ATLANTIS PLASTICS INC
Form 10-Q
November 12, 2004

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

FORM 10-Q

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

For the quarterly period ended September 30, 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 [X] No [ ]

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

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 October 31, 2004
Class A Common Stock, $.10 par value	5,539,566
Class B Common Stock, $.10 par value	2,227,057

ATLANTIS PLASTICS, INC.

FORM 10-Q

For the Quarter Ended September 30, 2004

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Part 1. Financial Information

Item 1. Financial Statements

ATLANTIS PLASTICS, INC.

CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data) (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	**2003**	**2004**	**2003**
Net sales	$89,350	$76,640	$256,363	$211,516
Cost of sales	74,589	64,433	214,435	178,308
Gross profit	14,761	12,207	41,928	33,208
Selling, general and administrative expenses	8,453	6,776	23,879	20,750
Operating income	6,308	5,431	18,049	12,458
Interest expense	(1,346)	(1,490)	(4,052)	(4,510)
Other income, net	111	79	77	330
Income before provision for income taxes	5,073	4,020	14,074	8,278
Provision for income taxes	1,897	1,545	5,273	3,186
Net income	**$ 3,176**	**$ 2,475**	**$ 8,801**	**$ 5,092**
Earnings per share:				
Basic	$ 0.41	$ 0.32	$ 1.14	$ 0.67
Diluted	$ 0.39	$ 0.32	$ 1.09	$ 0.66
Weighted average number of shares used in computing basic earnings per share (in thousands):				
Basic	7,724	7,622	7,689	7,599
Diluted	8,131	7,782	8,108	7,700

See accompanying notes.

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ATLANTIS PLASTICS, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands, except share information)

	September 30, 2004[(1)]	December 31, 2003
ASSETS		
Cash and cash equivalents	$ 68	$ 3,001
Accounts receivable, net of allowances of $1,175 and $1,281, respectively	46,412	39,601
Inventories	28,188	23,305
Other current assets	3,056	3,583
Deferred income tax assets	3,003	3,003
Total current assets	80,727	72,493
Property and equipment, net	57,691	60,347
Goodwill	47,212	47,212
Other assets	3,972	4,748
Total assets	**$189,602**	**$184,800**
LIABILITIES AND SHAREHOLDERS EQUITY		
Accounts payable and accrued expenses	$ 33,614	$ 36,149
Current portion of long-term debt	6,449	10,487
Total current liabilities	40,063	46,636
Long-term debt, less current portion	67,172	66,713
Deferred income tax liabilities	13,372	12,731
Other liabilities	289	315
Total liabilities	120,896	126,395
Commitments and contingencies		
Shareholders equity:		
Class A Common Stock, $.10 par value, 20,000,000 shares authorized, 5,514,566 and 5,170,842 shares issued and outstanding in 2004 and 2003	551	517
Class B Common Stock, $.10 par value, 7,000,000 shares authorized, 2,227,057 and 2,456,981 shares issued and outstanding in 2004 and 2003	223	246
Additional paid-in capital	11,774	11,119
Notes receivable from sale of Common Stock	(483)	(1,317)

Retained earnings	56,641	47,840
Total shareholders equity	68,706	58,405
Total liabilities and shareholders equity	**$ 189,602**	**$ 184,800**

(1) *Unaudited*

See accompanying notes.

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ATLANTIS PLASTICS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands) (unaudited)

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Cash Flows From Operating Activities		
Net income	$ 8,801	$ 5,092
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	8,527	8,824
Loan fee and other amortization	776	756
Interest receivable from shareholder loans	34	(35)
Deferred income taxes	641	(769)
Changes in operating assets and liabilities:		
Accounts receivable	(6,811)	(11,097)
Inventories	(4,883)	2,654
Other current assets	527	2,836
Accounts payable and accrued expenses	(2,535)	(802)
Other assets and liabilities	(7)	(304)
Cash provided by operating activities	5,070	7,155
Cash Flows From Investing Activities		
Capital expenditures	(5,894)	(5,447)
Proceeds from asset dispositions	4	
Cash used for investing activities	(5,890)	(5,447)
Cash Flows From Financing Activities		
Net borrowings under revolving credit agreements	5,600	400
Payments on long-term debt	(9,179)	(3,529)
Payments on notes receivable from shareholders	800	332
Proceeds from exercises of stock options	666	243
Cash used for financing activities	(2,113)	(2,554)
Decrease in cash and cash equivalents	(2,933)	(846)

Cash and cash equivalents at beginning of period	3,001	1,225
Cash and cash equivalents at end of period	$ 68	$ 379
Supplemental Disclosure of non-cash activities:		
Non-cash change in accounts receivable and accounts payable in connection with supplier agreements	$ 423	$ 1,493

See accompanying notes.

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ATLANTIS PLASTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States 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 accounting principles generally accepted in the United States 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, 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 of Financial Condition and Results of Operations 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)	September 30, 2004	December 31, 2003
Raw Materials	$18,406	$12,187
Work in Process	321	246
Finished Products	9,461	10,872
Total	**$28,188**	**$23,305**

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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 September 30, 2004	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Net income	$3,176	$2,475	$8,801	$5,092
Weighted average shares outstanding basic	7,724	7,622	7,689	7,599
Net effect of dilutive stock options based on treasury stock method	407	160	419	101
Weighted average shares outstanding diluted	8,131	7,782	8,108	7,700
Earnings per share basic	$ 0.41	$ 0.32	$ 1.14	$ 0.67
Earnings per share diluted	$ 0.39	$ 0.32	$ 1.09	$ 0.66

Note 4. Stock-based Employee Compensation

The Company measures compensation expense for its employee stock option 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 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 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.

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For pro forma disclosure purposes, 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 September 30, 2004	2003	Nine Months Ended September 30, 2004	2003
Net income:				
As reported	$3,176	$2,475	$8,801	$5,092
Add:				
Employee stock option 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)	(30)	(115)	(97)
Pro forma	$3,138	$2,445	$8,686	$4,995
Basic earnings per share:				
As reported	$ 0.41	$ 0.32	$ 1.14	$ 0.67
Pro forma	$ 0.41	$ 0.32	$ 1.13	$ 0.66
Diluted earnings per share:				
As reported	$ 0.39	$ 0.32	$ 1.09	$ 0.66
Pro forma	$ 0.38	$ 0.31	$ 1.07	$ 0.65

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 nine months ended September 30, 2004, 229,924 shares of Class B Common Stock were converted into Class A Common Stock. There were no shares converted during 2003.

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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:

Nine Months Ended September 30, 2004

(In thousands)	Plastic Films	Injection Molding	Profile Extrusion	Corporate	Consolidated
Net sales	$161,651	$75,969	$18,743	$	$256,363
Operating income	9,375	6,043	2,631		18,049
Identifiable assets	82,270	57,245	27,819	22,268(1)	189,602
Capital expenditures	796	3,438	859	801	5,894
Depreciation	4,083	2,996	743	705	8,527

Nine Months Ended September 30, 2003

(In thousands)	Plastic Films	Injection Molding	Profile Extrusion	Corporate	Consolidated
Net sales	$136,598	$58,888	$16,030	$	$211,516
Operating income	7,025	3,098	2,335		12,458
Identifiable assets	95,507	46,745	23,117	11,787(1)	177,156
Capital expenditures	1,632	3,114	574	127	5,447
Depreciation	4,548	2,681	735	860	8,824

(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 Financial Accounting Standards Board issued a revised version of Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of ARB 51* (FIN 46R). The Company was 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.

On October 13, 2004, the Financial Accounting Standards Board (FASB) concluded that Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* (SFAS 123R), which would require all companies to measure compensation cost for all share-based payments, including stock options, at fair value, would be effective for public companies (except small business issuers as defined in SEC Regulation S-B) for interim or annual periods beginning after June 15, 2005. A calendar-year company therefore would be required to apply SFAS 123R beginning July 1, 2005 and could choose to apply SFAS 123R retroactively for the January 1, 2005 to June 30, 2005 year-to-date period in its third quarter 2005 Form 10-Q to account for all share-based payments under the fair value method from January 1, 2005. The cumulative effect of the adoption, if any, would be measured and recognized on July 1, 2005. Furthermore, companies can choose to early adopt the proposed Statement at the beginning of its first quarter ended March 31, 2005 (or even in the fourth quarter of 2004 if the FASB issues the final Statement prior to those financial statements). The Company is currently evaluating the impact of this standard pending issuance.

Note 8. Subsequent Event

On November 9, 2004, the Company, through a wholly owned subsidiary, acquired the business and certain assets and also assumed certain specific liabilities of LaVanture Plastic Extrusion Technologies, Inc., and Molded Designs Technology, Inc., (collectively LaVanture). LaVanture manufactures profile extruded and injection molded plastic products primarily for OEMs in the recreational vehicle industry. The purchase price of $10 million was funded by borrowings in connection with an amendment to the Company s existing senior credit facility. The amendment, effective November 9, 2004, increased the availability of the senior credit facility from $110 million to $120 million, and increased the amount drawn by $10 million. The amendment also changed certain covenants of the senior credit facility, including the maximum funded debt to EBITDA (earnings before interest, taxes, depreciation and amortization), capital expenditure limitation, and minimum EBITDA requirements.

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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, custom injection molded products, 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: Stretch Films, Custom Films, and 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 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, 2003 through September 30, 2004 are as follows:

	2004			2003			
($ in millions)	9/30	6/30	3/31	12/31	9/30	6/30	3/31
NET SALES							
Plastic Films	$56.9	$54.1	$50.7	$49.8	$49.1	$41.4	$46.1
Injection Molding	26.1	26.1	23.8	22.5	21.6	20.5	16.8
Profile Extrusion	6.4	6.6	5.7	5.3	5.9	5.3	4.8
Total	$89.4	$86.8	$80.2	$77.6	$76.6	$67.2	$67.7
GROSS MARGIN							
Plastic Films	16%	15%	15%	18%	15%	14%	16%
Injection Molding	16%	17%	16%	16%	15%	14%	13%
Profile Extrusion	24%	25%	23%	19%	25%	26%	25%
Total	17%	16%	16%	18%	16%	15%	16%
OPERATING MARGIN							
Plastic Films	6%	6%	6%	8%	6%	2%	6%
Injection Molding	8%	8%	8%	7%	7%	5%	4%
Profile Extrusion	14%	15%	12%	7%	15%	14%	14%
Total	7%	7%	7%	8%	7%	4%	6%

Results of Operations

Net Sales

Net sales for the quarter and nine months ended September 30, 2004 were $89.4 million and $256.4 million, respectively, compared to $76.6 million and $211.5 million, respectively, for the comparable periods in 2003.

Net sales for our Plastic Films segment for the quarter and nine months ended September 30, 2004 increased 16% and 18%, respectively, compared to the quarter and nine months ended September 30, 2003. These increases are due to both volume increases and increased selling prices reflective of higher resin costs compared to the prior year. Sales volume (measured in pounds) for the quarter and nine months ended September 30, 2004 increased 8% and 12%, respectively, compared to the quarter and nine months ended September 30, 2003.

Net sales for our Injection Molding segment for the quarter and nine months ended September 30, 2004 increased 21% and 29%, respectively, compared to the quarter and nine months ended September 30, 2003. These increases are primarily attributable to growth in our building products line and strength within our custom injection molding business.

Net sales for our Profile Extrusion segment increased 8% and 17%, respectively, for the quarter and nine months ended September 30, 2004 as compared to the prior year. These increases are a result of continued growth in the recreational vehicle sector as well as business from new customers.

Gross Margin and Operating Margin

Gross margin for the quarter and nine months ended September 30, 2004 was 17% and 16%, respectively, compared with 16% for the quarter and nine months ended September 30, 2003. Operating margin was 7% for the quarter and nine months ended September 30, 2004 compared with 7% and 6%, respectively, for the quarter and nine months ended September 30, 2003. These increases in gross margin and operating margin are primarily due to higher sales volumes resulting in improvements in asset utilization rates.

In the Plastic Films segment, gross margin for the quarter and nine months ended September 30, 2004 increased to 16% from 15% for the same periods in 2003. For the quarter ended September 30, 2004, operating margin remained steady at 6% and increased from 5% to 6% for the nine months ended September 30, 2004. These increases in margins for 2004 can be attributed primarily to higher sales volumes compared to the prior year. The overall resin market has continued to be volatile in 2004, with resin prices increasing approximately 10% during the nine months ended September 30, 2004 when compared to the same period in 2003.

In the Injection Molding segment, gross margin increased to 16% for the quarter and nine months ended September 30, 2004 compared to 15% and 14%, respectively, for the quarter and nine months ended September 30, 2003. Operating margin increased to 8% for the quarter and nine months ended September 30, 2004 compared with 7% and 5%, respectively, for the quarter and nine months ended September 30, 2003. The increases in gross margin and operating margin are primarily a result of 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 decreased from 25% to 24% for the quarter and nine months ended September 30, 2004. Operating margins for the quarter and nine months ended September 30, 2004 were 14% compared to 15% for the same periods last year.

Selling, General, and Administrative Expense

Selling, general, and administrative expense increased to $8.5 million and $23.9 million, respectively, for the quarter and nine months ended September 30, 2004, from $6.8 million and $20.8 million, respectively, for the quarter and nine months ended September 30, 2003. The increases are primarily attributable to higher incentive compensation costs.

Interest Expense

Interest expense decreased 10% for both the quarter and nine months ended September 30, 2004 compared to the same periods in 2003. The decline in interest expense is primarily attributable to lower average outstanding borrowings than the prior year.

Operating and Net Income

As a result of the factors described above, operating income increased to $6.3 million, or 7% of net sales, during the quarter ended September 30, 2004 compared to $5.4 million, or 7% of net sales, for the quarter ended September 30, 2003. For the nine months ended September 30, 2004, operating income increased to $18.0 million, or 7% of net sales, compared to $12.5 million, or 6% of net sales, for the nine months ended September 30, 2003.

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Net income and basic and diluted earnings per share for the quarter and nine months ended September 30, 2004 and 2003 were as follows:

(In thousands, except per share data)	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Net income	$3,176	$2,475	$8,801	$5,092
Earnings per share basic	$ 0.41	$ 0.32	$ 1.14	$ 0.67
Earnings per share diluted	$ 0.39	$ 0.32	$ 1.09	$ 0.66

Liquidity and Capital Resources

At September 30, 2004, we had $73.6 million of outstanding indebtedness, $0.1 million in cash and cash equivalents, and an additional $21.8 million of unused availability under our senior secured credit facility, net of outstanding letters of credit of approximately $1.6 million. Substantially all of our accounts receivable, inventories, and property and equipment are pledged as collateral under our senior secured credit facility. 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.

On November 9, 2004, we acquired the business and certain assets and also assumed certain specific liabilities of LaVanture Plastic Extrusion Technologies, Inc., and Molded Designs Technology, Inc., (collectively LaVanture). LaVanture manufactures profile extruded and injection molded plastic products primarily for OEMs in the recreational vehicle industry. The purchase price of $10 million was funded by borrowings in connection with an amendment to our existing senior credit facility. The amendment, effective November 9, 2004, increased the availability of the senior credit facility from $110 million to $120 million, and increased the amount drawn by $10 million. The amendment also changed certain covenants of the senior credit facility, including the maximum funded debt to EBITDA (earnings before interest, taxes, depreciation and amortization), capital expenditure limitation, and minimum EBITDA requirements.

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 nine months ended September 30, 2004, net cash provided by operating activities was $5.1 million compared to net cash provided by operating activities of $7.2 million for the nine months ended September 30, 2003. The difference between net income of $8.8 million and the $5.1 million net cash provided by operating activities for the nine months ended September 30, 2004 is predominantly attributable to a $6.8 million increase in accounts receivable due to increased net sales, an increase in inventory of $4.9 million primarily due to higher resin prices, and a $2.5 million reduction of accounts payable and accrued expenses offset by $8.5 million of depreciation and amortization expense.

Cash Flows from Investing Activities

Net cash used for investing activities increased to $5.9 million for the nine months ended September 30, 2004, from $5.4 million for the nine months ended September 30, 2003 and consisted of capital expenditures.

Cash Flows from Financing Activities

Net cash used for financing activities for the nine months ended September 30, 2004 was $2.1 million compared with net cash used for financing activities of $2.6 million for the nine months ended September 30, 2003. Net cash used for financing activities for the nine months ended September 30, 2004 reflects net repayments of debt in the amount of $3.6 million offset by the receipt of $0.8 million in payments on shareholder notes and proceeds from the exercise of stock options of $0.7 million.

Recent Accounting Pronouncements

In December 2003, the Financial Accounting Standards Board issued a revised version of Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of ARB 51* (FIN 46R). We were 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.

On October 13, 2004, the Financial Accounting Standards Board (FASB) concluded that Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* (SFAS 123R), which would require all companies to measure compensation cost for all share-based payments, including stock options, at fair value, would be effective for public companies (except small business issuers as defined in SEC Regulation S-B) for interim or annual periods beginning after June 15, 2005. A calendar-year company therefore would be required to apply SFAS 123R beginning July 1, 2005 and could choose to apply SFAS 123R retroactively for the January 1, 2005 to June 30, 2005 year-to-date period in its third quarter 2005 Form 10-Q to account for all share-based payments under the fair value method from January 1, 2005. The cumulative effect of the adoption, if any, would

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be measured and recognized on July 1, 2005. Furthermore, companies can choose to early adopt the proposed Statement at the beginning of its first quarter ended March 31, 2005 (or even in the fourth quarter of 2004 if the FASB issues the final Statement prior to those financial statements). We are currently evaluating the impact of this standard pending issuance.

Note Regarding Forward Looking Statements

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

Forward-looking statements may include, but are not limited to, projections of net sales, income or losses, or capital expenditures; plans for future operations; financing needs or plans; compliance with financial covenants in loan agreements; plans for liquidation or sale of assets or businesses; plans relating to products or services of the Company; assessments of materiality; predictions of future events; the ability to obtain additional financing; the Company s ability to meet obligations as they become due; the impact of pending and possible litigation; as well as assumptions relating to the foregoing. In addition, when used in this discussion, the words anticipates, believes, estimates, expects, intends, plans and similar expressions are intended to identify forward-looking statements. Forward-looking statements are inherently subject to risks and uncertainties, including, but not limited to, the impact of leverage, dependence on major customers, fluctuating demand for the Company s products, risks in product and technology development, fluctuating resin prices, competition, litigation, labor disputes, capital requirements, and other risk factors detailed in the Company s Securities and Exchange Commission filings, 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. The Company undertakes no 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, 2003. There have been no significant developments with respect to market risk.

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 evaluated 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

(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, 2004	**By:**	/s/ Anthony F. Bova
		ANTHONY F. BOVA *President and Chief Executive Officer*
Date: November 11, 2004	**By:**	/s/ Paul G. Saari
		PAUL G. SAARI *Senior Vice President, Finance and Chief Financial Officer*

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