ATLANTIS PLASTICS INC
Form 10-Q
August 14, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2007

OR

o **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 o No þ

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 o No þ

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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer as defined in Exchange Act Rule 12b-2. Large Accelerated Filer o Accelerated Filer o Non-Accelerated Filer þ

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

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 July 31, 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 June 30, 2007
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ATLANTIS PLASTICS, INC.
CONSOLIDATED STATEMENTS OF (LOSS)/INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share data) (Unaudited)	**2007**	**2006**	**2007**	**2006**
Net sales	$104,674	$110,602	$204,870	$220,387
Cost of sales	91,897	97,468	179,456	192,526
Gross profit	12,777	13,134	25,414	27,861
Selling, general and administrative expenses	8,802	7,994	16,947	16,851
Severance and restructuring expenses	539	297	1,084	297
Operating income	3,436	4,843	7,383	10,713
Net interest expense	(5,869)	(4,883)	(11,592)	(9,572)
Other income	116	83	78	113
(Loss) income before (benefit) provision for income taxes	(2,317)	43	(4,131)	1,254
(Benefit) provision for income taxes	(814)	17	(1,442)	464
Net (loss) income	**$ (1,503)**	**$ 26**	**$ (2,689)**	**$ 790**
Basic (loss) earnings per share	$ (0.18)	$ 0.00	$ (0.33)	$ 0.10
Diluted (loss) earnings per share	$ (0.18)	$ 0.00	$ (0.33)	$ 0.10
Weighted average number of shares used in computing earnings per share:				
Basic	8,256	8,256	8,256	8,256
Diluted	8,256	8,311	8,256	8,281

See accompanying notes.

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ATLANTIS PLASTICS, INC.
CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)	**June 30, 2007 (1)**	**December 31, 2006**
ASSETS		
Cash and cash equivalents	$ 11	$ 59
Accounts receivable (net of allowances of $1,165 and $1,280, respectively)	59,324	48,999
Inventories, net	32,484	36,999
Asset held for sale	207	
Other current assets	7,535	5,479
Deferred income tax assets	3,316	3,108
Total current assets	102,877	94,644
Property and equipment, net	65,356	68,979
Goodwill, net of accumulated amortization	54,592	54,592
Other assets	8,161	8,673
Total assets	**$230,986**	**$226,888**
LIABILITIES AND STOCKHOLDERS DEFICIT		
Accounts payable and accrued expenses	$ 38,951	$ 31,248
Current maturities of long-term debt	200,161	1,741
Total current liabilities	239,112	32,989
Long-term debt	5,443	205,010
Deferred income tax liabilities	11,736	12,043
Other liabilities	1,750	1,039
Total liabilities	258,041	251,081
Commitments and contingencies		
Stockholders 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	646	390
Note receivable from employee loan		(275)
Accumulated other comprehensive income (net of taxes of $499 and $706, respectively)	1,021	1,373
Accumulated deficit	(28,723)	(25,682)

Total stockholders deficit	(27,055)	(24,193)
Total liabilities and stockholders deficit	**$230,986**	**$226,888**

(1) Unaudited

See accompanying notes.

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ATLANTIS PLASTICS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands) (Unaudited)	Six Months Ended June 30, 2007	2006
Operating Activities:		
Net (loss) income	$ (2,689)	$ 790
Adjustments to reconcile net (loss) income to net cash provided by (used for) operating activities:		
Depreciation and non-compete amortization	7,485	6,120
Loan fee amortization	553	458
Amortization of gain realized on swap recoupon	(832)	(231)
Share-based compensation expense	256	195
Deferred (tax benefit) income taxes	(307)	35
Change in operating assets and liabilities:		
Accounts receivable, net	(10,325)	2,402
Inventories, net	4,515	(6,306)
Other current assets	(2,056)	(1,687)
Accounts payable and accrued expenses	7,703	(12,890)
Other assets and liabilities	693	(8)
Net cash provided by (used for) operating activities	4,996	(11,122)
Investing Activities:		
Capital expenditures	(4,035)	(5,443)
Net cash used for investing activities	(4,035)	(5,443)
Financing Activities:		
Net (repayments) borrowings under revolving credit facility	(4,800)	14,200
Proceeds from issuance of long-term bonds	4,100	
Repayments under old term loans		(600)
Financing costs associated with Credit Facilities	(137)	(128)
Repayments on bonds	(447)	(254)
Proceeds from swap recoupon		3,417
Repayments on notes receivable from employee	275	
Net cash (used for) provided by financing activities	(1,009)	16,635
Net (decrease) increase in cash and cash equivalents	(48)	70
Cash and cash equivalents at beginning of period	59	178
Cash and cash equivalents at end of period	$ 11	$ 248

Supplemental disclosure of non-cash activities:		
Non-cash increase (decrease) of accounts receivable and accounts payable in connection with supplier agreements	$ 1,214	$ (2,842)

See accompanying notes.

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ATLANTIS PLASTICS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(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 and six-month periods ended June 30, 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.

In preparing its consolidated financial statements, the Company considered its ability to continue as a going concern due to current quarter and year to date results of operations, availability under our revolving credit facility, and the default that currently exists under its Credit Facilities. The Company believes that it will be successful in negotiating a waiver and amendment to its Credit Facilities. In addition, the Company has the ability to reduce or delay our capital expenditures and manage its working capital to improve its cash generated from operations. Assuming the payment of its debt is not accelerated, the Company s current projections indicate it will have sufficient cash flows to support its operations, fund working capital and capital expenditures and satisfy debt service requirements.

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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 June 30, 2007 and December 31, 2006 (in thousands):

	June 30, 2007	December 31, 2006
Raw materials	$19,043	$20,250
Work in progress	599	560
Finished products	13,861	17,321
Inventory reserves	(1,019)	(1,132)
Inventories, net	**$32,484**	**$36,999**

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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share data)	2007	2006	2007	2006
Net (loss) income	$(1,503)	$ 26	$(2,689)	$ 790
Weighted average shares outstanding basic	8,256	8,256	8,256	8,256
Net effect of dilutive stock options based On treasury stock method		55		25
Weighted average shares outstanding diluted	8,256	8,311	8,256	8,281
(Loss) Earnings per share basic	$ (0.18)	$ 0.00	$ (0.33)	$ 0.10
(Loss) Earnings per share diluted	$ (0.18)	$ 0.00	$ (0.33)	$ 0.10

Note 4. Comprehensive (Loss) Income

Total comprehensive (loss) income for the three and six months ended June 30, 2007 and 2006 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2007**	**2006**	**2007**	**2006**
Net (loss) income as reported	$ (1,503)	$ 26	$ (2,689)	$ 790
Unrealized (loss) gain on derivatives, net of income taxes	(50)	229	(352)	768
Total comprehensive (loss) income	$ (1,553)	$ 255	$ (3,041)	$ 1,558

Note 5. Debt

Long-term debt consisted of the following balances at June 30, 2007 and December 31, 2006 (in thousands):

	June 30, 2007	December 31, 2006
Senior secured term loan	$ 117,600	$117,900
Junior secured term loan	75,000	75,000
Revolving credit facility	6,400	10,900
Bonds	6,604	2,951
Total debt	205,604	206,751
Less current portion of long-term debt	(2,361)	(1,741)
Less long-term debt classified as current	(197,800)	
Long-term debt	$ 5,443	$205,010

On March 22, 2005, the Company entered into two secured credit agreements (the Credit Facilities) provided by a syndicate of financial institutions. The Credit Agreement included a $120 million senior secured term loan (the Senior Term Loan) maturing September 2011 and a $25 million revolving credit facility maturing March 2011. The Second Lien Credit Agreement included a $75 million junior secured term loan (the Junior Term Loan) maturing in 2012. The Company is in default of its Senior Term Loan, revolving credit facility and Junior Term Loan for violating certain financial ratio covenants. As a result, the Company s lenders have the right to require immediate repayment of the outstanding indebtedness under these loans, the full amount of which consequently has been reclassified as current debt. The Company has been actively working with its lenders to negotiate a waiver of the default or an appropriate amendment to its Credit Facilities.

If the Company is unable to reach an arrangement with its lenders, and the repayment of its debt is accelerated, the Company would be required to raise additional funds through the sale of assets, subsidiaries or securities. 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 or on acceptable terms. If the repayment of the Company s loans under our Credit Facilities is accelerated and it cannot obtain sufficient additional funds to repay such loans, its business, operating results, financial condition and ability to continue as a going concern would be in substantial doubt.

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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 June 30, 2007 was a long-term liability of approximately $4,000, 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).

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 half of 2007, the Company granted 370,000 stock options, and recognized share-based expense of $256,000. There are a total of 805,000 options outstanding as of June 30, 2007.

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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 six months ended June 30, 2007 and 2006, zero shares of Class B Common Stock were converted into Class A Common Stock.

The following table summarizes changes in Stockholders Deficit during the six months ended June 30, 2007:

	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Accumulated Deficit	Note Receivable	Accumulated Other Comprehensive Income	Total Stockholders Deficit
Balance at January 1, 2007	**$1**	**$**	**$390**	**$(25,682)**	**$(275)**	**$ 1,373**	**$(24,193)**
Net loss				(2,689)			(2,689)
Change in fair value of derivatives, net of $178 income tax benefit						(352)	(352)
Cumulative effect of FIN48, net of $201 income tax benefit				(352)			(352)
Repayment of employee loan					275		275
Share-based compensation			256				256
Balance at June 30, 2007	**$1**	**$**	**$646**	**$(28,723)**	**$**	**$ 1,021**	**$(27,055)**

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 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.

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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:

	Three Months Ended June 30, 2007				
(in thousands)	**Plastic Films**	**Injection Molding**	**Profile Extrusion**	**Corporate**	**Consolidated**
Net sales	$67,964	$28,794	$7,916	$	$104,674
Operating income (loss)	4,167	(680)	(51)		3,436
Capital expenditures	245	475	112	127	959
Depreciation and non-compete amortization	1,519	1,550	351	320	3,740

	Three Months Ended June 30, 2006				
(in thousands)	**Plastic Films**	**Injection Molding**	**Profile Extrusion**	**Corporate**	**Consolidated**
Net sales	$68,665	$32,630	$9,307	$	$110,602
Operating income	2,766	1,660	417		4,843
Capital expenditures	184	854	550	18	1,606
Depreciation and non-compete amortization	1,295	1,124	292	299	3,010

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	Six Months Ended June 30, 2007				
(in thousands)	**Plastic Films**	**Injection Molding**	**Profile Extrusion**	**Corporate**	**Consolidated**
Net sales	$132,349	$57,130	$15,391	$	$204,870
Operating income (loss)	9,037	(1,668)	14		7,383
Capital expenditures	2,552	1,133	138	212	4,035
Depreciation and non-compete amortization	2,988	3,161	686	650	7,485

	Six Months Ended June 30, 2006				
(in thousands)	**Plastic Films**	**Injection Molding**	**Profile Extrusion**	**Corporate**	**Consolidated**
Net sales	$136,777	$64,867	$18,743	$	$220,387
Operating income	6,047	4,286	380		10,713
Capital expenditures	2,615	1,633	1,145	50	5,443
Depreciation and non-compete amortization	2,651	2,301	573	595	6,120

Identifiable assets *(in thousands)*	**Plastic Films**	**Injection Molding**	**Profile Extrusion**	**Corporate**	**Consolidated**
At June 30, 2007	$141,048	$106,435	$45,029	$(61,526)[1]	$230,986
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.

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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 (net of $352,000 income tax benefit) in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007 balance of accumulated deficit. 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 June 30, 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 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 also 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 $55,000 during the current period to $148,000.

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 $2.0 million and $2.2 million in total costs associated with this plant closure. The book value of our owned Warren, Ohio facility was approximately $1.3 million. The Company recorded accelerated depreciation of this asset in the first half of 2007 of approximately $1.1 million. The Company recorded 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 closure of the Warren, Ohio facility, the Company incurred severance costs of $0.1 million for the severance of 35 employees, which was substantially paid in cash during the first half of 2007. In addition, the Company expects to incur an aggregate of up to between $0.7 million and $0.9 million in 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 six months of 2007, the Company incurred severance and restructuring expense of $1.1 million. This was comprised of $918,000 in severance and restructuring expense associated with the Company s closure of its Warren, Ohio facility and $166,000 in severance expense related to other facilities. As of June 30, 2007, the unpaid portion of severance expense associated with its former Chief Executive Officer and certain other employees was approximately $350,000 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 June 30, 2007 are as follows (in millions):

	2007		2006				
(In millions)	**Q2**	**Q1**	**Year**	**Q4**	**Q3**	**Q2**	**Q1**
PLASTIC FILMS VOLUME (pounds)	70.9	71.1	257.0	58.3	69.3	69.3	60.1
NET SALES							
Plastic Films	$ 67.9	$ 64.4	$ 266.9	$ 59.0	$ 71.1	$ 68.7	$ 68.1
Injection Molding	28.8	28.3	118.9	24.9	29.2	32.6	32.2
Profile Extrusion	8.0	7.5	32.9	6.1	8.0	9.3	9.5
Total	$ 104.7	$ 100.2	$ 418.7	$ 90.0	$ 108.3	$ 110.6	$ 109.8
GROSS MARGIN							
Plastic Films	14%	16%	11%	11%	11%	11%	13%
Injection Molding	7%	5%	13%	9%	12%	13%	16%
Profile Extrusion	15%	15%	7%	1%	1%	14%	8%
Total	12%	13%	11%	9%	10%	12%	13%
OPERATING MARGIN							
Plastic Films	6%	8%	4%	2%	3%	4%	5%
Injection Molding	-2%	-3%	5%	2%	4%	5%	8%
Profile Extrusion	-1%	1%	-4%	-14%	-11%	4%	0%
Total	3%	4%	3%	1%	2%	4%	5%

Results of Operations

Net Sales

Net sales for the quarter and six months ended June 30, 2007 were $104.7 million and $204.9 million, respectively, compared to $110.6 million and $220.4 million, respectively, for the comparable periods in 2006. These decreases are a result of a decrease in net sales in each of our three business segments.

Net sales for the Plastic Films segment decreased 1% to $67.9 million for the second quarter of 2007 compared to $68.7 million for the second quarter of 2006. Net sales for the six months ended June 30, 2007 decreased 3% to $132.3 million compared to $136.8 million for the same period in 2006. These decreases are reflective of lower average selling prices. Sales volume (measured in pounds) for the second quarter increased 2% and increased 10% for the six months in comparison to the prior year.

Net sales for the Injection Molding segment for the quarter and six months ended June 30, 2007 decreased 12%, respectively, compared to the quarter and six months ended June 30, 2006. These decreases are primarily attributable to weakness in the housing sector.

Net sales for the Profile Extrusion segment decreased 14% and 18%, respectively, for the quarter and six months ended June 30, 2007 compared to the same periods in 2006. These decreases are primarily due to weakness in the housing and recreational vehicle markets.

Gross Margin and Operating Margin

Gross margin remained static at 12% for the quarter ended June 30, 2007 compared to the quarter ended June 30, 2006. Gross margin declined to 12% for the six months ended June 30, 2007 compared to 13% for the six months ended June 30, 2006. Operating margins were 3% and 4%, respectively, for the quarter and six months ended June 30, 2007 compared to 4% and 5% for the quarter and six months ended June 30, 2006.

In the Plastic Films segment, gross margin and operating margin for the quarter ended June 30, 2007 increased to 14% and 6%, respectively, from 11% and 4% for the quarter ended June 30, 2006. For the six months ended June 30, 2007, gross margin and operating margin increased to 15% and 7%, respectively, from 12% and 4%, respectively, for the comparable periods in 2006. These increases are primarily the result of higher utilization rates and expansion of our value-added product line.

In the Injection Molding segment, gross margin was 7% for the quarter ending June 30, 2007 and 13% for the quarter ending June 30, 2006, and operating margin decreased to (2%) for the quarter ending June 30, 2007 compared to 5% for the quarter ending June 30, 2006. For the six months ended June 30, 2007, gross margin decreased from 14% to 6% and operating margin decreased from 7% to (3%). These declines were due primarily to weakness in the housing sector, costs incurred to close our Warren, Ohio manufacturing facility and operational inefficiencies at our Alamo, Texas plant.

In the Profile Extrusion segment, gross margin and operating margin were 15% and (1%), respectively, for the quarter ended June 30, 2007, compared to 14% and 4%, respectively, for the quarter ended June 30, 2006. For the six months ended June 30, 2007, gross margin and operating margin were 15% and 0%, respectively, compared to 11% and 2%, respectively, for the same period of 2006. These declines were due to weakness in the housing and recreational vehicle sectors.

Selling, General, and Administrative Expense

Selling, general, and administrative expenses (SG&A) increased to $8.8 million for the quarter ended June 30, 2007 from $8.0 million for the quarter ended June 30, 2006; however, these expenses remained static at $16.9 million for the six months ended June 30, 2007 and the six months ended June 30, 2006. The increase for the quarter is primarily due to professional fees, mainly consulting costs and relocation expense. SG&A as a percentage of net sales for the quarter ended June 30, 2007 increased to 8% from 7% for the quarter ended June 30, 2006. SG&A as a percent of net sales was 8% for both the six months ended June 30, 2007 and the six months ended June 30, 2006.

Net Interest Expense

Net interest expense for the quarter and six months ended June 30, 2007 increased to $5.9 million and $11.6 million, respectively, from $4.9 million and $9.6 million, respectively, for the same periods in 2006. The increases are primarily due to higher average interest rates in connection with our Credit Facilities.

Operating and Net Income

As a result of the factors described above, operating income decreased to $3.4 million, or 3% of net sales, during the quarter ended June 30, 2007, compared with $4.8 million, 4% of net sales, for the quarter ended June 30, 2006. For the six months ended June 30, 2007, operating income decreased to $7.4 million, 4% of net sales, compared to $10.7 million, or 5% of net sales, for the six months ended June 30, 2006.

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Net (loss) income and basic and diluted (loss) earnings per share for the three and six months ended June 30, 2007 and 2006 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share data)	**2007**	**2006**	**2007**	**2006**
Net (loss) income	($1,503)	$ 26	($2,689)	$ 790
(Loss) earnings per share basic	($0.18)	$0.00	($0.33)	$0.10
(Loss) earnings per share diluted	($0.18)	$0.00	($0.33)	$0.10

Liquidity and Capital Resources

As of June 30, 2007, we had $11,000 in cash and cash equivalents and an additional $13.5 million of unused availability, net of outstanding letters of credit of approximately $5.1 million, under our senior secured credit facility. Our financings include a $25 million revolving credit facility maturing March 2011, a $120 million senior secured term loan maturing in September 2011 and a $75 million junior secured term loan maturing in March 2012. Substantially all of our accounts receivable, inventories and property and equipment are pledged as collateral under this credit facility.

We are in default of certain financial ratio covenants under our Credit Facilities. Accordingly, our lenders have the right to require immediate repayment of the outstanding loans under the Credit Facilities and/or increase the interest rate charged to us by two percentage points per annum above the applicable rates of interest. As of June 30, 2007, we had $199.0 million in outstanding indebtedness under the Credit Facilities, all of which has been reclassified on our balance sheet as current debt as a result of our ongoing loan default.

We have been actively working with our lenders to negotiate a waiver of the default or an appropriate amendment to our Credit Facilities. However, we cannot assure you that we will be able to obtain such a waiver or amendment. If we are unable to reach an arrangement with our lenders, and the repayment of our debt is accelerated, we would be required to raise additional funds through the sale of assets, subsidiaries or securities. There can be no assurance that any of these sources of funds would be available in amounts sufficient for us to meet our obligations or on acceptable terms. If the repayment of our loans under our Credit Facilities is accelerated and we cannot obtain sufficient additional funds to repay such loans, our business, operating results, financial condition and ability to continue as a going concern would be in substantial doubt. If we are able to negotiate an arrangement with our lenders, such arrangement may involve the conversion of all or a portion of our debt to equity or other similar transactions that could result in material dilution to existing stockholders. If we issue equity securities in connection with any such arrangement or additional financing, the percentage ownership of our current stockholders may be materially reduced, and such equity securities may have rights, preferences or privileges senior to those applicable to our current stockholders.

Our high debt level and our debt covenants present substantial risks and have negative consequences. For example, they have (1) required us to dedicate all or a substantial portion of our cash flow from operations to debt service, limiting the availability of cash for other purposes; (2) increased our vulnerability to adverse general economic conditions; (3) caused us to be currently out of compliance with certain of our debt covenants and thereby adversely impacted our ability to borrow additional funds to maintain our operations if we suffer shortfalls in net sales; (4) hindered our flexibility in planning for, or reacting to, changes in our business and industry by preventing us from borrowing money to upgrade equipment or facilities; and (5) impaired our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, or general corporate purposes.

In preparing our consolidated financial statements, we considered our ability to continue as a going concern due to current quarter and year to date results of operations, availability under our revolving credit facility, and the default that currently exists under our Credit Facilities. We believe that we will be successful in negotiating a waiver and amendment to our Credit Facilities. In addition, we have the ability to reduce or delay our capital expenditures and manage our working capital to improve our cash generated from operations. Assuming the repayment of our debt is not accelerated, our current projections indicate we will have sufficient cash flows to support our operations, fund working capital and capital expenditures and satisfy debt service requirements.

Cash Flows from Operating Activities

Net cash provided by operating activities was $5.0 million for the six months ended June 30, 2007, compared to net cash used for operating activities of $11.1 million for the six months ended June 30, 2006. The sources of operating cash flow during 2007 were a $7.7 million increase in accounts payable and accrued expenses, $7.5 million of depreciation and non-compete amortization, a $4.5 million reduction in inventory, a $0.7 million decrease in other assets and liabilities, $0.5 million in loan fee and other amortization, and $0.3 million in non-cash share-based compensation expense; partially offset by a $10.3 million increase in accounts receivable, $2.1 million increase in other current assets, $0.8 million in amortization of a gain realized on a swap recoupon, and $0.3 million in deferred tax benefit. The use of operating cash flow during the same period in 2006 was attributable to a decrease of $12.9 million in accounts payable and accrued expenses, a $6.3 million increase in inventory, a $1.7 million increase in other current assets and $0.2 million in amortization of a gain realized on a swap recoupon; partially offset by $6.1 million of depreciation, a $2.4 million decrease in accounts receivable, $0.5 million in loan fee and other amortization and $0.2 million in share-based compensation expense and deferred income taxes.

Cash Flows from Investing Activities

Net cash used for investing activities decreased to $4.0 million for the six months ended June 30, 2007, compared to $5.4 million for the six months ended June 30, 2006 resulting from decreased capital expenditures between periods.

Cash Flows from Financing Activities

Net cash used for financing activities for the six months ended June 30, 2007 was $1.0 million compared to net cash provided by financing activities of $16.6 million for the six months ended June 30, 2006. Net cash used for financing activities for the first six months of 2007 included $4.8 million in repayments under our revolving credit facility, $0.4 million repayments on bonds, and $0.1 million in financing costs partially offset by $4.1 million from the issuance of long-term bonds and $0.3 million in repayments from an employee loan. Net cash provided by financing activities for the first six months of 2006 was primarily used to fund

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working capital, and reflects net borrowings of $14.5 million on our revolving credit facility and $3.4 million in proceeds from an interest rate swap redemption, partially offset by $1.2 million in debt repayments.

Recent Accounting Pronouncements

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.

We 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, we recognized an increase of approximately $552,000 (net of $352,000 of tax benefit) in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007 balance of accumulated deficit. 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 June 30, 2007	$ 697,000

We file income tax returns in the U.S. federal jurisdiction, and various states and foreign (Canada) jurisdictions. We are 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 we believe that there is no tax jurisdiction in which the outcome of unresolved issues or claims is likely to be material to our financial position, cash flows or results of operations. We further believe that we have made adequate provision for all income tax uncertainties. With few exceptions, we are 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, our unrecognized tax benefits that is, the aggregate tax effect of differences between tax return positions and the benefits recognized in our financial statements as shown above amounted to $655,000. This amount increased to $697,000 during the current period. If recognized, all of our

unrecognized tax benefits would reduce our 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 our unrecognized tax benefits, either because of the expiration of open statutes of limitation or modifications to our intercompany accounting policies and procedures. Each of these tax positions would affect our total tax provision or effective tax rate.

We classify interest on tax deficiencies as tax expense and also classify income tax penalties as tax expense. At January 1, 2007, before any tax benefits, our accrued interest on unrecognized tax benefits amounted to $93,000 and we had recorded no related accrued penalties. The amount of accrued interest increased by $55,000 during the current period to $148,000.

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. We are currently evaluating the impact of adopting SFAS 157 on our 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. We are currently assessing the effect SFAS No. 159 may have, if any, on our consolidated financial statements when it becomes effective on January 1, 2008.

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 from time to time, in press releases, annual or quarterly reports to stockholders, 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 our products or services; assessments of materiality; predictions of future events; the ability to obtain additional financing; our 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 our products, risks in product and technology development, fluctuating resin prices, competition, litigation, labor disputes, capital requirements, and other risk factors detailed in our filings with the Securities and Exchange Commission, some of which cannot be predicted or quantified based on current expectations.

Consequently, future events and actual results could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. Readers are cautioned not to place undue reliance on any forward-looking statements contained herein, which speak only as of the date hereof. We do not undertake an obligation to publicly release the result of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For a discussion of certain market risks related to the Company, see the Quantitative and Qualitative Disclosures about Market Risk section in the Company s Form 10-K for the fiscal year ended December 31, 2006.

The Company had $199.0 million in variable rate debt outstanding at June 30, 2007. Currently, the Company has an interest rate swap agreement which matures in June 2008 that has the effect of converting $125 million of the Company s floating rate debt to a fixed rate. The Company has designated this interest rate swap agreement as a cash flow hedge (see also Note 5, Debt; and Note 8, Derivative Instruments and Hedging Activities). The Company uses interest rate swap agreements to manage its exposure to interest rate changes on the Company s variable rate debt. Based on the Company s variable-rate obligations outstanding at June 30, 2007, a 25 basis point increase or decrease in the level of interest rates would, respectively, increase or decrease annual interest expense by approximately $0.5 million. Such potential increases or decreases are based on certain simplifying assumptions, including a constant level of variable rate debt for all maturities and an immediate, across-the-board increase or decrease in the level of interest rates with no other subsequent changes for the remainder of the period.

There have been no other significant changes with respect to market risks related to the Company since December 31, 2006.

Item 4. Controls and Procedures

Our Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2007. Based on this evaluation, our CEO and CFO have each concluded that our disclosure controls and procedures were ineffective due to the identification of the material weakness in the financial statement close and reporting process described in our 2006 Form 10-K. Notwithstanding the material weakness, management believes the consolidated financial statements included in this report fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented. We are in the process of remediating such material weakness and expect to have adequate internal controls in place over the financial statement close and reporting process as of December 31, 2007. The plan to do so is more fully described in our 2006 Form 10-K. (see also Item 1A. Risk Factors)

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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 1A. Risk Factors

An investment in our common stock involves a high degree of risk. You should carefully consider the factors described below, in addition to those discussed elsewhere in this report, in analyzing an investment in the common stock. If any of the events described below occurs, our business, financial condition and results of operations would likely suffer and the trading price of our common stock could fall.

The following factors could cause our actual results to differ materially from those projected in forward-looking statements, whether made in this 10-Q, annual or quarterly reports to shareholders, future press releases, SEC filings or orally, whether in presentations, responses to questions or otherwise. See Note Regarding Forward-Looking Statements.

Our substantial indebtedness could adversely affect our financial condition and prevent us from fulfilling future obligations.

As of June 30, 2007 we had $205.6 million of outstanding indebtedness, approximately $11,000 in cash and cash equivalents and an additional $13.5 million of unused availability under our Credit Facilities, net of outstanding letters of credit of $5.1 million.

Our substantial indebtedness has negative consequences. For example, it:

- increases our vulnerability to general adverse economic and industry conditions;
- requires us to dedicate all or a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, product development efforts and other general corporate purposes;
- limits our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate, including our ability to pursue attractive acquisition opportunities;
- places us at a competitive disadvantage compared to our competitors that have less debt;
- limits our ability to borrow additional funds; and
- limits our ability to obtain favorable credit terms.

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We are in default of certain financial ratio covenants under our Credit Facilities. Accordingly, our lenders have the right to require immediate repayment of the outstanding loans under the Credit Facilities and/or increase the interest rate charged to us by two percentage points per annum above the applicable rates of interest. As of June 30, 2007, we had $199.0 million in outstanding indebtedness under the Credit Facilities, all of which has been reclassified on our balance sheet as current debt as a result of our ongoing loan default.

From time to time we have amended or revised our financial covenants, and have also received waivers of covenant compliance under various loan arrangements. We have been actively working with our lenders to negotiate a waiver of the default or an appropriate amendment to our Credit Facilities. However, we cannot assure you that we will be able to obtain such a waiver or amendment. If we are unable to reach an arrangement with our lenders, and the repayment of our debt is accelerated, we would be required to raise additional funds through the sale of assets, subsidiaries or securities. There can be no assurance that any of these sources of funds would be available in amounts sufficient for us to meet our obligations or on acceptable terms. If the repayment of our loans under our Credit Facilities is accelerated and we cannot obtain sufficient additional funds to repay such loans, our business, operating results, financial condition and ability to continue as a going concern would be in substantial doubt.

We face significant exposure to difficulties in the housing sector.

Approximately 40% of our sales are to sectors either directly or indirectly tied to the housing and remodeling markets. Products that we produce that are impacted by the economic health of the housing sector include injection molding appliance parts, carpet films, foam lamination films, building panels for siding applications, extruded components for windows and doors, and extruded accessories for the siding industry. The present downturn in the housing sector has negatively affected us, and a sustained downturn in this sector could have a material adverse effect on our business and results of operations.

We face intense competition that could result in our losing or failing to gain market share and adversely affect our results of operations.

We face intense competition from numerous competitors, several of which have greater financial resources than us. In addition, the markets for certain of our products are characterized by low cost of entry or competition based primarily on price. This intense competition could result in pricing pressures, lower sales, reduced margins and lower market share.

Plastic Films competes with a limited number of producers capable of national distribution and a greater number of smaller manufacturers that target specific regional markets and specialty film segments competing on the basis of quality, price, service (including the manufacturer s ability to supply customers in a timely manner) and product differentiation.

Injection Molding competes in a highly fragmented segment of the plastics industry, with a large number of regional manufacturers competing on the basis of customer service (including timely delivery and engineering/design capabilities), quality, product differentiation and price. Our building products business competes with large and well established suppliers to the industry, competing on the basis of product differentiation and service.

Profile Extrusion competes regionally with a number of smaller extruders that focus on specialized niche markets, competing on the basis of cost, quality and service levels.

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There can be no assurance that we will continue to compete successfully in the markets for our products or that competition in such markets will not intensify.

Our financial performance is dependent on raw material prices and our ability to pass on price increases to customers.

The primary raw materials we use in the manufacture of our products are various plastic resins, primarily polyethylene. Our financial performance therefore is dependent to a substantial extent on the polyethylene resin market. The capacity, supply and demand for plastic resins and the petrochemical intermediates from which they are produced are subject to substantial cyclical price fluctuations and other market disturbances, including supply shortages. Consequently, plastic resin prices may fluctuate as a result of changes in natural gas and crude oil prices. While we attempt to pass through changes in the cost of our raw materials to our customers in the form of price increases, we cannot be assured that we will be able to do so in the future. To the extent that increases in the cost of plastic resins cannot be passed on to our customers, or the duration of time lags associated with a pass through becomes significant, such increases may have a material adverse effect on our profitability. Furthermore, during periods when resin prices are falling, gross profits may suffer, as we will be selling products manufactured with resin purchased one to two months prior at higher prices.

Sales to one of our customers accounted for 17.4% of our net sales in 2006, and the loss of sales to that customer could harm our business, financial condition and results of operations.

Sales to Whirlpool Corporation accounted for 17.4% of our net sales in 2006. A significant reduction in Whirlpool s volume, or the loss of Whirlpool as a customer, could have a material adverse effect on our business, financial condition and results of operations.

Our acquisitions carry risks.

Acquisitions and investments involve numerous risks such as diversion of senior management s attention, unsuccessful integration of the acquired entity s personnel, operations, technologies and products, lack of market acceptance of new services and technologies or a shift in industry dynamics that negatively impacts the forecasted demand for the new products. Impairment of goodwill and other intangible assets may result if these risks materialize. There can be no assurance that an acquired business will perform as expected or generate significant net sales or profits. In addition, acquisitions may involve the assumption of obligations or significant one-time write-offs. In order to finance any future acquisitions, we may need to raise additional funds through public or private financings.

Our business may suffer if any of our key senior executives discontinues employment with us or if we are unable to recruit and retain highly qualified employees.

Our future success depends to a large extent on the services of our key managerial employees. We may not be able to retain our executive officers and key personnel or attract additional qualified management in the future. Our business also depends on our continuing ability to recruit, train and retain highly qualified employees. The competition for these employees is intense, and the loss of these employees could harm our business.

Our intellectual property rights may be inadequate to protect our business.

We attempt to protect our intellectual property rights through a combination of intellectual property laws, including patents. Our failure to obtain or maintain adequate protection of our intellectual property rights

for any reason could have a material adverse effect on our business, results of operations and financial condition.

We also rely on unpatented proprietary technology. It is possible that others will independently develop the same or similar technology or otherwise obtain access to our unpatented technology. If we are unable to maintain the proprietary nature of our technologies, we could be materially adversely affected.

We rely on our trademarks, trade names and brand names to distinguish our products from the products of our competitors, and have registered or applied to register many of these trademarks. There can be no assurance that our trademark applications will be approved. Third parties may also oppose our trademark applications, or otherwise challenge our use of the trademarks. In the event that our trademarks are successfully challenged, we could be forced to rebrand our products, which could result in loss of brand recognition, and could require us to devote resources to advertising and marketing new brands. Further, we cannot be assured that competitors will not infringe our trademarks, or that we will have adequate resources to enforce our trademarks.

If third parties claim that we infringe upon their intellectual property rights, our operating profits could be adversely affected.

We face the risk of claims that we have infringed third parties intellectual property rights. Any claims of patent or other intellectual property infringement, even those without merit, could:

- be expensive and time consuming to defend;
- cause us to cease making, licensing or using products that incorporate the challenged intellectual property;
- require us to redesign, reengineer, or rebrand our products, if feasible;
- divert management s attention and resources; or
- require us to enter into royalty or licensing agreements in order to obtain the right to use a third party s intellectual property.

Any royalty or licensing agreements, if required, may not be available to us on acceptable terms or at all. A successful claim of infringement against us could result in our being required to pay significant damages, enter into costly license or royalty agreements, or stop the sale of certain products, any of which could have a negative impact on our operating profits and harm our future prospects.

If our products infringe on the intellectual property rights of others, we may be required to indemnify our customers for any damages they suffer.

We generally indemnify our customers with respect to infringement by our products of the proprietary rights of third parties. Third parties may assert infringement claims against our customers. These claims may require us to initiate or defend protracted and costly litigation on behalf of our customers, regardless of the merits of these claims. If any of these claims succeed, we may be forced to pay damages on behalf of our customers or may be required to obtain licenses for the products they use. If we cannot obtain all necessary licenses on commercially reasonable terms, our customers may be forced to stop using our products.

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Environmental, health and safety matters could require material expenditures and changes in our operations.

We are subject to various environmental, health and safety laws and regulations which govern our operations and which may adversely affect our production costs. Actions by federal, state and local governments concerning environmental, health and safety matters could result in laws or regulations that could increase the cost of producing the products we manufacture or otherwise adversely affect the demand for our products. Certain local governments have adopted ordinances prohibiting or restricting the use or disposal of certain plastic products that are among the types we produce. If such prohibitions or restrictions were widely adopted, it could have a material adverse effect on our business, financial condition and results of operations. In addition, a decline in consumer preference for plastic products due to environmental considerations could have a material adverse effect on our business, financial condition and results of operations.

In addition, certain of our operations are subject to federal, state and local environmental laws and regulations that impose limitations on the discharge of pollutants into the air and water and establish standards for the treatment, storage and disposal of solid and hazardous wastes. Non-compliance could subject us to material liabilities, such as fines, damages, criminal or civil sanctions and remediation costs, or result in interruptions in our operations. We believe our operations are currently in substantial compliance with these laws and regulations. However, there can be no assurance that we have been or will be at all times in compliance with all of these requirements and that the resolution of these environmental matters will not have an adverse effect on our results of operations, financial condition and cash flows in any given period.

Under certain environmental laws, liability for the cleanup of contaminated sites can be imposed retroactively and on a joint and several basis. We could be held responsible for all cleanup costs at a site, whether currently or formerly owned or operated as well as third party sites to which we may have sent waste, and regardless of fault or the legality of the original disposal. While we are not currently aware of contaminated or Superfund sites as to which material outstanding claims or obligations exist, there may be additional sites or contaminants of which we are unaware. The discovery of currently unknown contaminants or the imposition of cleanup obligations could have a material adverse effect on our results of operations or financial condition.

Environmental laws and regulations are complex, and both the laws and regulations and the interpretation thereof, change frequently and have tended to become more stringent over time. Future developments could restrict or eliminate the use of, or require us to make modifications to our products, which could have a material adverse effect on our results of operations, financial condition and cash flows in any given period. Although we cannot predict with any certainty our future capital expenditure requirements for environmental regulatory compliance, we have not currently identified any of our facilities as requiring major expenditures for environmental remediation or to achieve compliance with environmental regulations. Accordingly, we have not accrued any amounts relating to such expenditures. We do not currently have any insurance coverage for environmental liabilities and do not anticipate obtaining such coverage in the future.

Our major shareholder has significant influence over our business and could delay, deter or prevent a change of control or other business combination.

As of December 31, 2006, Earl Powell, our Chairman of the Board, holds approximately 49.5% of our voting power, and is able to exert significant control over our affairs, including the election of a majority of our

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board, the appointment of our management, the entering into of mergers, sales of substantially all of our assets and other extraordinary transactions. His interests could conflict with those of our other shareholders.

We have identified a material weakness in the financial statement close and reporting process.

Our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2006, our disclosure controls and procedures were ineffective, due to the identification of a material weakness in the financial statement close and reporting process. This material weakness related to: our lack of comprehensive documentation of accounting policies and procedures, our inaccurate preparation and lack of review of reconciliations of certain significant account balances on a timely basis, and our lack of segregation of duties. Failure to adequately remediate this material weakness could result in a material misstatement of the annual or interim consolidated financial statements.

The risks described above are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may adversely affect our business, financial condition and/or operating results.

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

(A) The Registrant held its Annual Meeting of Stockholders on May 30, 2007.

(B) Not required.

(C) The matter voted on at the Annual Meeting of Stockholders, and the tabulation of votes on such matter are as follows:

Election of Directors:

Name	Votes For	Votes Withheld
CLASS A		
Chester B. Vanatta	5,273,510	118,955
Larry D. Horner	5,270,922	121,543
CLASS B		
Cesar L. Alvarez	1,997,548	0
Charles D. Murphy, III	1,997,548	0
Earl W. Powell	1,997,548	0
Jay Shuster	1,997,548	0
Peter Vandenberg, Jr.	1,997,548	0

(D) Not applicable.

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Item 6. Exhibits

(A) EXHIBITS

31.1 CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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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: August 14, 2007 **By:** /s/ V. M. Philbrook

V.M. PHILBROOK
President and Chief Executive Officer

Date: August 14, 2007 **By:** /s/ Paul G. Saari

PAUL G. SAARI
Senior Vice President, Finance and
Chief Financial Officer