

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 1996

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-10258

Tredegar Industries, Inc.

(Exact Name of Registrant as Specified in its Charter)

Virginia

54-1497771

(State or Other Jurisdiction of  
Incorporation or Organization)

(I.R.S. Employer  
Identification No.)

1100 Boulders Parkway  
Richmond, Virginia

23225

(Address of Principal Executive Offices)

(Zip Code)

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

Indicate by check whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No  
-----

The number of shares of Common Stock, no par value, outstanding as of October 25, 1996: 12,222,303.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Tredegar Industries, Inc.  
Consolidated Balance Sheets  
(In Thousands)  
(Unaudited)

	Sept. 30, 1996	Dec. 31, 1995
	-----	-----
Assets		
Current assets:		
Cash and cash equivalents	\$ 99,026	\$ 2,145
Accounts and notes receivable	65,154	71,673
Inventories	17,034	33,148
Income taxes recoverable	--	2,179
Deferred income taxes	16,300	14,882
Prepaid expenses and other	3,434	2,375
	-----	-----
Total current assets	200,948	126,402
	-----	-----
Property, plant and equipment, at cost	255,591	326,526
Less accumulated depreciation and amortization	165,693	204,074
	-----	-----
Net property, plant and equipment	89,898	122,452
	-----	-----
Other assets and deferred charges	34,697	35,186
Goodwill and other intangibles	20,146	30,012
	-----	-----
Total assets	\$345,689	\$314,052
	=====	=====

Liabilities and Shareholders' Equity

Current liabilities:

Accounts payable	\$ 33,748	\$ 31,105
Accrued expenses	32,968	38,648
Income taxes payable	6,747	--

Total current liabilities	73,463	69,753
---------------------------	--------	--------

Long-term debt	35,000	35,000
Deferred income taxes	18,401	22,218
Other noncurrent liabilities	15,962	16,560

Total liabilities	142,826	143,531
-------------------	---------	---------

Shareholders' equity:

Common stock, no par value	111,836	112,908
Foreign currency translation adjustment	299	445
Retained earnings	90,728	57,168

Total shareholders' equity	202,863	170,521
----------------------------	---------	---------

Total liabilities and shareholders' equity	\$345,689	\$314,052
--	-----------	-----------

=====

See accompanying notes to financial statements

Tredegar Industries, Inc.  
Consolidated Statements of Income  
(In Thousands)  
(Unaudited)

	Third Quarter Ended Sept. 30		Nine Months Ended Sept. 30	
	1996	1995	1996	1995
<b>Revenues:</b>				
Net sales	\$ 129,425	\$ 145,955	\$ 397,143	\$ 446,720
Other income (expense), net	2,909	(286)	3,324	(635)
Total	132,334	145,669	400,467	446,085
<b>Costs and expenses:</b>				
Cost of goods sold	103,334	121,806	317,556	374,141
Selling, general and administrative	9,713	10,444	30,828	35,702
Research and development	2,500	2,668	7,520	6,435
Interest expense	459	951	1,608	2,528
Unusual items	(680)	(728)	(11,427)	(78)
Total	115,326	135,141	346,085	418,728
Income before income taxes	17,008	10,528	54,382	27,357
Income taxes	6,273	3,902	18,627	10,212
Net income	\$ 10,735	\$ 6,626	\$ 35,755	\$ 17,145
Earnings per common and dilutive common equivalent share	\$ .82	\$ .50	\$ 2.74	\$ 1.27
Shares used to compute earnings per common and dilutive common equivalent share	13,112	13,202	13,047	13,485

See accompanying notes to financial statements.

Tredegar Industries, Inc.  
Consolidated Statements of Cash Flows  
(In Thousands)  
(Unaudited)

	Nine Months Ended Sept. 30	
	1996	1995
Cash flows from operating activities:		
Net income	\$ 35,755	\$ 17,145
Adjustments for noncash items:		
Depreciation	15,231	17,607
Amortization of intangibles	242	433
Deferred income taxes	(3,530)	(249)
Accrued pension income and postretirement benefits	(1,752)	(1,523)
Pretax gain on the sale of Molded Products	(19,893)	--
Pretax loss on the sale of Brudi	9,146	--
Gain on the sale of investments	(2,139)	(728)
Gain on the sale of property in Fremont, CA	(1,968)	--
Writeoff of certain industrial packaging film machinery and equipment	1,288	--
Changes in assets and liabilities, net of effects from divestitures and acquisition:		
Accounts and notes receivable	(8,972)	436
Inventories	1,881	8,733
Income taxes recoverable	2,179	2,534
Prepaid expenses and other	(1,433)	(2,016)
Accounts payable	8,477	(1,209)
Accrued expenses and income taxes payable	3,233	(2,533)
Other, net	(31)	(336)
Net cash provided by operating activities	37,714	38,294
Cash flows from investing activities:		
Capital expenditures	(18,726)	(15,890)
Acquisition (net of \$358 cash acquired)	--	(3,637)
Investments	(1,432)	(1,327)
Proceeds from the sale of investments	2,600	1,478
Property disposals	8,801	841
Proceeds from the sale of Molded Products and Brudi	71,598	--
Other, net	(378)	414
Net cash provided by (used in) investing activities	62,463	(18,121)
Cash flows from financing activities:		
Dividends paid	(2,195)	(1,556)
Net decrease in borrowings	--	(3,000)
Repurchases of Tredegar common stock	(2,034)	(14,974)
Other, net	933	1,735
Net cash used in financing activities	(3,296)	(17,795)
Increase in cash and cash equivalents	96,881	2,378
Cash and cash equivalents at beginning of period	2,145	9,036
Cash and cash equivalents at end of period	\$ 99,026	\$ 11,414

See accompanying notes to financial statements.

TREDEGAR INDUSTRIES, INC.  
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
(Unaudited)

1. In the opinion of management, the accompanying consolidated financial statements of Tredegar Industries, Inc. and Subsidiaries ("Tredegar") contain all adjustments necessary to present fairly, in all material respects, Tredegar's consolidated financial position as of September 30, 1996, and the consolidated results of their operations and their cash flows for the nine months ended September 30, 1996 and 1995. All such adjustments are deemed to be of a normal recurring nature. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Tredegar's Annual Report on Form 10-K for the year ended December 31, 1995. The results of operations for the nine months ended September 30, 1996, are not necessarily indicative of the results to be expected for the full year.
2. On March 29, 1996, Tredegar sold all of the outstanding capital stock of its injection molding subsidiary, Tredegar Molded Products Company, including Polestar Plastics Manufacturing Company (together "Molded Products"), to Precise Technology, Inc. ("Precise") for cash consideration of \$57.5 million (\$54 million after transaction costs). In addition, Tredegar received unregistered cumulative redeemable preferred stock of Precise with a face amount of \$2.5 million, which is not currently marketable. Dividends on the preferred stock are payable quarterly at an annual rate of 7% beginning June 30, 1996. The preferred stock is redeemable in full on March 29, 2007, or earlier upon the occurrence of certain events. Both dividends and redemption are subordinated to other outstanding debt of Precise.

No value has been assigned by Tredegar to the preferred stock received from Precise due to the uncertainty of redemption. Consistent therewith, dividend income on such stock is not recognized by Tredegar until received.

During the second quarter of 1996, Tredegar completed the sale of Brudi, Inc. and its subsidiaries (together "Brudi") for cash consideration of approximately \$18.1 million (\$17.6 million after transaction costs).

Proceeds from the sale of Molded Products and Brudi will be invested in cash equivalents until other opportunities, in existing businesses or elsewhere, are identified.

Tredegar recognized a gain of \$19.9 million (\$13.7 million or \$1.06 per share after income taxes) on the sale of Molded Products in the first quarter of 1996. The gain was partially offset by a first-quarter charge of \$9.1 million (\$5.7 million or 44 cents per share after income tax benefits) related to the loss on the divestiture of Brudi. The Brudi charge included a \$1 million loss accrued for payments that remained under a noncompetition and secrecy agreement entered into when Tredegar acquired Brudi on April 1, 1991.

Additional information on the sales and operating results for Molded Products and Brudi is provided in Note 3 on page 6 and the segment tables on page 11.

3. Historical and pro forma net income and earnings per common and dilutive common equivalent share, adjusted for unusual items affecting the comparability of operating results and the pro forma effects of the divestitures of Molded Products and Brudi (see Note 2 on page 5), are presented below:

(In Thousands Except Per-Share Amounts)

	Third Quarter Ended Sept. 30		Nine Months Ended Sept. 30		Year Ended Dec. 31,	Last Twelve Months Ended
	1996 *	1995	1996 *	1995	1995	9/30/96 *
	-----	-----	-----	-----	-----	-----
Historical net income as reported	\$ 10,735	\$ 6,626	\$ 35,755	\$ 17,145	\$ 24,053	\$ 42,663
After-tax effects of unusual items:						
Gain on sale of property in Fremont, CA	(1,215)	--	(1,215)	--	--	(1,215)
Writeoff of specialized machinery and equipment due to excess capacity in certain industrial packaging films	795	--	795	--	--	795
Combined net gain on the divestitures of Molded Products and Brudi	--	--	(8,059)	--	--	(8,059)
Gain on sale of Regal Cinema shares	--	(451)	--	(451)	(451)	--
APPX Software restructuring charge	--	--	--	1,560	1,560	--
Recovery in connection with a Film Products product liability lawsuit	--	--	--	(1,068)	(1,068)	--
-----	-----	-----	-----	-----	-----	-----
Historical net income as adjusted for unusual items	10,315	6,175	27,276	17,186	24,094	34,184
Pro forma adjustments:						
Combined after-tax operating profit of Molded Products and Brudi	--	(351)	(715)	(1,411)	(1,696)	(1,000)
Reduction of Tredegar's after-tax cost for certain benefit plans due to the curtailment of participation by Molded Products employees	--	133	161	399	531	293
After-tax interest income on assumed investment in cash equivalents of after-tax divestiture proceeds at an annual rate ranging from 5.40% to 5.95%	--	610	724	1,859	2,478	1,343
-----	-----	-----	-----	-----	-----	-----
Pro forma net income as adjusted for unusual items and the pro forma effects of the divestitures of Molded Products and Brudi	\$ 10,315	\$ 6,567	\$ 27,446	\$ 18,033	\$ 25,407	\$ 34,820
=====	=====	=====	=====	=====	=====	=====
Earnings per common and dilutive common equivalent share (adjusted for 3-for-2 stock split effective January 1, 1996):						
As reported	\$ .82	\$ .50	\$ 2.74	\$ 1.27	\$ 1.80	\$ 3.28
As adjusted for unusual items	.79	.47	2.09	1.27	1.80	2.62
Pro forma as adjusted for unusual items and the pro forma effects of the divestitures of Molded Products and Brudi	.79	.50	2.10	1.34	1.90	2.67

\* Includes a \$1,369 after-tax gain (10 cents per share) on the sale of an equity investment in Indigo Medical, Inc. in the third quarter of 1996.

The pro forma operating results presented above assume that Tredegar sold Molded Products and Brudi at the beginning of the periods shown (except no pro forma adjustments are applicable to Molded Products and Brudi in the third quarter of 1996 since they were sold prior to that time) and invested related after-tax proceeds of approximately \$48 million and \$21 million, respectively, in cash equivalents. The pro forma financial information is unaudited and does not purport to be indicative of the future results or financial position of Tredegar or the net income and financial position that would actually have been attained had the divestitures occurred on the dates or for the periods indicated.

During the third quarter of 1996, Tredegar realized a gain of \$2.1 million (\$1.4 million or 10 cents per share after income taxes) on the sale of its equity investment in Indigo Medical, Inc. ("Indigo") to Johnson & Johnson. This gain is included in "other income (expense), net" in the consolidated statements of income. Indigo is engaged in the development of catheter-based laser thermotherapy systems to treat enlargement of the prostate. Tredegar did not classify the Indigo gain as an unusual item because of its ongoing technology investment activities.

At September 30, 1996, Tredegar had technology-related investments with a cost basis of \$4.3 million, which represented ownership (either in the form of limited partnership shares, the stock of privately-held companies or the restricted or unrestricted stock of companies that recently registered shares in initial public offerings) of less than 20% in six separate entities. These investments are included in "other assets and deferred

charges" in the consolidated balance sheets and each security is generally accounted for at the lower of cost or estimated fair value. Management estimates the fair value of these investments to be in excess of \$10 million. However, because of the inherent uncertainty of the valuations of restricted securities or securities for which there is no public market, these estimates may differ significantly from the values that would have been used had a ready market for the securities existed. Furthermore, the publicly-traded stock of emerging, technology-based companies usually has higher volatility and risk than the U.S. stock market as a whole.

4. The components of inventories are as follows:

	(In Thousands)	
	Sept. 30 1996	Dec. 31 1995
Finished goods	\$ 2,020	\$ 4,619
Work-in-process	1,276	4,217
Raw materials	7,693	17,946
Stores, supplies and other	6,045	6,366
	-----	-----
Total	\$17,034	\$33,148
	=====	=====

The decline in inventory during the period is due primarily to the sale of Molded Products and Brudi (see Note 2 on page 5).

5. Interest payments (net of amount capitalized) for the nine months ended September 30, 1996 and 1995 were \$1 million and \$1.9 million, respectively. Income tax payments (net) for the nine months ended September 30, 1996 and 1995 were \$13 million and \$10.3 million, respectively.

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

Results of Operations

Third Quarter 1996 Compared with Third Quarter 1995

Net income for the third quarter of 1996 was \$10.7 million or 82 cents per share, up from \$6.6 million or 50 cents per share in the third quarter of 1995. Unusual items recognized in the third quarter of 1996 affecting the comparability of operating results include a gain of \$2 million (\$1.2 million or 9 cents per share after income taxes) on the sale of a former plastic films manufacturing site in Fremont, California, partially offset by a charge of \$1.3 million (\$795,000 or 6 cents per share after income tax benefits) related to the write-off of specialized machinery and equipment due to excess capacity in certain industrial packaging films. Unusual items recognized in the third quarter of 1995 affecting the comparability of operating results include a gain of \$728,000 (\$451,000 or 3 cents per share after income taxes) on the sale of shares in Regal Cinema, Inc. See Note 3 on page 6 for further discussion of unusual items.

Net income excluding unusual items for the third quarter of 1996 was \$10.3 million or 79 cents per share, up from \$6.2 million or 47 cents per share in the third quarter of 1995. The improved results were driven primarily by higher volume in Film Products and Aluminum Extrusions and a gain of \$2.1 million (\$1.4 million or 10 cents per share after income taxes) on the sale of an equity investment in Indigo Medical, Inc. ("Indigo") (see Note 3 on page 6), partially offset by higher research and development spending at Molecumetics.

Third-quarter net sales decreased by 11.3% in 1996 due mainly to the divestitures of Molded Products and Brudi. On a pro forma basis, excluding Molded Products and Brudi, third-quarter net sales increased by 9.6% in 1996 due to higher volume in Film Products and Aluminum Extrusions, partially offset by lower selling prices (reflecting lower plastic resin and aluminum costs).

The gross profit margin during the third quarter of 1996 increased to 20.2% from 16.5% in 1995 due primarily to higher volume in ongoing manufacturing businesses and lower raw material costs per unit, partially offset by startup costs associated with nonwoven film laminate (cloth-like) backsheet production and the unfavorable impact of press shutdowns associated with a modernization project currently underway at the Newnan, Georgia aluminum extrusions plant.

Selling, general and administrative expenses decreased by \$731,000 or 7% due primarily to the divestitures of Molded Products and Brudi. Research and development expenses decreased by \$168,000 or 6.3% due to the timing of product development expenditures at Film Products partially offset by higher spending at Molecumetics.

Interest income, which is included in "other income (expense), net" in the consolidated statements of income, increased to \$1 million in 1996 from \$75,000 in 1995 due to the investment in cash equivalents of divestiture proceeds and cash generated from operations. Interest expense declined due to higher capitalized interest from an increase in capital expenditures, lower revolving credit facility fees and lower average debt outstanding.

The effective tax rate excluding unusual items declined slightly to 36.8% in the third quarter of 1996 from 37% in the third quarter of 1995.

Nine Months 1996 Compared with Nine Months 1995

Net income for the first nine months of 1996 was \$35.8 million or \$2.74 per share, up from \$17.1 million or \$1.27 per share in the first nine months of 1995. Unusual items recognized in the first nine months of 1996 affecting the comparability of operating results include: (i) a gain of \$19.9 million (\$13.7 million or \$1.06 per share after income taxes) on the sale of Molded Products, (ii) a gain of \$2 million (\$1.2 million or 9 cents per share after income taxes) on the sale of a former plastic films manufacturing site in Fremont, California, (iii) a charge of \$9.1 million (\$5.7 million or 44 cents per share after income tax benefits) related to the loss on the divestiture of Brudi, and (iv) a charge of \$1.3 million (\$795,000 or 6 cents per share after income tax benefits) related to the write-off of specialized machinery and equipment due to excess capacity in certain industrial packaging films. Unusual items recognized in the first nine months of 1995 affecting the comparability of operating results include: (i) a charge of \$2.4 million (\$1.6 million or 11 cents per share after income tax benefits) for the restructuring of APPX Software, (ii) a recovery of \$1.75 million (\$1.1 million or 8 cents per share after income taxes) related to a final judgment in connection with a Film Products product liability lawsuit, and (iii) a gain of \$728,000 (\$451,000 or 3 cents per share after income taxes) on the sale of shares in Regal Cinema, Inc. See Note 2 on page 5 and Note 3 on page 6 for further discussion of unusual items.

Net income excluding unusual items for the first nine months of 1996 was \$27.3 million or \$2.09 per share, up from \$17.2 million or \$1.27 per share in the first nine months of 1995. The improved results were driven primarily by higher volume in Film Products; higher volume, cost reductions and quality improvements in Aluminum Extrusions; and a gain of \$2.1 million (\$1.4 million or 10 cents per share after income taxes) on the sale of an equity investment in Indigo (see Note 3 on page 6), partially offset by higher research and development spending at Molecumetics.



Net sales for the first nine months of 1996 decreased by 11.1% due to the divestitures of Molded Products and Brudi and lower selling prices (reflecting lower average plastic resin and aluminum costs), partially offset by higher volume in Film Products and Aluminum Extrusions. On a pro forma basis, excluding Molded Products and Brudi, net sales for the first nine months of 1996 increased by 1.5%.

The gross profit margin during the first nine months of 1996 increased to 20% from 16.2% in 1995 due primarily to higher volume in ongoing manufacturing businesses and lower raw material costs per unit, partially offset by startup costs associated with nonwoven film laminate (cloth-like) backsheet production. Cost reductions and quality improvements in Aluminum Extrusions also contributed to the increase but were partially offset by the unfavorable impact of press shutdowns associated with a modernization project currently underway at the Newnan, Georgia plant.

Selling, general and administrative expenses decreased by \$4.9 million or 13.7% due mainly to the divestitures of Molded Products and Brudi, cost reductions at APPX Software and lower expenses for stock appreciation rights (down \$700,000) due to their appreciation limitation, partially offset by selling, general and administrative expenses from the films business acquired in Argentina in March 1995. Research and development expenses increased by \$1.1 million or 16.9% due to higher spending at Molecumetics.

Interest income, which is included in "other income (expense), net" in the consolidated statements of income, increased to \$1.9 million in 1996 from \$234,000 in 1995 due to the investment in cash equivalents of divestiture proceeds and cash generated from operations. Interest expense declined due to higher capitalized interest from an increase in capital expenditures, lower revolving credit facility fees and lower average debt outstanding.

The effective tax rate excluding unusual items declined to 36.5% during the first nine months of 1996 from 37% in 1995 due primarily to a lower effective state income tax rate from proportionally higher domestic income in states with lower tax rates, proportionally higher foreign income that is exempt from state income taxes and higher tax-exempt interest income.

Segment Results

The following tables present Tredegar's net sales and operating profit by segment for the third quarter and nine months ended September 30, 1996 and 1995.

Net Sales by Segment  
(In Thousands)  
(Unaudited)

	Third Quarter Ended Sept. 30		Nine Months Ended Sept. 30	
	1996	1995	1996	1995
Plastics:				
Film Products and Fiberlux	\$ 70,311	\$ 63,202	\$193,492	\$185,670
Molded Products (a)	--	19,912	21,131	64,978
Metal Products:				
Aluminum Extrusions	58,772	54,385	167,986	170,207
Brudi (a)	--	7,944	13,380	24,482
Technology	342	512	1,154	1,383
Total net sales	\$129,425	\$145,955	\$397,143	\$446,720

Operating Profit by Segment  
(In Thousands)  
(Unaudited)

	Third Quarter Ended Sept. 30		Nine Months Ended Sept. 30	
	1996	1995	1996	1995
Plastics:				
Film Products and Fiberlux	\$ 10,136	\$ 9,297	\$ 31,693	\$ 26,260
Molded Products (a)	--	404	1,011	2,124
Unusual items (b)	680	--	20,573	1,750
	10,816	9,701	53,277	30,134
Metal Products:				
Aluminum Extrusions	7,216	3,858	18,462	12,597
Brudi (a)	--	200	231	287
Unusual items (c)	--	--	(9,146)	--
	7,216	4,058	9,547	12,884
Technology:				
Molecumetics	(1,690)	(1,115)	(4,470)	(3,234)
Investments and other (d)	1,965	56	1,960	(863)
Unusual items (e)	--	728	--	(1,672)
	275	(331)	(2,510)	(5,769)
Total operating profit	18,307	13,428	60,314	37,249
Interest income	1,019	75	1,851	234
Interest expense	459	951	1,608	2,528
Corporate expenses, net	1,859	2,024	6,175	7,598
Income before income taxes	17,008	10,528	54,382	27,357
Income taxes	6,273	3,902	18,627	10,212
Net income (f)	\$ 10,735	\$ 6,626	\$ 35,755	\$ 17,145

Notes to Segment Tables:

- (a) Molded Products and Brudi were divested by Tredegar during the first and second quarters of 1996, respectively (see Note 2 on page 5 and Note 3 on page 6).
- (b) Includes, on a pretax basis, the recognition of: (i) a gain of \$2 million in the third quarter of 1996 from the sale of a former plastic films manufacturing site in Fremont California, (ii) a charge of \$1.3 million in the third quarter of 1996 related to the write-off of specialized machinery and equipment due to excess capacity in certain industrial packaging films, (iii) a gain of \$19.9 million in the first quarter of 1996 on the sale of Molded Products, and (iv) a recovery of \$1.75 million in the first quarter of 1995 related to a final judgment in connection with a Film Products product liability lawsuit (see Note 2 on page 5 and Note 3 on page 6).
- (c) Represents a pretax charge recognized in the first quarter of 1996 for the loss on the divestiture of Brudi (see Note 2 on page 5 and Note 3 on page 6).
- (d) Includes a pretax gain of \$2.1 million recognized in the third quarter of 1996 from the sale of an equity investment in Indigo (see Note 3 on page 6).
- (e) Includes a pretax gain of \$728,000 recognized in the third quarter of 1995 from the sale of shares in Regal Cinema, Inc. and a pretax charge of \$2.4 million recognized in the first quarter of 1995 for the restructuring of APPX Software (see Note 3 on page 6).
- (f) See Note 3 on page 6 for historical and pro forma net income and earnings per common and dilutive common equivalent share adjusted for unusual items affecting the comparability of operating results and the pro forma effects of the divestitures of Molded Products and Brudi.

Sales in Film Products for the third quarter and first nine months of 1996 increased over the prior year due mainly to (i) higher volume in North America, including higher volume of diaper backsheet supplied to the Proctor & Gamble Company ("P&G"), higher volume of specialty films used for the protection of high-gloss surfaces and electronic circuit boards and higher volume of Vispore(R) film used in seed bed and ground cover applications, (ii) higher diaper backsheet and packaging film volume in Argentina, and (iii) higher volume of permeable film supplied to P&G in Europe for feminine pads. The positive impact on sales of higher volume was partially offset by lower selling prices, which reflected lower plastic resin costs. Operating profit increased in Film Products for the third quarter and nine months due primarily to higher volume in the areas noted above, partially offset by startup costs associated with nonwoven film laminate (cloth-like) backsheet production. Operating profits in Fiberlux also improved.

Sales in Aluminum Extrusions increased during the third quarter of 1996 due to higher volume (up 15.9%), partially offset by lower selling prices reflecting lower aluminum costs. Sales in Aluminum Extrusions for the first nine months of 1996 decreased due to lower selling prices, which reflected lower aluminum costs. Volume in Aluminum Extrusions for the first nine months of 1996 increased 5.1%. Volume increases during the quarter and for the year were driven primarily by continued strength in residential and commercial windows, wood clad windows and automotive markets. Operating profit in Aluminum Extrusions during the third quarter and first nine months of 1996 increased significantly from higher volume, cost reductions and quality improvements, partially offset by the unfavorable impact of press shutdowns at the Newnan, Georgia plant due to a modernization project currently underway.

Excluding the \$2.1 million gain on the sale of Indigo in the third quarter of 1996 and a \$329,000 writedown of a technology investment in the second quarter of 1995, ongoing technology segment losses increased by \$805,000 during the third quarter and \$881,000 during the first nine months of 1996. These increases were due mainly to higher research and development spending at Molecumetics, with lower costs in 1996 at APPX Software due to its restructuring in the first quarter of 1995.

#### Liquidity and Capital Resources

Tredegar's total assets increased to \$345.7 million at September 30, 1996, from \$314.1 million at December 31, 1995, due primarily to (i) cash generated from operating activities in excess of capital expenditures and dividends (\$16.8 million), (ii) capital expenditures in excess of depreciation (\$3.5 million), (iii) higher current assets in Aluminum Extrusions to support the significant increase in volume during the third quarter (\$4.2 million), (iv) proceeds from the sale of Indigo in excess of its carrying value (\$2.1 million), (v) an increase in prepaid pension expense (included in other assets) for the curtailment of participation by Molded Products employees in one of Tredegar's defined benefit plans (\$1.8 million), and (vi) other items (\$4.3 million), partially offset by (vii) the divestitures of Molded Products and Brudi for combined cash consideration of \$71.6 million (net of transaction costs), which was \$1.1 million less than the book value of their assets at December 31, 1995. Accounts payable increased by \$2.6 million due to an improvement in trade terms with certain vendors, partially offset by the effects of divestitures. Accrued expenses, deferred income taxes and other noncurrent liabilities declined from December 31, 1995 to September 30, 1996 due mainly to divestitures. Income taxes payable of \$6.7 million resulted from timing differences between income tax accruals and payments during the year.

Debt at September 30, 1996 and December 31, 1995 consisted of a \$35 million, 7.2% note maturing in June 2003. The first annual principal payment of

\$5 million is due June 1997, and has been classified as long-term debt in accordance with Tredegar's ability to refinance such obligation on a long-term basis. At September 30, 1996, Tredegar had cash and cash equivalents in excess of debt of \$64 million, compared to net debt (debt in excess of cash and cash equivalents) of \$32.9 million at December 31, 1995.

Net cash provided by operating activities in excess of capital expenditures and dividends decreased to \$16.8 million in the first nine months of 1996 from \$20.8 million in 1995 due primarily to higher capital expenditures. For the nine months ended September 30, 1996, capital expenditures of \$18.7 million exceeded depreciation and prior-period capital expenditures by \$3.5 million and \$2.8 million, respectively, due to capital additions for new nonwoven film laminate capacity, expansion of permeable film capacity in Europe and Brazil, the expansion of lab facilities at Molecumetics and a modernization program to upgrade certain areas of the aluminum extrusions facility in Newnan, Georgia, partially offset by a reduction of capital expenditures from the divestitures of Molded Products and Brudi. During the first nine months of 1996 and 1995, Tredegar's consolidated results included combined capital expenditures for Molded Products and Brudi of \$1.3 million and \$6.6 million, respectively, and combined depreciation for these divested businesses of \$1.6 million and \$4.5 million, respectively. Approximately \$4.2 million is expected to be spent on the Newnan program in 1996 and 1997, most of which will occur in 1996.

The \$16.8 million of excess cash generated during the first nine months of 1996 combined with the \$2.1 million cash and cash equivalents balance at December 31, 1995, the proceeds from the divestitures of Molded Products and Brudi (\$71.6 million after transaction costs), proceeds from property disposals (\$8.8 million; primarily the former plastic films site in Fremont, California and a former aluminum extrusions and fabrication site in Mechanicsburg, Pennsylvania), cash generated from technology investment activities (\$1.2 million), other sources (\$500,000) and a use of cash for the repurchases of Tredegar common stock (\$2 million), resulted in a cash and cash equivalents balance of \$99 million at September 30, 1996.

PART II - OTHER INFORMATION

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

(a) Exhibit No.

4.1 Extension Letter, dated September 16, 1996, extending the maturity date of the Revolving Credit Facility Agreement dated as of September 7, 1995 among Tredegar Industries, Inc., the banks named therein, Chemical Bank as Administrative Agent and NationsBank N.A. and LTCB Trust Company as Co-Agents

11 Statement re computation of earnings per share

27 Financial Data Schedule

(b)

Reports on Form 8-K.

No reports on Form 8-K have been filed for the quarter ended September 30, 1996.

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 Industries, Inc.  
(Registrant)

Date: October 30, 1996  
-----

/s/ N. A. Scher  
-----

Norman A. Scher  
Executive Vice President,  
Treasurer and Chief Financial  
Officer (Principal Financial  
Officer)

Date: October 30, 1996  
-----

/s/ D. Andrew Edwards  
-----

D. Andrew Edwards  
Corporate Controller  
(Principal Accounting Officer)

EXHIBIT INDEX

Exhibit No.	Description
4.1	Extension Letter, dated September 16, 1996, extending the maturity date of the Revolving Credit Facility Agreement dated as of September 7, 1995 among Tredegar Industries, Inc., the banks named therein, Chemical Bank as Administrative Agent and NationsBank N.A. and LTCB Trust Company as Co-Agents
11	Statement re computation of earnings per share
27	Financial Data Schedule

September 16, 1996

Michael W. Giancaspro  
Tredegar Industries, Inc.  
1100 Boulders Parkway  
Richmond, VA 23225

Re: Extension of the Revolving Credit Agreement dated September 7,  
1995

Pursuant to section 2.10(d)(i) of the Credit Agreement dated September 7, 1995, you have requested that the Chase Manhattan Bank seek approval from the lenders in order to extend the maturity date of the Credit Agreement from September 7, 2000 to September 7, 2001. We have requested such approval from each of the lenders and have received approval from each lender to extend its commitments. Therefore, according to the provisions of section 2.10(d)(i), the Chase Manhattan Bank hereby notifies you that the maturity date for your Credit Agreement shall be extended to September 7, 2001.

Enclosed are copies of the approvals from each of the banks. Please let me know if I can be of further assistance.

Sincerely,

/s/ Bruce Borden

Bruce Borden  
Vice President

c: Nancy Taylor, Tredegar Internal Counsel

Enclosures



EXHIBIT 11 - Computations of Earnings Per Share  
 Tredegar Industries, Inc. and Subsidiaries  
 (In thousands, except per-share amounts)

	Third Quarter Ended Sept. 30		Nine Months Ended Sept. 30	
	1996	1995	1996	1995
Net income	\$10,735	\$ 6,626	\$ 35,755	\$ 17,145
Earnings per common and dilutive common equivalent share as reported (1)	\$ .82	\$ .50	\$ 2.74	\$ 1.27
PRIMARY EARNINGS PER SHARE:				
Shares issuable upon the assumed exercise of outstanding stock options (2)	909	530	846	400
Weighted average common shares outstanding during period	12,203	12,672	12,201	13,085
Weighted average common and dilutive common equivalent shares	13,112	13,202	13,047	13,485
Primary earnings per share (1)	\$ .82	\$ .50	\$ 2.74	\$ 1.27
FULLY DILUTED EARNINGS PER SHARE:				
Shares issuable upon the assumed exercise of outstanding stock options (3)	938	576	937	600
Weighted average common shares outstanding during period	12,203	12,672	12,201	13,085
Weighted average common and dilutive common equivalent shares	13,141	13,248	13,138	13,685
Fully diluted earnings per share (3)	\$ .82	\$ .50	\$ 2.72	\$ 1.25

Notes to Exhibit 11:

- (1) Shares used to compute earnings per common and dilutive common equivalent share in the consolidated statements of income include common stock equivalents.
- (2) Computed using the average market price during the related period.
- (3) Computed using the higher of the average market price during the related period and the market price at the end of the related period. Fully diluted earnings per common and dilutive common equivalent share is not materially different (dilutive by 3% or more) from earnings per common and dilutive common equivalent share reported in the consolidated statements of income.

THE SCHEDULE CONTAINS UNAUDITED SUMMARY FINANCIAL INFORMATION FOR TREDEGAR INDUSTRIES, INC. AND SUBSIDIARIES EXTRACTED FROM THE BALANCE SHEET FOR THE PERIOD ENDED SEPTEMBER 30, 1996 AND THE STATEMENT OF INCOME FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

9-MOS	DEC-31-1996	
	SEP-30-1996	
		99,026
		0
		68,743
		3,589
		17,034
	200,948	255,591
		165,693
		345,689
	73,463	35,000
	0	0
		111,836
		91,027
345,689		397,143
	400,467	317,556
		317,556
		26,702
		219
	1,608	
		54,382
		18,627
	35,755	
		0
		0
		0
		35,755
		2.74
		0.00