

ROTONICS MANUFACTURING INC/DE  
Form 10-Q  
November 05, 2002

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 10-Q

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

For quarterly period ended: September 30, 2002

Commission File number: 1-9429

## ROTONICS MANUFACTURING INC.

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of  
incorporation or organization)

**36-2467474**

(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  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<b>Class</b>	<b>Outstanding at September 30, 2002</b>
Common Shares (\$0.01 stated par value)	12,556,883 Shares
	Total Pages 17

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ROTONICS MANUFACTURING INC.

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## PART I. FINANCIAL INFORMATION

Item 1. Financial StatementsROTONICS MANUFACTURING INC.CONSOLIDATED BALANCE SHEETS

	September 30, 2002 (Unaudited)	June 30, 2002
<u>ASSETS</u>		
Current assets:		
Cash	\$ 70,700	\$ 66,900
Accounts receivable, net of allowance for doubtful accounts of \$188,800 and \$175,000, respectively	4,125,600	5,122,000
Current portion of notes receivable	10,300	10,300
Inventories	6,355,700	6,308,500
Deferred income taxes, net	298,600	272,800
Prepaid expenses and other current assets	358,200	262,600
Total current assets	11,219,100	12,043,100
Notes receivable, less current portion	314,900	336,800
Investment in partnership	107,900	108,700
Property, plant and equipment, net	15,185,300	15,004,000
Intangible assets, net	297,100	308,700
Other assets	44,300	40,500
	\$ 27,168,600	\$ 27,841,800
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities:		
Current portion of long-term debt	\$ 864,300	\$ 1,357,600
Accounts payable	2,529,900	2,090,700
Accrued liabilities	1,077,300	982,300
Income taxes payable	50,100	128,800
Total current liabilities	4,521,600	4,559,400
Bank line of credit	88,900	192,000
Long-term debt, less current portion	2,979,200	3,745,200
Deferred income taxes, net	2,546,200	2,565,100

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Total liabilities	10,135,900	11,061,700
Stockholders' equity:		
Common stock, stated par value \$.01: authorized 20,000,000 shares; issued and outstanding 12,553,883 and 12,614,942 shares, respectively, net of treasury shares	22,969,800	23,040,100
Accumulated other comprehensive loss, net of tax	(166,800)	(128,000)
Accumulated deficit	(5,770,300)	(6,132,000)
Total stockholders' equity	17,032,700	16,780,100
	\$ 27,168,600	\$ 27,841,800

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

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

(Unaudited)

	Three Months Ended September 30,	
	2002	2001 (As Restated)
Net sales	\$ 8,894,800	\$ 9,588,300
Costs and expenses:		
Cost of goods sold	6,547,300	7,312,800
Gross profit	2,347,500	2,275,500
Selling, general and administrative expenses	1,720,300	1,922,000
Income from operations	627,200	353,500
Other (expense)/income:		
Interest expense	(82,000)	(131,800)
Other income, net	32,000	47,300
Total other expense, net	(50,000)	(84,500)
Income before income taxes and cumulative effect of change in accounting principle for goodwill	577,200	269,000
Income tax provision	(215,500)	(111,300)
Income before cumulative effect of change in accounting principle for goodwill	361,700	157,700
Cumulative effect of change in accounting principle for goodwill		(4,105,900)
Net income/(loss)	361,700	(3,948,200)
Other comprehensive loss, before tax:		
Unrealized holding loss arising during the period	(111,100)	(153,000)
Less: Reclassification adjustments for losses included in net income/(loss)	46,500	31,400
Total other comprehensive loss before tax	(64,600)	(121,600)
Income tax benefit related to items of other comprehensive loss	25,800	48,700
Total other comprehensive loss, net of tax	(38,800)	(72,900)
Comprehensive income/(loss)	\$ 322,900	\$ (4,021,100)
Accumulated deficit, beginning period	\$ (6,132,000)	\$ (2,804,600)
Net income/(loss)	361,700	(3,948,200)
Accumulated deficit, end of period	\$ (5,770,300)	\$ (6,752,800)
Net income/(loss) per common share:		
<u>Basic and diluted</u>		
Income before cumulative effect	\$ .03	\$ .01
Cumulative effect of change in accounting principle for goodwill		(.32)
Net income/(loss)	\$ .03	\$ (.31)

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Weighted average number of common and common equivalent  
shares outstanding:

Basic	12,573,450	12,790,223
Diluted	12,575,034	12,790,223

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

ROTONICS MANUFACTURING INC.CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	<b>Three Months Ended September 30,</b>	
	<b>2002</b>	<b>2001 (As Restated)</b>
<b>Cash flows from operating activities:</b>		
Net income/(loss)	\$ 361,700	\$ (3,948,200)
<b>Adjustments to reconcile net income/(loss) to net cash provided by operating activities:</b>		
Cumulative effect of change in accounting principle for goodwill		4,105,900
Depreciation and amortization	526,300	558,700
Gain on sales of equipment	(1,100)	
Deferred income tax provision	(18,900)	63,100
Provision for doubtful accounts	24,600	25,400
<b>Changes in assets and liabilities:</b>		
Decrease in accounts receivable	971,800	336,800
(Increase)/decrease in inventories	(47,200)	227,400
Increase in prepaid expenses and other current assets	(95,600)	(40,200)
(Increase)/decrease in other assets	(3,800)	7,500
Increase in accounts payable	1,069,400	99,000
Increase in accrued liabilities	30,400	65,700
Decrease in income taxes payable	(78,700)	
Net cash provided by operating activities	2,738,900	1,501,100
<b>Cash flows from investing activities:</b>		
Repayments on notes receivable	21,900	43,000
Capital expenditures	(696,100)	(241,800)
Distribution from investment in partnership	800	2,500
Proceeds from sales of equipment	1,200	
Net cash used in investing activities	(672,200)	(196,300)
<b>Cash flows from financing activities:</b>		
Borrowings under line of credit	1,050,300	830,100
Repayments under line of credit	(1,153,400)	(1,422,700)
Repayment of long-term debt	(1,259,300)	(236,100)
Payment of common stock dividends	(630,200)	(508,000)
Proceeds from exercise of stock options		49,800
Repurchases of common stock	(70,300)	(16,500)
Net cash used in financing activities	(2,062,900)	(1,303,400)



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Net increase in cash		3,800		1,400
Cash at beginning of period		66,900		28,000
Cash at end of period	\$	70,700	\$	29,400
Supplemental disclosures of cash flow information:				
Cash paid during the period for:				
Interest	\$	87,700	\$	138,800
Income taxes	\$	311,000	\$	53,200
Non-cash investing activity:				
Conversion of accounts receivable to note receivable	\$		\$	150,000
Non-cash financing activity:				
Change in fair value of interest rate swap	\$	38,800	\$	72,900

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, 2002.

Restatement

The Company's consolidated financial statements and related notes have been restated for the three months ended September 30, 2001 to present, in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 142, the initial impairment loss that was originally measured and recorded in the second quarter of fiscal 2001 as permitted by the transitional rules outlined in SFAS No. 142. As such, the three months ended September 30, 2001 have been restated to include a \$4,105,900 cumulative effect in change in accounting principle for goodwill that was effective as of July 1, 2001.

In June 2001, the FASB issued SFAS No. 142, Goodwill and Other Intangible Assets. 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 engaged a national valuation specialist to assist with the determination of the estimated fair value of its reporting units 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. The effect of the adoption of SFAS No. 142 was originally reported in the second quarter of the fiscal 2001 as allowed by the transitional rules. However, as further required by the provisions of SFAS No. 142, the three month period ending September 30, 2001 has been restated to reflect the adoption of this accounting principle.

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.

NOTE 2 - INVENTORIES:

Inventories consist of:

	<b>September 30, 2002</b>	<b>June 30, 2002</b>
Raw materials	\$ 2,105,800	\$ 2,006,900
Finished goods	4,249,900	4,301,600
	<b>\$ 6,355,700</b>	<b>\$</b>