ROTONICS MANUFACTURING INC/DE
Form 10-Q
May 07, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For quarterly period ended: March 31, 2002

Commission File number: 1-9429

ROTONICS MANUFACTURING INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**36-2467474**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

17022 South Figueroa Street, Gardena, California 90248

(Address of principal executive offices) (Zip Code)

(310) 538-4932

(Registrant s telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 ý No o

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 March 31, 2002**
Common Shares ($.01 stated value)	12,762,780 Shares
	Total Pages 17

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ROTONICS MANUFACTURING INC.

CONSOLIDATED BALANCE SHEETS

	March 31, 2002 (Unaudited)	June 30, 2001
ASSETS		
Current assets:		
Cash	$ 97,100	$ 28,000
Accounts receivable, net of allowance for doubtful accounts of $103,900 and $99,200, respectively (Notes 5 and 6)	5,022,500	5,260,700
Current portion of notes receivable	60,300	62,300
Inventories (Notes 2, 5 and 6)	6,586,700	7,138,300
Deferred income taxes, net (Note 10)	310,100	541,300
Prepaid expenses and other current assets	494,500	349,100
Total current assets	12,571,200	13,379,700
Notes receivable, less current portion	313,500	311,800
Investment in Partnership	108,700	113,800
Property, plant and equipment, net (Notes 3, 5 and 6)	15,362,400	16,129,600
Intangible assets, net (Notes 1 and 4)	320,200	4,460,600
Other assets	79,800	105,300
	$ 28,755,800	$ 34,500,800
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt (Note 6)	$ 944,300	$ 944,300
Accounts payable	1,808,300	2,429,900
Accrued liabilities (Note 7)	888,800	811,400
Total current liabilities	3,641,400	4,185,600
Bank line of credit (Note 5)	243,200	1,100,000
Long-term debt, less current portion (Note 6)	5,588,000	6,296,200
Deferred income taxes, net (Note 10)	2,511,500	2,611,900

Total liabilities		11,984,100		14,193,700
Stockholders equity:				
Common stock, stated value $.01: authorized 20,000,000 shares; issued and outstanding 12,761,253 and 12,761,398 shares, respectively, net of treasury shares (Note 9)		23,207,500		23,203,100
Accumulated other comprehensive loss, net of tax		(117,300)		(91,400)
Accumulated deficit		(6,318,500)		(2,804,600)
Total stockholders equity		16,771,700		20,307,100
	$	28,755,800	$	34,500,800

The accompanying notes are an integral part of these financial statements.

ROTONICS MANUFACTURING INC.

CONSOLIDATED STATEMENTS OF INCOME/(LOSS), COMPREHENSIVE INCOME/(LOSS) AND ACCUMULATED DEFICIT

(Unaudited)

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001	Nine Months Ended March 31, 2002	Nine Months Ended March 31, 2001
Net sales	$ 9,368,100	$ 9,904,500	$ 26,884,000	$ 29,650,700
Costs and expenses:				
Cost of goods sold	6,722,500	7,432,500	20,034,400	22,861,100
Gross profit	2,645,600	2,472,000	6,849,600	6,789,600
Selling, general and and administrative expenses	1,967,600	1,894,600	5,680,700	5,765,100
Income/(loss) from operations	678,000	577,400	1,168,900	1,024,500
Other (expense)/income:				
Interest expense	(111,700)	(178,100)	(361,200)	(585,400)
Other income/(expense), net	37,800	26,000	125,200	23,000
Total other expenses	(73,900)	(152,100)	(236,000)	(562,400)
Income/(loss) before income taxes and cumulative effect of change in accounting principle for goodwill	604,100	425.300	932,900	462,100
Income tax (provision)/benefit (Note 10)	(210,000)	(164,500)	(340,900)	(196,200)
Income/(loss) before cumulative effect of change in accounting principle for goodwill	394,100	260,800	592,000	265,900
Cumulative effect of change in accounting principle for goodwill (Notes 1 and 4)			(4,105,900)	
Net income/(loss)	394,100	260,800	(3,513,900)	265,900
Other comprehensive income/(loss), before tax:				
Cumulative effect of adoption of SFAS 133				109,400
Unrealized holding gain/(loss) arising during the period	11,700	(102,300)	(173,000)	(260,200)
Less: Reclassification adjustments for losses/(gains) included in net income/(loss)	53,400	800	129,800	(10,400)
Total other comprehensive income/(loss) before tax	65,100	(101,500)	(43,200)	(161,200)
Income tax (provision)/benefit related to items of other comprehensive income/(loss)	(26,000)	40,600	17,300	64,500
	39,100	(60,900)	(25,900)	(96,700)

Total other comprehensive income/(loss), net of tax											
Comprehensive income/(loss)	$	433,200		$	199,900		$	(3,539,800	)$	169,200	
Accumulated deficit, beginning of period	$	(6,712,600	)$		(2,762,600	)$		(2,804,600	)$	(2,767,700)	
Net income/(loss)		394,100			260,800			(3,513,900	)	265,900	
Accumulated deficit, end of period	$	(6,318,500	)$		(2,501,800	)$		(6,318,500	)$	(2,501,800)	
Net Income/(loss) per common share (Note 11):											
Basic and diluted			-			-			-		-
Income/(loss) before cumulative effect	$	.03		$	.02		$	.05	$	.02	
Cumulative effect of change in accounting principle for goodwill								(.32	)		
Net income/(loss)	$	.03		$	.02		$	(.27	)$	.02	
Weighted average number of common and common equivalent shares outstanding:											
Basic		12,766,944			12,799,326			12,779,033		12,855,848	
Diluted		12,766,944			12,799,326			12,779,033		12,870,218	

The accompanying notes are an integral part of these financial statements.

ROTONICS MANUFACTURING INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended March 31, 2002	Nine Months Ended March 31, 2001
Cash flows from operating activities:		
Net (loss)/income	$ (3,513,900)	$ 265,900
Adjustments to reconcile net loss to net cash provided by operating activities:		
Cumulative effect of change in accounting principle for goodwill	4,105,900	
Depreciation and amortization	1,666,500	2,004,500
(Gain)/loss on sale of equipment	(15,000)	4,100
Deferred income tax provision	209,000	145,000
Provision for doubtful accounts	72,500	75,700
Changes in assets and liabilities:		
Decrease in accounts receivable	15,700	769,500
Decrease/(increase) in inventories	551,600	(175,800)
Increase in prepaid expenses and other current assets	(145,400)	(198,700)
Decrease/(increase) in other assets	25,500	(252,300)
Decrease in accounts payable	(100,700)	(251,700)
Decrease in accrued liabilities	(26,700)	(283,100)
Net cash provided by operating activities	2,845,000	2,103,100
Cash flows from investing activities:		
Repayments on notes receivable, net	150,300	111,100
Capital expenditures	(864,800)	(848,200)
Distribution from investment in partnership	5,100	5,700
Proceeds from sale of equipment	15,000	2,900
Net cash used in investing activities	(694,400)	(728,500)
Cash flows from financing activities:		
Borrowings under line of credit	4,436,200	7,764,000
Repayments under line of credit	(5,293,000)	(8,286,300)
Proceeds from issuance of long-term debt		6,050,000
Repayment of long-term debt	(708,200)	(6,788,300)
Payment of common stock dividend	(520,900)	(200)
Repurchases of common stock	(45,400)	(111,400)
Proceeds from issuance of common stock	49,800	2,000
Net cash used in financing activities	(2,081,500)	(1,370,200)
Net increase in cash	69,100	4,400

Cash at beginning of period		28,000		20,800
Cash at end of period	$	97,100	$	25,200
Supplemental disclosures of cash flow information:				
Cash paid during the period for:				
Interest	$	369,700	$	605,100
Income taxes	$	150,800	$	156,200
Non-cash investing activity:				
Conversion of accounts receivable to notes receivable	$	150,000	$	
Non-cash financing activity:				
Change in fair value of interest rate swap	$	25,900	$	96,700

The accompanying notes are an integral part of these financial statements.

ROTONICS MANUFACTURING INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1-INTERIM REPORTING:

The interim financial information included herein is unaudited. This information reflects all adjustments (consisting solely of normal recurring adjustments) which are, in the opinion of management, necessary for a fair statement of operating results for the interim periods. This interim financial information should be read in conjunction with the Rotonics Manufacturing Inc. (the Company) Annual Report as filed on Form 10-K/A for the fiscal year ended June 30, 2001.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Rotocast Plastic Products of Tennessee, Inc. All intercompany accounts and transactions have been eliminated in consolidation.

Impact of Recent Accounting Pronouncements

The Emerging Issues Task Force (EITF) of the Financial Accounting Standard Board (FASB) issued a new release (EITF 00-10) at the end of July 2000 regarding the classification of freight and handling costs billed to customers. EITF 00-10 required freight and handling costs billed separately on an invoice to be included as part of Sales on the Statement of Income. In addition, the preferred classification of freight and handling costs expensed on the Statement of Income is to include them in Cost of Sales. The Company adopted this requirement during the fourth quarter of Fiscal 2001 and reclassifications have been made for prior periods presented. There was no impact on net income as a result of the adoption of EITF 00-10.

In June 2001, the FASB approved two new pronouncements: Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 applies to all business combinations with a closing date after June 30, 2001. This Statement eliminates the pooling-of-interests method of accounting and further clarifies the criteria for recognition of intangible assets separately from goodwill.

SFAS No. 142 eliminates the amortization of goodwill and indefinite-lived intangible assets and initiates an annual review for impairment. Identifiable intangible assets with a determinable useful life will continue to be amortized. The Company adopted SFAS No. 142 effective July 1, 2001, which required the Company to cease amortization of its remaining net goodwill balance and to perform a transitional goodwill impairment test as of July 1, 2001, and thereafter an impairment test at least annually and record an adjustment when the fair value of our reporting unit, including goodwill, is less than its carrying value. The Company was permitted six months from the adoption date to complete a review of goodwill for impairment and record necessary adjustments prior to the end of fiscal 2002. We engaged a national valuation specialist to assist with the determination of the estimated fair value of our reporting unit as of July 1, 2001. To determine fair value, valuation models involving guideline public companies, acquisition analysis and discounted cash flows were relied upon. As such, under the assessment guidelines of SFAS No. 142 and the SEC s guidance that the Company s quoted market price is the most efficient mechanism for estimating fair value, their findings indicated that the estimated fair value of our reporting unit was less than its carrying value. As such, the Company completed the transitional goodwill impairment test in accordance with SFAS No. 142 and wrote-off effective July 1, 2001 its remaining net goodwill of $4,105,900 as a non-cash cumulative effect of change in accounting principle. Goodwill amortization expense was $243,600 and $81,200 for the nine months and three months ended March 31, 2001, respectively.

For illustrative purposes the following unaudited proforma information gives the effect of the adoption of SFAS No. 142 on prior periods.

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2002	**2001**	**2002**	**2001**
Reported net income before accounting change	$ 394,100	$ 260,800	$ 592,000	$ 265,900
Cumulative effect of change in accounting principle for goodwill			(4,105,900)	
Net income/(loss)	394,100	260,800	(3,513,900)	265,900
Add back goodwill amortization		81,200		243,600
Proforma net income/(loss)	$ 394,100	$ 342,000	$ (3,513,900)	$ 509,500
Basic and diluted earnings per share:				
Reported net income/(loss) before accounting change	$ .03	$ .02	$ .05	$ .02
Cumulative effect of change in accounting principle for goodwill		-	(.32)	
Net income/(loss)	.03	.02	(.27)	.02
Goodwill amortization		.01		.02
Proforma net income/(loss)	$ .03	$ .03	$ (.27)	$ .04

In September 2001, the FASB approved pronouncement SFAS No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 supersedes SFAS No. 121 Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of as well as Accounting Principle Board Opinion No. 30 Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual, and Infrequently Occurring Events and Transactions. SFAS No. 144 not only retains the requirements of SFAS No. 121 to recognize an impairment loss if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows, but also establishes a single accounting method for assets to be disposed of and broadens the presentation of discounted operations to include more disposal transactions. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. The adoption of this pronouncement is not expected to have a significant impact on the Company s financial position or results of operations.

NOTE 2 - INVENTORIES:

Inventories consist of:

	March 31, 2002	June 30, 2001
Raw materials	$ 1,935,400	$ 2,353,300
Finished goods	4,651,300	4,785,000
	$ 6,586,700	$ 7,138,300

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment consist of:

	March 31, 2002	June 30, 2001
Land	$ 1,039,500	$ 1,039,500
Buildings and building improvements	5,041,300	5,009,900
Machinery, equipment, furniture and fixtures	26,637,700	25,911,000
Construction in progress	27,100	4,900
	32,745,600	31,965,300
Less - accumulated depreciation	(17,383,200)	(15,835,700)
	$ 15,362,400	$ 16,129,600

NOTE 4 - INTANGIBLE ASSETS:

Intangible assets consist of:

	March 31, 2002	June 30, 2001
Patents	$ 475,700	$ 475,700
Less accumulated amortization, patents	(155,500)	(121,000)
Net patents	320,200	354,700
Goodwill		**7,457,500**
Less accumulated amortization, goodwill		(3,351,600)
Net goodwill		4,105,900
Total intangibles, net	$ 320,200	$ 4,460,600

The changes in the carrying amount of goodwill for the nine months ended March 31, 2002 is as follows:

		Nine Months Ended
		March 31,
Balance as of June 30, 2001	$	4,105,900
Cumulative effect of change in accounting principle for goodwill		(4,105,900)
Balance as of March 31, 2002	$	

The Company s reporting unit was reviewed for goodwill impairment in conjunction with the adoption of SFAS No. 142. Due to the disparity between the Company s estimated fair value and its carrying value, a goodwill impairment loss of $4,105,900 was recognized as a cumulative effect of change in accounting principle as of July 1, 2001. The fair value of the reporting unit was estimated using conservative valuation models involving guideline public companies, acquisition analysis and discounted cash flows as well as the Company s market capitalization.

Aggregate amortization expense for the nine months ended March 31, 2002 was $34,500.

NOTE 5 - BANK LINE OF CREDIT:

The Company has a $5,000,000 revolving line of credit with Wells Fargo Bank. The line matures October 1, 2003 and is secured by the Company s machinery and equipment, accounts receivable and inventories. Interest is payable monthly at the bank s prime rate minus .25%. The applicable bank s prime rate at March 31, 2002 was 4.5% per annum. The loan agreement allows the Company to convert the outstanding principal balance in amounts no less than $250,000 to a LIBOR-based loan for periods up to 90 days. At March 31, 2002, total borrowings under the Company s line of credit was $243,200 of which none was borrowed under the LIBOR option. Proceeds from the loan were used for working capital purposes. At March 31, 2002, the Company had approximately $4,756,800 available for future borrowings under the revolving line of credit.

NOTE 6 - LONG-TERM DEBT:

Long-term debt consists of:

	March 31,	**June 30,**

		2002	2001
Note payable - Bank	(A)	$ 4,825,600	$ 5,473,800
Note payable - Bank	(B)	1,706,700	1,766,700
		6,532,300	7,240,500
Less current portion		(944,300)	(944,300)
		$ 5,588,000	$ 6,296,200

(A) On October 1, 2000, the bank issued a $6,050,000 seven year note due in monthly principal installments of $72,000 plus interest at the bank s prime rate minus .25% (4.5% per annum at March 31, 2002). In addition, the loan agreement allows the Company to convert all or a portion of the outstanding principal to a LIBOR-based loan for periods up to one year. At March 31, 2002, the total outstanding principal balance was under the LIBOR option at 3.15% per annum maturing April 15, 2002. The note is secured by the Company s machinery and equipment, accounts receivable and inventories and matures October 15, 2007.

At March 31, 2002 the Company had available a term-loan commitment in the amount of $2,000,000 for future machinery and equipment purchases. Advances under the line will be subject to monthly interest only payments at the bank s prime or LIBOR interest rate options until October 1, 2002 at which time amounts borrowed will convert to a sixty-month fully amortizable loan.

(B) In July 1998, a $2,000,000 real estate loan secured by the Company s Bensenville, Illinois and Gainesville, Texas properties was issued to Wells Fargo Bank. This note replaced the 1994 real estate loan issued in connection with the purchase of the Bensenville, Illinois property. The note is due in monthly principal installments of approximately $6,700 plus interest at the bank s prime rate minus .25% (4.5% per annum at March 31, 2002), or LIBOR interest rate option on a twenty-five year amortization with the outstanding principal due on July 1, 2008. At March 31, 2002, the total outstanding principal was under the LIBOR option at 3.15% per annum maturing April 15, 2002.

Effective July 15, 1998, the Company initiated an interest rate swap agreement with the bank. The agreement allows the Company to fix a portion of its outstanding term and line of credit debt ($5 million as of March 31, 2002) from a variable floating LIBOR rate to a fixed LIBOR rate in efforts to protect against future increases in the bank s LIBOR rate. The agreement matures July 15, 2003.

NOTE 7 ACCRUED LIABILITIES:

Accrued liabilities consists of:

		March 31, 2002		June 30, 2001
Salaries, wages, commissions and related payables	$	447,600	$	463,000
Other		441,200		348,400
	$	888,800	$	811,400

NOTE 8 - STOCK OPTION PLAN:

The Company has a stock option plan which allows, at the discretion of the Board of Directors, for the granting of options to key employees, officers, directors, and consultants of the Company to purchase 1,000,000 shares of the Company s common stock. Under the terms and conditions set forth in the plan, the exercise price of the stock options will be at least 85% of the fair market value of the Company s common stock on the grant date. The maximum term for options granted under the plan is five years. The plan expires June 12, 2004.

The options outstanding as of March 31, 2002 are exercisable at prices ranging from $0.9375-$1.1875 (fair market value at the date of grant). The outstanding options are exercisable as follows: 185,000 shares 100% exercisable, and 15,000 shares exercisable August 2002. At March 31, 2002, the Company had 737,500 shares available for future grants.

Stock Option Activity:

	Outstanding Shares	Weighted Average Price Per Share
Balance outstanding at June 30, 2001	307,500	$ 1.0084
Exercised	(57,500)	$ 0.8668
Cancelled	(50,000)	$ 0.8750
Balance outstanding at March 31, 2002	200,000	$ 1.1000

NOTE 9 - COMMON STOCK:

Treasury stock is recorded at cost. At March 31, 2002, treasury stock consisted of 1,527 shares of common stock at a cost of $1,500 and at June, 30, 2001, treasury stock consisted of 864 shares of common stock at a cost of $700.

The Company reinstated its buyback program in the latter part of September 2000. The Company continues to actively pursue acquiring its common shares during Fiscal 2002 as long as the market value per share continues to be under recognized by the stock market. In fiscal 2002, the Company has acquired and subsequently retired 50,131 shares of common stock at a total cost of $37,100.

On June 12, 2001, the Board of Directors declared a common stock dividend of $.04 per common share which was paid on July 13, 2001 to stockholders of record on June 27, 2001. This marks the fifth payment of dividends since 1996 on the Company s common stock.

On November 8, 2001, the Company initiated an Odd Lot Program to offer shareholders who own fewer than 100 shares of the Company s common stock to sell such shares for a $1.00 per share. The Program initially ran from November 8, 2001 thru March 31, 2002 and was recently extended to expire on June 28, 2002. As of March 31, 2002, the Company has acquired 8,226 shares of common stock at a total cost of $8,200.

NOTE 10 - INCOME TAXES:

The components of the income tax provision were:

	For the three months ended March 31,		For the nine months ended March 31,	
	2002	**2001**	**2002**	**2001**
Current:				
Federal	$ (65,100)	$ (14,600)	$ (65,100)	$ (15,100)
State	(32,400)	(10,100)	(66,800)	(36,100)
	(97,500)	(24,700)	(131,900)	(51,200)
Deferred:				
Federal	(112,900)	(151,500)	(219,000)	(161,300)
State	400	11,700	10,000	16,300
	(112,500)	(139,800)	(209,000)	(145,000)
	$ (210,000)	$ (164,500)	$ (340,900)	$ (196,200)

At March 31, 2002, the Company had net operating loss (NOL) carryforwards of approximately $7,053,200 for state income tax purposes. The NOL carryforwards, which are available to offset taxable income of the Company and are subject to limitations should a change in ownership as defined in the Internal Revenue Code occur, will begin to expire in 2002 if not utilized.

At March 31, 2002, the Company also had a federal alternative minimum tax (AMT) credit of approximately $412,500 which is available to offset future federal income taxes once the Company is no longer subject to an alternative minimum tax for federal income tax purposes. Under current projections, management fully utilized the federal AMT credit in Fiscal 2002.

NOTE 11 - COMPUTATION OF EARNINGS PER SHARE:

Basic and diluted earnings per share have been computed in accordance with SFAS No. 128 Earnings per Share , using the treasury stock method for applicable common stock options when computing diluted earnings per share.

The tables below details the components of the basic and diluted earning per share (EPS) calculations:

	Three months ended March 31, 2002			Three months ended March 31, 2001		
	Income	**Shares**	**EPS Amount**	**Income**	**Shares**	**EPS Amount**
Basic EPS						
Net income	$ 394,100	12,766,944	$ .03	$ 260,800	12,799,326	$ .02
Effect of dilutive stock options			(1)			(1)
Diluted EPS	$ 394,100	12,766,944	$ .03 (1)	$ 260,800	12,799,326	$ .02(1)

	Nine months ended March 31, 2002					Nine months ended March 31, 2001				
		(Loss)/Income	Shares		EPS Amount		Income	Shares		EPS Amount
Basic EPS										
Net income before accounting change	$	592,000	12,779,033	$	.05	$	265,900	12,855,848	$	.02
Cumulative effect of change in accounting principle for goodwill		(4,105,900)			(.32)					
Net (loss)/income		(3,513,900)	12,779,033		(.27)		265,900	12,855,848		.02
Effect of dilutive stock options					(1)			14,370		
Diluted EPS	$	(3,513,900)	12,779,033	$	(.27)(1)	$	265,900	12,870,218	$	.02

(1) Common stock equivalents are omitted in the earnings per share calculations due to their anti-dilutive effect.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Introduction

To the extent that this 10-Q Quarterly Report discusses matters which are not historical, including statements regarding future financial results, information or expectation about products or markets, or otherwise makes statements about future events, such statements are forward-looking and are subject to a number of risks and uncertainties that could cause actual results to differ materially from the statements made. These include, among others, fluctuations in costs of raw materials and other expenses, costs associated with plant closures, downturns in the markets served by the Company, the costs associated with new product introductions, as well as other factors described under this Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations , and Footnote 1 to Financial Statements.

Results of Operations - Three Months Ended March 31, 2002 and 2001

Net sales for the three months ended March 31, 2002 decreased 5.4 % to $9,368,100 compared to $9,904,500 for the same period last year. Although this dip reflects the economic slowdown that has gripped our Country, the Company s sales volumes have improved by 18.2 % in comparison to last quarter s sales volumes. This quarter-to-quarter increase in sales volumes provided a positive indication that market conditions are slowly improving which coupled with management s heavy focus on product development projects should continue to have a positive impact on future results.

Cost of goods sold improved by 3.2% to 71.8% of net sales for the three months ended March 31, 2002 compared to 75% for the same period last year. Management is pleased with this notable reduction in comparative costs. Management has been very proactive in its efforts to improve and sustain acceptable gross margins in correlation with current market conditions. As such, current operations have benefited from improved efficiencies, streamlined operations and workforce reductions.

Selling, general and administrative (SG&A) expenses were $1,967,600, or 21% of net sales, for the three months ended March 31, 2002 compared with $1,894,600, or 19.1% of net sales for the same period last year. The increase is attributed to the lower sales volumes as well as an increase in marketing costs of $142,600, consistent with management s product development efforts, net of the elimination of goodwill amortization which amounted to $81,200.

Total interest expense decreased $66,400 to $111,700 for the three months ended March 31, 2002 compared to $178,100 for the same period last year. The decrease is primarily related to the $2,495,400 decrease in the Company s debt structure compared to March 31, 2001 coupled with the falling interest rate environment. These factors, along with the Company s continuing ability to generate sufficient cash flows to service its debt structure, will continue to have a positive effect on reducing future interest costs.

Income taxes were $210,000 for the three months ended March 31, 2002 compared to $164,500 for the same period last year. The disparity is consistent with the 42% increase in income before taxes between the two periods. As of March 31, 2002, the Company determined that it has fully utilized its available alternative minimum tax credit. As such, the Company anticipates it will begin to incur additional current federal income tax liability in conjunction with future pretax earnings.

Net income increased $133,300 to $394,100, or three cents per common share, for the three months ended March 31, 2002 compared to $260,800, or two cents per common share, for the same period last year. Even though market conditions are still in the recovery stage management is pleased with the Company s sales volume improvements coupled with the improved efficiencies and ongoing cost containment efforts which have successfully minimized these adverse market conditions. In addition, the Company further benefited in the current period from the cost reductions relating to interest expense and goodwill amortization as previously mentioned. These efforts in unison with management s marketing and product development endeavors for both its custom molding and proprietary product lines should continue to have a positive impact on future results as the economy continues to recover.

Results of Operations Nine Months Ended March 31, 2002 and 2001

Net sales for the nine months ended March 31, 2002 decreased 9.3% to $26,884,000 compared to $29,650,700 for the same period last year. Again, the reduction in comparative sales volumes is directly related to the economic slowdown our nation is experiencing. However, management is pleased that the gap in sales volumes continues to close and is optimistic this trend will continue during the fourth quarter as the economy slowly recovers. Management has also been actively involved in several product development projects during this time that they believe will have a positive impact on future results.

Cost of goods sold improved by 2.6% to 74.5% of net sales for the nine months ended March 31, 2002 compared to 77.1% for the same period last year. Management is pleased with the notable reduction in comparative costs. Management has been very proactive in its efforts to improve and sustain acceptable gross margins in correlation with current market conditions. As such, current period gross margins have benefited from improved efficiencies, streamlined operations and workforce reductions.

Selling, General and Administrative (SG&A) expenses were $5,680,700, or 21.1% of net sales, for the nine months ended March 31, 2002 compared with $5,765,100, or 19.4% of net sales, for the same period last year. The comparative percentage increase is attributed to the lower sales volume. However, overall SG&A costs have decreased by $84,400 which is primarily attributed to the elimination of goodwill amortization in the amount of $243,600 net of increases in marketing and wage costs of $124,400 which is consistent with management s product development efforts.

Total interest expense decreased $224,200 to $361,200 for the nine months ended March 31, 2002 compared to $585,400 for the same period last year. The decrease is primarily related to the $2,495,400 decrease in the Company s debt structure compared to March 31, 2001 coupled with the falling interest rate environment. These factors, along with the Company s ability to generate sufficient cash flows to service its debt structure, will continue to have a positive effect on reducing future interest costs.

Income taxes were $340,900 for the nine months ended March 31, 2002 compared to $196,200 for the same period last year. The disparity is consistent with the 102% increase in income before income taxes and cumulative effort of change in accounting principle for goodwill. As of March 31, 2002, the Company has determined that it has fully utilized its available alternative minimum tax credit. As such, the Company anticipates it will begin to incur additional current federal income tax liability in conjunction with future pretax earnings.

Net income before cumulative effect of change in accounting principle for goodwill increased $326,100 to $592,000, or five cents per common share, for the nine months ended March 31, 2002 compared to net income of $265,900, or two cents per common share, for the same period last year. Even though market conditions are still in the recovery stage, management is pleased with the Company s sales volume improvements during the current year coupled with the improved efficiencies and ongoing cost containment efforts that have successfully minimized these adverse market conditions. In addition, the Company further benefited in the current year from the cost reductions relating to interest expense and goodwill amortization as previously mentioned. These efforts in unison with management s marketing and product development endeavors for both its custom molding and proprietary product lines should continue to have a positive impact on future results as the economy continues to recover.

Cumulative Effect of Change in Accounting Principle for Goodwill

The Company recorded an adjustment effective July 1, 2001 to reflect the impact of adopting SFAS No. 142 amounting to a reduction of intangible assets of $4,105,900. This amount is reflected in net loss for the nine months ended March 31, 2002 as a cumulative effect of change in accounting principle for goodwill. The adjustment represents a write down of the Company s net goodwill based on a review of the Company s goodwill for impairment. Under the assessment guidelines of SFAS No. 142 and the SEC s guidance that the Company s quoted market price is the most efficient mechanism for estimating fair value it was determined the fair value of the Company s reporting unit was less than its carrying value. Although the assumptions used to estimate fair value may not be indicative of future results, the Company s goodwill has been reduced to zero and will not require future impairment analysis.

Financial Conditions

Working capital decreased $264,300 to $8,929,800 at March 31, 2002 compared to $9,194,100 at June 30, 2001. The decrease is primarily related to overall reductions in accounts receivable, inventories and accounts payable which is consistent with current operations and lower sales volumes. Cash flows from operations increased by $741,900 to $2,845,000 for the nine months ended March 31, 2002 compared to $2,103,100 for the same period last year. The increase is attributed to the $326,100 improvement in net income before cumulative change in accounting principle between the two periods as well as the cash flows generated from net reductions in inventories. Cash flows from operations continue to show strength allowing the Company to meet its cash flow requirements, pay the $.04 common stock dividend declared in June 2001, and reduce its debt structure by $1,565,00 since June 30, 2001.

The Company expended $864,800 for the property, plant and equipment (PP&E) during the nine months ended March 31, 2002. This is consistent with prior year s expenditures and is in line with current year s PP&E budget. The Company anticipates expending $1.2 million on capital expenditures in fiscal 2002. The primary emphasis will be on new tooling and tooling modifications to enhance future revenues and customer satisfaction, additional equipment for our mold shop and a new injection molding machine to increase productivity.

Net borrowings under the line of credit decreased $856,800 to $243,200 between June 30, 2001 and March 31, 2002. The decrease is attributed to the excess cash flows generated from operations. At March 31, 2002, the Company had $4,756,800 available for future borrowings under the line of credit.

Effective October 1, 2001, the bank extended the maturity date on the line of credit to October 1, 2003 and reduced the total borrowings available under the line of credit from $7,000,000 to $5,000,000. Management agreed to the bank s request to reduce the line of credit borrowing limit after reviewing current cash flow projections which do not currently forecast requirements to exceed the revised $5,000,000 limit. Management and the bank agreed verbally that the borrowing limit would revert back to its original amount ($7,000,000) if circumstances arose that would warrant the need for additional borrowings. Management also decided not to advance on the $1,200,000 term loan commitment and instead requested the bank to issue a new term loan commitment in the amount of $2,000,000 which will expire on October 1, 2002.

On June 12, 2001, the Board of Directors declared a common stock dividend of $.04 per common share which was paid on July 13, 2001 to stockholders of record on June 27, 2001. This marked the fifth payment of dividends since 1996 on the Company s stock. The Board of Directors has committed themselves to annually review a dividend program for the Company s common stock.

Cash flows from operations in conjunction with the Company s revolving line of credit and machinery and equipment loan commitment are expected to meet the Company s needs for working capital, capital expenditures, common stock repurchases and repayment of long-term debt for the foreseeable future.

The Emerging Issues Task Force (EITF) of the Financial Accounting Standard Board (FASB) issued a new release (EITF 00-10) at the end of July 2000 regarding the classification of freight and handling costs billed to customers. EITF 00-10 required freight and handling costs billed separately on an invoice to be included as part of Sales on the Statements of Income. In addition, the preferred classification of freight and handling costs expensed on the Statements of Income is to include them in Cost of Sales. The Company adopted this requirement during the fourth quarter of fiscal 2001 and reclassifications have been made for all prior periods presented. There was no impact on net income as a result of the adoption of EITF 00-10.

In June 2001, the FASB approved two new pronouncements: Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 applies to all business combinations with a closing date after June 30, 2001. This Statement eliminates the pooling-of-interests method of accounting and further clarifies the criteria for recognition of intangible assets separately from goodwill.

SFAS No. 142 eliminates the amortization of goodwill and indefinite-lived intangible assets and initiates an annual review for impairment. Identifiable intangible assets with a determinable useful life will continue to be amortized. The Company adopted SFAS No. 142 effective July 1, 2001, which required the Company to cease amortization of its remaining net goodwill balance and to perform a transitional goodwill impairment test as of July 1, 2001 and thereafter an impairment test at least annually and record an adjustment when the fair value of our reporting unit, including goodwill, is less than its carrying value. The Company was permitted six months from the adoption date to complete a review of goodwill for impairment and record necessary adjustments prior to the end of fiscal 2002. The Company engaged a national valuation specialist to assist with the determination of the estimated fair value of our reporting unit. To determine fair value, valuation models including guideline public companies, acquisition analysis and discounted cash flows were relied upon. As such, under the assessment guidelines of SFAS No. 142 and the SEC s guidance that the Company s quoted market price is the most efficient mechanism for estimating fair value, their findings indicated that the estimated fair value of our reporting unit was less than its carrying value. The Company completed the transitional goodwill impairment test in accordance with SFAS No. 142, and wrote-off effective July 1, 2001 its remaining net goodwill of $4,105,900 as a non-cash cumulative effect of change in accounting principle. Goodwill amortization expense was $243,600 and $81,200 for the nine months and three months ended March 31, 2001, respectively.

In September 2001, the FASB approved pronouncement SFAS No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 supersedes SFAS No. 121 Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of as well as Accounting Principle Board Opinion No. 30 Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual, and Infrequently Occurring Events and Transactions. SFAS No. 144 not only retains the requirements of SFAS No. 121 to recognize an impairment loss if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows, but also establishes a single accounting method for assets to be disposed of and broadens the presentation of discounted operations to include more disposal transactions. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. The adoption of this pronouncement is not expected to have a significant impact on the Company s financial position or results of operations.

Item 2a. Disclosures about Market Risk

Interest Rate Risk

Information regarding the Company s market risk relating to interest rate volatility was disclosed in the Company s Form 10-K for the fiscal year ended June 30, 2001 and should be read in conjunction with this interim financial information. Since June 30, 2001, there has been no significant change in the Company s exposure to market risks.

ROTONICS MANUFACTURING INC.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None.

(b) Reports on Form 8-K

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on behalf by the undersigned thereunto duly authorized.

Rotonics Manufacturing Inc.
Registrant

Date May 3, 2002	/s/ SHERMAN MCKINNISS Sherman McKinniss Chairman of the Board
Date: May 3, 2002	/s/ ROBERT E. GAWLIK Robert E. Gawlik President and Chief Executive Officer
Date: May 3, 2002	/s/ DOUGLAS W. RUSSELL Douglas W. Russell Chief Financial Officer