

ATLANTIS PLASTICS INC

Form 10-Q

November 14, 2005

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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 September 30, 2005**

**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

(State or other jurisdiction of incorporation or  
organization)

06-1088270

(IRS Employer Identification No.)

1870 The Exchange, Suite 200, Atlanta, Georgia

(Address of principal executive offices)

30339

(Zip Code)

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

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

Indicate by check mark whether the registrant is an accelerated filer as defined in Rule 12b-2 of the Act. Yes  No

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.

<u>Class</u>	<u>Outstanding at October 31, 2005</u>
Class A Common Stock, \$.0001 par value	6,113,158
Class B Common Stock, \$.0001 par value	2,142,665

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FORM 10-Q  
For the Quarter Ended September 30, 2005  
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**Table of Contents***Part 1. Financial Information***Item 1. Financial Statements****ATLANTIS PLASTICS, INC.****CONSOLIDATED STATEMENTS OF INCOME***(In thousands, except per share data) (Unaudited)*

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Net sales	\$106,585	\$89,350	\$308,591	\$256,363
Cost of sales	90,259	74,589	261,635	214,435
Gross profit	16,326	14,761	46,956	41,928
Selling, general and administrative expenses	8,968	8,453	25,656	23,879
Stock option expense			461	
Costs of un consummated financing			555	
Operating income	7,358	6,308	20,284	18,049
Unamortized deferred financing cost write-off			(3,794)	
Net interest expense	(4,481)	(1,333)	(10,341)	(4,008)
Other income	85	98	26	33
Income before provision for income taxes	2,962	5,073	6,175	14,074
Provision for income taxes	1,016	1,897	2,116	5,273
<b>Net income</b>	<b>\$ 1,946</b>	<b>\$ 3,176</b>	<b>\$ 4,059</b>	<b>\$ 8,801</b>
Earnings per share:				
Basic	\$ 0.24	\$ 0.41	\$ 0.50	\$ 1.14
Diluted	\$ 0.24	\$ 0.39	\$ 0.50	\$ 1.09
Weighted average number of shares used in computing earnings per share (in thousands):				
Basic	8,256	7,724	8,147	7,689
Diluted	8,256	8,131	8,147	8,108
Cash dividends paid per common share	\$	\$	\$ 12.50	\$

See accompanying notes.

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**ATLANTIS PLASTICS, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
*(In thousands, except share information)*

	<b>September 30, 2005 <sup>(1)</sup></b>	<b>December 31, 2004</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 490	\$ 51
Accounts receivable, net of allowances for doubtful accounts and returned items of \$1,984 in 2005 and \$1,228 in 2004	56,540	45,982
Inventories	41,131	38,186
Other current assets	7,413	4,760
Deferred income tax assets	3,978	3,978
<b>Total current assets</b>	<b>109,552</b>	<b>92,957</b>
Property and equipment, net	67,575	64,165
Goodwill, net	51,413	51,413
Other assets	8,445	4,759
<b>Total assets</b>	<b>\$236,985</b>	<b>\$213,294</b>
<b>LIABILITIES AND SHAREHOLDERS (DEFICIT) EQUITY</b>		
Accounts payable	\$ 13,793	\$ 15,389
Accrued expenses	25,563	25,659
Current maturities of long-term debt	1,200	6,955
<b>Total current liabilities</b>	<b>40,556</b>	<b>48,003</b>
Long-term debt, less current portion	206,100	80,790
Deferred income tax liabilities	12,060	11,211
Other liabilities	1,100	1,013
<b>Total liabilities</b>	<b>259,816</b>	<b>141,017</b>
Commitments and contingencies		
Shareholders (deficit) equity:		
Class A Common Stock, \$.0001 par value in 2005 and \$.10 par value in 2004 20,000,000 shares authorized, 6,113,158 and 5,556,566 shares issued and outstanding in 2005 and 2004, respectively	1	556
Class B Common Stock, \$.0001 par value in 2005 and \$.10 par value in 2004 7,000,000 shares authorized, 2,142,665 and 2,227,057 shares issued and outstanding in 2005 and 2004, respectively		223
Additional paid-in capital		12,595

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Notes receivable from sale of Common Stock		(452)
Retained (deficit) earnings	(24,148)	59,355
Accumulated other comprehensive income, net of income taxes of \$686	1,316	
Total shareholders (deficit) equity	(22,831)	72,277
<b>Total liabilities and shareholders (deficit) equity</b>	<b>\$236,985</b>	<b>\$213,294</b>

(1) *Unaudited*

See accompanying notes.

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

	<b>Nine Months Ended September 30,</b>	
	<b>2005</b>	<b>2004</b>
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 4,059	\$ 8,801
Adjustments to reconcile net income to net cash (used for) provided by operating activities:		
Depreciation	8,744	8,527
Unamortized financing cost write-off	3,794	
Loan fee and other amortization	647	776
Stock option expense	461	
Unconsummated financing cost write-off	555	
Interest receivable from shareholder loans	(5)	34
Gain on disposal of assets	(8)	
Deferred income taxes	163	641
Changes in operating assets and liabilities:		
Accounts receivable	(10,558)	(6,811)
Inventories	(2,945)	(4,883)
Other current assets	(2,653)	527
Accounts payable	(1,596)	(4,316)
Accrued and other expenses	(4,534)	1,781
Other assets and liabilities	106	(7)
Net cash (used for) provided by operating activities	(3,770)	5,070
<b>Cash Flows From Investing Activities</b>		
Capital expenditures	(12,201)	(5,894)
Proceeds from asset dispositions	38	4
Net cash used for investing activities	(12,163)	(5,890)
<b>Cash Flows From Financing Activities</b>		
Net (repayments) borrowings under previous revolving credit facility	(17,160)	5,600
Repayments of term loans under previous credit agreement	(70,587)	(9,179)
Financing costs associated with old credit agreement and unconsummated financing	(819)	
Net borrowings under new revolving credit facility	12,900	
Borrowings of term loans under new credit agreement	195,000	
Repayments of term loans under new credit agreement	(600)	
Financing costs associated with new credit agreement	(5,861)	
Proceeds from exercise of stock options	2,522	666
Income tax benefit from option exercises and cancellations	3,718	
Payment of special dividend	(103,198)	
Repayments on notes receivable from shareholders	457	800



Net cash provided by (used for) financing activities	16,372	(2,113)
Net increase (decrease) in cash and cash equivalents	439	(2,933)
Cash and cash equivalents at beginning of period	51	3,001
Cash and cash equivalents at end of period	\$ 490	\$ 68
<b>Supplemental disclosure of non-cash activities:</b>		
Non-cash reduction of accounts receivable and accounts payable in connection with supplier agreements	\$ (338)	\$ 423

See accompanying notes.

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**Table of Contents****ATLANTIS PLASTICS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**Note 1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of Atlantis Plastics, Inc. (the Company) 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 nine-month period ended September 30, 2005 are not necessarily indicative of the results that may be expected for the year ended December 31, 2005.

The consolidated balance sheet at December 31, 2004 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, 2004.

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 September 30, 2005 and December 31, 2004:

<i>(In thousands)</i>	<b>September 30, 2005</b>	<b>December 31, 2004</b>
Raw Materials	\$27,681	\$ 24,404
Work in Process	330	430
Finished Products	13,120	13,352
Inventories, net	\$41,131	\$ 38,186

**Table of Contents****Note 3. Earnings Per Share Data**

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

<i>(In thousands, except per share data)</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Net income	\$ 1,946	\$ 3,176	\$ 4,059	\$ 8,801
Weighted average shares outstanding basic	8,256	7,724	8,147	7,689
Net effect of dilutive stock options based on treasury stock method		407		419
Weighted average shares outstanding diluted	8,256	8,131	8,147	8,108
Earnings per share basic	\$ 0.24	\$ 0.41	\$ 0.50	\$ 1.14
Earnings per share diluted	\$ 0.24	\$ 0.39	\$ 0.50	\$ 1.09

**Note 4. Comprehensive Income**

Total comprehensive income for the three and nine months ended September 30, 2005 and 2004 was as follows:

<i>(In thousands)</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Net income as reported	\$ 1,946	\$ 3,176	\$ 4,059	\$ 8,801
Unrealized gain on derivatives, net of income taxes	1,102		1,316	
Total comprehensive income	\$ 3,048	\$ 3,176	\$ 5,375	\$ 8,801

**Table of Contents****Note 5. Debt**

Long-term debt consisted of the following balances at September 30, 2005 and December 31, 2004:

<i>(In thousands)</i>	<b>September 30, 2005</b>	<b>December 31, 2004</b>
Revolving credit facility	\$ 12,900	\$ 17,158
Term loan A	119,400	24,310
Term loan B		46,277
Junior secured term loan	75,000	
Total debt	207,300	87,745
Less current maturities	(1,200)	(6,955)
Long-term debt	\$ 206,100	\$ 80,790

On March 22, 2005, the Company entered into a new \$220 million secured credit agreement provided by a syndicate of banks and financial institutions, replacing its previous \$120 million facility. The new financing includes a \$25 million revolving credit facility priced at the London Interbank Offered Rate ( LIBOR ) plus 2.75% maturing March 2011, a \$120 million senior secured term loan facility (Term loan A) priced at LIBOR plus 2.75% maturing September 2011 and a \$75 million junior secured term loan facility (Junior secured term loan) priced at LIBOR plus 7.25% maturing in March 2012. Borrowings under this agreement were used to repay the Company's existing senior secured debt of \$83.9 million outstanding on March 22, 2005 and to pay related fees and expenses. The remainder of the proceeds was used on April 8, 2005 to pay a special one-time dividend of \$103.2 million (\$12.50 per share) to the Company's shareholders and to pay approximately \$4.4 million to holders of outstanding stock options in exchange for the cancellation of these options. In conjunction with the cancellation of the Company's previous credit facility, the Company wrote-off approximately \$3.8 million of deferred financing costs associated with the old credit facility during the first quarter of fiscal 2005. Additionally, the Company expensed in the first quarter approximately \$0.6 million of costs associated with a financing effort that was not consummated.

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 has 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 expires on June 6, 2008. 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. The fair value of the interest rate swap outstanding at September 30, 2005 was an asset of approximately \$2.0 million, and was recorded as part of other comprehensive income, net of income taxes (See also Note 4. Comprehensive Income, Note 7. Capital Structure, and Note 8. Derivative Instruments and Hedging Activities).

**Table of Contents****Note 6. Stock-based Compensation**

Prior to January 1, 2005, the Company accounted for its stock-based employee compensation plans under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ( APB 25 ) and related Interpretations, as permitted by FASB Statement No. 123, *Accounting for Stock-Based Compensation* ( SFAS 123 ). No stock-based employee compensation cost was recognized in the income statement as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. Effective January 1, 2005, the Company elected to early adopt the provisions of Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* ( SFAS 123R ), which requires all share-based payments, including stock options, to be recognized in the income statement based on their fair values and no longer allows pro forma disclosure as an alternative. The Company adopted this statement based on the modified prospective method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123R for all share-based payments granted after the effective date and (b) based on the requirements of SFAS 123R for all awards granted to employees prior to the effective date of SFAS 123R that remain unvested on the effective date. As the Company elected not to restate prior periods presented, the Company has provided the pro forma disclosures of the effect on net income and earnings per share in the prior year as if the Company had accounted for its employee stock options granted under the fair value method of SFAS 123.

The adoption of SFAS 123R resulted in unrecognized compensation cost of approximately \$461,000 as of January 1, 2005 related to unvested stock options based on their fair values as calculated using the Black-Scholes model. Recognition of such compensation to expense was \$53,000 for the period prior to the Company's agreement to cancel all outstanding stock options (discussed below), which resulted in expensing the remaining unrecognized compensation of \$408,000. As a result of adopting SFAS 123R, the Company's income before income taxes and net income for the nine months ended September 30, 2005 were \$461,000 and \$290,000 lower, respectively, than if it had continued to account for the share-based compensation under APB 25. Basic and diluted earnings per share for the nine months ended September 30, 2005 would have been \$0.53 if the Company had not adopted SFAS 123R, compared to reported basic and diluted earnings per share of \$0.50. Prior to the adoption of SFAS 123R, the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Statement of Cash Flows. SFAS 123R requires that these cash flows now be classified as financing cash flows rather than operating cash flows. Thus, the \$3.7 million excess tax benefit classified as a financing cash inflow would have been classified as an operating cash inflow if the Company had not adopted SFAS 123R.

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For purposes of pro forma disclosures, the fair value of the options is estimated using the Black-Scholes model and amortized to expense over the vesting period of the options. The following table illustrates the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of Statement No. 123 to options granted under the Company's stock option plans for the three and nine months ended September 30, 2004:

<i>(In thousands, except per share data)</i>	<b>Three Months Ended September 30, 2004</b>	<b>Nine Months Ended September 30, 2004</b>
Reported net income	\$ 3,176	\$ 8,801
Add:		
Employee stock-based compensation expense included in reported net income, net of related income tax effects		
Less:		
Total employee stock option expense determined under fair value based method for all awards, net of related income tax effects	(38)	(115)
Pro forma	\$ 3,138	\$ 8,686
Basic earnings per share:		
As reported	\$ 0.41	\$ 1.14
Pro forma	\$ 0.41	\$ 1.13
Diluted earnings per share:		
As reported	\$ 0.39	\$ 1.09
Pro forma	\$ 0.38	\$ 1.07

On January 31, 2005, the Company agreed to cancel certain outstanding stock options of Anthony F. Bova, President and Chief Executive Officer, which would have otherwise expired on that date. In exchange for the cancellation of his 350,000 stock options, Mr. Bova received a cash payment of approximately \$2.4 million on April 8, 2005. The purpose of this option cancellation agreement was to provide Mr. Bova with a payment similar to the special one-time dividend he would otherwise have received on that date on the shares issuable upon the exercise of the options cancelled.

On March 11, 2005, the Company agreed to cancel the outstanding stock options of certain of its management, officers and directors (the Participants) in exchange for cash payments on April 8, 2005, of approximately \$2.0 million in aggregate in anticipation of the special one-time dividend payment. The purpose of the option cancellation arrangements was to provide each Participant with a payment similar to the special one-time dividend he or she would otherwise have received on the shares issuable upon the exercise of the options cancelled. Accordingly, the Company cancelled an aggregate of 225,800 outstanding stock options previously granted to the Participants.

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Upon cancellation of these options, the Company recorded expense of \$408,000 during the first quarter of fiscal 2005. No further compensation expense will be recognized related to any past share based payments.

On March 15, 2005, the shareholders of the Company approved the amendment and restatement of its 2001 Stock Award Plan. The amended and restated Plan increased the number of shares available for grant from 500,000 to 865,000 and allows the granting of stock based awards other than stock options, such as 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.

**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 nine months ended September 30, 2005 and 2004, 84,392 shares and 229,924 shares, respectively, of Class B Common Stock were converted into Class A Common Stock.

In March 2005, the shareholders of the Company approved a proposal to change the Company's state of incorporation from Florida to Delaware. Upon completion of this reincorporation, the par value of the Company's Class A and Class B Common Stock decreased to \$0.0001 per Common Share from \$0.10 per Common Share.

On March 22, 2005, the Company's Board of Directors declared a special, one-time cash dividend of \$12.50 per common share, which was paid on April 8, 2005, to shareholders of record as of April 1, 2005. This dividend aggregated approximately \$103.2 million and was funded by proceeds from the Company's new financing arrangement (See also Note 5. Debt).

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The following table summarizes changes that have occurred to Shareholders' Equity (Deficit) during the nine months ended September 30, 2005:

<i>(In thousands)</i>	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Notes Receivable From Sale of Common Stock	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	Total Shareholders' Equity (Deficit)
<b>Balance at January 1, 2005</b>	\$ 556	\$ 223	\$ 12,595	\$(452)	\$ 59,355	\$	\$ 72,277
Net income					4,059		4,059
Exercise of stock options	47		2,475				2,522
Stock option expense			461				461
Cancellation of stock options			(4,438)				(4,438)
Income tax benefit from option exercises and cancellations			3,718				3,718
Dividend declared			(15,636)		(87,562)		(103,198)
Adjust par value of Common Stock	(611)	(214)	825				
Conversion of Class B to Class A Common Stock	9	(9)					
Repayments on notes receivable from sale of Common Stock, net				452			452
Change in fair value of derivatives, net of income taxes of \$686						1,316	1,316
<b>Balance at September 30, 2005</b>	<b>\$ 1</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$(24,148)</b>	<b>\$ 1,316</b>	<b>\$ (22,831)</b>

**Note 8. Derivative Instruments and Hedging Activities**

All derivatives are recorded on the consolidated balance sheet at fair value. On the date the derivative contract is entered, 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 nondesignated 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 forecasted 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:

<i>(In thousands)</i>	<b>Nine Months Ended September 30, 2005</b>				
	<b>Plastic Films</b>	<b>Injection Molding</b>	<b>Profile Extrusion</b>	<b>Corporate</b>	<b>Consolidated</b>
Net sales	\$ 194,135	\$ 88,144	\$ 26,312	\$	\$ 308,591
Operating income	10,911	7,040	2,333		20,284
Capital expenditures	7,644	2,767	992	798	12,201
Depreciation	3,648	3,430	934	732	8,744

<i>(In thousands)</i>	<b>Nine Months Ended September 30, 2004</b>				
	<b>Plastic Films</b>	<b>Injection Molding</b>	<b>Profile Extrusion</b>	<b>Corporate</b>	<b>Consolidated</b>
Net sales	\$ 161,651	\$ 75,969	\$ 18,743	\$	\$ 256,363
Operating income	9,375	6,043	2,631		18,049
Capital expenditures	796	3,438	859	801	5,894
Depreciation	4,083	2,996	743	705	8,527

<i>(In thousands)</i>	<b>Plastic Films</b>	<b>Injection Molding</b>	<b>Profile Extrusion</b>	<b>Corporate</b>	<b>Consolidated</b>
<b>Identifiable assets</b>					
At September 30, 2005	\$ 145,865	\$ 107,426	\$ 49,528	\$(65,834) <sup>(1)</sup>	\$ 236,985
At December 31, 2004	95,923	57,389	26,560	33,422 <sup>(1)</sup>	213,294

<sup>(1)</sup> Corporate identifiable assets are primarily intercompany balances that eliminate when combined with other segments. The majority of the variance from December 31, 2004 to September 30, 2005 is due to the Company's allocation of

debt from its  
new credit  
agreement to its  
three operating  
segments.

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

On December 16, 2004, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* ( SFAS 123R ), which is a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation* and supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS 123R requires all share-based payments, including stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure will no longer be an alternative. SFAS 123R permits companies to adopt its requirements using one of two methods: (1) a modified prospective method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123R for all share-based payments granted after the effective date and (b) based on the requirements of SFAS 123R for all awards granted to employees prior to the effective date of SFAS 123R that remain unvested on the effective date, and (2) a modified retrospective method which includes the requirements of the modified prospective method, but also permits entities to restate based on the amounts previously recognized under Statement 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

The Company adopted SFAS 123R as of January 1, 2005 using the modified prospective method. The adoption resulted in unrecognized compensation cost of approximately \$461,000 as of January 1, 2005 related to unvested options as calculated using the Black-Scholes model. Recognition of such compensation to expense was \$53,000 for the period prior to the Company's agreement to cancel all outstanding options. Upon cancellation of the options, the remaining unrecognized compensation cost of \$408,000 was expensed. No further compensation expense will be recognized related to past share based payments (See also Note 6. Stock-based Compensation).

Statement No. 151, *Inventory Costs*, an Amendment of ARB No. 43, Chapter 4, amends ARB No. 43 to clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges. In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this Statement shall be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company is currently evaluating the impact of this standard.

The FASB recently issued Statement No. 154, *Accounting Changes and Error Corrections*, a replacement of APB Opinion No. 20, *Accounting Changes*, and FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*. The Statement applies to all voluntary changes in accounting principle, and changes the requirements for accounting for and reporting of a change in accounting principle. Statement 154 is the result of a broader effort by the FASB to improve the comparability of cross-border financial reporting by working with the International Accounting Standards Board (IASB) toward development of a single set of accounting standards. Statement 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. Opinion 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. Statement 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Earlier application is permitted for accounting changes and corrections of errors made occurring in fiscal years beginning after June 1, 2005. The Statement does not change the transition provisions of any existing accounting pronouncements, including those that are in a transition phase as of the effective date of this Statement.

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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 16 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 recreational vehicles (where we have a leading market share), mobile homes, residential doors and windows, office furniture, and appliances.

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Selected income statement data for the quarterly periods ended March 31, 2004 through September 30, 2005 are as follows:

	9/30	2005 6/30	3/31	12/31	2004 9/30	6/30	3/31
<b>PLASTIC FILMS VOLUME</b>							
<i>(lbs in millions)</i>	75.3	65.8	68.9	68.9	69.9	68.9	65.9
<b>NET SALES</b>							
<i>(\$ in millions)</i>							
Plastic Films	\$ 66.0	\$ 62.4	\$ 65.7	\$ 60.6	\$ 56.9	\$ 54.1	\$ 50.7
Injection Molding	32.0	30.1	26.1	23.9	26.1	26.1	23.8
Profile Extrusion	8.6	9.1	8.6	6.9	6.4	6.6	5.7
Total	\$ 106.6	\$ 101.6	\$ 100.4	\$ 91.4	\$ 89.4	\$ 86.8	\$ 80.2
<b>GROSS MARGIN</b>							
Plastic Films	15%	15%	14%	16%	16%	15%	15%
Injection Molding	16%	17%	13%	14%	16%	17%	16%
Profile Extrusion	16%	20%	20%	21%	24%	25%	23%
Total	15%	16%	14%	16%	17%	16%	16%
<b>OPERATING MARGIN</b>							
Plastic Films	6%	6%	4%	6%	6%	6%	6%
Injection Molding	9%	10%	5%	6%	8%	8%	8%
Profile Extrusion	6%	10%	11%	10%	14%	15%	12%
Total	7%	8%	5%	6%	7%	7%	7%

**Results of Operations****Net Sales**

Net sales for the quarter and nine months ended September 30, 2005 were \$106.6 million and \$308.6 million, respectively, compared to \$89.4 million and \$256.4 million, respectively, for the comparable periods in 2004.

Net sales for the Plastic Films segment increased 16% to \$66.0 million for the third quarter of 2005 compared to \$56.9 million for the third quarter of 2004. Net sales for the nine months ended September 30, 2005 increased 20% to \$194.1 million compared to \$161.7 million for the same period in 2004. These increases are primarily due to increased average selling prices, reflective of higher resin costs compared to the prior year. Sales volume (measured in pounds) increased 8% and 3% for the third quarter and the nine months, respectively, in comparison to the prior year periods.

Net sales for the Injection Molding segment for the quarter and nine months ended September 30, 2005 increased 23% and 16%, respectively, compared to the quarter and nine months ended September 30, 2004. The

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increase is primarily attributable to volume growth within both our building products line and traditional injection molded businesses, as well as selling price increases driven by increases in resin costs.

Net sales for the Profile Extrusion segment increased 34% and 41%, respectively, for the quarter and nine months ended September 30, 2005 compared to the same periods in 2004. This increase is primarily a result of our acquisition of LaVanture Plastics Extrusion Technologies, Inc. and Molded Designs Technology, Inc., (collectively LaVanture ), in November 2004.

**Gross Margin and Operating Margin**

Gross margin decreased slightly to 15% for both the quarter and nine months ended September 30, 2005 compared to 17% and 16%, respectively, for the same periods in 2004. Operating margins were flat at 7% for the quarter and nine months ended September 30, 2005 and 2004. Operating expenses for the nine months ended September 30, 2005 include \$0.6 million of costs associated with a financing effort that was not consummated during the first quarter of 2005 and \$0.5 million of compensation expense relating to the cancellation of stock options, also in the first quarter of 2005.

In the Plastic Films segment, gross margin and operating margin were 15% and 6%, respectively, for the quarter ended September 30, 2005 compared with 16% and 6%, respectively, for the same period in the 2004. For the nine months ended September 30, 2005, gross margin and operating margin were 15% and 5%, respectively, compared to 16% and 6%, respectively, for the comparable periods in 2004.

In the Injection Molding segment, gross margin was 16% for the quarters ending September 30, 2005 and 2004, and operating margin increased to 9% for the quarter ending September 30, 2005 compared to 8% for the quarter ending September 30, 2004. For the nine months ended September 30, 2005 and 2004, gross margin and operating margin remained flat at 15% and 8%, respectively.

In the Profile Extrusion segment, gross margin and operating margin decreased to 16% and 6%, respectively, for the quarter ended September 30, 2005, from 24% and 14%, respectively, for the quarter ended September 30, 2004. For the nine months ended September 30, 2005, gross margin and operating margin declined to 19% and 9%, respectively, from 24% and 14%, respectively, for the same period of 2004. These declines were due to the slow down in RV demand due to high fuel costs and integration costs resulting from the plan consolidation and integration of the LaVanture and Atlantis facilities in Elkhart, Indiana.

**Selling, General, and Administrative Expense**

Selling, general, and administrative expenses increased to \$9.0 million for the quarter ended September 30, 2005 from \$8.5 million for the quarter ended September 30, 2004, and increased to \$25.7 million for the nine months ended September 30, 2005 compared to \$23.9 million in the prior year. These increases are primarily attributable to increases in compensation costs. Selling, general and administrative costs as a percentage of sales decreased to 8% for the quarter and nine months ended September 30, 2005 compared to 9% for the quarter and nine months ended September 30, 2004.

**Net Interest Expense and Unamortized Deferred Financing Cost**

Net interest expense for the quarter and nine months ended September 30, 2005 increased to \$4.5 million and \$10.3 million, respectively, compared to \$1.3 million and \$4.0 million, respectively, for the same periods in 2004. The increase was primarily due to higher average outstanding borrowings under our new \$220 million credit facility and higher average interest rates on borrowings outstanding.

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Unamortized deferred financing costs written off during the first quarter of 2005 were \$3.8 million as a result of replacing our previously existing credit facility of \$120 million with our new \$220 million credit facility in March 2005.

**Operating and Net Income**

As a result of the factors described above, operating income increased to \$7.4 million, 7% of net sales, during the quarter ended September 30, 2005, compared with \$6.3 million, 7% of net sales, for the quarter ended September 30, 2004. For the nine months ended September 30, 2005, operating income increased to \$20.3 million, 7% of net sales, compared to \$18.0 million, 7% of net sales, for the nine months ended September 30, 2004 despite one-time charges of \$0.5 million for stock option expense and \$0.6 million for unconsummated financing costs during the 2005 period.

Net income and basic and diluted earnings per share for the three and nine months ended September 30, 2005 and 2004 were as follows:

	Three Months		Nine Months	
	Ended September 30, 2005	2004	Ended September 30, 2005	2004
<i>(In thousands, except per share data)</i>				
Net income	\$1,946	\$3,176	\$4,059	\$8,801
Earnings per share basic	\$ 0.24	\$ 0.41	\$ 0.50	\$ 1.14
Earnings per share diluted	\$ 0.24	\$ 0.39	\$ 0.50	\$ 1.09

**Liquidity and Capital Resources**

At September 30, 2005, we had \$0.5 million in cash and cash equivalents, \$207.3 million of outstanding indebtedness, and an additional \$10.5 million of unused availability, net of outstanding letters of credit of approximately \$1.6 million, under our new \$220 million secured financing credit facility entered into on March 22, 2005. The new financing includes a \$25 million revolving credit facility maturing March 2011, a \$120 million senior secured term loan facility maturing September 2011 and a \$75 million junior secured term loan facility maturing March 2012. Substantially all of our accounts receivable, inventories and property and equipment are pledged as collateral under this credit facility. Proceeds from the new financing facility were used to repay previously existing senior secured debt of \$83.9 million outstanding on March 22, 2005 and to pay related fees and expenses. In connection with the cancellation of our previous credit facility, we wrote-off approximately \$3.8 million of deferred financing costs associated with the old facility during the first quarter of fiscal 2005. Additionally, during the first quarter of 2005, we expensed approximately \$0.6 million of costs associated with a financing effort that was not consummated.

On March 22, 2005, our Board of Directors declared a special, one-time cash dividend of \$12.50 per common share, which was paid on April 8, 2005, to shareholders of record as of April 1, 2005. This dividend aggregated approximately \$103.2 million and was funded by proceeds from our new credit facility. In addition to the special dividend payment, we paid approximately \$4.4 million to holders of outstanding stock options in exchange for the cancellation of these options on the date of the dividend payment. As a result of the option cancellations, we recorded related compensation expense in the amount of \$408,000 during the first quarter of 2005 in accordance with the provisions of SFAS 123R, which we adopted on January 1, 2005.



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Our principal needs for liquidity, on both a short and long-term basis, relate to working capital (principally accounts receivable and inventories), debt service, and capital expenditures. Presently, we do not have any material commitments for future capital expenditures.

Our high debt level presents substantial risks and could have negative consequences. For example, it could (1) require us to dedicate a substantial portion of our cash flow from operations to the repayment of debt, limiting the availability of cash for other purposes; (2) increase our vulnerability to adverse general economic conditions by making it more difficult to borrow additional funds to maintain our operations if we suffer shortfalls in net sales; (3) hinder 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 (4) limit or impair our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, or general corporate purposes.

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

***Cash Flows from Operating Activities***

Net cash used for operating activities was \$3.8 million for the nine months ended September 30, 2005, compared with \$5.1 million provided by operating activities for the nine months ended September 30, 2004. The use of operating cash flow during 2005 resulted primarily from higher working capital requirements, principally an increase of \$10.6 million in accounts receivable and an increase of \$2.9 million in inventories from the December 31, 2004 balances.

***Cash Flows from Investing Activities***

Net cash used for investing activities increased to \$12.2 million for the nine months ended September 30, 2005, compared to \$5.9 million for the nine months ended September 30, 2004 as a result of increased capital expenditures, net of proceeds from asset dispositions, between the periods.

**Table of Contents*****Cash Flows from Financing Activities***

Net cash provided by financing activities for the nine months ended September 30, 2005 was \$16.4 million, compared with net cash used of \$2.1 million for the nine months ended September 30, 2004. Net cash provided by financing activities increased for the nine months ended September 30, 2005 primarily as a result of net borrowings of \$207.3 million under our new credit agreement, a \$3.7 million income tax benefit due to the exercise of employee stock options, \$2.5 million in proceeds from the exercise of stock options and the receipt of approximately \$0.5 million in repayments of shareholder notes. These amounts were offset by a \$103.2 million payment of a one-time special dividend to shareholders on April 8, 2005, net repayments of \$87.7 million on our retired credit facility, \$5.9 million of financing costs associated with our new credit agreement, and \$0.8 million in financing costs associated with our retired credit facility and unconsummated financing costs.

**Recent Accounting Pronouncements**

On December 16, 2004, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* ( SFAS 123R ), which is a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation* and supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS 123R requires all share-based payments, including stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure will no longer be an alternative. SFAS 123R permits companies to adopt its requirements using one of two methods: (1) a modified prospective method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123R for all share-based payments granted after the effective date and (b) based on the requirements of SFAS 123R for all awards granted to employees prior to the effective date of SFAS 123R that remain unvested on the effective date, and (2) a modified retrospective method which includes the requirements of the modified prospective method, but also permits entities to restate based on the amounts previously recognized under Statement 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

We adopted SFAS 123R as of January 1, 2005 using the modified prospective method. The adoption resulted in unrecognized compensation cost of approximately \$461,000 as of January 1, 2005 related to unvested options as calculated using the Black-Scholes model. Recognition of such compensation to expense was \$53,000 for the period prior to our agreement to cancel all outstanding options. Upon cancellation of the options, the remaining unrecognized compensation cost of \$408,000 was expensed (see also Note 10. New Accounting Standards). No further compensation expense will be recognized related to share based payments until any new share based payments are made.

Statement No. 151, *Inventory Costs*, an Amendment of ARB No. 43, Chapter 4, amends ARB No. 43 to clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges. In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this Statement shall be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company is currently evaluating the impact of this standard.

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**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 shareholders, filings with the Securities Exchange Commission, presentations or otherwise. Statements contained herein that are not historical facts are forward-looking statements made pursuant to the safe harbor provisions referenced above.

Forward-looking statements may include, but are not limited to, projections of net sales, income or losses, or capital expenditures; plans for future operations; financing needs or plans; compliance with financial covenants in loan agreements; plans for liquidation or sale of assets or businesses; plans relating to 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.

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**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, 2004.

On March 22, 2005, the Company replaced its existing credit facility with a new credit agreement resulting in variable rate debt outstanding at September 30, 2005. 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 of interest rate changes on the Company's variable rate debt. For each \$1.0 million of variable rate debt outstanding, a 25 basis point increase or decrease in the level of interest rates (primarily LIBOR) would, respectively, increase or decrease annual interest expense by approximately \$25,000. 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, 2004.

**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 September 30, 2005. Based on this evaluation, our CEO and CFO have each concluded that our disclosure controls and procedures are effective to ensure that we record, process, summarize, and report information required to be disclosed by us in our quarterly reports filed under the Securities Exchange Act within the time periods specified by the Securities and Exchange Commission's rules and forms. During the quarterly period covered by this report, there have not been any changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Subsequent to the date of their evaluation, there have not been any significant changes in our internal controls or in other facts that could significantly affect these controls.

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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 expected to have a material effect on the Company.

**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: November 11, 2005

**By:** /s/ Anthony F. Bova

ANTHONY F. BOVA  
*President and Chief Executive Officer*

Date: November 11, 2005

**By:** /s/ Paul G. Saari

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

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**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
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.
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