

ATLANTIS PLASTICS INC

Form 10-Q

May 13, 2004

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2004

OR

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

For the transition period from _____ to _____

Commission File number 1-9487

ATLANTIS PLASTICS, INC.

(Exact name of registrant as specified in its charter)

FLORIDA

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 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 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 April 30, 2004</u> |
|---------------------------------------|--|
| Class A Common Stock, \$.10 par value | 5,361,165 |
| Class B Common Stock, \$.10 par value | 2,320,658 |

ATLANTIS PLASTICS, INC.

FORM 10-Q

For the Quarter Ended March 31, 2004

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| | March 31, 2004 ⁽¹⁾ | December 31, 2003 |
|--|--|----------------------------------|
| | <u> </u> | <u> </u> |
| ASSETS | | |
| Cash and cash equivalents | \$ 748 | \$ 3,001 |
| Accounts receivable, net of allowances for doubtful accounts and returned items of \$1,207 in 2004 and \$1,281 in 2003 | 45,739 | 39,601 |
| Inventories | 21,361 | 23,305 |
| Other current assets | 4,040 | 3,583 |
| Deferred income tax assets | 3,003 | 3,003 |
| | <u> </u> | <u> </u> |
| Total current assets | 74,891 | 72,493 |
| Property and equipment, net | 59,772 | 60,347 |
| Goodwill, net of accumulated amortization | 47,212 | 47,212 |
| Other assets | 4,496 | 4,748 |
| | <u> </u> | <u> </u> |
| Total assets | <u>\$186,371</u> | <u>\$184,800</u> |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Accounts payable and accrued expenses | \$ 25,704 | \$ 36,149 |
| Current portion of long-term debt | 5,638 | 10,487 |
| | <u> </u> | <u> </u> |
| Total current liabilities | 31,342 | 46,636 |
| Long-term debt, less current portion | 79,899 | 66,713 |
| Deferred income tax liabilities | 12,754 | 12,731 |
| Other liabilities | 287 | 315 |
| | <u> </u> | <u> </u> |
| Total liabilities | 124,282 | 126,395 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| | 535 | 517 |

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Class A Common Stock, \$.10 par value, 20,000,000 shares authorized,
5,354,191 and 5,170,842 shares issued and outstanding in 2004 and 2003,
respectively

Class B Common Stock, \$.10 par value, 7,000,000 shares authorized,
2,327,632 and 2,456,981 shares issued and outstanding in 2004 and 2003,
respectively

| | | |
|--|-------------------------|-------------------------|
| | 233 | 246 |
| Additional paid-in capital | 11,458 | 11,119 |
| Notes receivable from sale of Common Stock | (473) | (1,317) |
| Retained earnings | 50,336 | 47,840 |
| Total shareholders equity | <u>62,089</u> | <u>58,405</u> |
| | | |
| Total liabilities and shareholders equity | <u>\$186,371</u> | <u>\$184,800</u> |

(1) *Unaudited*

See accompanying notes.

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

| | Three Months Ended March 31, | |
|---|---|-----------------|
| | 2004 | 2003 |
| Net sales | \$80,228 | \$67,669 |
| Cost of sales | <u>67,317</u> | <u>56,764</u> |
| Gross profit | 12,911 | 10,905 |
| Selling, general and administrative expenses | <u>7,581</u> | <u>6,668</u> |
| Operating income | 5,330 | 4,237 |
| Net interest expense | <u>1,338</u> | <u>1,490</u> |
| Income before provision for income taxes | 3,992 | 2,747 |
| Provision for income taxes | <u>1,496</u> | <u>1,085</u> |
| Net income | <u>\$ 2,496</u> | <u>\$ 1,662</u> |
| Earnings per share: | | |
| Basic | \$ 0.33 | \$ 0.22 |
| Diluted | \$ 0.31 | \$ 0.22 |
| Weighted average number of shares used in computing earnings per share (in thousands): | | |
| Basic | 7,661 | 7,579 |
| Diluted | <u>8,061</u> | <u>7,618</u> |

See accompanying notes.

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

| | Three Months Ended March 31, | |
|--|---|-------------------|
| | 2004 | 2003 |
| Cash Flows From Operating Activities | | |
| Net income | \$ 2,496 | \$ 1,662 |
| Adjustments to reconcile net income to net cash used for operating activities: | | |
| Depreciation | 2,860 | 2,881 |
| Loan fee and other amortization | 255 | 249 |
| Interest receivable from shareholder loans | 44 | (6) |
| Deferred income taxes | 23 | 267 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (6,138) | (8,245) |
| Inventory | 1,944 | 302 |
| Other current assets | (457) | 2,459 |
| Accounts payable and accrued expenses | (10,445) | (406) |
| Other assets and liabilities | (20) | (541) |
| | <u> </u> | <u> </u> |
| Net cash used for operating activities | (9,438) | (1,378) |
| | <u> </u> | <u> </u> |
| Cash Flows From Investing Activities | | |
| Capital expenditures | (2,296) | (2,110) |
| | <u> </u> | <u> </u> |
| Net cash used for investing activities | (2,296) | (2,110) |
| | <u> </u> | <u> </u> |
| Cash Flows From Financing Activities | | |
| Net borrowings under revolving credit facility | 14,900 | 4,550 |
| Repayments under term loans | (6,563) | (975) |
| Repayments on long-term debt | | (27) |
| Payments on notes receivable from shareholders | 800 | 332 |
| Proceeds from exercise of stock options | 344 | |
| | <u> </u> | <u> </u> |
| Net cash provided by financing activities | 9,481 | 3,880 |
| | <u> </u> | <u> </u> |

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| | | |
|--|---------------|-----------------|
| Net (decrease) increase in cash and cash equivalents | (2,253) | 392 |
| Cash and cash equivalents at beginning of period | 3,001 | 1,225 |
| Cash and cash equivalents at end of period | <u>\$ 748</u> | <u>\$ 1,617</u> |

Supplemental disclosure of non-cash activities:

| | | |
|---|---------|--------|
| Non-cash change in accounts receivable and accounts payable | \$ (75) | \$ 465 |
|---|---------|--------|

See accompanying notes.

Table of Contents**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-month period ended March 31, 2004 are not necessarily indicative of the results that may be expected for the year ended December 31, 2004.

The balance sheet at December 31, 2003 has been derived from the audited 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 financial statements and footnotes thereto included in the Atlantis Plastics, Inc. Form 10-K for the year ended December 31, 2003.

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

Note 2. Inventories

The components of inventory consist of the following:

| (in thousands) | March 31, 2004 | December 31, 2003 |
|-----------------------|---------------------------|------------------------------|
| Raw Materials | \$11,226 | \$12,187 |
| Work in Process | 232 | 246 |
| Finished Products | 9,903 | 10,872 |
| Total | \$21,361 | \$23,305 |

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:

| (in thousands, except per share data) | Three Months Ended March 31, | |
|--|---|----------------|
| | 2004 | 2003 |
| Basic earnings per common share: | | |
| Net income | \$2,496 | \$1,662 |
| Weighted-average shares outstanding | 7,661 | 7,579 |
| Basic earnings per common share | \$ 0.33 | \$ 0.22 |
| Diluted earnings per common share: | | |
| Net income | \$2,496 | \$1,662 |
| Weighted-average shares outstanding | 7,661 | 7,579 |
| Add dilutive stock options | 400 | 39 |
| Weighted-average common shares outstanding plus potential dilutive common shares | 8,061 | 7,618 |
| Diluted earnings per share | \$ 0.31 | \$ 0.22 |

Excluded from the above calculation of diluted earnings per share for 2003 are antidilutive options, which could potentially dilute earnings per share in the future. Antidilutive options for the quarter ended March 31, 2003 not included above are 727,954 shares. There were no antidilutive options for the quarter ended March 31, 2004.

Note 4. Stock-based Compensation

The Company measures compensation expense for its stock-based employee compensation plans using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* and related interpretations. Compensation expense is based on the difference, if any, between the fair value of the Company's common stock and the exercise price of the option on the measurement date, which is typically the date of grant. In accordance with Statement of Financial Accounting Standards No. 123 "*Accounting for Stock-Based Compensation*" (SFAS 123), as amended by Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*, the Company has provided the pro forma disclosures of the effect on net income and earnings per share as if the Company had accounted for its employee stock options granted

under the fair value method of SFAS 123 and had been applied in measuring compensation expense for all periods presented.

The Black-Scholes option valuation model was developed for use in estimating the fair value of options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input

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of highly subjective assumptions, including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the vesting period of the options. The Company's pro forma information is as follows:

| (in thousands, except per share data) | Three Months Ended March 31, | |
|---|---------------------------------|----------|
| | 2004 | 2003 |
| Net income: | | |
| As reported | \$ 2,496 | \$ 1,662 |
| Add: | | |
| Stock-based employee compensation expense included in reported net income, net of related tax effects | | |
| Less: | | |
| Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (40) | (36) |
| Pro forma | \$ 2,456 | \$ 1,626 |
| Basic earnings per share: | | |
| As reported | \$ 0.33 | \$ 0.22 |
| Pro forma | \$ 0.32 | \$ 0.21 |
| Diluted earnings per share: | | |
| As reported | \$ 0.31 | \$ 0.22 |
| Pro forma | \$ 0.30 | \$ 0.21 |

Note 5. Capital Structure

The Company's capital stock consists of Class A Common Stock, with holders entitled to one vote per share, and Class B Common Stock, with holders entitled to 10 votes per share. Holders of the Class B Common Stock are entitled to elect 75% of the Board of Directors; holders of Class A Common Stock are entitled to elect the remaining 25%. Each share of Class B Common Stock is convertible, at the option of the holder thereof, into one share of Class A Common Stock. Class A Common Stock is not convertible into shares of any other equity security. During the three months ended March 31, 2004, 129,349 shares of Class B Common Stock were converted into Class A Common Stock. There were no shares converted during 2003.

Table of Contents**Note 6. 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 March 31, 2004

| (In thousands) | Plastic Films | Injection Molding | Profile Extrusion | Corporate | Consolidated |
|----------------------|------------------|----------------------|----------------------|-----------------------|--------------|
| Net sales | \$ 50,687 | \$ 23,857 | \$ 5,684 | \$ | \$ 80,228 |
| Operating income | 2,800 | 1,823 | 707 | | 5,330 |
| Identifiable assets | 90,566 | 53,291 | 26,561 | 15,953 ⁽¹⁾ | 186,371 |
| Capital expenditures | 197 | 1,413 | 214 | 472 | 2,296 |
| Depreciation | 1,377 | 989 | 233 | 261 | 2,860 |

Three Months Ended March 31, 2003

| (In thousands) | Plastic Films | Injection Molding | Profile Extrusion | Corporate | Consolidated |
|----------------------|------------------|----------------------|----------------------|------------------------|--------------|
| Net sales | \$ 46,090 | \$ 16,755 | \$ 4,824 | \$ | \$ 67,669 |
| Operating income | 2,971 | 597 | 669 | | 4,237 |
| Identifiable assets | 104,983 | 46,327 | 22,072 | \$7,865 ⁽¹⁾ | 181,247 |
| Capital expenditures | 387 | 1,357 | 170 | 196 | 2,110 |
| Depreciation | 1,506 | 874 | 228 | 273 | 2,881 |

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

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Note 7. New Accounting Standards

In December 2003, the FASB issued a revised version of Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of ARB 51* (FIN 46R). The Company is required to adopt this interpretation at the end of the first interim reporting period ending after March 15, 2004 for any variable interest entities (VIEs) in which it holds a variable interest that was acquired before February 1, 2003. The interpretation is effective immediately for any VIEs created after January 31, 2003 and for VIEs in which an enterprise obtains an interest after that date. The Company adopted the provisions of FIN 46R as of March 31, 2004; however, as it does not currently hold any VIEs, the adoption of this pronouncement did not have any effect on the Company's consolidated financial statements.

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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, 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 three 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 tablecloths, 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, 2003 through March 31, 2004 are as follows:

| (\$ in millions) | 2004 | 2003 | | | |
|-----------------------------|--------|--------|--------|--------|--------|
| | 3/31 | 12/31 | 9/30 | 6/30 | 3/31 |
| NET SALES | | | | | |
| Plastic Films | \$50.7 | \$49.8 | \$49.1 | \$41.4 | \$46.1 |
| Injection Molding | 23.8 | 22.5 | 21.6 | 20.5 | 16.8 |
| Profile Extrusion | 5.7 | 5.3 | 5.9 | 5.3 | 4.8 |
| Total | \$80.2 | \$77.6 | \$76.6 | \$67.2 | \$67.7 |
| GROSS MARGIN | | | | | |
| Plastic Films | 15% | 18% | 15% | 14% | 16% |
| Injection Molding | 16% | 16% | 15% | 14% | 13% |
| Profile Extrusion | 23% | 19% | 25% | 26% | 25% |
| Total | 16% | 18% | 16% | 15% | 16% |
| OPERATING MARGIN | | | | | |
| Plastic Films | 6% | 8% | 6% | 2% | 6% |
| Injection Molding | 8% | 7% | 7% | 5% | 4% |
| Profile Extrusion | 12% | 7% | 15% | 14% | 14% |
| Total | 7% | 8% | 7% | 4% | 6% |
| NET INTEREST EXPENSE | | | | | |
| | \$ 1.3 | \$ 1.3 | \$ 1.4 | \$ 1.3 | \$ 1.5 |

Results of Operations**Net Sales**

Net sales for the quarter ended March 31, 2004 increased 18% to \$80.2 million, compared to \$67.7 million for the quarter ended March 31, 2003, primarily due to an increase in sales in our Plastic Films and Injection Molding segments.

Net sales for the Plastic Films segment increased 10% to \$50.7 million for the first quarter of 2004 compared with \$46.1 million for the first quarter of 2003. This increase was primarily the result of an increase in average selling prices partially offset by a 1% decrease in sales volume (as measured in pounds).

Net sales for the Injection Molding segment for the quarter ended March 31, 2004 increased 42% to \$23.8 million from \$16.8 million for the quarter ended March 31, 2003. The increase is primarily attributable to strong growth within our building products line as well as continued growth within our traditional injection molded business.

Net sales for the Profile Extrusion segment for the quarter ended March 31, 2004 increased 19% to \$5.7 million from \$4.8 million for the quarter ended March 31, 2003. This increase is primarily due to improvements in market conditions from the first quarter of fiscal 2003.

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Gross Margin and Operating Margin

Gross margin and operating margin for the quarter ended March 31, 2004 were 16% and 7%, respectively, compared with 16% and 6%, respectively, for the quarter ended March 31, 2003. The increase in operating margin is primarily due to the increase in sales and improvement in operating results of our Injection Molding segment.

In the Plastic Films segment, gross margin decreased to 15% for the quarter ended March 31, 2004 from 16% for the quarter ended March 31, 2003 primarily as a result of increases in raw material costs partially offset by higher average selling prices. Operating margin was 6% for the first quarter of 2004 and 2003.

In the Injection Molding segment, gross margin and operating margin increased to 16% and 8%, respectively, in the quarter ended March 31, 2004, from 13% and 4%, respectively, in the quarter ended March 31, 2003. The improvement in operating results is due to strong growth within our building products line as well as growth within our traditional custom injection molded business.

In the Profile Extrusion segment, gross margin and operating margin declined to 23% and 12%, respectively, in the first quarter of 2004, from 25% and 14%, respectively, in the first quarter of 2003. This decline can be attributed to increases in raw material prices and the related time lag incurred to pass through the resin cost increases to our customers.

Selling, General, and Administrative Expense

Selling, general, and administrative expense increased to \$7.6 million for the quarter ended March 31, 2004 from \$6.7 million for the quarter ended March 31, 2003. The increase is primarily attributed to increases in salaries, incentive compensation and insurance costs.

Net Interest Expense

Net interest expense for the quarter ended March 31, 2004 decreased to \$1.3 million, compared to \$1.5 million for the quarter ended March 31, 2003. The decline was primarily due to a decrease in average outstanding borrowings compared to the first quarter of 2003.

Operating and Net Income

As a result of the factors described above, operating income increased to \$5.3 million during the quarter ended March 31, 2004, compared with \$4.2 million for the quarter ended March 31, 2003. Operating income as a percentage of net sales was 7% during the first quarter of fiscal 2004 compared with 6% during the first quarter of fiscal 2003.

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Net income and basic and diluted earnings per share for the quarter ended March 31, 2004 and 2003 were as follows:

| | Three Months Ended March 31, | |
|----------------------------|---|---------------|
| | 2004 | 2004 |
| Net income | \$2.5 million | \$1.7 million |
| Basic earnings per share | \$0.33 | \$0.22 |
| Diluted earnings per share | \$0.31 | \$0.22 |

Liquidity and Capital Resources

At March 31, 2004, we had approximately \$85.5 million of outstanding indebtedness, approximately \$0.7 million in cash and cash equivalents, and an additional \$13.2 million of unused availability under our revolving credit facility, net of outstanding letters of credit of approximately \$1.6 million. 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

For the quarter ended March 31, 2004, net cash used for operating activities was \$9.4 million compared to net cash used for operating activities of \$1.4 million for the quarter ended March 31, 2003. The difference between net income of \$2.5 million and the \$9.4 million use of operating cash flow for the quarter ended March 31, 2004 is predominantly attributable to a \$6.1 million increase in accounts receivable and a \$10.4 million decrease in accounts payable and accrued expenses, partially offset by \$2.9 million of depreciation expense and a \$1.9 million decrease in inventory.

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Cash Flows from Investing Activities

Net cash used for investing activities increased to \$2.3 million in the quarter ended March 31, 2004, compared to \$2.1 million for the quarter ended March 31, 2003 and consisted of capital expenditures in both years.

Cash Flows from Financing Activities

Net cash provided by financing activities for the quarter ended March 31, 2004 was \$9.5 million, compared with net cash provided by financing activities of \$3.9 million for the quarter ended March 31, 2003. Net cash provided by financing activities for the quarter ended March 31, 2004 reflects net borrowings of \$14.9 million under the revolving credit facility, the receipt of approximately \$0.8 million in repayments of shareholder notes, and \$0.3 million in proceeds from the exercise of stock options, partially offset by approximately \$6.6 million in repayments on our term loans. Included in the repayment of our term loans was a \$5.3 million mandatory annual loan prepayment from excess cash flow. This amount was calculated as of December 31, 2003 as defined in our credit agreement.

Recent Accounting Pronouncements

In December 2003, the FASB issued a revised version of Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of ARB 51* (FIN 46R). We are required to adopt this interpretation at the end of the first interim reporting period ending after March 15, 2004 for any variable interest entities (VIEs) in which we hold a variable interest that was acquired before February 1, 2003. The interpretation is effective immediately for any VIEs created after January 31, 2003 and for VIEs in which an enterprise obtains an interest after that date. We adopted the provisions of FIN 46R as of March 31, 2004; however, as we do not currently hold any VIEs, the adoption of this pronouncement did not have any effect on our consolidated financial statements.

Note Regarding Forward Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of that term in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Additional written or oral forward-looking statements may be made 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

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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, 2003. There have been no significant changes with respect to market risks related to the Company since that date.

Item 4. Controls and Procedures

As required by Rule 13a-15 under the Exchange Act, within the 90 days prior to the filing date of this report, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in Company reports filed under the Exchange Act is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

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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 6. Exhibits and Reports on Form 8-K

(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.

(B) REPORTS ON FORM 8-K

The Company furnished its Press Release of Atlantis Plastics, Inc. dated February 19, 2004 reporting the Company's financial results for the fourth quarter and fiscal year 2003.

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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: May 13, 2004

By: /s/ Anthony F. Bova
ANTHONY F. BOVA
President and Chief Executive Officer

Date: May 13, 2004

By: /s/ Paul G. Saari
PAUL G. SAARI
*Senior Vice President, Finance and
Chief Financial Officer*

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