

ATLANTIS PLASTICS INC

Form 10-Q

May 08, 2002

Table of Contents

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

FORM 10-Q

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

For the quarterly period ended March 31, 2002

OR

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

For the transition period from _____ to _____

Commission File number 1-9487

ATLANTIS PLASTICS, INC.

(Exact name of registrant as specified in its charter)

FLORIDA
(State or other jurisdiction of incorporation or organization)

06-1088270
(IRS Employer Identification No.)

1870 The Exchange, Suite 200, Atlanta,
Georgia
(Address of principal executive offices)

30339
(Zip Code)

(Registrant's telephone number, including Area Code) (800) 497-7659

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

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date.

Class Shares	Outstanding at March 31, 2002
A, \$.10 par value	5,015,515
B, \$.10 par value 2,563,218	

TABLE OF CONTENTS

Part I. Financial Information

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS

CONSOLIDATED STATEMENTS OF INCOME

CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Part II. Other Information

Item 1. Legal Proceedings

SIGNATURES

Table of Contents

ATLANTIS PLASTICS, INC.

FORM 10-Q

For the Quarter Ended March 31, 2002

INDEX

Part I. Financial Information

Item 1. Financial
Statements
(Unaudited)
Page

a) Consolidated
Balance Sheets
as of March
31, 2002 and
December 31,
2001 1 b)

Consolidated
Statements of
Income

for the three
months ended
March 31, 2002
and 2001 2 c)

Consolidated
Statements of
Cash Flows

for the three
months ended
March 31, 2002
and 2001 3 d)

Notes to
Consolidated
Financial
Statements

for the three
months ended
March 31, 2002

4 Item 2. Management's

Discussion and
Analysis of

Financial
Condition and
Results of
Operations

7 Item 3. Quantitative
and Qualitative

Disclosure About
Market Risk

Part II. Other

Information Item 1. Legal
Proceedings

13 Item 6. Exhibits
and Reports on

Form 8-K
13*Signatures*14

Table of Contents*Part I. Financial Information***Item 1. Financial Statements**
ATLANTIS PLASTICS, INC.CONSOLIDATED BALANCE SHEETS
(In thousands, except share information)

	March 31, 2002(1)	December 31, 2001
ASSETS		
Cash and cash equivalents		
\$158 \$937		
Accounts receivable, less allowance for doubtful accounts and returned items of \$957 in 2002 and \$1,072 in 2001		
31,354 28,925		
Inventories		
17,541 16,112		
Other current assets		
4,022 5,710		
Deferred income tax assets		
2,437 2,437		
<hr/>		
Total current assets		
55,512 54,121		
Property and equipment, net		
69,104 69,067		
Goodwill, net of accumulated amortization		
46,402 46,402		
Other assets		
17 13		
Total assets		
\$171,035 \$169,603		
<hr/>		
LIABILITIES AND SHAREHOLDERS EQUITY		
Accounts payable and accrued expenses		
\$20,975 \$21,589		
Current portion of long-term debt		
76,026 25,188		
<hr/>		
Total current liabilities		
97,001 46,777		
Long-term debt, less current portion		
13,755 63,702		

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Deferred income tax liabilities
11,901 12,049
Other liabilities
14 12

Total liabilities
122,671 122,540
Commitments and contingencies

Shareholders' equity:

Class A Common Stock, \$.10 par
value, 20,000,000 shares
authorized, 5,015,515 and
4,961,662 shares issued and
outstanding in 2002 and 2001
502 496

Class B Common Stock, \$.10 par
value, 7,000,000 shares
authorized, 2,563,218 and
2,570,191 shares issued and
outstanding in 2002 and 2001
256 257

Additional paid-in capital
10,852 10,677

Notes receivable from sale of
Common Stock
(1,625) (1,589)

Retained earnings
38,379 37,222

Total shareholders' equity
48,364 47,063

**Total liabilities and
shareholders' equity
\$171,035 \$169,603**

(1) *Unaudited*

See accompanying notes.

Table of Contents**ATLANTIS PLASTICS, INC.****CONSOLIDATED STATEMENTS OF INCOME***(In thousands, except per share data) (Unaudited)*

	Three Months Ended March 31,	
	2002	2001
Net sales	\$58,263	\$64,702
Cost of sales		
47,314	54,302	
<hr/>		
Gross profit		
10,949	10,400	
Selling, general and administrative expenses		
7,194	6,494	
Goodwill amortization		
448		
<hr/>		
Operating income		
3,755	3,458	
Net interest expense		
(1,886)	(2,569)	
<hr/>		
Income before provision for income taxes		
1,869	889	
<hr/>		
Provision for income taxes		
(712)	(463)	
<hr/>		
Net income		
\$1,157	\$426	
<hr/>		
Earnings per share		
Basic and Diluted:		
Net income		
\$0.15	\$0.06	
<hr/>		
Weighted average number of shares used in		
computing earnings per share (in thousands)		
Basic		
7,540	7,533	
Diluted		
7,551	7,543	
<hr/>		

See accompanying notes.

Table of Contents**ATLANTIS PLASTICS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS***(In thousands) (Unaudited)*

	Three Months Ended March 31, 2002 2001	
<hr/>		
Cash Flows From Operating Activities		
Net income	\$1,157	\$426
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,899	2,447
Loss on disposal of assets	139	5
Amortization of goodwill	448	
Loan fee and other amortization	76	116
Interest receivable from shareholder loans	(18)	(32)
Deferred income taxes	(148)	(506)
Changes in operating assets and liabilities	(2,816)	1,659
Total adjustments	132	4,137
<hr/>		
Net cash provided by operating activities	1,289	4,563
Cash Flows From Investing Activities		
Capital expenditures	(3,075)	(1,586)
Purchase of business	(39)	
Proceeds from asset dispositions	1	
<hr/>		
Net cash used in investing activities	(3,075)	(1,624)
<hr/>		
Cash Flows From Financing Activities		

Net borrowings
(repayments) under revolving
credit agreements
2,500 (3,000)
Payments on long-term debt
(1,609) (633)
Payments on notes receivable
from shareholders
96 140
Purchase of common stock
(8)
Proceeds from exercise of stock
options
20

Net cash provided by (used in)
financing activities
1,007 (3,501)

Net decrease in cash and cash
equivalents
(779) (562)
Cash and cash equivalents at
beginning of period
937 2,445

Cash and cash equivalents at end
of period
\$158 \$1,883

See accompanying notes.

Table of Contents**ATLANTIS PLASTICS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
(Unaudited)**Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ended December 31, 2002.

The balance sheet at December 31, 2001 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

The information included in this Form 10-Q should be read in conjunction with Management's Discussion and Analysis and financial statements and footnotes thereto included in the Atlantis Plastics, Inc. Form 10-K for the year ended December 31, 2001.

Inventories

The components of inventory consist of the following:

<i>(in thousands)</i>	March 31 2002	December 31 2001
Raw Materials	\$8,528	\$7,370
Work in Process		
147 167		
Finished Products		
8,866 8,575		
	\$17,541	\$16,112

Table of Contents**Segment Information**

The Company has two operating segments: Atlantis Plastic Films and Atlantis Molded Plastics. Information related to such segments is as follows:

				Three Months Ended March 31, 2002		
<i>(in thousands)</i>				Atlantis Plastics Films	Atlantis Molded Plastics	Corporate & Consolidated
Net sales				\$37,747	\$20,516	\$58,263
Operating income						
	1,849	1,906	3,755			
Identifiable assets						
	98,241	63,377	\$9,417 ⁽¹⁾	171,035		
Capital expenditures						
	1,036	1,416	623	3,075		
Depreciation and amortization						
	1,521	1,048	406	2,975		

				Three Months Ended March 31, 2001		
<i>(in thousands)</i>				Atlantis Plastics Films	Atlantis Molded Plastics	Corporate & Consolidated
Net sales				\$46,335	\$18,367	\$64,702
Operating income						
	2,759	699	3,458			
Identifiable assets						
	107,134	59,919	\$5,121 ⁽¹⁾	172,174		
Capital expenditures						
	980	599	7	1,586		
Depreciation and amortization						
	1,213	1,109	689	3,011		

⁽¹⁾ Corporate identifiable assets are primarily intercompany balances that eliminate when combined with other segments.

Table of Contents**Earnings Per Share Data**

The following table sets forth the computation of basic and diluted earnings per share for the periods indicated.

<i>(in thousands, except per share data)</i>	Three Months Ended March 31	
	2002	2001
<hr/>		
Basic earnings per common share:		
Net income		
\$1,157	\$426	
<hr/>		
Weighted-average shares outstanding		
7,540	7,533	
Basic earnings per common share		
\$0.15	\$0.06	
<hr/>		
Diluted earnings per common share		
Net income		
\$1,157	\$426	
<hr/>		
Weighted-average shares outstanding		
7,540	7,533	
Add Options		
11	10	
<hr/>		
Weighted-average common shares outstanding plus		
potential dilutive common shares		
7,551	7,543	
<hr/>		
Diluted earnings per share		
\$0.15	\$0.06	
<hr/>		

Excluded from the above calculation of diluted earnings per share are antidilutive options, which could potentially dilute earnings per share in the future. Antidilutive options for the quarter ended March 31, 2002 and March 31, 2001 not included above are 1,210,454 and 986,954 shares, respectively.

Table of Contents

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

Overview

Atlantis Plastics, Inc. (Atlantis or the Company) is a leading U.S. plastics manufacturer consisting of two operating segments: (i) Atlantis Plastic Films, which produces polyethylene stretch and custom films used in a variety of industrial and consumer applications, and (ii) Atlantis Molded Plastics, which produces molded plastic products for a variety of applications, including products and components for the appliance, automotive, building supply, and recreational vehicle industries.

Atlantis Plastic Films accounts for approximately 65% of the Company's net sales and produces (i) stretch films, which are multilayer plastic films that are used principally to wrap pallets of materials for shipping or storage; (ii) custom film products, such as high-grade laminating films, embossed films, and specialty film products targeted primarily to industrial and packaging markets; and (iii) institutional products such as aprons, gloves, and tablecloths that are converted from polyethylene films.

Atlantis Molded Plastics, which accounts for approximately 35% of the Company's net sales, consists of two principal technologies serving a variety of specific market segments described as follows: (i) injection molded thermoplastic parts that are sold primarily to original equipment manufacturers and used in major household goods and appliances, power tools, agricultural and automotive products, and (ii) a variety of custom and proprietary extruded plastic parts for both trim and functional applications (profile extrusion) that are incorporated into a broad range of consumer and commercial products such as recreational vehicles, residential windows and doors, office furniture, building supplies, and retail store fixtures.

Table of Contents

Selected income statement data for the quarterly periods ended March 31, 2001 through March 31, 2002 are as follows:

(\$ in millions)	2002		2001		
	Q1	Q4	Q3	Q2	Q1
NET SALES					
Plastic Films	\$37.8	\$38.5	\$42.9	\$43.0	\$46.3
Molded Plastics	20.5	18.7	20.5	19.5	18.4
<hr/>					
Total	\$58.3	\$57.2	\$63.4	\$62.5	\$64.7
GROSS PROFIT					
Plastic Films	18%	17%	15%	14%	17%
Molded Plastics	21%	15%	17%	17%	15%
<hr/>					
Total	19%	16%	16%	15%	16%
OPERATING INCOME ⁽¹⁾					
Plastic Films (excluding goodwill)	5%	4%	4%	4%	7%
Molded Plastics (excluding goodwill)	9%	5%	7%	7%	5%
Goodwill amortization	(1)%	(1)%	(1)%	(1)%	(1)%
<hr/>					
Total	6%	4%	4%	4%	5%
<hr/>					
NET INTEREST EXPENSE					
	\$1.9	\$2.1	\$2.3	\$2.4	\$2.6
<hr/>					

- (1) Previously reported segment operating margins have been adjusted to exclude goodwill amortization in order to provide more comparative information with the adoption of Statement of Financial Accounting Standard No. 142, *Accounting for Goodwill and Other Intangible Assets*, on January 1, 2002.

Results of Operations**Net Sales**

The Company's net sales for the quarter ended March 31, 2002 were \$58.3 million, compared to \$64.7 million for the quarter ended March 31, 2001. Atlantis Plastics Films' volume (measured in pounds) for the quarter ended March 31, 2002 was 5% below the quarter ended March 31, 2001. Sales volume (measured in dollars) for the quarter ended March 31, 2002 decreased 19%, compared to the quarter ended March 31, 2001 as a result of the 5% volume decrease and the reduction in average selling prices caused by the decrease in resin prices.

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Net sales for the molded products business (measured in dollars) increased 12% for the quarter ended March 31, 2002, compared to the quarter ended March 31, 2001. The increase is primarily the result of volume increases to major customers as well as continued growth within the building products segment.

Gross Profit and Operating Profit

Atlantis' gross margin and operating margin for the quarter ended March 31, 2002 were 19% and 6% respectively, compared with 16% and 5% respectively, for the quarter ended March 31, 2001. In the plastic

Table of Contents

films segment, gross margin and operating margin were 18% and 5% respectively, for the quarter ended March 31, 2002, compared to 17% and 7% respectively, for the quarter ended March 31, 2001.

In Atlantis Molded Products segment the 12% increase in sales volume resulted in improvements in both gross margin and operating margin. Gross margin and operating margin for the quarter ended March 31, 2002 were 21% and 9% respectively, compared to 15% and 5% respectively, for the quarter ended March 31, 2001.

Selling, General, and Administrative Expense

The Company's selling, general, and administrative (SG&A) expense increased to \$7.2 million for the quarter ended March 31, 2002 from \$6.5 million, excluding goodwill amortization of approximately 0.4 million, for the quarter ended March 31, 2001. The increase is primarily the result of both increased health and general insurance costs.

Net Interest Expense and Income Taxes

Net interest expense for the quarter ended March 31, 2002 decreased to \$ 1.9 million, compared to \$2.6 million for the quarter ended March 31, 2001. Interest rates during the three-month period ending March 31, 2002 resulted in a lower average interest rate on the variable portion of debt, compared to the average variable interest rate for the three-month period ending March 31, 2001. In addition, the Company repurchased approximately \$25.5 million of the 11% fixed rate Senior Notes during 2001. The repurchase was funded by new debt and borrowings under the revolving credit agreement at lower variable interest rates. Total debt increased to \$89.8 million at March 31, 2002 from \$88.9 million at December 31, 2001.

The Company's effective income tax rate in 2001 differed from the applicable statutory rate primarily due to nondeductible goodwill amortization.

Income

As a result of the factors described above, operating income increased to \$3.8 million (6% of net sales) during the quarter ended March 31, 2002, compared to \$3.5 million (5% of net sales), including goodwill amortization of \$0.4 million, for the quarter ended March 31, 2001. Net income and basic and diluted earnings per share for the quarter ended March 31, 2002 and 2001 were as follows:

	<u>2002</u>	<u>2001</u>
Net income	\$1.2 million	\$0.4 million
Basic earnings per share		
\$0.15	\$0.06	
Diluted earnings per share		
\$0.15	\$0.06	

Liquidity and Capital Resources

At March 31, 2002, the Company had approximately \$89.8 million of outstanding indebtedness, approximately \$0.2 million in cash and cash equivalents, and an additional \$4.7 million unused availability under its revolving credit facility, net of outstanding letters of credit of approximately \$1.3 million. The revolving credit facility expires January 31, 2003, and there can be no assurance that the commitment will be renewed or extended, or that another source of financing will be available to the Company on satisfactory terms. As of April 26, 2002,

Table of Contents

borrowings on this facility totaled \$23.0 million and unused availability, net of outstanding letters of credit of approximately \$1.3 million, equaled \$5.7 million. The Company's principal needs for liquidity, on both a short and long-term basis, relate to working capital (principally accounts receivable and inventories), debt service, and capital expenditures. The Company presently does not have any material commitments for future capital expenditures.

At March 31, 2002, the Company's current portion of long-term debt increased by \$50.8 million to \$76.0 million from the balance of \$25.2 million at December 31, 2001. This increase was primarily the result of the reclassification from long-term debt to current debt of the \$49.3 million 11% Senior Notes due February 15, 2003. Atlantis is exploring alternatives to refinance its long-term debt, including the 11% Senior Notes.

The Company's high debt level presents substantial risks and could have negative consequences. For example, it could (1) require the Company to dedicate a substantial portion of its cash flow from operations to repayment of debt, limiting the availability of cash for other purposes; (2) increase the Company's vulnerability to adverse general economic conditions by making it more difficult to borrow additional funds to maintain its operations if the Company suffers shortfalls in net sales; (3) hinder the Company's flexibility in planning for, or reacting to, changes in its business and industry by preventing the Company from borrowing money to upgrade its equipment or facilities; and (4) limit or impair the Company's ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, or general corporate purposes.

In the event that the Company's cash flow from operations is not sufficient to fund the Company's expenditures or to service its indebtedness, the Company would be required to raise additional funds through the sale of assets or subsidiaries. There can be no assurance that any of these sources of funds would be available in amounts sufficient for the Company to meet its obligations. Moreover, even if the Company were able to meet its obligations, its highly leveraged capital structure could significantly limit its ability to finance its expansion program and other capital expenditures, to compete effectively, or to operate successfully under adverse economic conditions.

Cash Flows from Operating Activities

For the quarter ended March 31, 2002, net cash provided by operating activities was approximately \$1.3 million, compared to \$4.6 million for the quarter ended March 31, 2001. The difference between the Company's net income of \$1.2 million and its \$1.3 million operating cash flow for the quarter ended March 31, 2001 was primarily attributable to approximately \$3.0 million of depreciation and amortization expense, and a \$1.6 million decrease in other assets resulting primarily from the receipt of resin rebates offset by an approximately \$2.9 million increase in accounts receivable due to increased net sales, a \$1.4 million increase in inventories, and a \$0.6 decrease in accounts payable and accrued liabilities.

Cash Flows from Investing Activities

Net cash used in investing activities increased to \$3.1 million in the quarter ended March 31, 2002, compared to \$1.6 million for the quarter ended March 31, 2001. This increase was primarily the result of increased capital expenditures (net of dispositions).

Cash Flows from Financing Activities

Net cash provided by financing activities for the quarter ended March 31, 2002 was \$1.0 million, compared with net cash used in financing activities of \$3.5 million for the quarter ended March 31, 2001. The Company's financing cash flow for the quarter ended March 31, 2002 reflects net borrowings of \$2.5 million

Table of Contents

under the revolving credit agreements and approximately \$1.6 million in payments on long-term debt. This was partially offset by the receipt of approximately \$0.1 million in interest due from shareholder notes.

Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141, *Business Combinations* and No. 142, *Accounting for Goodwill and Other Intangibles* (SFAS 141 and SFAS 142). SFAS 141 eliminated the use of pooling for business combinations after June 30, 2001. Under SFAS 142 goodwill and indefinite-lived intangible assets are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets such as our customer lists that are not deemed to have an indefinite life will continue to be amortized over their useful lives. Companies were required to immediately adopt the amortization provisions of SFAS 142 as it relates to goodwill and intangible assets acquired after June 30, 2001. On January 1, 2002, the Company adopted SFAS 142. The impact of the adoption as it relates to existing goodwill is expected to be a reduction of amortization expense of \$1.8 million during the years ended December 31, 2002 and 2003. During the quarter ended March 31, 2002 the reduction to amortization expense was approximately \$0.4 million.

In October 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144). The Statement supersedes SFAS 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*, and supersedes the provisions of APB Opinion 30, *Reporting the Results of Operations-Discontinued Events and Extraordinary Items*, with regard to reporting the effects of a disposal of a segment of a business. The Statement provides a single accounting model for long-lived assets to be disposed of and significantly changes the criteria required to classify an asset as held-for-sale. Under the Statement, more dispositions will qualify for discontinued operations treatment in the statement of income, which requires expected future operating losses from discontinued operations to be displayed in discontinued operations in the period in which the losses are incurred. The Statement is effective for fiscal years beginning after December 15, 2001. The Company does not expect at this time that the adoption of SFAS 144 will have a material impact on its financial statements.

Note Regarding Forward Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of that term in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Additional written or oral forward-looking statements may be made by the Company from time to time, in press releases, annual or quarterly reports to shareholders, filings with the Securities Exchange Commission, presentations or otherwise. Statements contained herein that are not historical facts are forward-looking statements made pursuant to the safe harbor provisions referenced above.

Forward-looking statements may include, but are not limited to, projections of net sales, income or losses, or capital expenditures; plans for future operations; financing needs or plans; compliance with financial covenants in loan agreements; plans for liquidation or sale of assets or businesses; plans relating to products or services of the Company; assessments of materiality; predictions of future events; the ability to obtain additional financing; the Company's ability to meet obligations as they become due; the impact of pending and possible litigation; as well as assumptions relating to the foregoing. In addition, when used in this discussion, the words anticipates, believes, estimates, expects, intends, and similar expressions are intended to identify forward-looking statements. Forward-looking statements are inherently subject to risks and uncertainties, including, but not limited to, the impact of leverage, dependence on major customers, fluctuating demand for the Company's

Table of Contents

Part II. Other Information

Item 1. Legal Proceedings

The Company is not a party to any legal proceeding other than routine litigation incidental to its business, none of which is material.

Item 6. Exhibits and Reports on Form 8-K

(A) EXHIBITS

(B) REPORTS ON FORM 8-K

The Company filed no reports on Form 8-K during the quarter ended March 31, 2002.

Items 3, 4, and 5 are not applicable and have been omitted.

Table of Contents

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.

ATLANTIS PLASTICS, INC.

Date: May 6, 2002

By: /s/ Anthony F. Bova

ANTHONY F. BOVA

President and Chief

Executive Officer Date:

May 6, 2002 **By:** /s/ Paul

G. Saari

PAUL G. SAARI

Senior Vice President,

Finance and

Chief Financial Officer