ROTONICS MANUFACTURING INC/DE
Form 10-Q
January 24, 2001

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: DECEMBER 31, 2000

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 /X/   No / /

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 DECEMBER 31, 2000
Common Shares ($.01 stated value)	12,817,387 Shares
	Total Pages 16

ROTONICS MANUFACTURING INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ROTONICS MANUFACTURING INC.
CONSOLIDATED BALANCE SHEETS

DEC

	(Un
ASSETS	
Current assets:	
Cash	$
Accounts receivable, net of allowance for doubtful accounts of $136,200 and $142,000, respectively (Notes 5 and 6)	
Notes receivable	
Inventories (Notes 2, 5 and 6)	
Deferred income taxes, net (Note 10)	
Prepaid expenses and other current assets	

Total current assets	1
Notes receivable, less current portion	
Investment in Partnership	
Property, plant and equipment, net (Notes 3, 5 and 6)	1
Intangible assets, net (Note 4)	
Other assets	

	$ 3
	===
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Current portion of long-term debt (Note 6)	$
Accounts payable	
Accrued liabilities (Note 7)	

Total current liabilities	
Bank line of credit (Note 5)	
Long-term debt, less current portion (Note 6)	
Deferred income taxes, net (Note 10)	

Total liabilities	1

Stockholders' equity:	
Common stock, stated value $.01: authorized 20,000,000 shares; issued and outstanding 12,814,121 and 12,905,721 shares, respectively, net of treasury shares (Note 9)	2
Accumulated other comprehensive loss	
Accumulated deficit	(

Total stockholders' equity	2

	$ 3
	===

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

ROTONICS MANUFACTURING INC.
CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME/(LOSS) AND ACCUMULATED DEFICIT
(Unaudited)

	THREE MONTHS ENDED DECEMBER 31,		S
	2000	1999	200
Net sales	$ 9,159,000	$ 10,262,600	$ 19,34
Costs and expenses:			
Cost of goods sold	7,211,400	7,377,500	15,02
Selling, general and and administrative expenses	2,068,000	1,999,000	4,06
Total costs and expenses	9,279,400	9,376,500	19,08
(Loss)/income from operations	(120,400)	886,100	25
Other (expense)/income:			
Interest expense	(192,500)	(211,000)	(40
Other income/(expense), net	15,900	26,400	(
Total other expenses	(176,600)	(184,600)	(41
(Loss)/income before income taxes	(297,000)	701,500	(15
Income tax benefit/(provision) (Note 10)	120,400	(300,300)	4
Net (loss)/income	(176,600)	401,200	(10
Other comprehensive loss, before tax:			
Cumulative effect of adoption of SFAS 133	-	-	10
Unrealized holding loss arising during the period	(96,500)	-	(15
Less: Reclassification adjustments for gains included in net income/(loss)	(5,300)	-	(1
Total other comprehensive loss before tax	(101,800)	-	(5
Income tax benefit related to items of other comprehensive loss	40,700	-	2
Total other comprehensive loss, net of tax	(61,100)	-	(3
Comprehensive (loss)/income	$ (237,700)	$ 401,200	$ (14
Accumulated deficit, beginning of period	$ (2,777,500)	$ (4,098,200)	$ (2,84
Net (loss)/income	(176,600)	401,200	(10
Accumulated deficit, end of period	$ (2,954,100)	$ (3,697,000)	$ (2,95

(Loss)/income per common share (Note 11):			
Net (loss)/income:			
Basic	$ (.01)	$ .02	$
Diluted	$ (.01)	$ .02	$
Weighted average number of common and common equivalent shares outstanding:			
Basic	12,864,322	14,977,754	12,88
Diluted	12,864,322	15,022,481	12,88

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

ROTONICS MANUFACTURING INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	SIX MONTHS ENDED DECEMBER 31,	
	2000	1
Cash flows from operating activities:		
Net (loss)/income	$ (109,600)	$ 1,
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Depreciation and amortization	1,344,700	1,
Loss/(gain) on sale of equipment	4,100	
Deferred income tax (benefit)/provision	(71,300)	
Provision for doubtful accounts	50,100	
Changes in assets and liabilities:		
Decrease in accounts receivable	1,242,900	
Increase in inventories	(139,700)	(1,
Increase in prepaid expenses and other current assets	(350,000)	
Decrease in other assets	3,100	
Decrease in accounts payable	(198,700)	(
(Decrease)/increase in accrued liabilities	(219,000)	
Decrease in income taxes payable	--	
Net cash provided by operating activities	1,556,600	2,
Cash flows from investing activities:		
Repayments on notes receivable, net	93,600	
Capital expenditures	(642,200)	(
Distribution from investment in partnership	3,200	
Proceeds from sale of equipment	2,900	
Net cash used in investing activities	(542,500)	(
Cash flows from financing activities:		

Borrowings under line of credit	5,404,200	6,
Repayments under line of credit	(5,832,000)	(6,
Proceeds from issuance of long-term debt	6,050,000	2,
Repayment of long-term debt	(6,549,800)	(3,
Repurchases of common stock	(84,600)	(
Proceeds from issuance of common stock	2,100	
Net cash used in financing activities	(1,010,100)	(1,
Net increase/(decrease) in cash	4,000	
Cash at beginning of period	20,800	
Cash at end of period	$ 24,800	$
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 423,400	$
Income taxes	$ 156,200	$

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

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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 for the fiscal year ended June 30, 2000.

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 June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended in June, 1999 by SFAS 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133," and in June, 2000, by SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," (collectively SFAS 133). SFAS 133 requires that entities recognize all derivatives as either assets or liabilities in the statement of financial condition and measure those instruments at fair value. Under SFAS 133 an entity may designate a derivative as a hedge of exposure to either changes in: (a) fair value of a recognized asset or liability or firm commitment, (b) cash flows of a recognized or forecasted transaction, or (c) foreign currencies of a net investment in foreign operations, firm commitments, available-for-sale securities or a forecasted transaction. Depending upon the effectiveness of the hedge and/or the transaction being hedged, any changes in the fair value of the derivative instrument is either recognized in earnings in the current year, deferred to future periods, or recognized in other comprehensive income. Changes in the fair value of all derivative instruments not recognized as hedge accounting are recognized in current year earnings. SFAS 133 is required for all fiscal years beginning after June 15, 2000. On July 1, 2000 the Company adopted SFAS 133. In connection with the adoption of SFAS 133, the Company's interest rate swap was designated as a hedge. On the initial adoption date of SFAS 133, the Company recorded the fair value of its derivative on the balance sheet as an asset valued at $109,400 with an offsetting entry to accumulated other comprehensive income. The related unrealized loss of $157,900 during the six months ended December 31, 2000 has been recognized in the comprehensive income component of stockholders' equity.

The Company adopted SFAS No. 130, "Reporting Comprehensive Income" in 1998. This statement requires that all items that meet the definition of components of comprehensive income be reported in the financial statements for the period in which they are recognized. Components of comprehensive income include revenues, expenses, gains and losses that under accounting principles generally accepted in the United States are included in comprehensive income, but excluded from net income. The Company's reconciliation of net income, as reported, to comprehensive income, as defined, is included in the combined statements of operations and comprehensive income/(loss).

On December 3, 1999, the Securities and Exchange Commission staff released Staff Accounting Bulletin ("SAB") No. 101, Revenue Recognition, to provide guidance on the recognition, presentation and disclosure of revenue in financial statements. While SAB No. 101 provides a framework by which to recognize revenue in the financial statements, the Company believes that adherence to this SAB will not have a material impact on the Company's financial statements.

NOTE 2 - INVENTORIES:

Inventories consist of:

	DECE
Raw materials	$ 2,
Finished goods	5,
	$ 7,

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment consist of:

DEC

Land	$
Buildings and building improvements	
Machinery, equipment, furniture and fixtures	2
Construction in progress	

	3
Less - accumulated depreciation	(1

	$ 1
	===

NOTE 4 - INTANGIBLE ASSETS:

Intangible assets consist of:

	DEC

Patents, net of accumulated amortization of $115,100 and $112,600	$
Goodwill, net of accumulated amortization of $3,189,100 and $3,026,600	

	$
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NOTE 5 - BANK LINE OF CREDIT:

The Company has a $7,000,000 revolving line of credit with Wells Fargo Bank. The line matures October 1, 2002 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 December 31, 2000 was 9.25% 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 December 31, 2000, total borrowings under the Company's line of credit was $1,887,300 of which $1,700,000 was borrowed under the LIBOR option bearing a LIBOR interest rate of 7.695% per annum and maturing January 15, 2001. Proceeds from the loan were used for working capital purposes. At December 31, 2000, the Company had approximately $5,112,700 available for future borrowings under the revolving line of credit. On September 1, 2000 the bank reduced the Company's LIBOR borrowing rate from LIBOR plus 2% to LIBOR plus 1.5%, and then on October 1, 2000 reduced the interest rates applicable to the line of credit to the bank's prime rate minus .25% or LIBOR interest rate plus 1%.

NOTE 6 - LONG-TERM DEBT:

Long-term debt consists of:

	DEC

Note payable - Bank (A)	$ 5
Note payable - Bank (B)	1
Note payable - Bank	
Note payable - Bank	

Note payable - Bank	
Note payable - Bank	
Note payable - Bank	
Note payable - Bank	
Note payable - Bank	
Other	---
	7
Less current portion	

	$ 6
	===

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(A) On October 1, 2000, the Company restructured its Credit Agreement with Wells Fargo Bank resulting in the consolidation of all of its outstanding term debt except for the real estate loan. In replacement 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% (9.25% per annum at December 31, 2000). 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. In connection with the restructured Credit Agreement, the Company also negotiated with the bank to reduce its interest borrowing rates on all of its outstanding term debt from the bank's prime or LIBOR plus 2% rates to the bank's prime minus .25% or LIBOR plus 1.25%. At December 31, 2000, the total outstanding principal balance was under the LIBOR option at 7.945% per annum maturing January 15, 2001. The note is secured by the Company's machinery and equipment, accounts receivable and inventories and matures October 15, 2007. This restructuring of the Company's debt will result in annual cash flow savings of approximately $1.1 million (principal and interest) for the period October 2000 through September 2001.

Effective October 1, 2000 the Company has available a term-loan commitment in the amount of $1,200,000 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, 2001 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% (9.25% per annum at December 31, 2000), or LIBOR interest rate option on a twenty-five year amortization with the outstanding principal due on July 1, 2008. At December 31, 2000, the total outstanding principal was under the LIBOR option at 7.945% per annum maturing January 15, 2001.

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 December 31, 2000) 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:

	DEC
Salaries, wages, commissions and related payables	$
Other	
	$

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.

In the first quarter of fiscal 2001, the Company issued stock options to key employees and directors to purchase an aggregate of 175,000 shares of the Company's common stock. The options outstanding as of December 31, 2000 are exercisable at prices ranging from $0.8125 - $1.1875 (fair market value at the date of grant). The outstanding options are exercisable as follows: 292,500 shares 100% exercisable, 15,000 shares exercisable August 2001, and 15,000 shares exercisable August 2002. At December 31, 2000, the Company had 672,500 shares available for future grants.

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STOCK OPTION ACTIVITY:

	OUTSTANDING SHARES
Balance outstanding at June 30, 2000	115,000
Granted	175,000
Exercised	(2,500
Balance outstanding at December 31, 2000	322,500

NOTE 9 - COMMON STOCK:

Treasury stock is recorded at cost. At December 31, 2000, treasury stock consisted of 3,266 shares of common stock at a cost of $2,600 and at June 30, 2000, treasury stock consisted of 868 shares of common stock at a cost of $700.

The Company reinstated its buyback program in the latter part of September 2000. Since this time the Company has acquired 94,100 shares of Common Stock at a total cost of $84,600 under the buyback program. In December 2000, the Company retired 91,700 of the shares acquired. The Company plans to continue to actively pursue acquiring its common shares during Fiscal 2001.

NOTE 10 - INCOME TAXES:

The components of the income tax (benefit)/provision were:

	FOR THE THREE MONTHS ENDED DECEMBER 31,		FOR
	2000	1999	20
Current:			
Federal	$ (4,500)	$ 20,500	$
State	800	55,900	26
	(3,700)	76,400	26
Deferred:			
Federal	(108,400)	231,800	(55
State	(8,300)	(7,900)	(16
	(116,700)	223,900	(71
	$(120,400)	$ 300,300	$ (44

At December 31, 2000, the Company had net operating loss ("NOL") carryforwards of approximately $1,469,000 and $7,109,000 for federal and state income tax purposes respectively. 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 2004 and 2001 for federal and state purposes, respectively, if not utilized. The federal and state NOL carryforwards expire as follows:

AMOUNT OF UNUSED OPERATING LOSS CARRYFORWARDS		
FEDERAL	STATE	EXPIRATION DU ENDED JUN
$ -	$ 405,000	2001
-	207,000	2002
-	452,000	2003
186,000	273,000	2004
588,000	444,000	2005
490,000	89,000	2006
-	645,000	2007
-	603,000	2008
205,000	1,054,000	2009

-	396,000	2010
-	555,000	2011
-	477,000	2012
-	396,000	2013
-	850,000	2014
-	264,000	2015
$1,469,000	$7,109,000	

At December 31, 2000, the Company had a federal alternative minimum tax credit of approximately $409,100 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.

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 DECEMBER 31, 2000			
	(LOSS)/INCOME	SHARES	EPS AMOUNT	INCOM
Basic EPS				
Net (loss)/income	$ (176,600)	12,864,322	$ (.01)	$ 401,
Effect of dilutive stock options	-	-	-	-
Diluted EPS	$ (176,600)	12,864,322	$ (.01)	$ 401,

	SIX MONTHS ENDED DECEMBER 31, 2000			
	(LOSS)/INCOME	SHARES	EPS AMOUNT	INCOM
Basic EPS				
Net (loss)/income	$ (109,600)	12,885,631	$ (.01)	$1,101
Effect of dilutive stock options	-	-	-	-
Diluted EPS	$ (109,600)	12,885,631	$ (.01)	$1,101

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 DECEMBER 31, 2000 AND 1999

Net sales for the three months ended December 31, 2000 decreased almost 11% to $9,159,000 compared to $10,262,600 for the same period last year. During the last three months the climate in the marketplace continued to soften for the majority of the Company's product lines. The economic slowdown coupled with increased competition within our tank industry, recent severe weather conditions, an overall slowdown in the construction industry and unsuccessful municipal refuse container bids have attributed to the diminished sales volumes during the current period. Although a recent reduction in the federal discount rates has renewed some confidence that the economy will improve, management does not anticipate the remaining portion of Fiscal 2001 to be comparable to prior year's sales volumes.

Cost of goods sold increased 6.8% to 78.7% of net sales for the three months ended December 31, 2000, compared to 71.9% for the same period last year. The increase is primarily related to the 11% decrease in sales volumes during the quarter which has hampered the Company's ability to effectively cover fixed overhead costs and thus maintain optimal gross margins. Added to this, the Company has also incurred increases in raw material production costs, natural gas, labor and labor related insurance and fringe costs. Management is particularly concerned with rising natural gas costs which have already resulted in increased natural gas costs of $100,000 between the comparative periods. During the ensuing months management anticipates natural gas costs to continue to escalate resulting in additional monthly costs of at least $70,000. This significant rise in natural gas costs could also have an adverse effect on future raw material costs. Although management remains committed to produce positive operating results, these factors will greatly hamper their objectives during the balance of Fiscal 2001.

Selling, general and administrative expenses were $2,068,000, or 22.6% of net sales, for the three months ended December 31, 2000 compared with $1,999,000, or 19.5% of net sales, for the same period last year. Again the comparative percentage increase is attributed to the lower sales volumes as well as inflationary costs related to labor and labor related insurance and fringe costs. In addition, the Company has incurred increased legal costs related to preserving the validity of one of the Company's patents. Management will continue to monitor its SG&A costs to keep overall costs in line with current operations.

Total interest expense decreased $18,500 to $192,500 for the three months ended December 31, 2000 compared to $211,000 for the same period last year. Although operating results have been lackluster, the Company continues to generate sufficient cash flows which has decreased overall debt by approximately $400,000 in comparison to amounts outstanding as of December 31, 1999. In October 2000, the Company also negotiated reductions in the interest rates related to its bank debt. These factors, in addition to recent reductions in the federal discount rate, will continue to have a positive effect on reducing future interest costs.

The Company reported an income tax benefit of $120,400 for the three months ended December 31, 2000 compared to an income tax expense of $300,300 for the same period last year. The decrease is in correlation with the current period loss coupled with the reversal of deferred tax liabilities.

Net income decreased $577,800 to a net loss of $176,600 or ($.01) per common share, for the three months ended December 31, 2000 compared to net income of $401,200 or $.02 per common share, for the same period last year. The decrease is primarily related to the reduction in sales volume as outlined above, coupled with increased raw material, natural gas and labor related costs. Even though stagnant markets and escalating costs continue to challenge positive operating results, management remains focused to build on its strengths to mitigate as much as possible these adverse conditions. As such in December 2000, management created and filled a new Vice-President of Marketing and Sales position. The addition of this management position should help improve the Company's ability to effectively market its products and as a result improve future operating results.

RESULTS OF OPERATIONS - SIX MONTHS ENDED DECEMBER 31, 2000 AND 1999

Net sales for the six months ended December 31, 2000 decreased 13.4% to $19,341,300 compared to the $22,333,500 for the same period last year. The decrease is two fold. First, the prior year results included an additional week of operations due to the natural cut-offs which accounted for approximately $750,000 in sales reductions in comparison to the current period. The remaining $2.2 million in sales reduction is attributed to a lackluster marketplace reacting to the current economic conditions in the country coupled with increased competition within our tank industry, recent severe weather conditions, an overall slowdown in the construction industry and unsuccessful municipal refuse container bids. Although a recent reduction in the federal discount rate has renewed some confidence that the economy will improve, management does not anticipate the remaining portion of Fiscal 2001 to be comparable to prior year's sales volumes.

Costs of goods sold increased 6.8% to 77.7% of net sales for the six months ended December 31, 2000, compared to 70.9% for the same period last year. The increase is primarily related to the 13.4% decrease in sales volumes during the current period which has hampered the Company's ability to effectively cover fixed overhead costs and thus maintain optimal gross margins. Added to this the Company has also incurred increases in raw material production costs, natural gas, labor and labor related insurance and fringe costs. Management is particularly concerned with rising natural gas costs which have already resulted in increased natural gas costs of $150,000 between the comparative periods. During the ensuing months, management anticipates natural gas costs to continue to escalate resulting in additional monthly costs of at least $70,000. The significant rise in natural gas costs could also have an adverse effect on future raw material costs. Although management remains committed to produce positive operating results, these factors will greatly hamper their objectives during the balance of Fiscal 2001.

Selling, general and administrative expenses were $4,061,700, or 21% of net sales, for the six months ended December 31, 2000 compared with $4,175,000, or 18.7% of net sales, for the same period last year. Again, the comparative percentage increase is attributed to the lower sales volumes as well as additional legal costs the Company has incurred related to preserving the validity of one of the Company's patents. However, overall SG&A costs are down approximately $113,000 as a result of lower commission costs and dividends received on prior year's worker compensation policies. Management will continue to monitor its SG&A costs to keep overall costs in line with current operations.

Total interest expense decreased $40,800 to $407,300 for the six months ended December 31, 2000 compared to $448,100 for the same period last year. Although operating results have been lackluster, the Company continues to generate sufficient cash flows which have decreased overall debt by approximately $400,000 in comparison to amounts outstanding as of December 31, 1999. In October 2000, the Company also negotiated reductions in the interest rates related to its bank debt. These factors, in addition to recent reductions in the federal discount rate, will continue to have a positive effect on reducing future interest costs.

The Company reported an income tax benefit of $44,800 for the six months ended December 31, 2000 compared to an income tax expense of $870,700 for the same period last year. The decrease is in correlation with the current period loss coupled with the reversal of deferred tax liabilities.

Net income decreased $1,210,800 to a net loss of $109,600, or ($.01) per common share, for the six months ended December 31, 2000 compared to the net income of $1,101,200, or $.07 per common share, for the same period last year. The decrease is primarily related to the reduction in sales volumes as outlined above coupled with increased raw material, natural gas and labor related costs. Even though

stagnant markets and escalating costs continue to challenge positive operating results, management remains focused to build on its strengths to mitigate as much as possible these adverse condition. As such, in December 2000, management created and filled a new Vice-President of Marketing & Sales position. The addition of this management position should help improve the Company's ability to effectively market its products and as a result improve future operating results.

FINANCIAL CONDITIONS

Working capital increased $502,700 to $9,960,500 at December 31, 2000 compared to $9,457,800 at June 30, 2000. The increase is related to the reduction in the current portion of long-term debt due to the restructuring of the Company's debt with the bank net of decreases primarily in accounts receivable and accounts payable consistent with current operations. Cash flows from operations remain fairly strong but decreased by $599,000 to $1,556,600 for the six months ended December 31, 2000 compared to $2,155,600 for the same period last year. The decrease is primarily related to the $1,210,800 reduction in net income and the $751,300 change in deferred taxes due to the non-utilization of the Company's NOL's in comparison to the same period last year. Although operating results are down, the overall cash flows generated from operations remain sufficient to sustain normal cash flow requirements.

The Company expended $642,200 for the property, plant and equipment ("PP&E")

during the six months ended December 31, 2000. This is slightly above prior year's expenditures, but is in sync with current year's PP&E budget. The primary emphasis in Fiscal 2001 will be on new tooling and tooling modifications as well as the additional CNC router for the Gardena Facility. The Company currently anticipates expending $1.5 million on capital expenditures in Fiscal 2001.

Net borrowings under the line of credit decreased $427,800 to $1,887,300 between June 30, 2000 and December 31, 2000. The decrease is attributed to excess cash flows generated from operations, and the cash flow savings related to the Company's restructured Credit Agreement with the bank. At December 31, 2000, the Company had $5,112,700 available for future borrowing under the line of credit.

On September 1, 2000, the bank reduced its LIBOR interest rate option on all of the Company's outstanding debt from LIBOR plus 2% to LIBOR plus 1.5%. Then, effective October 1, 2000, the Company renegotiated its interest rate options in unison with the revolving line of credit renewal. As such, the maturity date for the line of credit was extended to October 1, 2002 and the Company's interest rates now reflect reductions from their prior levels to the bank's prime rate minus .25%, LIBOR plus 1% for borrowings under the line of credit and LIBOR plus 1.25% for all other term debt. In addition, the Company consolidated all of its outstanding term debt, except the real estate loan, with the bank into a new $6,050,000 seven-year term loan. The note will be due in monthly principal installments of approximately $72,000 plus interest at the bank's prime or LIBOR interest rate options. The restructuring of the Company's bank debt will result in cash flow savings of approximately $1.1 million during the period October 2000 to September 2001.

During fiscal 2001 the Company reinstated its common stock buyback program. Through December 31, 2000, the Company has acquired 94,100 shares of common stock at a total cost of $84,600. To date, 91,700 of these shares acquired have been retired. The Company plans to continue to actively acquire its common shares during Fiscal 2001 as long as the market value per share continues to be under recognized by the stock market. As of December 31, 2000, the Company had approximately 12.8 million shares of common stock outstanding.

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.

In June, 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities as amended in June, 1999 by SFAS No. 137 "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133," and in June, 2000, by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," (collectively SFAS No. 133). SFAS No. 133 requires that entities recognize all derivatives as either assets or liabilities in the statement of financial condition and measure those instruments at fair value. Under SFAS No. 133 an entity may designate a derivative as a hedge of exposure to either changes in: (a) fair value of recognized asset or liability or firm commitment, (b) cash flows of a recognized or forecasted transaction, or (c) foreign currencies of a net investment in foreign operations, firm commitments, available-for-sale securities or a forecasted transaction. Depending upon the effectiveness of the

hedge and/or the transaction being hedged, any changes in the fair value of the derivative instrument is either recognized in earnings in the current year, deferred to future periods, or recognized in other comprehensive income. Changes in the fair value of all derivative instruments not recognized as hedge accounting are recognized in current year earnings. SFAS No. 133 is required for all Fiscal years beginning after June 15, 2000. On July 1, 2000, the Company adopted SFAS No. 133. In connection with the adoption of SFAS No. 133, the Company's interest rate swap was designated as a hedge. On the initial adoption date of SFAS No. 133, the Company recorded the fair value of its derivative on the balance sheet as an asset valued at $109,400 with an offsetting entry to accumulated other comprehensive income. The related unrealized loss of $157,900 during the six months ended December 31, 2000 has been recognized in the comprehensive income component of stockholders' equity.

The Company adopted SFAS No. 130, "Reporting Comprehensive Income" in 1998. This statement requires that all items that meet the definition of components of comprehensive income be reported in the financial statements for the period in which they are recognized. Components of comprehensive income include revenues, expenses, gains and losses that under accounting principals generally accepted in the United States are included in comprehensive income, but excluded from net income. The Company's reconciliation of net income, as reported, to comprehensive income, as defined, is included in the combined statements of income and comprehensive income.

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, 2000 and should be read in conjunction with this interim financial information. Since June 30, 2000, there has been no significant change in the Company's exposure to market risks.

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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.

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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 behalf by the undersigned thereunto duly authorized.

Rotonics Manufacturing Inc.
Registrant

Date: January 23, 2001

/s/ SHERMAN MCKINNISS

Sherman McKinniss
President and
Chief Executive Officer