

ATLANTIS PLASTICS INC

Form 10-Q

May 15, 2007

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**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, 2007

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)

DELAWARE

06-1088270

(State or other jurisdiction of incorporation or
organization)

(IRS Employer Identification No.)

1870 The Exchange, Suite 200, Atlanta, Georgia

30339

(Address of principal executive offices)

(Zip Code)

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to section 13 or Section 15(d) of the Act. Yes No

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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-2 of the Act. Yes No

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

Class	Outstanding at April 30, 2007
Class A Common Stock, \$.0001 par value	6,141,009
Class B Common Stock, \$.0001 par value	2,114,814

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FORM 10-Q
For the Quarter Ended March 31, 2007
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Table of Contents*Part 1. Financial Information***Item 1. Financial Statements****ATLANTIS PLASTICS, INC.****CONSOLIDATED STATEMENTS OF (LOSS) INCOME***(In thousands, except per share data) (Unaudited)*

	Three Months Ended March 31,	
	2007	2006
Net sales	\$ 100,196	\$ 109,785
Cost of sales	87,559	95,058
Gross profit	12,637	14,727
Selling, general and administrative expenses	8,145	8,857
Severance and restructuring expense	545	
Operating income	3,947	5,870
Net interest expense	(5,723)	(4,689)
Other (expense) income	(38)	30
(Loss) income before (benefit) provision for income taxes	(1,814)	1,211
(Benefit) provision for income taxes	(628)	447
Net (loss) income	\$ (1,186)	\$ 764
(Loss) earnings per share:		
Basic	\$ (0.14)	\$ 0.09
Diluted	\$ (0.14)	\$ 0.09
Weighted average number of shares used in computing (loss) earnings per share:		
Basic	8,256	8,256
Diluted	8,256	8,256

See accompanying notes.

Table of Contents**ATLANTIS PLASTICS, INC.
CONSOLIDATED BALANCE SHEETS**

<i>(In thousands, except share and per share data)</i>	March 31, 2007 ⁽¹⁾	December 31, 2006
ASSETS		
Cash and cash equivalents	\$ 172	\$ 59
Accounts receivable (net of allowances of \$1,363 and \$1,280)	55,716	48,999
Inventories, net	33,106	36,999
Other current assets	7,072	5,479
Deferred income tax assets	3,392	3,108
Total current assets	99,458	94,644
Property and equipment, net	68,378	68,979
Goodwill, net of accumulated amortization	54,592	54,592
Other assets	8,456	8,673
Total assets	\$230,884	\$226,888
LIABILITIES AND SHAREHOLDERS DEFICIT		
Accounts payable and accrued expenses	\$ 38,800	\$ 31,248
Current maturities of long-term debt	2,346	1,741
Total current liabilities	41,146	32,989
Long-term debt	202,023	205,010
Deferred income tax liabilities	11,945	12,043
Other liabilities	1,679	1,039
Total liabilities	256,793	251,081
Commitments and contingencies		
Shareholders' deficit:		
Class A Common Stock, \$.0001 par value, 20,000,000 shares authorized, 6,141,009 shares issued and outstanding in 2007 and 2006	1	1
Class B Common Stock, \$.0001 par value, 7,000,000 shares authorized, 2,114,814 shares issued and outstanding in 2007 and 2006		
Additional paid-in capital	512	390
Note receivable	(275)	(275)
Accumulated other comprehensive income (net of income taxes of \$528 and \$706)	1,072	1,373
Accumulated deficit	(27,219)	(25,682)
Total shareholders' deficit	(25,909)	(24,193)

Total liabilities and shareholders deficit	\$230,884	\$226,888
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(1) Unaudited

See accompanying notes.

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Table of Contents**ATLANTIS PLASTICS, INC.**
CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(In thousands) (Unaudited)</i>	Three Months Ended March 31,	
	2007	2006
Operating Activities:		
Net (loss) income	\$(1,186)	\$ 764
Adjustments to reconcile net (loss) income to net cash provided by (used for) operating activities:		
Depreciation and amortization	3,745	3,110
Loan fee amortization	277	228
Share-based compensation expense	122	80
Amortization of gain realized on swap redemption	(407)	
Deferred income taxes	(205)	22
Change in operating assets and liabilities:		
Accounts receivable, net	(6,717)	(1,823)
Inventories, net	3,893	1,319
Other current assets	(1,593)	350
Accounts payable and accrued expenses	7,552	(10,315)
Other assets and liabilities	213	(64)
Net cash provided by (used for) operating activities	5,694	(6,329)
Investing Activities:		
Capital expenditures	(3,076)	(3,837)
Net cash used for investing activities	(3,076)	(3,837)
Financing Activities:		
Net (repayments) borrowings under revolving credit facility	(6,300)	10,600
Financing costs associated with new credit agreement	(123)	(101)
Repayments on bonds	(182)	(126)
Proceeds from issuance of long-term bonds	4,100	
Net cash (used for) provided by financing activities	(2,505)	10,373
Net increase in cash and cash equivalents	113	207
Cash and cash equivalents at beginning of period	59	178
Cash and cash equivalents at end of period	\$ 172	\$ 385
Supplemental disclosure of non-cash activities:	\$ 1,198	\$ 20

Non-cash increase of accounts receivable and accounts payable in connection
with supplier agreements

See accompanying notes.

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(Unaudited)

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) 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 GAAP 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, 2007 are not necessarily indicative of the results that may be expected for the year ended December 31, 2007.

The consolidated balance sheet at December 31, 2006 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

The information included in this Form 10-Q should be read in conjunction with Management's Discussion and Analysis and consolidated financial statements and footnotes thereto included in the Atlantis Plastics, Inc. Form 10-K for the year ended December 31, 2006.

Certain reclassifications have been made to prior year amounts to conform with the current year presentation.

Note 2. Inventories

Inventories are stated at the lower of cost or market. Market is established based on the lower of replacement cost or estimated net realizable value, with consideration given to deterioration, obsolescence, and other factors. Cost includes materials, direct and indirect labor, and factory overhead and is determined using the first-in, first-out method.

The components of inventory consist of the following at March 31, 2007 and December 31, 2006 (in thousands):

	March 31, 2007	December 31, 2006
Raw materials	\$ 17,432	\$ 20,250
Work in progress	435	560
Finished products	15,694	17,321
Inventory reserves	(455)	(1,132)
Inventories, net	\$ 33,106	\$ 36,999

Table of Contents**Note 3. (Loss) Earnings Per Share Data**

The following table sets forth the computation of basic and diluted (loss) earnings per share for the periods indicated (in thousands, except per share data):

	Three Months Ended March 31, 2007 2006	
Net (loss) income	\$ (1,186)	\$ 764
Weighted-average shares outstanding basic	8,256	8,256
Net effect of dilutive stock options based on treasury stock method		
Weighted average shares outstanding diluted	8,256	8,256
(Loss) earnings per share basic	\$ (0.14)	\$ 0.09
(Loss) earnings per share diluted	\$ (0.14)	\$ 0.09

Note 4. Comprehensive (Loss) Income

Total comprehensive (loss) income for the three months ended March 31, 2007 and 2006 was as follows (in thousands):

	Three Months Ended March 31, 2007 2006	
Net (loss) income as reported	\$ (1,186)	\$ 764
Net unrealized (loss) gain on derivatives, net of income taxes of (\$178) and \$282	(301)	538
Total comprehensive (loss) income	\$ (1,487)	\$ 1,302

Table of Contents**Note 5. Debt**

Long-term debt consisted of the following balances at March 31, 2007 and December 31, 2006 (in thousands):

	March 31, 2007	December 31, 2006
Senior secured term loans	\$ 117,600	\$ 117,900
Junior secured term loan	75,000	75,000
Revolving line of credit	4,900	10,900
Bonds	6,869	2,951
Total debt	204,369	206,751
Current portion of long-term debt	(2,346)	(1,741)
Long-term debt	\$ 202,023	\$ 205,010

On March 22, 2005, the Company entered into a \$220 million secured credit agreement (the **Credit Agreement**) provided by a syndicate of financial institutions, replacing its previously existing \$120 million credit facility (the **Retired Credit Facility**). The new financing included a \$25 million revolving credit facility priced at the London Inter-bank Offered Rate (**LIBOR**) plus 2.75% maturing March 2011, a \$120 million senior secured term loan (the **Senior Term Loan**) priced at LIBOR plus 2.75% maturing September 2011 and a \$75 million junior secured term loan (the **Junior Term Loan**) priced at LIBOR plus 7.25% maturing in March 2012.

On June 6, 2005, the Company entered into an interest rate swap contract with a notional amount of \$125 million to effectively fix the interest rate on a portion of its floating rate debt. This contract had the effect of converting a portion of the Company's floating rate debt to a fixed 30-day LIBOR of 3.865%, plus the applicable spread. The interest rate swap was to expire on June 6, 2008. On May 16, 2006, the Company terminated this swap realizing \$3.4 million upon termination, and concurrently entered into a new swap that also terminates on June 6, 2008. The \$3.4 million is being amortized monthly as an offset to interest expense over the life of the original swap. Cash flows from the termination of this interest rate swap are classified as financing activities, the same category as the cash flows from the items being hedged. The new contract, which has substantially identical terms as the terminated contract, has the effect of converting a portion of the Company's floating rate debt to a fixed 30-day LIBOR of 5.265%, plus the applicable spread. The fair value of the Company's interest rate swap agreement is the estimated amount that the Company would receive or pay to terminate the agreement at the reporting date, taking into account the current interest rate environment and the remaining term of the interest rate swap agreement. The fair value of the interest rate swap outstanding at March 31, 2007 was a long-term liability of approximately \$0.3 million, and the change in fair value was recorded as part of other comprehensive income, net of income taxes (see also Note 4, Comprehensive (Loss) Income; Note 7, Capital Structure; and Note 8, Derivative Instruments and Hedging Activities).

In February 2007, the Company issued \$4.1 million of industrial development bonds used to finance the installation of a new 7-layer W&H blown film line at our Mankato, Minnesota facility. The bonds are secured by the new equipment and are payable in equal monthly installments of \$67,000 beginning in March 2007 through February 2013. Interest accrues on the bonds at 5.39% per annum.

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Note 6. Stock-based Compensation

The Company's amended 2001 Stock Award Plan allows the granting of 865,000 of stock-based awards, including stock options, stock appreciation rights, restricted stock, stock units, bonus stock, dividend equivalents, other stock related awards and performance awards that may be settled in cash, stock, or other property. In the first quarter of 2007, the Company granted 255,000 stock options, and recognized share-based expense of \$83,000. There are a total of 700,000 options outstanding as of March 31, 2007.

Note 7. Capital Structure

The Company's capital stock consists of Class A Common Stock, with holders entitled to one vote per share, and Class B Common Stock, with holders entitled to 10 votes per share. Holders of the Class B Common Stock are entitled to elect 75% of the Board of Directors; holders of Class A Common Stock are entitled to elect the remaining 25%. Each share of Class B Common Stock is convertible, at the option of the holder thereof, into one share of Class A Common Stock. Class A Common Stock is not convertible into shares of any other equity security. During the three months ended March 31, 2007 and 2006, no shares of Class B Common Stock were converted into Class A Common Stock.

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The following table summarizes changes that have occurred to Shareholders' Deficit during the quarter ended March 31, 2007 (in thousands):

	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Accum- ulated Deficit	Note Receivable	Accumulated Other Compre- hensive Income	Total Shareholders Deficit
Balance at January 1, 2007	\$ 1	\$	\$ 390	\$(25,682)	\$(275)	\$ 1,373	\$(24,193)
Net loss				(1,186)			(1,186)
Change in fair value of derivatives, net of income taxes of (\$178)						(301)	(301)
Cumulative effect of FIN48				(351)			(351)
Share-based compensation			122				122
Balance at March 31, 2007	\$ 1	\$	\$ 512	\$(27,219)	\$(275)	\$ 1,072	\$(25,909)

Note 8. Derivative Instruments and Hedging Activities

All derivatives are recorded on the consolidated balance sheets at fair value. On the date the derivative contract is entered into, the Company designates the derivative as either (1) a fair value hedge of a recognized liability, (2) a cash flow hedge of a forecasted transaction, (3) the hedge of a net investment in a foreign operation, or (4) a non-designated derivative instrument. The Company is engaged in an interest rate swap agreement that is classified as a cash flow hedge. Changes in the fair value of derivatives that are classified as a cash flow hedge are recorded in other comprehensive income (loss) until reclassified into earnings at the time of settlement of the hedged transaction.

The Company formally documents all relationships between hedging instruments and hedged items as well as the risk management objectives and strategy. The Company formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the hedged items. The Company does not utilize derivatives for speculative purposes.

Table of Contents**Note 9. Segment Information**

The Company has three operating segments: Plastic Films, Injection Molding, and Profile Extrusion. Information related to such segments is as follows (in thousands):

	Three Months Ended March 31, 2007				
	Plastic Films	Injection Molding	Profile Extrusion	Corporate	Consolidated
Net sales	\$64,385	\$28,336	\$7,475	\$	\$100,196
Operating income (loss)	4,870	(988)	65		3,947
Capital expenditures	2,307	658	26	85	3,076
Depreciation and amortization	1,469	1,611	335	330	3,745
	Three Months Ended March 31, 2006				
	Plastic Films	Injection Molding	Profile Extrusion	Corporate	Consolidated
Net sales	\$68,112	\$32,237	\$9,436	\$	\$109,785
Operating income (loss)	3,281	2,626	(37)		5,870
Capital expenditures	2,431	779	595	32	3,837
Depreciation and amortization	1,356	1,177	281	296	3,110
	Plastic Films	Injection Molding	Profile Extrusion	Corporate	Consolidated
Identifiable assets					
At March 31, 2007	\$140,218	\$107,514	\$45,616	\$(62,464) ⁽¹⁾	\$230,884
At December 31, 2006	\$140,318	\$107,676	\$45,918	\$(67,024) ⁽¹⁾	\$226,888

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

Table of Contents**Note 10. New Accounting Standards**

In June 2006, the Financial Accounting Standards Board (FASB) issued FIN 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition and measurement threshold for an enterprise to report tax positions in their financial statements. Under FIN 48 an enterprise must also make extensive disclosures about tax positions that do not qualify for financial statement recognition.

The evaluation of a tax position in accordance with FIN 48 is a two-step process. The first step is recognition: the enterprise determines whether it is more likely than not likely that a tax position will be sustained upon examination. The second step is measurement: a tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of expense or benefit to recognize in the financial statements. FIN 48 is effective for fiscal years beginning December 15, 2006.

The Company adopted the provisions of FIN 48 on January 1, 2007. Among other things, FIN 48 requires application of a more likely than not threshold to the recognition and derecognition of tax positions. It further requires that a change in judgment related to prior years' tax positions be recognized in the quarter of such change. As a result of the implementation of FIN 48, the Company recognized an increase of approximately \$552,000 in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

Balance at January 1, 2007	\$ 655,000
Additions based on tax positions related to current year	42,000
Additions for tax positions of prior years	
Reductions for tax positions of prior years	
Settlements	
Balance at March 31, 2007	\$ 697,000

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various states and foreign (Canada) jurisdictions. The Company is not currently subject to U.S. federal, state or local, or non-U.S. income tax examinations by tax authorities for any tax years. Therefore the Company believes that there is no tax jurisdiction in which the outcome of unresolved issues or claims is likely to be material to its financial position, cash flows or results of operations. The Company further believes that it has made adequate provision for all income tax uncertainties. With few exceptions, the Company is no longer subject to United States federal, state and local income tax examinations for years ended before 2004 or before 2003 for non-United States income tax examinations.

At January 1, 2007, the Company's unrecognized tax benefits – that is, the aggregate tax effect of differences between tax return positions and the benefits recognized in the Company's financial statements as shown above amounted to \$655,000. This amount increased to \$697,000 during the current period. If recognized, all of the Company's unrecognized tax benefits would reduce its income tax expense and effective tax rate. No portion of any such reduction may be reported as discontinued operations. During 2007, certain factors could potentially reduce the Company's unrecognized tax benefits, either because of the expiration of

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open statutes of limitation or modifications to the Company's intercompany accounting policies and procedures. Each of these tax positions would affect the Company's total tax provision or effective tax rate.

The Company classifies interest on tax deficiencies as tax expense and classifies income tax penalties as tax expense. At January 1, 2007, before any tax benefits, the Company's accrued interest on unrecognized tax benefits amounted to \$93,000 and it had recorded no related accrued penalties. The amount of accrued interest increased by \$14,000 during the current period to \$107,000.

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 157 (SFAS 157), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of SFAS 157 are effective as of the beginning of the Company's 2008 fiscal year. The Company is currently evaluating the impact of adopting SFAS 157 on its consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 (SFAS 159), *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115* . SFAS No. 159 permits, but does not require, companies to report at fair value the majority of recognized financial assets, financial liabilities and firm commitments. Under this standard, unrealized gains and losses on items for which the fair value option is elected are reported in earnings at each subsequent reporting date. The Company is currently assessing the effect SFAS No. 159 may have, if any, on its consolidated financial statements when it becomes effective on January 1, 2008.

Note 11. Severance and Restructuring Expense

On January 29, 2007, the Company filed a Current Report on Form 8-K indicating that the Company would close the Warren, Ohio Injection Molding facility on January 29, 2007, and transfer the majority of the assets and business to other Company facilities. The Company expects to incur between \$1.5 million and \$2.0 million in total costs associated with this plant closure. The book value of our owned Warren, Ohio facility is approximately \$1.3 million. The Company expects to record accelerated depreciation of this asset in the first half of 2007 in a range between \$0.7 million and \$0.9 million. The Company expects to record contract termination costs of approximately \$0.1 million for the remaining lease payments on a 25,000 square foot warehouse lease that expires on January 31, 2009. In connection with the shutdown of the Warren, Ohio facility, the Company expects to incur severance costs of up to \$0.1 million for the severance of 35 employees, which will be substantially paid in cash during the first half of 2007. In addition, the Company expects to incur an aggregate of up to between \$0.6 million and \$0.9 million in the first half of 2007 for expenses of moving inventory and equipment, employee relocation, and costs associated with transitioning customer deliveries in a manner designed to avoid disruptions in customer orders. These costs will be paid in cash and charged to expense in the period in which they are incurred.

In the first quarter of 2007, the Company incurred severance and restructuring expense of \$545,000. This was comprised of \$476,000 in severance and restructuring expense associated with the Company's closure of its Warren, Ohio facility and \$69,000 in severance expense related to other facilities. As of March 31, 2007, the unpaid portion of severance expense associated with its former Chief Executive Officer and certain other employees was approximately \$545,000 and is included in accrued expenses in the accompanying consolidated balance sheet.

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

Atlantis Plastics, Inc., headquartered in Atlanta, Georgia, is a leading manufacturer of specialty plastic films and custom injection molded and extruded plastic products with 14 manufacturing plants located throughout the United States. We operate through three operating business segments: Plastic Films, Injection Molding, and Profile Extrusion.

Plastic Films is a leading manufacturer of specialty plastic films. Three operating divisions comprise the Plastic Films segment: (1) Stretch Films, (2) Custom Films, and (3) Institutional Products. Stretch Films produces high quality, monolayer and multilayer plastic films used to cover, package and protect products for storage and transportation applications, i.e. for palletization. We are, with our Linear brand, one of the two original producers and one of the largest producers of stretch film in North America. Custom Films produces customized monolayer and multilayer films used as converter sealant webs, acrylic masking, industrial packaging and in laminates for foam padding of carpet, automotive and medical applications. Institutional Products converts custom films into disposable products such as table covers, gloves and aprons, which are used primarily in the institutional food service industry.

Injection Molding is a leading manufacturer of both custom and proprietary injection molded products. Injection Molding produces a number of custom injection molded components that are sold primarily to original equipment manufacturers, or OEMs, in the home appliance, and automotive parts industries. Injection Molding also manufactures a line of proprietary injection molded siding panels for the home building and remodeling markets.

Profile Extrusion manufactures custom profile extruded plastic products, primarily for use in both trim and functional applications in commercial and consumer products, including mobile homes, residential doors and windows, office furniture and appliances, and recreational vehicles, where we have a leading market share.

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Selected income statement data for the quarterly periods ended March 31, 2006 through March 31, 2007 are as follows (in millions):

<i>(In millions)</i>	2007 Q1	Year	Q4	2006 Q3	Q2	Q1
PLASTIC FILMS						
VOLUME (pounds)	71.1	257.0	58.3	69.3	69.3	60.1
NET SALES						
Plastic Films	\$ 64.4	\$266.9	\$59.0	\$ 71.1	\$ 68.7	\$ 68.1
Injection Molding	28.3	118.9	24.9	29.2	32.6	32.2
Profile Extrusion	7.5	32.9	6.1	8.0	9.3	9.5
Total	\$100.2	\$418.7	\$90.0	\$108.3	\$110.6	\$109.8
GROSS MARGIN						
Plastic Films	16%	11%	11%	11%		