ROTONICS MANUFACTURING INC/DE
Form 10-Q
October 28, 2005

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: **September 30, 2005**

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.

ýYes oNo

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

oYes ýNo

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

oYes ýNo

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 September 30, 2005
Common Shares	11,914,198 Shares
($.01 stated par value)	Total Pages 14

ROTONICS MANUFACTURING INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ROTONICS MANUFACTURING INC.
CONSOLIDATED BALANCE SHEETS

		September 30, 2005 (Unaudited)		June 30, 2005
ASSETS				
Current assets:				
Cash	$	90,100	$	310,500
Accounts receivable, net of allowance for doubtful accounts of $264,200 and $291,500, respectively		5,165,600		5,430,800
Inventories		8,202,000		6,974,000
Deferred income taxes, net		220,000		226,900
Prepaid expenses and other current assets		106,900		215,700
Total current assets		13,784,600		13,157,900
Property, plant and equipment, net		12,942,100		13,196,700
Intangible assets, net		159,700		171,100
Other assets		66,500		64,500
	$	26,952,900	$	26,590,200
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Current portion of long-term debt	$	864,300	$	864,300
Accounts payable		2,919,900		2,819,300
Accrued liabilities		940,800		901,300
Income taxes payable		128,000		
Total current liabilities		4,853,000		4,584,900
Bank line of credit		765,500		1,029,400
Long-term debt, less current portion		36,300		252,400
Deferred income taxes, net		2,233,000		2,304,200
Other liabilities		83,000		119,000
Total liabilities		7,970,800		8,289,900
Stockholders equity:				
Common stock, stated par value $.01: authorized 20,000,000 shares; issued and outstanding 11,913,998 and 11,940,598 shares, respectively, net of treasury shares		21,958,400		22,029,500
Accumulated other comprehensive loss, net of tax		(5,700)		(15,800)
Accumulated deficit		(2,970,600)		(3,713,400)
Total stockholders equity		18,982,100		18,300,300
	$	26,952,900	$	26,590,200

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

ROTONICS MANUFACTURING INC.

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME AND ACCUMULATED DEFICIT

(Unaudited)

	Three Months Ended September 30,			
		2005		2004
Net sales	$	12,500,100	$	11,969,500
Costs and expenses:				
Cost of goods sold		9,550,400		8,945,500
Gross profit		2,949,700		3,024,000
Selling, general and administrative expenses		1,765,400		1,934,900
Income from operations		1,184,300		1,089,100
Other income/(expense):				
Interest expense		(30,000)		(52,000)
Other income, net		48,300		63,500
Total other income/(expense), net		18,300		11,500
Income before income taxes		1,202,600		1,100,600
Income tax provision		(459,800)		(442,800)
Net Income		742,800		657,800
Other comprehensive gain before tax:				
Unrealized holding gain/(loss) arising during the period		7,200		(19,600)
Less: Reclassification adjustments for losses included in net income		9,800		26,100
Total other comprehensive gain before tax		17,000		6,500
Income tax expense related to items of other comprehensive gain		(6,900)		(2,600)
Total other comprehensive gain, net of tax		10,100		3,900
Comprehensive income	$	752,900	$	661,700
Accumulated deficit, beginning period	$	(3,713,400)	$	(4,886,300)
Net income		742,800		657,800
Accumulated deficit, end of period	$	(2,970,600)	$	(4,228,500)
Net income per common share:				
Basic and diluted				
Net income	$	.06	$	. 05
Weighted average number of common and Common equivalent shares outstanding:				
Basic		11,937,036		11,987,825
Diluted		11,937,036		11,987,825

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

ROTONICS MANUFACTURING INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended September 30, 2005	2004
Cash flows from operating activities:		
Net income	$ 742,800	$ 657,800
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	542,600	543,500
Gain on sales of equipment		(33,900)
Deferred income tax provision	(71,200)	(36,100)
Provision for doubtful accounts	(19,500)	39,300
Changes in assets and liabilities:		
Decrease in accounts receivable	284,700	520,900
Increase in inventories	(1,228,000)	(564,500)
Decrease in prepaid expenses and other current assets	108,800	66,700
(Increase)/decrease in other assets	(2,000)	800
Increase/(decrease) in accounts payable	697,600	(554,700)
Increase in accrued liabilities	56,500	190,900
Increase in income taxes payable	128,000	90,200
Decrease in other liabilities	(36,000)	
Net cash provided by operating activities	1,204,300	920,900
Cash flows from investing activities:		
Capital expenditures	(276,600)	(435,300)
Proceeds from sales of equipment		34,800
Net cash used in investing activities	(276,600)	(400,500)
Cash flows from financing activities:		
Borrowings under line of credit	1,159,600	3,404,100
Repayments under line of credit	(1,423,500)	(3,072,400)
Repayment of long-term debt	(216,100)	(216,100)
Payment of common stock dividends	(597,000)	(599,100)
Repurchases of common stock	(71,100)	(4,800)
Net cash used in financing activities	(1,148,100)	(488,300)
Net (decrease)/increase in cash	(220,400)	32,100
Cash at beginning of period	310,500	56,500
Cash at end of period	$ 90,100	$ 88,600
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 28,800	$ 51,800
Income taxes	$ 365,000	$ 363,000
Non-cash financing activity:		
Change in fair value of interest rate swap	$ (10,100)	$ (3,900)

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

ROTONICS MANUFACTURING INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1-INTERIM REPORTING:

Basis of Presentation

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 for the fiscal year ended June 30, 2005.

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

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 123R (Share-Based Payment). SFAS 123R requires the Company to recognize compensation expense for equity instruments awarded to employees. SFAS 123R became effective for the Company as of the first interim period that began after June 15, 2005. The adoption of this standard did not have an impact on the Company s consolidated financial statements.

In November 2004, the FASB issued SFAS No. 151,   Inventory Costs   (SFAS 151), an amendment of ARB No. 43, Chapter 4. SFAS 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. SFAS 151 was effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of SFAS 151 did not have a material effect on the Company s consolidated financial position, results of operations or cash flows.

In December 2004, the FASB issued SFAS No. 153   Exchanges of Nonmonetary Assets   an amendment of APB Opinion No. 29.   This standard amends APB Opinion No. 29,   Accounting for Nonmonetary Transactions , by eliminating the exception to fair value measurement for exchanges of similar productive assets and replaces it with a general exception for exchange transactions that do not have commercial substance   that is, transactions that are not expected to result in significant changes in the cash flows of the reporting entity. SFAS No. 153 became effective for the Company as of the first interim period that began after June 15, 2005. The adoption of this standard did not have a material effect on the Company s consolidated financial position, results of operation or cash flows.

NOTE 2 - INVENTORIES:

Inventories consist of:

		September 30, 2005		June 30, 2005
Raw materials	$	3,572,800	$	2,470,700
Finished goods		4,629,200		4,503,300
	$	8,202,000	$	6,974,000

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment consist of:

		September 30, 2005		June 30, 2005
Land	$	1,027,300	$	1,027,300
Buildings and building improvements		5,001,400		4,941,500
Machinery, equipment, furniture and fixtures		30,015,000		29,877,100
Construction in progress		88,800		28,500
		36,132,500		35,874,400
Less - accumulated depreciation and amortization		(23,190,400)		(22,677,700)
	$	12,942,100	$	13,196,700

NOTE 4 - INTANGIBLE ASSETS:

Intangible assets consist of:

		September 30, 2005		June 30, 2005
Patents	$	475,700	$	475,700
Less - accumulated amortization		(316,000)		(304,600)
Net patents	$	159,700	$	171,100

Aggregate amortization expense for each of the three months ended September 30, 2005 and 2004 was $11,400.

NOTE 5 - BANK LINE OF CREDIT:

The Company has a $5,000,000 revolving line of credit with Wells Fargo Bank, which was originally set to mature on October 1, 2006. The line 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% (6.5% per annum at September 30, 2005). 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 September 30, 2005, total borrowings under the Company s line of credit was $765,500 of which $250,000 was borrowed under the LIBOR option at a LIBOR rate of 4.78938% maturing October 17, 2005. Proceeds from the loan were used for working capital purposes. On October 1, 2005 the bank extended the maturity date on the line of credit to October 1, 2007. At September 30, 2005, the Company had approximately $4,234,500 available for future borrowings under the revolving line of credit.

NOTE 6 - LONG-TERM DEBT:

Long-term debt consists of:

		September 30, 2005		June 30, 2005
Note payable - Bank (A)	$	900,600	$	1,116,700
Less current portion		(864,300)		(864,300)
	$	36,300	$	252,400

(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% (6.5% per annum at September 30, 2005). 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 September 30, 2005, the total outstanding principal balance was under the LIBOR option at 5.03938% per annum maturing October 17, 2005. The note is secured by the Company s machinery and equipment, accounts receivable and inventories and matures October 15, 2007.

The Company has 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 ($2 million as of September 30, 2005) 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 notional amount of the swap agreement will remain at $2 million until its maturity on August 15, 2006. At September 30, 2005 the notional amount of our interest rate swap exceeded our total debt borrowings associated with the swap. As of September 30, 2005, the amount of hedge ineffectiveness for our swap was approximately $1,000.

NOTE 7- ACCRUED LIABILITIES:

Accrued liabilities consist of:

		September 30, 2005		June 30, 2005
Salaries, wages, commissions and related payables	$	617,700	$	604,900
Other		323,100		296,400
	$	940,800	$	901,300

NOTE 8 - STOCK OPTION PLAN:

The Company has a stock option plan that was adopted by the Board of Directors on October 7, 2003 and approved by shareholder vote on December 8, 2003. This plan allows, at the discretion of the Board of Directors, to grant stock options to key employees, officers, directors and consultants of the Company to purchase 850,000 shares of the Company s common stock. Under the terms and conditions set forth in the plan, the purchase price of the stock options will be at least 85% of the fair market value of the Company s common stock on grant date. The maximum term for options granted under the plan is ten years and the plan expires on October 6, 2013.

The Company has not granted any options under this plan, and therefore as of September 30, 2005, the Company still has 850,000 shares available for future grants.

NOTE 9 - COMMON STOCK:

At September 30, 2005, treasury stock consisted of 200 shares of common stock at a cost of $500. There was no outstanding treasury stock as of June 30, 2005. The Company s current buyback program was effective June 28, 2005 and allows the Company to acquire up to $1 million of its outstanding common stock. The Company continues to support its buyback whenever the market value per share is under recognized by the stock market. During the three months ended September 30, 2005 the Company acquired 26,600 shares of common stock at a total cost of $71,100.

On June 28, 2005, the Board of Directors declared a common stock dividend of $.05 per common share, which was paid on July 29, 2005 to stockholders of record on July 18, 2005.

NOTE 10 - INCOME TAXES:

The components of the income tax provision were:

	For the three months ended September 30,	
	2005	**2004**
Current:		
Federal	$ 453,400	$ 401,000
State	77,600	77,900
	531,000	478,900
Deferred:		
Federal	(64,900)	(29,700)
State	(6,300)	(6,400)
	(71,200)	(36,100)
	$ 459,800	$ 442,800

At September 30, 2005, the Company has combined Florida and Tennessee state net operating loss (NOL) carryforwards of approximately $7,344,600. The NOL carryforwards, which are available to offset taxable income of the Company and are subject to limitations should a change in ownership occur, will begin to expire in 2006 if not utilized.

NOTE 11 - COMPUTATION OF EARNINGS PER SHARE:

Basic earnings per share (EPS) is computed by dividing reported earnings by weighted average shares outstanding. Diluted EPS include the effect of the potential shares outstanding, including dilutive securities using the treasury stock method. Potential dilutive securities for the Company include outstanding stock options.

The tables below detail the components of the basic and diluted EPS calculations:

	Three months ended September 30, 2005			Three months ended September 30, 2004		
	Income	**Shares**	**EPS Amount**	**Income**	**Shares**	**EPS Amount**
Basic EPS						
Net income	$ 742,800	11,937,036	$ .06	$ 657,800	11,987,825	$ .05
Effect of dilutive stock options						
Diluted EPS	$ 742,800	11,937,036	$ .06	$ 657,800	11,987,825	$. 05

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 and other 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. When used in this report, the words expects, anticipates, intends, plans, believes, seeks, estimates and similar expressions are generally intended identify forward-looking statements. You should not place undue reliance on these forward-looking statements, which reflect our opinion only as of the date of the Quarterly Report. We undertake no obligation to publicly release any revisions to the forward-looking statements after the date of this document. You should carefully review the risk factors, critical accounting policies and disclosures described in other documents, including our Form 10-K, that we file from time to time with the Securities and Exchange Commission.

Results of Operations - Three Months Ended September 30, 2005 and 2004

Net sales for the three months ended September 30, 2005 increased 4.4% to $12,500,100 compared to $11,969,500 for the same period last year. We continue to benefit from enhancements to our proprietary product offering, which is apparent in the 17.6% increase in our industrial products group and the 26.9% increase in our refuse products during the current period. Although our consumer, marine and contract manufacturing product groups have slightly waned due to current uncertainties in our marketplace, we remain optimistic that future demand for these products will not be significantly impacted by potential drops in overall consumer confidence. Furthermore, we would also like to note that prior year s net sales benefited from an additional week of operations, and thus was a contributing factor in the comparative downturn in the aforementioned product groups. At September 30, 2005 our backlogs still reflect positive trends at most of our facilities and still exceed total balances outstanding this time last year. We remain energized by our current results and by the future prospects currently available in the marketplace including any potential business relating to the recovery and rebuilding of our nation s Gulf Coast. In addition, we have committed to new equipment purchases during fiscal 2006 that will also promote additional sales and productivity improvements.

Cost of goods sold increased 1.7% to 76.4% of net sales for the three months ended September 30, 2005 compared to 74.7% for the same period last year. The increase is attributed to unprecedented increases in resin and natural gas costs during the period. These costs have been steadily escalating due to industry supply and demand issues that have been further exasperated by the natural disasters that afflicted our nation s Gulf Coast region. The Gulf Coast is home to many of our country s largest resin and natural gas producing companies, which are still in the recovery mode as they continue to work to bring production capacity back on line. As such, we can anticipate that resin and natural gas costs will continue to be a concern and will burden future operating results. We were pleased with our efforts to mitigate these costs by initiating systematic price increases as well as the $222,000 in savings derived primarily from improved efficiencies in our workforce labor and reductions in workers compensation insurance costs. We will strive to mitigate existing and future cost escalations relating to resin and natural gas with additional product price increases, ongoing elimination of wasteful costs and expanding our use of energy efficient equipment.

Selling general and administrative (SG&A) expenses were $1,765,400, or 14.1% of net sales, for the three months ended September 30, 2005 compared with $1,934,900, or 16.2% of net sales, for the same period last year. Approximately $85,000 of the decrease is related to lower wage costs that were incurred in the comparative prior period due to the additional week of operations. The balance of the current period savings was due to our SG&A line item cost reduction efforts, reductions in insurance costs and a $50,000 reduction in our allowance for doubtful accounts based on a re-evaluation of our estimated bad debt reserves.

Total interest expense was $30,000 for the three months ended September 30, 2005 compared to $52,000 for the same period last year. Our current operations benefited from the overall reduction in our debt levels coupled with a reduction in our swap s notional amount from $3 million to $2 million. Because of our interest rate swap agreement we have not incurred any additional interest costs in spite of numerous hikes in our bank s prime rate and do not foresee any significant increases in future costs even if additional rate hikes are instituted.

Income taxes were $459,800 for the three months ended September 30, 2005 compared to $442,800 for the same period last year. The majority of our income tax provision relates to current taxes due and is consistent with the respective levels of taxable income between the periods.

Net income increased $85,000 to $742,800, or $.06 per common share, for the three months ended September 30, 2005 compared to $657,800, or $.05 per common share, for the same period last year. As previously mentioned, we were pleased with our increase in net sales compared to prior year s results that also had the benefit of an additional week of operations. Our efforts to maintain and build our sales base proved instrumental in offsetting the unprecedented increases in resin and natural gas costs during the current period along with the savings obtained from lower workforce and workers compensation insurance costs. Again, we anticipate additional increases in resin and natural gas costs during the ensuing months that in turn could potentially hamper our ability to maintain acceptable gross margin levels. We are committed to mitigating these costs to the best of our ability. As our nation and our suppliers continue to recover from our nation s recent catastrophes, we are hopeful that these inflationary trends will stabilize before the end of 2005. In the meantime, we look forward to the challenges before us and will continue to promote our efforts to expand our presence in the marketplace.

Financial Condition

Working capital increased $358,600 to $8,931,600 at September 30, 2005 compared to $8,573,000 at June 30, 2005. The increase is attributed to our current periods net income, which net of the reduction in our debt borrowings, helped fund the increase in inventory to take advantage of preferred resin pricing. Cash flows from operations increased $283,400 to $1,204,300 for the three months ended September 30, 2005 compared to $920,900 for the same period last year. Cash flows from operations benefited from the $85,000 increase in our net income as well as reductions in our overall accounts receivable balances that was fueled by improvements in our days sales outstanding. These cash flows were used to pay our $.05 common stock dividend, acquire additional resin to take advantage of preferred pricing as well as payment of our quarterly federal and state income tax installments.

We expended $276,600 for property, plant and equipment (PP&E) during the three months ended September 30, 2005. As illustrated last year, we are again committed to improve our operations through various capital expenditure projects. Currently highlighted for fiscal year 2006, are two additional energy efficient machines that will be installed in our Gardena, California and Bartow, Florida locations. These new machines will be placed into service over the next several months and will continue our pledge to enhance our competitive edge in the marketplace. We anticipate expending between $1.2 and $1.5 million on capital expenditures in fiscal year 2006.

Net borrowings under the line of credit decreased $263,900 to $765,500 between June 30, 2005 and September 30, 2005. The decrease is attributed to increased cash flows from operations net of payments for capital expenditure projects, federal income taxes, raw material purchases and our $.05 common stock dividend paid during the current period. Due to the timing of these types of payments, we anticipate the line of credit to reflect temporary increases throughout the year. As of September 30, 2005, our overall debt structure decreased $480,000 to $1,666,100.

Effective October 1, 2005, the bank extended the maturity date on the line of credit to October 1, 2007. In addition, the maturity date for the letter of credit subfeature of our credit facility was extended to February 1, 2008. All other terms and conditions surrounding our credit facility with the bank remained the same.

During the three months ended September 30, 2005, we acquired 26,600 shares of common stock at a total cost of $71,100. We plan to continue this program throughout fiscal year 2006.

On June 28, 2005, the Board of Directors (The Board) declared a common stock dividend of $.05 per common share ($597,000) that was paid on July 29, 2005 to stockholders of record on July 18, 2005. This marked the ninth payment of dividends since 1996 on the Company s common stock. The Board is committed to review a dividend program for our common stock on an annual basis.

Cash flows from operations in conjunction with our revolving line of credit are expected to meet our needs for working capital, capital expenditures, common stock repurchasing and repayment of long-term debit for the foreseeable future.

Impact of Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 123R (Share-Based Payment). SFAS 123R requires the Company to recognize compensation expense for equity instruments awarded to employees. SFAS 123R became effective for the Company as of the first interim period that began after June 15, 2005. The adoption of this standard did not have an impact on the Company s consolidated financial statements.

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In December 2004, the FASB issued SFAS No. 153 Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29. This standard amends APB Opinion No. 29, Accounting for Nonmonetary Transactions , by eliminating the exception to fair value measurement for exchanges of similar productive assets and replaces it with a general exception for exchange transactions that do not have commercial substance that is, transactions that are not expected to result in significant changes in the cash flows of the reporting entity. SFAS No. 153 became effective for the Company as of the first interim period that began after June 15, 2005. The adoption of this standard did not have a material effect on the Company s consolidated financial position, results of operation or cash flows.

Off-Balance Sheet Arrangements and Contractual Obligations

The Company has no off-balance sheet arrangements or significant guarantees to third parties not fully recorded in our balance sheets or fully disclosed in our notes to consolidated financial statements. The Company s significant contractual obligations include our debt agreements and lease agreements.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are material differences between these estimates, judgments or assumptions and actual results, our financial statements will be affected. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management s judgment in its application. There are also areas in which management s judgment in selecting among available alternatives would not produce a materially different result. Our senior management has reviewed these critical accounting policies and related disclosures with our Audit Committee. See notes to Consolidated Financial Statement in our Form 10-K for fiscal 2005, which contain additional information regarding our accounting policies and other disclosures by GAAP.

The significant accounting policies that we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

Accounts Receivable

We make judgments as to our ability to collect outstanding receivables and provide allowances for the portion of receivables when collection becomes doubtful. Provisions are based on a percentage of net sales and a specific review of all significant outstanding receivable balances. Percentages applied may vary based on analysis of historical collection experience or current economic trends. If the data we use to calculate the allowance for doubtful accounts does not reflect the future ability to collect outstanding receivables, additional provisions for doubtful accounts may be needed and the results of operations could be affected.

Inventory Valuation

Finished goods inventory is valued at cost and management uses historical gross margin trends and other estimates to continually update labor and overhead allocations. The gross margin percentage reflects our estimate of the cost of, among other things, material, labor and overhead expenditures during the production process. Such costs are capitalized to inventory as products are manufactured. Although it is believed that the estimates are reasonable, it is possible that the actual labor and overhead costs will differ over time from the estimated amounts. Due to the high volume of transactions and the way raw materials are used in product manufacturing, inventory quantities can change rapidly and are impacted by a variety of factors including, production efficiency, obsolescence, scrap, design changes, customer preferences, etc. As such, the Company must regularly count inventories to ensure they are up to date. The Company takes a physical count monthly and reconciles the count to the inventory. However, given the number of transactions, the number of locations and the large number of inventory items, adjustments to the counts do occur on a regular basis. Although we believe that our inventory counts and values are reasonable the inventory does have some inherit estimates that could impact our balance sheet and results of operations.

Impairments of Long-Lived Assets

In accordance with the methodology described in FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, we review long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. Impairment losses are recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets carrying amounts. The impairment loss is measured by comparing the fair value of the asset to its carrying amount. No impairments were recorded in the financial statements included in this Form 10-Q.

Revenue Recognition

Revenues are recognized from the sale of our products upon shipment, provided that persuasive evidence of a sales arrangement exists, the price is fixed or determinable, title has transferred, and collectibility of the resulting receivable is reasonably assured. Title and risk of loss transfer to the customer when the product leaves the Company s facility.

Income Taxes

Under SFAS No. 109, Accounting for Income Taxes, income taxes are recorded based on the current amounts payable or refundable, as well as the consequences of events that give rise to deferred tax assets and liabilities based on differences in how those events are treated for tax purposes. We base our estimates of deferred tax assets and liabilities on current tax laws and rates and in certain cases expectations about future outcomes. Our accounting for deferred tax consequences represents management s best estimate of future events that can be appropriately reflected in accounting estimates. Our net operating loss carryforwards, which are available to offset taxable income, are also subject to limitations should a change in ownership as defined in the Internal Revenue Code occur. Although management believes that its estimates are reasonable, no assurance can be given that the final tax outcome of these matters will not be different than that which is reflected in our historical income tax provisions and accruals. Such differences could have a material impact on our results of operations and financial position.

In particular, we recorded a valuation allowance to reduce its deferred tax assets to the amount of future tax benefit that is more likely than not to be realized. While management has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, there is no assurance that the valuation allowance would not need to be increased to cover additional deferred tax assets that may not be realized. Any increase in the valuation allowance could have a material adverse impact on our income tax provision and net income for the period in which such determination is made.

Item 3. Quantitative and Qualitative 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, 2005 and should be read in conjunction with this interim financial information. Since June 30, 2005, there have been no significant changes in the Company s exposure to market risk.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities and Exchange Act of 1934, as amended (the Exchange Act), is recorded, summarized and processed within time periods specified in the SEC s rules and forms. As of the end of the period, covered by this report (the Evaluation Date), we carried out an evaluation, under the supervision and with the participation of our management, including our president and chief executive officer and our chief financial officer, of the effectiveness of the design and operation of our disclosure controls procedures pursuant to Rule 13a-14 under the Exchange Act. Based upon this evaluation, our president and chief executive officer and our chief financial officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective under Rules13a-14.

There has been no change in our internal controls over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonable likely to materially affect, our internal controls over financial reporting.

ROTONICS MANUFACTURING INC.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit No.	Exhibit Title
31.1	Certification pursuant to Rule 13a-14 under the Securities Exchange Act of 1934
31.2	Certification pursuant to Rule 13a-14 under the Securities Exchange Act of 1934
32.1	Certification pursuant to section 906 of the Sarbanes-Oxley Act

(b) Reports on Form 8-K

On August 12, 2005, we filed a current report of Form 8-K reporting under item 2.02, Results of Operations and Financial Condition, announcing our press release dated July 15, 2005 outlining our unaudited fiscal year June 30, 2005 earnings.

On September 19, 2005, we filed a current report of Form 8-K reporting under item 2.02, Results of Operations and Financial Condition, announcing our press release dated September 19, 2005 outlining our audited fiscal year June 30, 2005 earnings.

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: October 28, 2005

/s/ SHERMAN McKINNISS
Sherman McKinniss
President, Chief Executive Officer,
Chairman of the Board

/s/ DOUGLAS W. RUSSELL
Douglas W. Russell
Chief Financial Officer,
Assistant Secretary/Treasurer