ROTONICS MANUFACTURING INC/DE
Form 10-Q
January 30, 2006

# 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, 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.

ý Yes o No

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

o Yes ý No

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

o Yes ý 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, 2005** |
|---|---|
| Common Shares<br>($.01 stated value) | 11,795,565 Shares |

ROTONICS MANUFACTURING INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ROTONICS MANUFACTURING INC.

CONSOLIDATED BALANCE SHEETS

| | December 31, 2005 (Unaudited) | June 30, 2005 |
|---|---|---|
| ASSETS | | |
| | | |
| Current assets: | | |
| Cash | $ 37,400 | $ 310,500 |
| Accounts receivable, net of allowance for doubtful accounts of $279,400 and $291,500, respectively | 4,583,700 | 5,430,800 |
| Inventories | 8,690,800 | 6,974,000 |
| Deferred income taxes, net | 217,300 | 226,900 |
| Prepaid expenses and other current assets | 355,100 | 215,700 |
| | | |
| Total current assets | 13,884,300 | 13,157,900 |
| | | |
| Property, plant and equipment, net | 13,160,400 | 13,196,700 |
| Intangible assets, net | 148,300 | 171,100 |
| Other assets | 66,500 | 64,500 |
| | | |
| | $ 27,259,500 | $ 26,590,200 |
| | | |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt | $ 684,500 | $ 864,300 |
| Accounts payable | 2,493,000 | 2,819,300 |
| Accrued liabilities | 805,600 | 901,300 |
| | | |
| Total current liabilities | 3,983,100 | 4,584,900 |
| | | |
| Bank line of credit | 1,863,700 | 1,029,400 |
| Long-term debt, less current portion | | 252,400 |
| Deferred income taxes, net | 2,173,900 | 2,304,200 |
| Other liabilities | 97,400 | 119,000 |
| | | |
| Total liabilities | 8,118,100 | 8,289,900 |
| | | |
| Stockholders equity: | | |
| Common stock, stated value $.01: authorized 20,000,000 shares; issued and outstanding 11,795,565 and 11,940,598 shares, respectively | 21,643,600 | 22,029,500 |
| Accumulated other comprehensive loss, net of tax | (1,400) | (15,800) |
| Accumulated deficit | (2,500,800) | (3,713,400) |
| | | |
| Total stockholders equity | 19,141,400 | 18,300,300 |
| | | |
| | $ 27,259,500 | $ 26,590,200 |

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

ROTONICS MANUFACTURING INC.

**CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME AND ACCUMULATED DEFICIT**

(Unaudited)

| | Three Months Ended December 31, 2005 | Three Months Ended December 31, 2004 | Six Months Ended December 31, 2005 | Six Months Ended December 31, 2004 |
|---|---|---|---|---|
| Net sales | $ 11,596,100 | $ 9,935,400 | $ 24,096,200 | $ 21,904,900 |
| Costs and expenses: | | | | |
| Cost of goods sold | 9,094,400 | 7,948,600 | 18,644,800 | 16,894,100 |
| Gross profit | 2,501,700 | 1,986,800 | 5,451,400 | 5,010,800 |
| | | | | |
| Selling, general and administrative expenses | 1,796,900 | 1,750,400 | 3,562,300 | 3,685,300 |
| | | | | |
| Income from operations | 704,800 | 236,400 | 1,889,100 | 1,325,500 |
| | | | | |
| Other income/(expense): | | | | |
| Interest expense | (34,200) | (51,700) | (64,200) | (103,700) |
| Other income, net | 89,100 | 104,500 | 137,400 | 168,000 |
| Total other income | 54,900 | 52,800 | 73,200 | 64,300 |
| | | | | |
| Income before income taxes | 759,700 | 289,200 | 1,962,300 | 1,389,800 |
| Income tax provision | (289,900) | (107,800) | (749,700) | (550,600) |
| Net income | 469,800 | 181,400 | 1,212,600 | 839,200 |
| | | | | |
| Other comprehensive gain, before tax: | | | | |
| Unrealized holding gain/(loss) arising during the period | 2,700 | 12,100 | 9,900 | (7,500) |
| Less: Reclassification adjustments for losses included in net income | 4,300 | 22,000 | 14,100 | 48,100 |
| Total other comprehensive gain before tax | 7,000 | 34,100 | 24,000 | 40,600 |
| Income tax expense related to items of other comprehensive gain | (2,700) | (13,600) | (9,600) | (16,200) |
| Total other comprehensive gain, net of tax | 4,300 | 20,500 | 14,400 | 24,400 |
| Comprehensive income | $ 474,100 | $ 201,900 | $ 1,227,000 | $ 863,600 |
| | | | | |
| Accumulated deficit, beginning of period | $ (2,970,600) | $ (4,228,500) | $ (3,713,400) | $ (4,886,300) |
| Net income | 469,800 | 181,400 | 1,212,600 | 839,200 |
| Accumulated deficit, end of period | $ (2,500,800) | $ (4,047,100) | $ (2,500,800) | $ (4,047,100) |
| | | | | |
| Net income per common share: | | | | |
| Basic and diluted | | | | |
| Net income | $ .04 | $ .02 | $ .10 | $ .07 |
| | | | | |
| Weighted average number of common and common equivalent shares outstanding: | | | | |
| Basic | 11,822,427 | 11,967,371 | 11,879,735 | 11,973,098 |
| Diluted | 11,822,427 | 11,967,371 | 11,879,735 | 11,973,098 |

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, 2005 | 2004 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 1,212,600 | $ 839,200 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,079,500 | 1,088,800 |
| Gain on sale of equipment | (40,600) | (109,800) |
| Deferred income tax benefit | (130,300) | (57,800) |
| Provision for doubtful accounts | 15,900 | 63,900 |
| Changes in assets and liabilities: | | |
| Decrease in accounts receivable | 831,200 | 869,500 |
| Increase in inventories | (1,716,800) | (945,800) |
| Increase in prepaid expenses and other current assets | (139,400) | (275,500) |
| (Increase)/decrease in other assets | (2,000) | 800 |
| Increase/(decrease) in accounts payable | 270,700 | (338,700) |
| (Decrease)/increase in accrued liabilities | (71,700) | 110,700 |
| Decrease in other liabilities | (21,600) | |
| Net cash provided by operating activities | 1,287,500 | 1,245,300 |
| Cash flows from investing activities: | | |
| Capital expenditures | (1,037,800) | (1,303,100) |
| Distribution from investment in partnership | | 1,100 |
| Proceeds from sale of property and equipment | 58,000 | 432,300 |
| Net cash used in investing activities | (979,800) | (869,700) |
| Cash flows from financing activities: | | |
| Borrowings under line of credit | 5,343,900 | 6,989,400 |
| Repayments under line of credit | (4,509,600) | (6,310,500) |
| Repayment of long-term debt | (432,200) | (432,200) |
| Payment of common stock dividend | (597,000) | (599,100) |
| Repurchases of common stock | (385,900) | (32,400) |
| Net cash used in financing activities | (580,800) | (384,800) |
| Net decrease in cash | (273,100) | (9,200) |
| Cash at beginning of period | 310,500 | 56,500 |
| Cash at end of period | $ 37,400 | $ 47,300 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | $ 58,800 | $ 98,400 |
| Income taxes | $ 942,500 | $ 782,000 |

| | | | | |
|---|---|---|---|---|
| Non-cash financing activity: | | | | |
| Change in fair value of interest rate swap | $ | (14,400) | $ | (24,400) |

The accompanying notes are an integral part of these 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:

| | December 31, 2005 | June 30, 2005 |
|---|---|---|
| Raw materials | $ 3,758,900 | $ 2,470,700 |
| Finished goods | 4,931,900 | 4,503,300 |
| | $ 8,690,800 | $ 6,974,000 |

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment consist of:

| | December 31, 2005 | June 30, 2005 |
|---|---|---|
| Land | $ 1,027,300 | $ 1,027,300 |
| Buildings and building improvements | 5,031,800 | 4,941,500 |
| Machinery, equipment, furniture and fixtures | 30,522,100 | 29,877,100 |
| Construction in progress | 3,600 | 28,500 |
| | 36,584,800 | 35,874,400 |
| | | |
| Less - accumulated depreciation | (23,424,400) | (22,677,700) |
| | $ 13,160,400 | $ 13,196,700 |

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NOTE 4 - INTANGIBLE ASSETS:

Intangible assets consist of:

| | December 31, 2005 | June 30, 2005 |
|---|---|---|
| Patents | $ 475,700 | $ 475,700 |
| Less - accumulated amortization, patents | (327,400) | (304,600) |
| | | |
| | $ 148,300 | $ 171,100 |

Aggregate amortization expense for the six months ended December 31, 2005 and 2004 was $22,800.

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, 2007 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% (7% per annum at December 31, 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 December 31, 2005, total borrowings under the Company s line of credit was $1,863,700 of which $1,250,000 was borrowed under the LIBOR option bearing a LIBOR interest rate of 5.37% per annum and maturing January 17, 2006. Proceeds from the loan were used for working capital purposes. At December 31, 2005, the Company had approximately $3,136,300 available for future borrowings under the revolving line of credit.

NOTE 6 - LONG-TERM DEBT:

Long-term debt consists of:

| | December 31, 2005 | June 30, 2005 |
|---|---|---|
| Note payable Bank (A) | $ 684,500 | $ 1,116,700 |
| Less current portion | (684,500) | (864,300) |
| | | |
| | $ | $ 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% (7% per annum at December 31, 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 December 31, 2005, the total outstanding principal balance was under the LIBOR option at 5.62% per annum maturing January 17, 2006. 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 December 31, 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 notational amount of the swap agreement will remain at $2 million until its maturity on August 15, 2006.

NOTE 7 ACCRUED LIABILITIES:

Accrued liabilities consists of:

| | | December 31, 2005 | | June 30, 2005 |
|---|---|---|---|---|
| Salaries, wages, commissions and related payables | $ | 605,400 | $ | 604,900 |
| Other | | 200,200 | | 296,400 |
| | $ | 805,600 | $ | 901,300 |

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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 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 December 31, 2005, the Company still has 850,000 shares available for future grants.

NOTE 9 - COMMON STOCK:

At December 31, 2005 and June 30, 2005 there was no outstanding treasury stock. 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 six months ended December 31, 2005 the Company acquired 145,000 shares of common stock at a total cost of $385,900.

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 December 31, 2005 | For the three months ended December 31, 2004 | For the six months ended December 31, 2005 | For the six months ended December 31, 2004 |
|---|---|---|---|---|
| Current | | | | |
| Federal | $ 297,400 | $ 99,100 | $ 750,800 | $ 500,100 |
| State | 51,600 | 30,400 | 129,200 | 108,300 |
| | 349,000 | 129,500 | 880,000 | 608,400 |
| Deferred | | | | |
| Federal | (54,400) | (16,000) | (119,300) | (45,700) |
| State | (4,700) | (5,700) | (11,000) | (12,100) |
| | (59,100) | (21,700) | (130,300) | (57,800) |
| | $ 289,900 | $ 107,800 | $ 749,700 | $ 550,600 |

At December 31, 2005, the Company had 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 as defined in the Internal Revenue Code 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 December 31, 2005 | | | Three months ended December 31, 2004 | | |
|---|---|---|---|---|---|---|
| | **Income** | **Shares** | **EPS Amount** | **Income** | **Shares** | **EPS Amount** |
| Basic EPS | | | | | | |
| Net income | $ 469,800 | 11,822,427 | $ .04 | $ 184,400 | 11,967,371 | $ .02 |
| Effect of dilutive stock options | | | | | | |
| Diluted EPS | $ 469,800 | 11,822,427 | $ .04 | $ 181,400 | 11,967,371 | $ .02 |

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| | Six months ended December 31, 2005 | | | Six months ended December 31, 2004 | | |
|---|---|---|---|---|---|---|
| | Income | Shares | EPS Amount | Income | Shares | EPS Amount |
| Basic EPS | | | | | | |
| Net income | $ 1,212,600 | 11,879,735 | $ .10 | $ 839,200 | 11,973,098 | $ .07 |
| Effect of dilutive stock options | | | | | | |
| Diluted EPS | $ 1,212,600 | 11,879,735 | $ .10 | $ 839,200 | 11,973,098 | $ .07 |

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. When used in this report, the words expects, anticipates, intends, plans, believes, seeks, estimates and similar expressions are generally intended to identify forward 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 other 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 December 31, 2005 and 2004**

Net sales for the three months ended December 31, 2005 increased 16.7% to $11,596,100 compared to $9,935,400 for the same period last year. Management is very pleased with the growth in net sales during the current quarter that is attributable to our proprietary products as well as price increases instituted to offset significant increases in our production costs primarily related to raw materials and natural gas costs. This has notably been our best 2nd quarter in the last several years and reflects the positive results from enhancements to our product lines, our focused sales and marketing efforts and a marketplace that remains positive. We remain confident that these trends will parlay into the continued expansion of many of our proprietary products.

Cost of goods sold improved to 78.4% of net sales for the three months ended December 31, 2005 compared to 80% for the same period last year. We continue to see improvements in our gross margins in spite of roughly a 50% increase in natural gas costs as compared to the same period last year and an 18% increase in resin costs during the current quarter. These cost escalations have been minimized by the increase in our net sales during the current period, which has provided better coverage of our fixed manufacturing costs. In addition, we have gained efficiencies in our operations that have resulted in an overall reduction in labor costs of about 2% of net sales, or $232,000, as well as ongoing savings received through our installation of energy efficient machinery.

Selling, general and administrative ( SG&A ) expenses were $1,796,900, or 15.5% of net sales, for the three months ended December 31, 2005 compared with $1,750,400, or 17.6% of net sales, for the same period last year. Although overall SG&A costs remained fairly static between the two periods, we would again like to highlight the positive effect that the increase in our net sales during the current period has had on providing better coverage of these costs.

Total interest expense was $34,200 for the three months ended December 31, 2005 compared to $51,700 for the same period last year. The cost savings are attributed to an overall reduction in our debt structure of approximately $1 million compared to the same period last year coupled with a reduction in our debt borrowings that are covered under our interest rate swap agreement. Even though the bank s prime rate has increased by 1.25% over the last six months, we do not foresee any increases in our future interest costs.

We reported an income tax provision of $289,900 for the three months ended December 31, 2005 compared to $107,800 for the same period last year. The increase is consistent with the $470,500 increase in income before tax during the current period.

Net income increased $288,400 to $469,800, or four cents per common share, for the three months ended December 31, 2005 compared to $181,400, or two cents per common share, for the same period last year. We are very pleased with our efforts to increase our market share and pass along various operating costs, which ultimately culminated into the notable 16.7% increase in net sales. This increase in net sales along with reductions in labor costs, our efforts to hold our SG&A costs at prior year s levels and the installation of energy efficient machinery have all had a very positive influence on our overall cost structure and ultimately provided the catalyst to improve our bottom line. As we look forward, current trends might reflect that raw material and natural gas costs have temporarily topped out, however they still remain highly volatile and will be carefully monitored. In the meantime, we will strive to capitalize on our efficiencies and enhanced product offerings.

**Results of Operations - Six Months Ended December 31, 2004 and 2003**

Net sales for the six months ended December 31, 2005 increased 10% to $24,096,200 compared to $21,904,900 for the same period last year. Again, we are very pleased with our 10% net sales growth. Several of our proprietary product groups continue to reflect the positive impact from recent tooling enhancements as well as the introduction of new products to different RMI divisional regions and the ability to expand our offerings at several locations, compliments of prior year s installation of energy efficient machinery. We have continued this trend during fiscal 2006 with various tooling projects and the installation of a new rotomolding machine and a new injection molding machine. These past and current production enhancements along with price increases that were instituted to offset rising raw material and natural gas costs have been instrumental in boosting our net sales. As we move into the balance of fiscal 2006, we plan to continue to expand and capitalize on these efforts.

Cost of goods sold remained fairly consistent at 77.4% of net sales for the six months ended December 31, 2005 compared to 77.1% for the same period last year. We are pleased with our efforts to maintain gross margins at target levels in spite of roughly a 59% increase in raw material costs and a 31% increase in natural gas costs during the current six-month period. These costs have been minimized by our increase in net sales as indicated above along with the efficiencies gained in our operations that have resulted in an overall reduction in labor costs of about 2% of net sales, or $482,000, and a $134,800 reduction in workers compensation insurance costs. As we move forward, we believe that these gained efficiencies and our strategies instituted to control rising costs will continue to benefit future operating results and will be monitored against any future escalations in operating costs.

Selling, general and administrative ( SG&A ) expenses were $3,562,300, or 14.8% of net sales, for the six months ended December 31, 2005 compared to $3,685,300, or 16.8% of net sales, for the same period last year. We are pleased with our efforts to lower our overall SG&A costs both as a percentage of sales and in total expenditures. Again, our increase in net sales has been instrumental in providing a better coverage of these costs as well as cost savings obtained from slightly lower wage 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 $64,200 for the six months ended December 31, 2005 compared to $103,700 for the same period last year. The cost savings are attributed to an overall reduction in our debt structure of approximately $1 million compared to the same period last year coupled with a reduction in our debt borrowings that are covered under our interest rate swap agreement. Even though the bank s prime rate has increased by 1.25% over the last six months, we do not foresee any increases in our future interest costs.

We reported an income tax provision of $749,700 for the six months ended December 31, 2005 compared to $550,600 for the same period last year. The increase is consistent with the $572,500 increase in income before tax during the current period.

Net income increased $373,400 to $1,212,600, or ten cents per common share, for the six months ended December 31, 2005 compared to $839,200, or seven cents per common share, for the same period last year. We are pleased with our efforts to increase our market share that was fueled by our product enhancements and our ability to pass along various operating costs indicated above, which ultimately culminated into our 10% increase in net sales. This increase in net sales along with reductions in labor and SG&A costs as well as the installation of energy efficient machinery have all had a very positive influence on our overall cost structure and ultimately provided the catalyst to improve our bottom line. As we look forward, current trends might reflect that raw material and natural gas costs have temporarily topped out, however they still remain highly volatile and will be carefully monitored. In the meantime, we remain energized by our enhanced product offerings, our newly installed equipment and the prospects that we are pursuing in the marketplace.

**Financial Conditions**

Working capital increased $1,328,200 to $9,901,200 at December 31, 2005 compared to $8,573,000 at June 30, 2005. The increase is derived from our current period s net income and the increase in our line of credit borrowings that has helped fund the roughly $1.3 million increase in our raw material inventory in order to take advantage of preferred resin pricing. Cash flows from operations remained fairly consistent at $1,287,500 for the six months ended December 31, 2005 compared to $1,245,300 for the same period last year. Current period cash flows also benefited from the $373,400 increase in our net income, which was offset by increases in our inventory and accounts payable balances for the purchase of raw materials at preferred pricing.

We expended $1,037,800 for property, plant and equipment ( PP&E ) during the six months ended December 31, 2005 compared to $1,303,100 for the same period last year. As illustrated last year, we are committed to improve our operations through various capital expenditure projects. To date in fiscal 2006, we have completed the installation of two additional energy efficient machines at a combined cost of $432,900 with the balance primarily going to new tooling and machinery enhancement projects. We anticipate expending $1.5 million on capital expenditures in fiscal 2006.

Net borrowings under the line of credit increased $834,300 to $1,863,700 between June 30, 2005 and December 31, 2005. The increase is primarily attributed to the additional purchases of raw materials to take advantage of preferred pricing and our December 2005 income tax installment payments of approximately $577,500. Due to the timing of these payments as well as payments for capital expenditure projects, we anticipate our line of credit borrowings to reflect temporary increases throughout the year, but overall will likely see our total debt borrowings trend down during the balance of fiscal 2006. At December 31, 2005, our overall debt structure increased by $402,100 to $2,548,200 and we had $3,136,300 available for future borrowings under our line of credit.

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 bank remained the same.

During the six months ended December 31, 2005, we acquired 145,000 shares of common stock at a total cost of $385,900. 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 repurchases and repayment of long term debt for the foreseeable future.

**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.

**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 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 estimate 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 the 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.

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**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 4. Submission of Matters to a Vote of Security Holders

At the Company s Annual Meeting of Stockholders held on December 5, 2005, incumbent directors Sherman McKinniss, Marc L. Berman, Larry M. DeDonato, Larry L. Snyder, E. Paul Tonkovich, Jules Sandford, Brent A. Brown and Bill Allen were re-elected to the Board of Directors of the Company to serve for a one-year term. Messr. McKinniss received 11,543,095 votes in his favor, with 51,024 votes withheld, Messr. Berman received 11,552,397 votes in his favor, with 41,722 votes withheld, Messr. DeDonato received 11,549,152 votes in his favor, with 44,967 votes withheld, Messr. Snyder received 11,570,176 votes in his favor, with 23,943 votes withheld, Messr. Tonkovich received 11,547,597 votes in his favor, with 46,522 votes withheld, Messr. Sandford received 11,569,321 votes in his favor, with 24,798 votes withheld, Messr. Brown received 11,569,429 votes in his favor, with 24,690 votes withheld and Messr. Allen received 11,570,892 votes in his favor, with 23,227 votes withheld. There were no broker non-votes.

The Stockholders also ratified the appointment of Windes & McClaughry Accountancy Corporation as the Company s independent registered public accounting firm for the fiscal year ending June 30, 2006. Windes & McClaughry Accountancy Corporation received 11,569,651 votes in their favor, with 14,945 votes against and with 9,523 votes abstained. There were no broker non-votes.

## 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 October 14, 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 October 14, 2005 outlining our unaudited financial results for the three months ended September 30, 2005.

## 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 30, 2006 /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