Capital expenditures (including settlement of related accounts payable of \$1,709 in 2009) | (17,348) | (10,461) |
| Proceeds from the sale of the aluminum extrusions business in Canada (net of cash included in sale and transaction costs) | - | 23,616 |
| Proceeds from the sale of assets and property disposals | 1,118 | 248 |
| Investments | - | (1,722) |
| Net cash provided by (used in) investing activities | (16,230) | 11,681 |
| Cash flows from financing activities: | | |
| Dividends paid | (2,717) | (2,736) |
| Debt principal payments | (21,098) | (47,209) |
| Borrowings | - | 22,000 |
| Repurchases of Tredegar common stock | - | (12,904) |
| Proceeds from exercise of stock options and other | 187 | - |
| Net cash used in financing activities | (23,628) | (40,849) |
| Effect of exchange rate changes on cash | 552 | 1,621 |
| Increase in cash and cash equivalents | 12,683 | 292 |
| Cash and cash equivalents at beginning of period | 45,975 | 48,217 |
| Cash and cash equivalents at end of period | \$58,658 | \$48,509 |

See accompanying notes to financial statements.

Tredegar Corporation
Consolidated Statement of Shareholders' Equity
(In Thousands, Except Per Share Data)
(Unaudited)

| | Common Stock | Retained Earnings | Trust for Savings Restora- tion Plan | Foreign Currency Trans- lation | Accumulated Other Comprehensive Income (Loss) | | Total Share-holders' Equity |
|--|-----------------|----------------------|--|---|---|---|-----------------------------------|
| | | | | | Gain (Loss) on Derivative Financial Instruments | Pension & Other Post-retirement Benefit Adjust. | |
| Balance December 31, 2008 | \$ 40,719 | \$ 429,047 | \$ (1,313) | \$ 23,443 | \$ (6,692) | \$ (64,788) | \$ 420,416 |
| Comprehensive income (loss): | | | | | | | |
| Net income (loss) | - | (22,330) | - | - | - | - | (22,330) |
| Other comprehensive income (loss): | | | | | | | |
| Foreign currency translation adjustment (net of tax of \$337) | - | - | - | 613 | - | - | 613 |
| Derivative financial instruments adjustment (net of tax of \$3,019) | - | - | - | - | 4,950 | - | 4,950 |
| Amortization of prior service costs and net gains or losses (net of tax of \$220) | - | - | - | - | - | 391 | 391 |
| Comprehensive income (loss) | | | | | | | (16,376) |
| Cash dividends declared (\$.08 per share) | - | (2,717) | - | - | - | - | (2,717) |
| Stock-based compensation expense & other | 1,025 | - | - | - | - | - | 1,025 |
| Tredegar common stock purchased by trust for savings restoration plan | - | 5 | (5) | - | - | - | - |
| Balance June 30, 2009 | \$ 41,744 | \$ 404,005 | \$ (1,318) | \$ 24,056 | \$ (1,742) | \$ (64,397) | \$ 402,348 |

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,” “we,” “us” or “our”) contain all adjustments necessary to present fairly, in all material respects, Tredegar’s consolidated financial position as of June 30, 2009, the consolidated results of operations for the three and six months ended June 30, 2009 and 2008, the consolidated cash flows for the six months ended June 30, 2009 and 2008, and the consolidated changes in shareholders’ equity for the six months ended June 30, 2009. All such adjustments are deemed to be of a normal, recurring nature. The preparation of these interim financial statements also includes an evaluation of subsequent events through August 4, 2009, which is the date that the financial statements were issued. 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, 2008. The results of operations for the six months ended June 30, 2009, are not necessarily indicative of the results to be expected for the full year.

2. Plant shutdowns, asset impairments and restructurings in the second quarter of 2009 shown in the segment operating profit table in Note 10 include:

- Pretax losses of \$779,000 for timing differences between the recognition of realized losses on aluminum futures contracts and related revenues from the delayed fulfillment by customers of fixed-price forward purchase commitments (included in “Cost of goods sold” in the consolidated statements of income, see Note 8 on page 11 for additional detail);
- Pretax gain of \$276,000 related to the reduction of future environmental costs expected to be incurred by Aluminum Extrusions (included in “Cost of goods sold” in the consolidated statements of income);
- Pretax gain of \$175,000 on the sale of a previously shutdown aluminum extrusions manufacturing facility in El Campo, Texas (included in “Other income (expense), net” in the consolidated statements of income); and
- Pretax gain of \$149,000 related to the reversal to income of certain inventory impairment accruals in Film Products.

Plant shutdowns, asset impairments and restructurings in the second quarter of 2008 shown in the segment operating profit table in Note 10 include:

- Pretax charge of \$854,000 for asset impairments in Film Products;
- Pretax charges of \$365,000 for severance and other employee-related costs in connection with restructurings in Film Products (\$90,000) and Aluminum Extrusions (\$275,000); and
- Pretax charge of \$105,000 related to expected future environmental costs at the aluminum extrusions facility in Newnan, Georgia (included in “Cost of goods sold” in the consolidated statements of income).

Plant shutdowns, asset impairments and restructurings in the first six months of 2009 shown in the segment operating profit table in Note 10 include:

- Pretax charges of \$1.6 million for severance and other employee-related costs in connection with restructurings in Film Products (\$1.1 million), Aluminum Extrusions (\$369,000) and corporate headquarters (\$178,000, included in “Corporate expenses, net” in the net sales and operating profit by segment table in Note 10);

- Pretax losses of \$1.4 million for timing differences between the recognition of realized losses on aluminum futures contracts and related revenues from the delayed fulfillment by customers of fixed-price forward purchase commitments (included in “Cost of goods sold” in the consolidated statements of income, see Note 8 on page 11 for additional detail);
- Pretax gain of \$276,000 related to the reduction of future environmental costs expected to be incurred by Aluminum Extrusions (included in “Cost of goods sold” in the consolidated statements of income);
- Pretax gain of \$275,000 on the sale of equipment (included in “Other income (expense), net” in the consolidated statements of income) from a previously shutdown films manufacturing facility in LaGrange, Georgia;
- Pretax gain of \$175,000 on the sale of a previously shutdown aluminum extrusions manufacturing facility in El Campo, Texas (included in “Other income (expense), net” in the consolidated statements of income); and
- Pretax gain of \$149,000 related to the reversal to income of certain inventory impairment accruals in Film Products.

Plant shutdowns, asset impairments and restructurings in the first six months of 2008 shown in the segment operating profit table in Note 10 include:

- Pretax charges of \$2.7 million for severance and other employee-related costs in connection with restructurings in Film Products (\$2.2 million) and Aluminum Extrusions (\$510,000);
 - Pretax charges of \$2.5 million for asset impairments in Film Products; and
- Pretax charge of \$105,000 related to expected future environmental costs at the aluminum extrusions facility in Newnan, Georgia (included in “Cost of goods sold” in the consolidated statements of income).

The reduction in workforce in Film Products in 2009 (approximately 50 people) is expected to save \$1.4 million in 2009 and \$2.5 million on an annualized basis. The reduction in workforce in Film Products in 2008 (approximately 90 people) is expected to save \$4.2 million on an annualized basis.

Results for 2009 also include a pretax gain of \$404,000 (\$257,000 after tax) on the sale of corporate real estate in the first quarter. This gain is included in “Other income (expenses), net” in the consolidated statements of income.

Income taxes for the first six months of 2009 include the recognition of a valuation allowance of \$3.7 million (\$1.8 million in the second quarter) related to the expected limitations on the utilization of assumed capital losses on certain investments.

On February 12, 2008, we sold our aluminum extrusions business in Canada for approximately \$25 million to an affiliate of H.I.G. Capital. We recognized a charge of \$1.1 million (\$430,000 after taxes) in the first quarter of 2008 and \$207,000 (\$207,000 after taxes) in the second quarter of 2008, which was in addition to the asset impairment charges recognized in 2007, to adjust primarily for differences in the carrying value of assets and liabilities and related tax benefits associated with the business sold since December 31, 2007. The remaining after-tax loss for discontinued operations in 2008 of \$293,000 relates to the loss from operations up through the date of sale. All historical results for this business have been reflected as discontinued operations in the accompanying financial statements and tables, except cash flows for discontinued operations have not been separately disclosed in the consolidated statements of cash flows. The components of the loss from discontinued operations are presented below:

| (In Thousands) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|-------------------------------|-----------|-----------------------------|-----------|
| | 2009 | 2008 | 2009 | 2008 |
| Loss from operations before income taxes | \$ - | \$ - | \$ - | \$ (391) |
| Income tax cost (benefit) on operations | - | - | - | (98) |
| | - | - | - | (293) |
| Loss associated with asset impairments and disposal activities | - | (207) | - | (1,337) |
| Income tax cost (benefit) on asset impairments and costs associated with disposal activities | - | - | - | (700) |
| | - | (207) | - | (637) |
| Loss from discontinued operations | \$ - | \$ (207) | \$ - | \$ (930) |

A reconciliation of the beginning and ending balances of accrued expenses associated with asset impairments and exit and disposal activities for the six months ended June 30, 2009 is as follows:

| (In Thousands) | Long-Lived Asset | | | Total |
|------------------------------|---------------------|-------------|-----------|----------|
| | Severance | Impairments | Other (a) | |
| Balance at December 31, 2008 | \$ 431 | \$ - | \$ 4,491 | \$ 4,922 |
| Changes in 2009: | | | | |
| Charges | 1,631 | - | - | 1,631 |
| Cash spent | (850) | - | (645) | (1,495) |
| Charged against assets | - | - | - | - |
| Balance at June 30, 2009 | \$ 1,212 | \$ - | \$ 3,846 | \$ 5,058 |

(a) Other primarily includes accrued losses on a sub-lease at a facility in Princeton, New Jersey.

3. We assess goodwill for impairment when events or circumstances indicate that the carrying value may not be recoverable, or, at a minimum, on an annual basis (December 1st of each year). Our reporting units include Film Products and Aluminum Extrusions, each of which may have separately identifiable operating net assets (operating assets including goodwill and intangible assets net of operating liabilities). We estimate the fair value of our reporting units using discounted cash flow analysis and comparative enterprise value-to-EBITDA multiples. Based on the severity of the economic downturn and its impact on the sales volumes of our aluminum extrusions business (a 36.8% decline in sales volume in the first quarter of 2009 compared with the first quarter of 2008), the resulting first quarter operating loss (see Note 10), possible future losses and the uncertainty in the amount and timing of an economic recovery, we determined that impairment indicators existed. Upon completing the impairment analysis as of March 31, 2009, a goodwill impairment charge of \$30.6 million (\$30.6 million after tax) was recognized in Aluminum Extrusions in the first quarter of 2009. This was the entire amount of goodwill associated with the Aluminum Extrusions reporting unit and an anomalous write-off under U.S. GAAP since the decline in the estimated fair value below the carrying value of the operating net assets of Aluminum Extrusions was far less than \$30.6 million. The goodwill of Film Products will be tested for impairment at the annual testing date unless there is an indicator of impairment identified at an earlier date.

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

| (In Thousands) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|-------------------------------|-----------|-----------------------------|-----------|
| | 2009 | 2008 | 2009 | 2008 |
| Net income (loss) | \$ 6,487 | \$ 8,658 | \$ (22,330) | \$ 11,720 |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation adjustment: | | | | |
| Unrealized foreign currency translation adjustment arising during period | 5,236 | 2,811 | 613 | 7,164 |
| Reclassification adjustment of foreign currency translation gain included in income (related to sale of aluminum extrusions business in Canada - see Note 2) | - | - | - | (14,292) |
| Foreign currency translation adjustment | 5,236 | 2,811 | 613 | (7,128) |
| Derivative financial instrument adjustment | 3,466 | (590) | 4,950 | 2,587 |
| Pension and other post-retirement benefit adjustment: | | | | |
| Amortization of prior service costs and net gains or losses | 196 | (116) | 391 | (232) |
| Reclassification of net actuarial losses and prior service costs (related to sale of aluminum extrusions business in Canada - see Note 2) | - | - | - | 4,871 |
| Pension and other post-retirement benefit adjustment | 196 | (116) | 391 | 4,639 |
| Comprehensive income (loss) | \$ 15,385 | \$ 10,763 | \$ (16,376) | \$ 11,818 |

5. The components of inventories are as follows:

| (In Thousands) | June 30 | Dec. 31 |
|----------------------------|-----------|-----------|
| | 2009 | 2008 |
| Finished goods | \$ 5,944 | \$ 7,470 |
| Work-in-process | 1,478 | 2,210 |
| Raw materials | 7,819 | 14,264 |
| Stores, supplies and other | 13,918 | 12,865 |
| Total | \$ 29,159 | \$ 36,809 |

6. 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 June 30 | | Six Months Ended June 30 | |
|---|-------------------------------|--------|-----------------------------|--------|
| | 2009 | 2008 | 2009 | 2008 |
| Weighted average shares outstanding used to compute basic earnings (loss) per share | 33,876 | 33,997 | 33,871 | 34,231 |
| Incremental dilutive shares attributable to stock options and restricted stock | 95 | 214 | - | 214 |
| Shares used to compute diluted earnings (loss) per share | 33,971 | 34,211 | 33,871 | 34,445 |

Incremental shares attributable to stock options and restricted stock are computed using the average market price during the related period. During the three and six months ended June 30, 2009 and three and six months ended June 30, 2008, 582,833, 390,300, 158,507 and 689,697, respectively, of anti-dilutive options to purchase shares were excluded from the calculation of incremental shares attributable to stock options and restricted stock.

7. Our investment in Harbinger Capital Partners Special Situations Fund, L.P. (“Harbinger Fund”) had a reported capital account value of \$11.1 million at June 30, 2009, compared with \$10.1 million at December 31, 2008. This investment has a carrying value in Tredegar’s balance sheet (included in “Other assets and deferred charges”) of \$10.0 million, which represents the amount invested on April 2, 2007.

During the third quarter of 2008, we sold our investments in Theken Spine and Therics, LLC. In 2009, we recognized a gain of \$150,000 in the first quarter for a post-closing adjustment related to the sale (included in “Other income (expense), net” in the consolidated statements of income). AFBS, Inc. (formerly Therics, Inc.) received these investments in 2005, when substantially all of the assets of AFBS, Inc., a wholly owned subsidiary of Tredegar, were sold or assigned to a newly created limited liability company, Therics, LLC, controlled and managed by an individual not affiliated with Tredegar.

During the third quarter of 2007, we invested \$6.5 million in a privately held drug delivery company. In the fourth quarter of 2008, we invested an additional \$1.0 million as part of a new round of financing completed by the investee. The company is developing and commercializing state of the art drug delivery systems designed to improve patient compliance and outcomes, and our ownership interest on a fully diluted basis is approximately 21%. The investment is accounted for under the fair value method. We elected the fair value option over the equity method of accounting since our investment objectives are similar to those of venture capitalists, which typically do not have controlling financial interests. At June 30, 2009, the estimated fair value of our investment (also the carrying value included in “Other assets and deferred charges” in our balance sheet) was \$13.1 million. The fair value of our investment, which exceeds the amount of cash invested by \$5.6 million, was based on our estimate of the value of our ownership interest.

On the date of our most recent investment (December 15, 2008), we believe that the amount we paid for our ownership interest and liquidation preferences was based on Level 2 inputs, including investments by other investors. Subsequent to December 15, 2008, and until the next round of financing, we believe fair value estimates drop to Level 3 inputs since there is no secondary market for our ownership interest. In addition, the company currently has no product sales. Accordingly, after the latest financing and until the next round of financing or other significant financial transaction, value estimates primarily will be based on assumptions relating to meeting product development and commercialization milestones, cash flow projections (projections of sales, costs, expenses, capital expenditures and working capital investment) and discounting of these factors for the high degree of risk. As a result, an increase in our estimate of the fair value of our ownership interest is unlikely unless a significant new round of financing, merger, or initial public offering or significant favorable event versus plans indicates a higher value. However, if the company does not meet its development and commercialization milestones and there are indications that the amount or timing of its projected cash flows or related risks are unfavorable versus plans as of December 15, 2008, or a new round of financing or other significant financial transaction indicates a lower value, then our estimate of the fair value of our ownership interest in the company is likely to decline.

Had we not elected to account for our investment under the fair value method, we would have been required to use the equity method of accounting. For the three and six months ended June 30, 2009, net losses recorded by the drug company, as reported to us by the investee, were \$1.1 million and \$3.4 million, respectively, compared to net losses of \$1.8 million and \$3.1 million for the three and six months ended June 30, 2008, respectively. Total assets (which included cash and cash equivalents of \$1.4 million at June 30, 2009 and \$5.5 million at December 31, 2008) were \$4.3 million and \$8.4 million at June 30, 2009 and December 31, 2008, respectively.

On December 31, 2008, the privately held drug company was converted from a limited liability company taxed as a pass-through entity (partnership) to a corporation. Substantially all shareholder rights from the limited liability company carried over in the conversion. Our allocation of losses for tax purposes as a pass-through entity in 2008 was approximately \$4.8 million.

8. We use derivative financial instruments for the purpose of hedging margin exposure from fixed-price forward sales contracts in Aluminum Extrusions and currency exchange rate exposures that exist as part of ongoing business operations primarily in Film Products. Our derivative financial instruments are designated as and qualify as cash flow hedges and are recognized in the consolidated balance sheet at fair value. A change in the fair value of derivatives that are highly effective as and that are designated and qualify as cash flow hedges are recorded in other comprehensive income. Gains and losses accumulated in other comprehensive income are reclassified to earnings in the periods in which earnings are affected by the variability of cash flows of the hedged transaction. Such gains and losses are reported on the same line as the underlying hedged item. Any hedge ineffectiveness (which represents the amount by which the changes in the fair value of the derivative exceed the variability in the cash flows of the forecasted transaction) is recorded in current period earnings. The amount of gains and losses recognized for hedge ineffectiveness was not material to the three and six month periods ended June 30, 2009 and 2008.

The fair value of derivative instruments recorded on the consolidated balance sheets are based upon Level 2 inputs. If individual derivative instruments with the same counterparty can be settled on a net basis, we record the corresponding derivative fair values as a net asset or net liability.

In the normal course of business, we enter into fixed-price forward sales contracts with certain customers for the future sale of fixed quantities of aluminum extrusions at scheduled intervals. In order to hedge our margin exposure created from the fixing of future sales prices relative to volatile raw material (aluminum) costs, we enter into a combination of forward purchase commitments and futures contracts to acquire or hedge aluminum, based on the scheduled purchases for the firm sales commitments. The fixed-price firm sales commitments and related hedging instruments generally have durations of not more than 12 months, and the notional amount of aluminum futures contracts that hedged future purchases of aluminum to meet fixed-price forward sales contract obligations was \$15.4 million (16.7 million pounds of aluminum) at June 30, 2009 and \$28.1 million (23.8 million pounds of aluminum) at December 31, 2008.

The table below summarizes the location and gross amounts of aluminum futures contract fair values in the consolidated balance sheets as of June 30, 2009 and December 31, 2008:

| (In Thousands) | June 30, 2009 | | December 31, 2008 | |
|---|-----------------------|------------|-----------------------|------------|
| | Balance Sheet Account | Fair Value | Balance Sheet Account | Fair Value |
| Derivatives Designated as Hedging Instruments | | | | |
| Under SFAS No. 133 | | | | |
| Liability derivatives: | | | | |
| Aluminum futures contracts (before margin deposits) | Accrued expenses | \$ 2,607 | Accrued expenses | \$ 11,042 |
| Derivatives Not Designated as Hedging Instruments Under SFAS No. 133 | | | | |
| Asset derivatives: | | | | |
| Aluminum futures contracts (before margin deposits) | Accrued expenses | \$ - | Accrued expenses | \$ 973 |
| Liability derivatives: | | | | |
| Aluminum futures contracts (before margin deposits) | Accrued expenses | \$ - | Accrued expenses | \$ 973 |

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

Our aluminum futures brokers contractually require assets to be posted as collateral for unrealized losses in excess of a contractually defined credit limit. Due to recent significant reductions in aluminum prices on the London Metal Exchange (LME) (see chart on page 31), we were required to post margin deposits of \$4.0 million at December 31, 2008 on LME futures losses (no deposits required at June 30, 2009). These amounts are recorded as an offset to the fair value of unrealized aluminum futures contract losses included in "Accrued expenses" in the consolidated balance sheets.

Losses associated with the aluminum extrusions business of \$779,000 (\$485,000 after tax) and \$1.4 million (\$863,000 after tax) were recognized during the three and six month periods ending June 30, 2009, respectively, for timing differences between the recognition of realized losses on aluminum futures contracts and related revenues from delayed fulfillment by customers of fixed-price forward purchase commitments. Such timing differences are included in "Plant shutdowns, assets impairments, restructurings and other" in the net sales and operating profit by segment table in Note 10. Timing differences prior to 2009 have not been significant.

We have future fixed Euro-denominated contractual payments for equipment being purchased as part of our expansion of the Carthage, Tennessee aluminum extrusion manufacturing facility. We have used a fixed rate Euro forward contract with various settlement dates to hedge exchange rate exposure on these obligations. The notional amount of

this foreign currency forward was \$2.9 million at June 30, 2009 and \$4.2 million at December 31, 2008.

The table below summarizes the location and gross amounts of foreign currency forward contract fair values in the consolidated balance sheets as of June 30, 2009 and December 31, 2008:

| (In Thousands) | June 30, 2009 | | December 31, 2008 | |
|--|----------------------------|------------|----------------------------|------------|
| | Balance Sheet Account | Fair Value | Balance Sheet Account | Fair Value |
| Derivatives Designated as Hedging Instruments | | | | |
| Under SFAS No. 133 | | | | |
| Asset derivatives: | | | | |
| | Prepaid expenses and other | | Prepaid expenses and other | |
| Foreign currency forward contracts | | \$ 74 | | \$ 56 |

We receive Euro-based royalty payments relating to our operations in Europe. We use zero-cost collar currency options to hedge a portion of our exposure to changes in cash flows due to variability in U.S. Dollar and Euro exchange rates. The outstanding notional amount on these collars was \$7.0 million at June 30, 2009, and these outstanding currency collar options will expire at quarterly intervals through December 2009. There were no derivatives outstanding at December 31, 2008 related to the hedging of royalty payments with currency options. The table below summarizes our open currency option positions at June 30, 2009:

| Period Covered by Contract | Notional Amount (In Thousands) | U.S. Dollar Equivalent Strike Prices of Options Bought and Sold on USD/EUR | |
|----------------------------|--------------------------------|--|--------------------|
| | | Call Options Sold | Put Options Bought |
| 3rd Qtr 2009 | \$ 3,500 | \$ 1.39 | \$ 1.28 |
| 4th Qtr 2009 | 3,500 | 1.39 | 1.28 |

The table below summarizes the location and gross amounts of foreign currency option contract fair values in the consolidated balance sheets as of June 30, 2009 and December 31, 2008:

| (In Thousands) | June 30, 2009 | | December 31, 2008 | |
|--|-----------------------|------------|-----------------------|------------|
| | Balance Sheet Account | Fair Value | Balance Sheet Account | Fair Value |
| Derivatives Designated as Hedging Instruments | | | | |
| Under SFAS No. 133 | | | | |
| Asset derivatives: | | | | |
| | Accrued expenses | | | |
| Foreign currency option contracts | | \$ 23 | Not Applicable | |
| Liability derivatives: | | | | |

| | | | |
|-----------------------------------|------------------|--------|----------------|
| Foreign currency option contracts | Accrued expenses | \$ 189 | Not Applicable |
|-----------------------------------|------------------|--------|----------------|

Our derivative contracts involve elements of credit and market risk, including the risk of dealing with counterparties and their ability to meet the terms of the contracts. The counterparties to our forward purchase commitments are major aluminum brokers and suppliers, and the counterparties to our aluminum futures contracts are major financial institutions. Fixed-price forward sales contracts are only made available to our best and most credit-worthy customers. The counterparty to our foreign currency futures and zero-cost collar contracts are major financial institutions.

The effect on net income (loss) and other comprehensive income (loss) of derivative instruments classified as cash flow hedges and described in the previous paragraphs for the three and six month periods ended June 30, 2009 and 2008 is summarized in the tables below:

| (In Thousands) | Cash Flow Derivative Hedges | | | |
|--|-----------------------------|---------------|---------------------------------------|------|
| | Aluminum Futures Contracts | | Foreign Currency Forwards and Options | |
| Three Months Ended June 30, | 2009 | 2008 | 2009 | 2008 |
| Amount of pre-tax gain (loss) recognized in other comprehensive income | \$ 1,367 | \$ 372 | \$ (49) | \$ - |
| Location of gain (loss) reclassified from accumulated other comprehensive income into net income (effective portion) | Cost of sales | Cost of sales | Not Applicable | |
| Amount of pre-tax gain (loss) reclassified from accumulated other comprehensive income to net income (effective portion) | \$ (4,257) | \$ 1,170 | Not Applicable | |

| (In Thousands) | Cash Flow Derivative Hedges | | | |
|--|-----------------------------|---------------|---------------------------------------|------|
| | Aluminum Futures Contracts | | Foreign Currency Forwards and Options | |
| Six Months Ended June 30, | 2009 | 2008 | 2009 | 2008 |
| Amount of pre-tax gain (loss) recognized in other comprehensive income | \$ (642) | \$ 5,378 | \$ (249) | \$ - |
| Location of gain (loss) reclassified from accumulated other comprehensive income into net income (effective portion) | Cost of sales | Cost of sales | Not Applicable | |
| Amount of pre-tax gain (loss) reclassified from accumulated other comprehensive income to net income (effective portion) | \$ (8,861) | \$ 1,131 | Not Applicable | |

Gains and losses on the ineffective portion of derivative instruments or derivative instruments that were not designated as hedging instruments were immaterial for the three and six months ended June 30, 2009 and 2008. As of June 30, 2009, we expect \$1.4 million of unrealized after-tax losses on derivative instruments reported in accumulated other comprehensive income to be reclassified to earnings within the next twelve months. For the three and six month periods ended June 30, 2009 and 2008, we had not realized any unrealized net gains or losses from hedges that had been discontinued.

9. The components of net periodic benefit income (cost) for our pension and other post-retirement benefit programs reflected in consolidated results for continuing operations are shown below:

| (In Thousands) | Pension Benefits for Three Months Ended June 30 | | Other Post-Retirement Benefits for Three Months Ended June 30 | |
|---|---|-------------|---|-----------|
| | 2009 | 2008 | 2009 | 2008 |
| Service cost | \$ (783) | \$ (1,053) | \$ (18) | \$ (18) |
| Interest cost | (3,344) | (3,055) | (129) | (128) |
| Expected return on plan assets | 5,189 | 5,486 | - | - |
| Amortization of prior service costs, gains or losses and net transition asset | (305) | 181 | 24 | - |
| Net periodic benefit income (cost) | \$ 757 | \$ 1,559 | \$ (123) | \$ (146) |

| (In Thousands) | Pension Benefits for Six Months Ended June 30 | | Other Post-Retirement Benefits for Six Months Ended June 30 | |
|---|---|-------------|---|-----------|
| | 2009 | 2008 | 2009 | 2008 |
| Service cost | \$ (1,566) | \$ (2,105) | \$ (36) | \$ (36) |
| Interest cost | (6,688) | (6,110) | (257) | (257) |
| Expected return on plan assets | 10,378 | 10,971 | - | - |
| Amortization of prior service costs, gains or losses and net transition asset | (610) | 362 | 46 | - |
| Net periodic benefit income (cost) | \$ 1,514 | \$ 3,118 | \$ (247) | \$ (293) |

We contributed approximately \$122,000 to our pension plans for continuing operations in 2008. We expect to contribute \$2.3 million in 2009, which is \$2.1 million lower than previously expected. During 2008, the fair value of the assets of our pension plans declined by approximately \$89.6 million to \$194.5 million in December 31, 2008, due mainly to the drop in global stock prices and benefit payments to retirees of \$10.2 million. We fund our other post-retirement benefits (life insurance and health benefits) on a claims-made basis, which were \$243,000 for the year ended December 31, 2008.

10. 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 since December 31, 2008, except for the goodwill impairment charge relating to Aluminum Extrusions described in Note 3, and working capital fluctuations resulting from changes in business conditions or seasonal factors, changes caused by movement of foreign exchange rates and changes in property, plant and equipment due to capital expenditures, depreciation, asset impairments and other activity, which are described under Item 2 of Part I of this report. Net sales (sales less freight) and operating profit from ongoing operations are the measures of sales and operating profit used by the chief operating decision maker for purposes of assessing performance.

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

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|-------------------------------|------------|-----------------------------|------------|
| | 2009 | 2008 | 2009 | 2008 |
| Net Sales | | | | |
| Film Products | \$ 107,804 | \$ 135,529 | \$ 212,587 | \$ 267,843 |
| Aluminum Extrusions | 46,441 | 92,682 | 91,495 | 183,747 |
| Total net sales | 154,245 | 228,211 | 304,082 | 451,590 |
| Add back freight | 3,870 | 5,797 | 7,099 | 10,898 |
| Sales as shown in the Consolidated Statements of Income | \$ 158,115 | \$ 234,008 | \$ 311,181 | \$ 462,488 |
| Operating Profit (Loss) | | | | |
| Film Products: | | | | |
| Ongoing operations | \$ 14,214 | \$ 13,479 | \$ 27,228 | \$ 24,265 |
| Plant shutdowns, asset impairments, restructurings and other | 149 | (944) | (660) | (4,649) |
| Aluminum Extrusions: | | | | |
| Ongoing operations | 634 | 2,406 | (1,163) | 3,948 |
| Goodwill impairment charge | - | - | (30,559) | - |
| Plant shutdowns, asset impairments, restructurings and other | (328) | (380) | (1,306) | (615) |
| AFBS: | | | | |
| Gain on sale of investments in Theken Spine and Therics, LLC | - | - | 150 | - |
| Total | 14,669 | 14,561 | (6,310) | 22,949 |
| Interest income | 175 | 188 | 434 | 446 |
| Interest expense | 184 | 557 | 388 | 1,438 |
| Gain on sale of corporate assets | - | - | 404 | - |
| Stock option-based compensation costs | 541 | 278 | 803 | 338 |
| Corporate expenses, net | 2,332 | 235 | 5,810 | 2,065 |
| Income (loss) from continuing operations before income taxes | 11,787 | 13,679 | (12,473) | 19,554 |
| Income taxes | 5,300 | 4,814 | 9,857 | 6,904 |
| | 6,487 | 8,865 | (22,330) | 12,650 |

| | | | | |
|--|----------|----------|--------------|-----------|
| Income (loss) from continuing operations | | | | |
| Loss from discontinued operations | - | (207) | - | (930) |
| Net income (loss) | \$ 6,487 | \$ 8,658 | \$ (22,330) | \$ 11,720 |

11. The effective tax rate for the second quarter of 2009 was 45.0% compared to 35.2% for the second quarter of 2008. The increase in the effective tax rate for continuing operations for the second quarter reflects the change in income taxes during the second quarter to adjust the effective tax rate for the first six months of the year to the rate estimated for the entire year.

The significant differences between the U.S. federal statutory rate and the effective income rate for continuing operations for the six month periods ended June 30, 2009 and 2008 are as follows:

| Six Months Ended June 30 | Percent of Income (Loss) Before Income Taxes for Continuing Operations | |
|---|--|--------|
| | 2009 | 2008 |
| Income tax expense at federal statutory rate | 35.0 | 35.0 |
| Goodwill impairment charge | (85.8) | - |
| Valuation allowance for capital loss carry-forwards | (30.0) | (4.7) |
| Unremitted earnings from foreign operations | (5.6) | 7.4 |
| State taxes, net of federal income tax benefit | (1.7) | 0.4 |
| Valuation allowance for foreign operating loss carry-forwards | (0.5) | 1.0 |
| Non-deductible expenses | (0.2) | 0.2 |
| Research and development tax credit | 0.9 | - |
| Foreign rate differences | 8.8 | (4.1) |
| Other | 0.1 | 0.1 |
| Effective income tax rate | (79.0) | 35.3 |

A reconciliation of our unrecognized uncertain tax positions since December 31, 2008, is shown below:

(In Thousands)

| | Balance at January 1, 2009 | Increase (Decrease) Due to Tax Positions Taken in | | Increase (Decrease) Due to Settlements with Taxing Authorities | Reductions Due to Lapse of Statute of Limitations | Balance at June 30, 2009 |
|---|----------------------------------|---|-----------------|--|--|--------------------------------|
| | | Current Period | Prior Period | | | |
| Gross unrecognized tax benefits on uncertain tax positions (reflected in current income tax and other noncurrent liability accounts in the balance sheet) | \$ 2,553 | \$ 48 | \$ 10 | \$ (1,440) | \$ - | \$ 1,171 |
| Deferred income tax assets related to unrecognized tax benefits on uncertain tax positions for which ultimate deductibility is highly certain but for which the timing of the deduction is uncertain (reflected in deferred income tax accounts in the balance sheet) | (1,828) | | | | | (439) |
| Net unrecognized tax benefits on uncertain tax | 725 | | | | | 732 |

| | | |
|--|----------|----------|
| positions, which would impact the effective tax rate if recognized | | |
| Interest and penalties accrued on deductions taken relating to uncertain tax positions with the balance shown in current income tax and other noncurrent liability accounts in the balance sheet | 1,303 | 728 |
| Related deferred income tax assets recognized on interest and penalties | (476) | (269) |
| Interest and penalties accrued on uncertain tax positions net of related deferred income tax benefits, which would impact the effective tax rate if recognized | 827 | 459 |
| Total net unrecognized tax benefits on uncertain tax positions reflected in the balance sheet, which would impact the effective tax rate if recognized | \$ 1,552 | \$ 1,191 |

In the second quarter of 2009, we settled several disputed issues raised by the IRS during its examination of our U.S. income tax returns for 2001-2003, the most significant of which regarded the recognition of our captive insurance subsidiary as an insurance company for U.S. income tax purposes. The settlement with the IRS for the disputed issues cost us approximately \$1.0 million, which is lower than the previous estimate of \$1.3 million and was applied against the balance of unrecognized tax benefits.

Tredegar and its subsidiaries file income tax returns in U.S., state and foreign jurisdictions. Except for refund claims and amended returns, Tredegar is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2005. With few exceptions, Tredegar and its subsidiaries are no longer subject to state or non-U.S. income tax examinations by tax authorities for years before 2005.

12. The Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FAS 132(R)-1, Employees' Disclosures about Postretirement Benefit Plan Assets (FSP No. FAS 132(R)-1). FSP No. FAS 132(R)-1 amends Statement of Financial Accounting Standards No. 132(R), Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88 and 106, to include objectives for disclosing information about postretirement benefit plan assets, thereby addressing financial statement user concerns regarding the lack of transparency previously surrounding such disclosures. Disclosures are intended to provide users with an understanding of (1) how investment allocation decisions are made, including an understanding of investment policies and strategies, (2) major classes of plan assets, (3) the inputs and valuation techniques used to measure fair value of plan assets, (4) the effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets, and (5) significant concentrations of risk within plan assets. FSP No. FAS 132(R)-1 is effective for annual periods ending after December 15, 2009. We do not believe that the adoption of FSP No. FAS 132(R)-1 will have a material impact on our financial statements and related disclosures.

In June 2009, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 166, Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140 (SFAS No. 166). SFAS No. 166 clarifies the information that an entity must provide in its financial statements surrounding a transfer of financial assets and the effect of the transfer on its financial position, financial performance, and cash flows. This Statement is effective as of the beginning of the annual period beginning after November 15, 2009. We do expect SFAS No. 166 to have a material impact on our financial statements and disclosures.

The FASB also issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R), (SFAS No. 167) in June 2009. SFAS No. 167 clarifies and improves financial reporting by entities involved with variable interest entities. This Statement is effective as of the beginning of the annual period beginning after November 15, 2009. We are currently evaluating the impact of SFAS No. 167 on our financial statements.

In June 2009, the FASB issued Financial Accounting Standard No. 168, The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162 (SFAS No. 168). In addition in June 2009, the FASB issued Accounting Standards Update No. 2009-01, “Topic 205 – Generally Accepted Accounting Principles - amendments based on Statement of Financial Accounting Standards No. 168 – The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles” (ASU 2009-1). Both SFAS No. 168 and ASU 2009-1 recognize the FASB Accounting Standards Codification™ as the source of authoritative U.S. generally accepted accounting principles to be utilized by non-governmental entities. SFAS No. 168 is effective for interim and annual periods ending after September 15, 2009.

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

Forward-looking and Cautionary Statements

Some of the information contained in this quarterly report on Form 10-Q may constitute "forward-looking statements" within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. When we use the words "believe," "estimate," "anticipate," "expect," "project," "likely," "may" and similar expressions, we do so to identify forward-looking statements. Such statements are based on our then current expectations and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those addressed in the forward-looking statements. It is possible that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. Factors that could cause actual results to differ from expectations include, without limitation: Film Products is highly dependent on sales to one customer — The Procter & Gamble Company; growth of Film Products depends on its ability to develop and deliver new products at competitive prices; sales volume and profitability of continuing operations in Aluminum Extrusions are cyclical and highly dependent on economic conditions of end-use markets in the U.S., particularly in the construction, distribution and transportation industries, and are also subject to seasonal slowdowns; our substantial international operations subject us to risks of doing business in foreign countries, which could adversely affect our business, financial condition and results of operations; our future performance is influenced by costs incurred by our operating companies including, for example, the cost of energy and raw materials; and the factors discussed in the reports Tredegar files with or furnishes to the Securities and Exchange Commission (the SEC) from time-to-time, including the risks and important factors set forth in additional detail in "Risk Factors" in Part I, Item 1A of Tredegar's 2008 Annual Report on Form 10-K (2008 Form 10-K) filed with the SEC. Readers are urged to review and consider carefully the disclosures Tredegar makes in its 2008 Form 10-K. Tredegar does not undertake to update any forward-looking statement made in its interim filings with the SEC to reflect any change in management's expectations or any change in conditions, assumptions or circumstances on which such statements are based.

Executive Summary

Second-quarter 2009 income from continuing operations was \$6.5 million (19 cents per share) compared with \$8.9 million (26 cents per share) in the second quarter of 2008. Losses from continuing operations for the first six months of 2009 was \$22.3 million (66 cents per share) compared with income from continuing operations of \$12.7 million (37 cents per share) in the first six months of 2008. Losses related to plant shutdowns, asset impairments and restructurings are described in Note 2 on page 6.

The following tables present Tredegar's net sales and operating profit by segment for the second quarter and six months ended June 30, 2009 and 2008:

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

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|-------------------------------|------------|-----------------------------|------------|
| | 2009 | 2008 | 2009 | 2008 |
| Net Sales | | | | |
| Film Products | \$ 107,804 | \$ 135,529 | \$ 212,587 | \$ 267,843 |
| Aluminum Extrusions | 46,441 | 92,682 | 91,495 | 183,747 |
| Total net sales | 154,245 | 228,211 | 304,082 | 451,590 |
| Add back freight | 3,870 | 5,797 | 7,099 | 10,898 |
| Sales as shown in the Consolidated Statements of Income | \$ 158,115 | \$ 234,008 | \$ 311,181 | \$ 462,488 |
| Operating Profit (Loss) | | | | |
| Film Products: | | | | |
| Ongoing operations | \$ 14,214 | \$ 13,479 | \$ 27,228 | \$ 24,265 |
| Plant shutdowns, asset impairments, restructurings and other | 149 | (944) | (660) | (4,649) |
| Aluminum Extrusions: | | | | |
| Ongoing operations | 634 | 2,406 | (1,163) | 3,948 |
| Goodwill impairment charge | - | - | (30,559) | - |
| Plant shutdowns, asset impairments, restructurings and other | (328) | (380) | (1,306) | (615) |
| AFBS: | | | | |
| Gain on sale of investments in Theken Spine and Therics, LLC | - | - | 150 | - |
| Total | 14,669 | 14,561 | (6,310) | 22,949 |
| Interest income | 175 | 188 | 434 | 446 |
| Interest expense | 184 | 557 | 388 | 1,438 |
| Gain on sale of corporate assets | - | - | 404 | - |
| Stock option-based compensation costs | 541 | 278 | 803 | 338 |
| Corporate expenses, net | 2,332 | 235 | 5,810 | 2,065 |
| Income (loss) from continuing operations before income taxes | 11,787 | 13,679 | (12,473) | 19,554 |
| Income taxes | 5,300 | 4,814 | 9,857 | 6,904 |
| Income (loss) from continuing operations | 6,487 | 8,865 | (22,330) | 12,650 |
| Loss from discontinued operations | - | (207) | - | (930) |
| Net income (loss) | \$ 6,487 | \$ 8,658 | \$(22,330) | \$ 11,720 |

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

Film Products. Second-quarter net sales in Film Products were \$107.8 million, down 20.5% from \$135.5 million in the second quarter of 2008, while operating profit from ongoing operations increased to \$14.2 million in the second quarter of 2009 from \$13.5 million in 2008. Volume was 49.6 million pounds in the second quarter of 2009, down 12.7% from 56.8 million pounds in the second quarter of 2008.

Net sales in Film Products for the first six months of 2009 were \$212.6 million, a decrease of 20.6% from \$267.8 million in the first six months of 2008. Operating profit from ongoing operations was \$27.2 million in the first six months of 2009, an increase of 12.2% from \$24.3 million in the first six months of last year. Volume was 98.9 million pounds in the first six months of 2009, down 13.8% from 114.8 million pounds in the first six months of 2008.

Net sales declined due to lower volume across all market segments, most notably personal care and surface protection materials, the unfavorable impact of changes in the U.S. dollar value of currencies for operations outside the U.S. and the impact of lower selling prices from the pass-through of lower resin costs. We believe volume declines in both periods were primarily driven by the economic downturn and customer inventory adjustments.

Operating profit from ongoing operations increased in the second quarter and first half of 2009 versus the same periods in 2008 as cost reduction efforts, productivity gains and the favorable impact of the lag in the pass-through of lower average resin costs more than offset lower volumes and the unfavorable effect of currency changes. Film Products has index-based pass-through raw material cost agreements for the majority of its business. However, under certain agreements, changes in resin prices are not passed through for an average period of 90 days. Film Products estimates that the impact of the lag in the pass-through of changes in average resin costs on operating profit was not significant in the second quarter of 2009 and a negative \$2.0 million in the second quarter of 2008. The estimated impact of the resin pass-through lag was a positive \$3.0 million in the first half of 2009 and a negative \$3.2 million in the first half of 2008. The company estimates that changes in the U.S. dollar value of currencies for operations outside of the U.S. had an unfavorable impact on operating profit of \$1.1 million in the second quarter of 2009 compared with the second quarter of 2008, and an unfavorable impact of approximately \$1.5 million in the first six months of 2009 compared with the same period of 2008.

We continue to be very focused on reducing costs. We recognized severance and other employee-related costs of \$1.1 million relating to a reduction in Film Products' workforce in the first quarter of 2009 (approximately 50 people) that is expected to save \$1.4 million in 2009 and \$2.5 million on an annualized basis. During 2008, we recognized restructuring and asset impairment charges of \$3.7 million, including charges relating to a reduction of the Film Products' workforce (approximately 90 people) that is expected to save \$4.2 million on an annualized basis.

Capital expenditures in Film Products were \$7.1 million in both the first half of 2009 and 2008, and are projected to be approximately \$20 million in 2009. Depreciation expense was \$15.9 million in the first six months of 2009 compared with \$17.8 million in the first six months of last year, and is projected to be approximately \$33 million in 2009.

Aluminum Extrusions. Second-quarter net sales from continuing operations in Aluminum Extrusions were \$46.4 million, down 49.9% from \$92.7 million in the second quarter of 2008. Operating income from ongoing operations was \$634,000 for the second quarter of 2009, a 73.6% decline from operating profit of \$2.4 million for the second quarter of 2008. Volume from continuing operations decreased to 24.2 million pounds in the second quarter of 2009, down 31.7% from 35.4 million pounds in the second quarter of 2008.

Net sales in Aluminum Extrusions for the first six months of 2009 declined 50.2% to \$91.5 million from \$183.7 million in the first six months of 2008. Operating losses from ongoing operations were \$1.2 million for the first six months of 2009, a \$5.1 million decline from operating profits of \$3.9 million for the same period in 2008. Volume was 47.7 million pounds in the first six months of 2009, down 34.3% from 72.5 million pounds in the first six months of 2008.

The net sales declines in the second quarter and first half of 2009 compared with the prior year were primarily due to lower sales volume as weak market conditions led to lower shipments in all markets and lower average selling prices driven by lower average aluminum costs. Shipments for non-residential construction, which comprised approximately 72% of total volume in 2008, declined by approximately 32% during the first half of 2009 compared to the first half of 2008. The decrease in operating profit from ongoing operations in the second quarter and the reported operating loss from ongoing operations in the first half of the year were also primarily driven by lower sales volumes.

As described in Note 3 on page 8, we recognized a non-cash goodwill impairment charge of \$30.6 million (\$30.6 million after tax) in Aluminum Extrusions in the first quarter of 2009.

Capital expenditures for continuing operations in Aluminum Extrusions were \$8.5 million in the first half of 2009 compared with \$3.3 million in the first half of last year. Capital expenditures are projected to be approximately \$19 million in 2009, of which \$15.4 million relates to the 18-month project to expand the capacity at the Carthage, Tennessee manufacturing facility. This new capacity will be dedicated to serving customers in the non-residential construction sector. Depreciation expense was \$3.8 million in the first half of 2009 compared with \$4.0 million in the first half of last year, and is projected to be approximately \$8 million in 2009.

Other Items. Net pension income from continuing operations was \$757,000 in the second quarter and \$1.5 million in the first six months of 2009, an unfavorable change of \$843,000 and \$1.6 million, respectively, from amounts recognized in the comparable periods of 2008. We contributed approximately \$122,000 to our pension plans in 2008. We expect to contribute \$2.3 million in 2009, which is \$2.1 million lower than previously expected. During 2008, the fair value of the assets of our pension plans declined by approximately \$89.6 million to \$194.5 million at December 31, 2008, due mainly to the drop in global stock prices and benefit payments to retirees of \$10.2 million. Corporate expenses, net in the second quarter and first six months of 2009 also increased in comparison to 2008 due to adjustments made in the prior year to accruals for certain performance-based compensation programs.

Interest expense was \$184,000 and \$388,000 in the second quarter and first half of 2009, respectively, a decrease from \$557,000 and \$1.4 million in the second quarter and first half of last year, respectively, primarily due to lower average debt levels and lower average interest rates.

The effective tax rates used to compute income taxes from continuing operations was 45.0% for the second quarter of 2009 compared to 35.2% for the second quarter of 2008, and (79.0)% in the first six months of 2009 compared with 35.3% in the first six months of 2008. The change in the effective tax rate for continuing operations for the second quarter reflects the impact to income taxes during the second quarter to adjust the effective tax rate for the first six months of the year to the rate estimated for the entire year. The significant differences between the U.S. federal statutory rate and the effective tax rate for continuing operations for the first six months is shown in the table provided in Note 11 on page 17.

Our investment in Harbinger Capital Partners Special Situations Fund, L.P. (“Harbinger Fund”) had a reported capital account value of \$11.1 million at June 30, 2009, compared with \$10.1 million at December 31, 2008. This investment has a carrying value in Tredegar’s balance sheet of \$10.0 million (included in “Other assets and deferred charges”), which represents the amount invested on April 2, 2007.

Net capitalization and other credit measures are provided in the liquidity and capital resources section beginning on page 27.

Critical Accounting Policies

In the ordinary course of business, we make a number of estimates and assumptions relating to the reporting of results of operations and financial position in the preparation of financial statements in conformity with generally accepted accounting principles. We believe the estimates, assumptions and judgments described in the section “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies” of our Annual Report on Form 10-K for the year ended December 31, 2008, 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, investment accounted for under the fair value method, pension benefits and income taxes. 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. Since December 31, 2008, there have been no changes in these policies that have had a material impact on results of operations or financial position. See Note 2 on page 6 for losses related to plant shutdowns, asset impairments, restructurings and other occurring during 2009 and the comparable period in 2008.

Recently Issued Accounting Standards

The Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FAS 132(R)-1, Employees' Disclosures about Postretirement Benefit Plan Assets (FSP No. FAS 132(R)-1). FSP No. FAS 132(R)-1 amends Statement of Financial Accounting Standards No. 132(R), Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88 and 106, to include objectives for disclosing information about postretirement benefit plan assets, thereby addressing financial statement user concerns regarding the lack of transparency previously surrounding such disclosures. Disclosures are intended to provide users with an understanding of (1) how investment allocation decisions are made, including an understanding of investment policies and strategies, (2) major classes of plan assets, (3) the inputs and valuation techniques used to measure fair value of plan assets, (4) the effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets, and (5) significant concentrations of risk within plan assets. FSP No. FAS 132(R)-1 is effective for annual periods ending after December 15, 2009. We do not believe that the adoption of FSP No. FAS 132(R)-1 will have a material impact on our financial statements and related disclosures.

In June 2009, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 166, Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140 (SFAS No. 166). SFAS No. 166 clarifies the information that an entity must provide in its financial statements surrounding a transfer of financial assets and the effect of the transfer on its financial position, financial performance, and cash flows. This Statement is effective as of the beginning of the annual period beginning after November 15, 2009. We do expect SFAS No. 166 to have a material impact on our financial statements and disclosures.

The FASB also issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R), (SFAS No. 167) in June 2009. SFAS No. 167 clarifies and improves financial reporting by entities involved with variable interest entities. This Statement is effective as of the beginning of the annual period beginning after November 15, 2009. We are currently evaluating the impact of SFAS No. 167 on our financial statements.

In June 2009, the FASB issued Financial Accounting Standard No. 168, The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162 (SFAS No. 168). In addition in June 2009, the FASB issued Accounting Standards Update No. 2009-01, “Topic 205 – Generally Accepted Accounting Principles - amendments based on Statement of Financial Accounting Standards No. 168 – The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles” (ASU 2009-1). Both SFAS No. 168 and ASU 2009-1 recognize the FASB Accounting Standards CodificationTM as the source of authoritative U.S. generally accepted accounting principles to be utilized by non-governmental entities. SFAS No. 168 is effective for interim and annual periods ending after September 15, 2009.

Results of Operations

Second Quarter 2009 Compared with Second Quarter 2008

Overall, sales in the second quarter of 2009 decreased by 32.4% compared with 2008. Net sales (sales less freight) decreased 20.5% in Film Products primarily due a lower volume in most markets and the unfavorable impact of currency exchange rate changes. In addition, second quarter sales in 2008 include the impact of higher selling prices that resulted from the pass-through of increased resin costs. Net sales decreased 49.9% in Aluminum Extrusions due to lower volume and lower average selling prices driven by lower average aluminum costs. Volumes in Aluminum Extrusions decreased 31.7% to 24.2 million pounds in the second quarter of 2009 compared with 35.4 million pounds in the second quarter of 2008. Shipments declined in all markets. For more information on net sales and volume, see the executive summary beginning on page 19.

Consolidated gross profit (sales minus cost of goods sold and freight) as a percentage of sales increased to 18.1% in the second quarter of 2009 from 13.7 % in 2008. The gross profit margin increased in Film Products primarily due to cost reduction efforts, productivity gains and the positive impact of the lag in the pass-through of lower average resin costs. Gross profit margin in Aluminum Extrusions decreased as a result of volume declines noted above.

As a percentage of sales, selling, general and administrative and R&D expenses were 10.9% in the second quarter of 2009, up from 7.3% in the second quarter of last year. The increase is primarily due to the decline in sales noted above.

Plant shutdowns, asset impairments and restructurings in the second quarter of 2009 shown in the segment operating profit table on page 20 include:

- Pretax losses of \$779,000 for timing differences between the recognition of realized losses on aluminum futures contracts and related revenues from the delayed fulfillment by customers of fixed-price forward purchase commitments (included in "Cost of goods sold" in the consolidated statements of income, see Note 8 on page 11 for additional detail);
- Pretax gain of \$276,000 related to the reduction of future environmental costs expected to be incurred by Aluminum Extrusions (included in "Cost of goods sold" in the consolidated statements of income);
- Pretax gain of \$175,000 on the sale of a previously shutdown aluminum extrusions manufacturing facility in El Campo, Texas (included in "Other income (expense), net" in the consolidated statements of income); and
- Pretax gain of \$149,000 related to the reversal to income of certain inventory impairment accruals in Film Products.

See the executive summary beginning on page 19 for information on our cost reduction efforts.

Plant shutdowns, asset impairments and restructurings in the second quarter of 2008 shown in the segment operating profit table on page 20 include:

- A pretax charge of \$854,000 for asset impairments in Film Products;
- Pretax charges of \$365,000 for severance and other employee-related costs in connection with restructurings in Film Products (\$90,000) and Aluminum Extrusions (\$275,000); and
- A pretax charge of \$105,000 related to expected future environmental costs at the aluminum extrusions facility in Newnan, Georgia (included in "Cost of goods sold" in the consolidated statements of income).

Interest income, which is included in "Other income (expense), net" in the consolidated statements of income, was \$175,000 in the second quarter of 2009 and \$188,000 in 2008. Interest expense was \$184,000 and \$557,000 in the second quarters of 2009 and 2008, respectively, due to reduced average debt levels and lower average interest

rates. Average debt outstanding and interest rates were as follows:

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| (In Millions) | Three Months Ended June 30 | | | |
|---|-------------------------------|-------|------|-------|
| | 2009 | | 2008 | |
| Floating-rate debt with interest charged on a rollover basis at one-month LIBOR plus a credit spread: | | | | |
| Average outstanding debt balance | \$ | 3.8 | \$ | 51.1 |
| Average interest rate | | 1.3 % | | 3.4 % |
| Fixed-rate and other debt: | | | | |
| Average outstanding debt balance | \$ | 1.6 | \$ | 2.0 |
| Average interest rate | | 2.5 % | | 4.3 % |
| Total debt: | | | | |
| Average outstanding debt balance | \$ | 5.4 | \$ | 53.1 |
| Average interest rate | | 1.7 % | | 3.4 % |

The effective tax rate used to compute income taxes from continuing operations was 45.0% for the second quarter of 2009 compared to 35.2% for the second quarter of 2008. The change in the effective tax rate for continuing operations for the second quarter reflects the impact to income taxes during the second quarter to adjust the effective tax rate for the first six months of the year to the rate estimated for the entire year. The significant differences between the U.S. federal statutory rate and the effective tax rate for continuing operations for the first six months is shown in the table provided in Note 11 on page 17.

First Six Months of 2009 Compared with First Six Months of 2008

Overall, sales in the first six months of 2009 decreased by 32.7% compared with 2008. Net sales (sales less freight) decreased 20.6% in Film Products primarily due to lower volumes in most markets and the appreciation of the U.S. dollar value of currencies for operations outside of the U.S. Net sales decreased 50.2% in Aluminum Extrusions due to lower volume and lower average selling prices driven by lower average aluminum costs, which decreased 34.3% to 47.7 million pounds in the first six months of 2009 compared with 72.5 million pounds in the first six months of 2008. Shipments declined in all markets. For more information on net sales and volume, see the executive summary beginning on page 19.

Consolidated gross profit (sales minus cost of goods sold and freight) as a percentage of sales increased to 17.1% in the first six months of 2009 from 13.2% in 2008. The gross profit margin increased in Film Products and decreased in Aluminum Extrusions primarily because of the same factors noted above for the quarter-to-date period.

As a percentage of sales, selling, general and administrative and R&D expenses were 11.1% in the first six months of 2009, an increase from 7.8% in 2008. Higher selling, general and administrative expenses as a percentage of net sales were primarily due to the decline in sales volumes note above.

Plant shutdowns, asset impairments and restructurings in the first six months of 2009 shown in the segment operating profit table on page 20 include:

- Pretax charges of \$1.6 million for severance and other employee-related costs in connection with restructurings in Film Products (\$1.1 million), Aluminum Extrusions (\$369,000) and corporate headquarters (\$178,000, included in “Corporate expenses, net” in the net sales and operating profit by segment table in Note 10);
- Pretax losses of \$1.4 million for timing differences between the recognition of realized losses on aluminum futures contracts and related revenues from the delayed fulfillment by customers of fixed-price forward purchase commitments (included in “Cost of goods sold” in the consolidated statements of income, see Note 8 on page 11 for additional detail);
- Pretax gain of \$276,000 related to the reduction of future environmental costs expected to be incurred by Aluminum Extrusions (included in “Cost of goods sold” in the consolidated statements of income);
- Pretax gain of \$275,000 on the sale of equipment (included in “Other income (expense), net” in the consolidated statements of income) from a previously shutdown films manufacturing facility in LaGrange, Georgia;
- Pretax gain of \$175,000 on the sale of a previously shutdown aluminum extrusions manufacturing facility in El Campo, Texas (included in “Other income (expense), net” in the consolidated statements of income); and
- Pretax gain of \$149,000 related to the reversal to income of certain inventory impairment accruals in Film Products.

See the executive summary beginning on page 19 for information on our cost reduction efforts.

Plant shutdowns, asset impairments and restructurings in the first six months of 2008 shown in the segment operating profit table on page 20 include:

- Pretax charges of \$2.7 million for severance and other employee-related costs in connection with restructurings in Film Products (\$2.2 million) and Aluminum Extrusions (\$510,000);
 - Pretax charges of \$2.5 million for asset impairments in Film Products; and
- A pretax charge of \$105,000 related to expected future environmental costs at the aluminum extrusions facility in Newnan, Georgia (included in “Cost of goods sold” in the consolidated statements of income).

Interest income, which is included in “Other income (expense), net” in the consolidated statements of income, was \$434,000 in the first six months of 2009 and \$446,000 in 2008. Interest expense was \$388,000 in the first six months of 2009 compared to \$1.4 million for the same period in 2008 due to lower average debt balances as well as lower average interest rates. Average debt outstanding and interest rates were as follows:

| (In Millions) | Six Months Ended June 30 | | | |
|---|-----------------------------|------|------|------|
| | 2009 | | 2008 | |
| Floating-rate debt with interest charged on a rollover basis at one-month LIBOR plus a credit spread: | | | | |
| Average outstanding debt balance | \$ | 10.0 | \$ | 60.3 |
| Average interest rate | | 1.2 | % | 4.1 |
| | | | | % |
| Fixed-rate and other debt: | | | | |
| Average outstanding debt balance | \$ | 1.6 | \$ | 2.0 |
| Average interest rate | | 2.4 | % | 4.0 |
| | | | | % |
| Total debt: | | | | |
| Average outstanding debt balance | \$ | 11.6 | \$ | 62.3 |
| Average interest rate | | 1.4 | % | 4.1 |
| | | | | % |

The effective tax rate used to compute income taxes from continuing operations was (79.0)% in the first six months of 2009 compared with 35.3% in the first six months of 2008. The significant differences between the U.S. federal statutory rate and the effective tax rate for continuing operations for the first six months is shown in the table provided in Note 11 on page 17.

Liquidity and Capital Resources

Changes in operating assets and liabilities from December 31, 2008 to June 30, 2009 are summarized below:

- Accounts receivable decreased \$9.5 million (10.4%).
- Accounts receivable in Film Products decreased by \$4.1 million. Days sales outstanding (“DSO”) increased to 48 at June 30, 2009 compared with 45 at December 31, 2008, which is within the range experienced over the past twelve months.
- Accounts receivable for continuing operations in Aluminum Extrusions decreased by \$5.4 million. DSO was 43 at June 30, 2009, which is within the range experienced over the past twelve months.
- Inventories declined \$7.6 million (20.8%).
- Inventories in Film Products decreased by approximately \$2.1 million. Inventory days increased to 39 at June 30, 2009 compared with 36 days at December 31, 2008, which is within the range experienced over the past twelve months.
- Inventories for Aluminum Extrusions decreased by approximately \$5.5 million primarily due to lower average aluminum costs. Inventory days decreased to 29 at June 30, 2009 compared with 30 at December 31, 2008.
- Net property, plant and equipment decreased \$4.1 million (1.8%) due primarily to depreciation for continuing operations of \$19.7 million compared with capital expenditures of \$15.6 million.
- Goodwill and other intangibles decreased by \$30.6 million (22.7%) primarily due to the goodwill impairment charge of \$30.6 million related to our aluminum extrusions business (see Note 3 on page 8).
- Accounts payable decreased by \$6.9 million (12.6%).
- Accounts payable in Film Products increased by \$1.0 million, or 3.9%. Accounts payable days were 31 at June 30, 2009 compared with 25 at December 31, 2008, which is within the range experienced over the last twelve months.
- Accounts payable in Aluminum Extrusions decreased by \$8.0 million, or 29.1%, due to lower sales volume and lower average aluminum costs.
- Accounts payable increased at corporate by \$95,000.
- Accrued expenses decreased by \$2.9 million (7.6%) primarily due to lower unrealized losses on aluminum futures contracts. Outstanding notional amounts for these hedges have decreased by approximately 45% since December 31, 2008.
- Net deferred income tax liabilities in excess of assets increased \$5.8 million primarily due to the recognition of a valuation allowance of \$3.7 million in 2009 related to the expected limitations on the utilization of assumed capital losses on certain investments and the impact of changes in the fair value of derivative financial instruments. Income taxes recoverable decreased by \$6.0 million due to the timing of income tax accruals and net tax payments.

Cash provided by operating activities was \$52.0 million in the first half of 2009 compared with \$27.8 million in the first half of 2008. The change is primarily related to the normal volatility of working capital components.

Cash used in investing activities was \$16.2 million in the first half of 2009, compared with cash provided by investing activities of \$11.7 million in the first half of 2008. The change between periods is primarily due to proceeds received in 2008 from the sale of the aluminum extrusions business in Canada of \$23.6 million.

Net cash flow used in financing activities was \$23.6 million in the first half of 2009 and related to net repayments on our revolving credit facility with excess cash flow of \$21.1 million (no amounts borrowed on revolving credit facility at June 30, 2009) and the payment of regular quarterly dividends of \$2.7 million (8 cents per share).

Further information on cash flows for the six months ended June 30, 2009 and 2008 are provided in the consolidated statements of cash flows on page 4.

Net capitalization and indebtedness as defined under our revolving credit agreement as of June 30, 2009 are as follows:

Net Capitalization and Indebtedness as of June 30, 2009
(In Thousands)

| | |
|--|------------|
| Net capitalization: | |
| Cash and cash equivalents | \$ 58,658 |
| Debt: | |
| \$300 million revolving credit agreement maturing December 15, 2010 | - |
| Other debt | 1,604 |
| Total debt | 1,604 |
| Cash and cash equivalents net of debt | (57,054) |
| Shareholders' equity | 402,348 |
| Net capitalization | \$ 345,294 |
| Indebtedness as defined in revolving credit agreement: | |
| Total debt | \$ 1,604 |
| Face value of letters of credit | 6,613 |
| Liabilities relating to derivative financial instruments, net of cash deposits | 2,813 |
| Indebtedness | \$ 11,030 |

Under the revolving credit agreement, borrowings are permitted up to \$300 million, and \$232 million was available to borrow at June 30, 2009. The credit spread and commitment fees charged on the unused amount under the revolving credit agreement at various indebtedness-to-adjusted EBITDA levels are as follows:

| Pricing Under Revolving Credit Agreement (Basis Points) | | |
|---|--------------------------|----------------|
| Indebtedness-to-Adjusted EBITDA Ratio | Credit Spread Over LIBOR | Commitment Fee |
| > 2.50x but <= 3x | 125 | 25 |
| > 1.75x but <= 2.50x | 100 | 20 |
| > 1x but <=1.75x | 87.5 | 17.5 |
| <= 1x | 75 | 15 |

At June 30, 2009, the interest rate on debt under the revolving credit agreement was priced at one-month LIBOR plus the applicable credit spread of 75 basis points.

The computations of adjusted EBITDA, adjusted EBIT, the leverage ratio and interest coverage ratio as defined in the revolving credit agreement are presented below along with the related most restrictive covenants. Adjusted EBITDA

and adjusted EBIT as defined in the revolving credit agreement are not intended to represent cash flow from operations as defined by GAAP and should not be considered as either an alternative to net income or to cash flow.

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

As of and for the Twelve Months Ended June 30, 2009 (In Thousands)

Computations of adjusted EBITDA and adjusted EBIT as defined in revolving credit agreement for the twelve months ended June 30, 2009:

| | | |
|--|-----------|---|
| Net loss | \$(5,114 |) |
| Plus: | | |
| After-tax losses related to discontinued operations | (225 |) |
| Total income tax expense for continuing operations | 22,439 | |
| Interest expense | 1,343 | |
| Charges related to stock option grants and awards accounted for under the fair value-based method | 1,247 | |
| Losses related to the application of the equity method of accounting | - | |
| Depreciation and amortization expense for continuing operations | 40,473 | |
| All non-cash losses and expenses, plus cash losses and expenses not to exceed \$10,000, for continuing operations that are classified as unusual, extraordinary or which are related to plant shutdowns, asset impairments and/or restructurings (cash-related of \$1,710) | 39,493 | |
| Minus: | | |
| After-tax income related to discontinued operations | - | |
| Total income tax benefits for continuing operations | - | |
| Interest income | (994 |) |
| All non-cash gains and income, plus cash gains and income not to exceed \$10,000, for continuing operations that are classified as unusual, extraordinary or which are related to plant shutdowns, asset impairments and/or restructurings (cash-related of \$4,363) | (10,112 |) |
| Plus or minus, as applicable, pro forma EBITDA adjustments associated with acquisitions and asset dispositions | - | |
| Adjusted EBITDA as defined in revolving credit agreement | 88,550 | |
| Less: Depreciation and amortization expense for continuing operations (including pro forma for acquisitions and asset dispositions) | (40,473 |) |
| Adjusted EBIT as defined in revolving credit agreement | \$48,077 | |
| Shareholders' equity at June 30, 2009 as defined in revolving credit agreement | \$467,695 | |
| Computations of leverage and interest coverage ratios as defined in revolving credit agreement: | | |
| Leverage ratio (indebtedness-to-adjusted EBITDA) | .12 | x |
| Interest coverage ratio (adjusted EBIT-to-interest expense) | 35.80 | x |
| Most restrictive covenants as defined in revolving credit agreement: | | |
| Maximum permitted aggregate amount of dividends that can be paid by Tredegar during the term of the revolving credit agreement (\$100,000 plus 50% of net income generated after October 1, 2005) | \$141,638 | |
| Minimum adjusted shareholders' equity permitted (\$315,000 plus 50% of net income generated, to the extent positive, after July 1, 2007) | \$339,390 | |
| Maximum leverage ratio permitted: | | |
| Ongoing | 2.75 | x |
| Pro forma for acquisitions | 2.50 | x |
| Minimum interest coverage ratio permitted | 2.50 | x |

Noncompliance with any one or more of the debt covenants may have a material adverse effect on financial condition or liquidity in the event such noncompliance cannot be cured or should we be unable to obtain a waiver from the lenders. Renegotiation of the covenant(s) through an amendment to the credit agreement may effectively cure the noncompliance, but may have an effect on financial condition or liquidity depending upon how the covenant is renegotiated.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Tredegar has exposure to the volatility of interest rates, polyethylene and polypropylene resin prices, aluminum ingot and scrap prices, energy prices, foreign currencies and emerging markets. See the liquidity and capital resources section beginning on page 27 regarding credit agreements and interest rate exposures.

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

See the executive summary beginning on page 19 for discussion regarding the impact of the lag in the pass-through of resin price changes. The volatility of average quarterly prices of low density polyethylene resin in the U.S. (a primary raw material for Film Products) is shown in the chart below.

Source: Quarterly averages computed by Tredegar using monthly data provided by Chemical Data Inc. ("CDI"). In January 2005, CDI reflected a 4 cents per pound non-market adjustment based on their estimate of the growth of discounts over the 2000 to 2003 period. The 4th quarter 2004 average rate of 67 cents per pound is shown on a pro forma basis as if the non-market adjustment was made in October 2004.

Resin prices in Europe, Asia and South America have exhibited similar trends. The price of resin is driven by several factors including supply and demand and the price of oil, ethylene and natural gas. To address fluctuating resin prices, Film Products has index-based pass-through raw material cost agreements for the majority of its business. However, under certain agreements, changes in resin prices are not passed through for an average period of 90 days.

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

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

In Aluminum Extrusions, we hedge from time-to-time a portion of our exposure to natural gas price volatility by entering into fixed-price forward purchase contracts with our natural gas suppliers. We estimate that, in an unhedged situation, every \$1 per mmBtu per month change in the market price of natural gas has a \$78,000 impact on the continuing monthly operating profit for our U.S. operations in Aluminum Extrusions. In September 2005, we announced an energy surcharge for our aluminum extrusions business in the U.S. to be applied when the NYMEX natural gas price is in excess of \$8.85 per mmBtu.

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

We sell to customers in foreign markets through our foreign operations and through exports from U.S. plants. The percentage of sales and total assets for continuing manufacturing operations related to foreign markets for the first six months of 2009 and 2008 are as follows:

| | Percentage of Net Sales from Continuing Manufacturing Operations Related to Foreign Markets* | | | | | | | |
|---------------|---|---|-----------------------|---|----------------------|---|-----------------------|---|
| | Six Months Ended June 30 | | | | | | | |
| | 2009 | | | | 2008 | | | |
| | Exports From U.S. | | Foreign Operations | | Exports From U.S. | | Foreign Operations | |
| Canada | 7 | % | - | % | 5 | % | - | % |
| Europe | 1 | | 18 | | 1 | | 18 | |
| Latin America | - | | 3 | | - | | 3 | |
| Asia | 5 | | 6 | | 2 | | 7 | |
| Total | 13 | % | 27 | % | 8 | % | 28 | % |

* Based on consolidated net sales from continuing manufacturing operations (excludes AFBS).

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

In Film Products, where we typically are able to match the currency of our sales and costs, we estimate that the change in value of foreign currencies relative to the U.S. Dollar had a negative impact on operating profit of approximately \$1.1 million in the second quarter of 2009 compared with the second quarter of 2008, and approximately \$1.5 million in the first six months of 2009 compared with the first six months of 2008.

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

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

Item 4. Controls and Procedures.

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

There has been no change in our internal control over financial reporting during the quarter ended June 30, 2009, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1A. Risk Factors.

There are a number of risks and uncertainties that can have a material effect on the operating results of our businesses and our financial condition. These risk factors have not changed materially since the filing of our Annual Report on Form 10-K for the year ended December 31, 2008.

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

Tredegar's Annual Meeting of Shareholders was held on May 19, 2009. The following sets forth the vote results with respect to each of the matters voted upon by shareholders at the meeting:

| (a) | Election of Directors | | |
|---------------------------|------------------------|--------------------------------|-------------------------------|
| | Number of Votes For | Number of Votes Withheld | Number of Broker Non-Votes |
| Nominee | | | |
| Austin Brockenbrough, III | 23,645,073 | 8,651,024 | 2 |
| William M. Gottwald | 23,449,861 | 8,846,236 | 2 |
| Richard L. Morrill | 23,648,338 | 8,647,759 | 2 |

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

- Donald T. Cowles
- John D. Gottwald
- George A. Newbill
- Norman A. Scher
- Thomas G. Slater, Jr.
- R. Gregory Williams

(b) Approval of the Amended and Restated 2004 Equity Incentive Plan:

Approval of the Amended and Restated 2004 Equity Incentive Plan:

| Number of Votes For | Number of Votes Against | Number of Abstentions | Number of Broker Non-Votes |
|------------------------|----------------------------|--------------------------|-------------------------------|
| 29,379,871 | 1,033,307 | 58,125 | 1,824,796 |

(c) Ratification of Appointment of PricewaterhouseCoopers LLP:

Ratification of appointment of PricewaterhouseCoopers LLP as Tredegar's independent registered public accounting firm for the fiscal year ending December 31, 2009:

| Number of Votes For | Number of Votes Against | Number of Abstentions | Number of Broker Non-Votes |
|------------------------|----------------------------|--------------------------|-------------------------------|
| 32,089,472 | 150,215 | 56,412 | None |

Item 6. Exhibits.

Exhibit Nos.

4.2 Amended and Restated Rights Agreement, dated June 30, 2009, between Tredegar Corporation and National City Bank, as Rights Agent (filed as Exhibit 1 to Amendment No. 2 to Tredegar's Registration Statement on Form 8-A/A (File No. 1-10258) as filed with the Securities and Exchange Commission on July 1, 2009, and incorporated herein by reference).

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

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

32.1 Certification of John D. Gottwald, President and Chief Executive Officer (Principal Executive Officer) of Tredegar Corporation, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

SIGNATURES

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

Tredegar Corporation
(Registrant)

Date: August 4, 2009

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