

ROTONICS MANUFACTURING INC/DE  
Form 10-K  
September 22, 2005

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### FORM 10-K

**Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the fiscal year ended June 30, 2005**

**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)

**17022 South Figueroa Street**  
**Gardena, California**  
(Address of principal offices)

**36-2467474**  
(I.R.S. Employer  
Identification No.)

**90248**  
(Zip Code)

Registrant's telephone number, including area code: **(310) 538-4932**

Securities registered pursuant to Section 12(b) of the Act:

**Common Stock (\$.01 stated par value)**  
Titles of each class

**American Stock Exchange**  
Name of each Exchange  
on which registered

Securities registered pursuant to Section 12(g) of the Act: **None**

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Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) for 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 by check mark if disclosure of delinquent filers pursuant to Item 405 of regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Yes  No

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

Yes  No

The aggregate market value of the voting stock held by non-affiliates of the registrant, as of December 31, 2004, was \$14,747,300 (1).

The number of shares of common stock outstanding at September 6, 2005 was 11,940,598.

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(1) Excludes 7,049,108 shares held by directors, officers, and stockholders, whose ownership exceeded 5% of the outstanding shares at December 31, 2004. Exclusion of such shares should not be construed to indicate that the holders thereof possess the power, direct or indirect, to direct the management or policies of registrant, or that such persons are controlled by or under common control with the registrant.

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DOCUMENTS INCORPORATED BY REFERENCE

| <b>Document</b>  | <b>Form 10-K<br/>Part</b> |
|--|---------------------------|
| Definitive Proxy Statement to be used in connection with the Annual Meeting of Stockholders to be held on December 5, 2005 | III                       |

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PART I

Forward-Looking Statements

To the extent that this 10-K Annual 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 the heading: Item 1,

Business, Item 3, Legal Proceedings, under Item 7, 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-looking statements. You should not place undue reliance on these forward-looking statements, which reflect our opinion only as of the date of the Annual 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 described in other documents we file from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q to be filed by us in fiscal year 2006.

Item 1. Business

Introduction

Rotonics Manufacturing Inc. (the Company) was founded as an Illinois Corporation, and was reincorporated in Delaware in December 1986. Effective July 1, 1991, the Company merged with Rotonics Molding, Inc.-Chicago (Rotonics), with the Company being the surviving entity. Rotonics had operations in Itasca, Illinois; Deerfield, Wisconsin; Denver, Colorado; and Bartow, Florida. Three of these operations currently conduct business as divisions of the Company using the trade names RMI-C, RMI-D, and RMI-F, respectively. Rotonics was a privately held California Corporation, which was 52% owned by Mr. Sherman McKinniss. Mr. McKinniss became president and chief executive officer of the Company on August 12, 1991, and currently presides as the Company's president, CEO and chairman of the board.

In September 1991, the Company's wholly owned subsidiary, Rotational Molding, Inc. (RMI), was merged into the Company and now operates as two divisions using the trade names RMI-G and RMI-I with manufacturing operations in Gardena, California and Caldwell, Idaho, respectively.

Effective January 1, 1992, the Company acquired Plastech Holdings, Inc. (Plastech), and its wholly owned subsidiary, Plastech International, Inc., for \$1,777,070 in cash. Plastech was headquartered in Warminster, Pennsylvania, with an additional operation in Gainesville, Texas. In July 1992, Plastech was merged with the Company and now operates as a division of the Company using the trade name RMI-T.

Effective April 1, 1995, the Company purchased certain assets and assumed certain liabilities of Custom Rotational Molding, Inc. (CRM) for 300,000 shares of the Company's common stock. The Company assumed CRM's operations in Arleta, California.

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In September 1994, the Company purchased a larger manufacturing facility in Bensenville, Illinois and subsequently relocated its Itasca, Illinois operations into this new facility. In December 1995, the Company discontinued its operations at its Deerfield, Wisconsin location and combined these operations into its newly purchased Bensenville, Illinois operation.

In February 1997, the Company purchased a 9.73-acre facility consisting of 63,000 square feet of manufacturing and office building space in Commerce City, Colorado. The Company has since expended significant resources to refurbish the facility to house its Colorado operations. The facility is also located within an enterprise zone, which continues to provide additional benefits. The Company leases a portion of this facility's excess office and yard space on a long-term and short-term basis at \$7,800 per month.

Effective April 1, 1998, the Company merged with Rotocast International, Inc. and its wholly owned subsidiaries ( Rotocast ), with the Company being the surviving entity. In accordance with the Merger Agreement, the Company issued 2,072,539 shares of its common stock and a \$2,000,000 note payable secured by a stand-by letter

of credit, in exchange for all the outstanding voting stock of Rotocast. In January 2000, the Company repurchased these shares for \$2.8 million. Upon consummation of the repurchase, the shares were retired.

Rotocast had operations in Miami, Florida; Knoxville, Tennessee; Brownwood, Texas; Las Vegas, Nevada; and Bossier City, Louisiana. These operations currently conduct business as divisions of the Company using the trade names Nutron, Rotocast of Tennessee, RMI-B and RMI-Nevada. Prior to the merger, the operations in Bossier City, Louisiana were substantially discontinued. Rotocast was a privately held Florida corporation, owned by GSC Industries, Inc. ( GSC ). The Company leases the remaining Rotocast facilities from GSC, and other affiliated parties, under long-term lease arrangements. A portion of the Nutron office building is being sub-leased on a long-term basis at \$2,500 per month.

In conjunction with the Rotocast merger, the Company initiated the consolidation of its Warminster, Pennsylvania and Arleta, California facilities into its remaining operations. The consolidation of these facilities was completed in fiscal 1999 and enhanced the operations of the Company's remaining facilities, reduced its overall manufacturing overhead costs, and allowed the Company to take greater advantage of its marketing and distribution channels. Also, in fiscal 1999, the Company consolidated its Miami operations into the remaining operating facilities. The Miami facility building is being sub-leased on a long-term basis at \$4,500 per month.

The Corporate office of the Company is located at the same site as the RMI-G (Gardena, California) facility.

#### Description of Business

The Company currently has ten manufacturing locations and was again listed by a plastics industry periodical as one of the top ten rotational molders in North America. These operating divisions manufacture a variety of plastic products for commercial, agricultural, pharmaceutical, governmental, building, medical waste, refuse, retail, recreation, marine, healthcare and residential use, as well as a vast number of custom plastic products for a variety of industries, utilizing the rotonically molding process and, on a smaller scale; injection molding and dip molding processes. In April 1998, the injection molding process was added to the Company's manufacturing operations as part of the Rotocast merger. Utilizing this process, the Company markets a variety of parts for commercial, promotional, and residential uses, under the trade names Nutron and AMP. Rotonically molding is a process for molding plastic resin by rotating a mold in a heated environment, while the plastic resin powder placed inside the mold melts and evenly coats the inner wall of the mold. The injection molding process varies in that the plastic resin is first heated to a molten state and then injected under pressure into a mold. The rotonically molding process has been used for many years and continues to be recognized as a growth industry in recent years, as a result of numerous ongoing business consolidations and the development of new resins. These new resins allow rotonically molded items to compete with more traditional materials such as carbon, fiberglass, and stainless steel, especially in the fabrication of large, lightweight, one-piece molded items, such as storage tanks and polysteel light poles. Rotonically molding is a particularly advantageous process for users of molded plastic products who may want to test different prototypes, or who do not require sufficient numbers of such products to justify a more expensive manufacturing process. The Company's products include various types of storage tanks, bin lids, refuse containers for automated removal, medical waste containers, agricultural/livestock products, kayaks, outdoor polysteel lamp posts, furniture, planters, and other rotonically molded items.

The Company purchases resin from eight major suppliers in the U.S. and Canada. There are seventeen additional suppliers of lesser significance. Since the majority of the resin used in the manufacturing process is a polyethylene derived from natural gas, resin price is not directly related to the price for petrochemicals, and until recent years, has not generally been subject to volatile fluctuations that are often experienced by the petroleum industry. The Company also incorporates the use of recycled plastic materials, blended with virgin materials in the manufacturing of products, whenever appropriate.

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The Company holds several patents on storage containers used for pharmaceutical, commercial and residential applications that expire through the year 2010. Although the Company has been able to capture its share of these niche markets and expects to see continued growth, no one patent or groups of patents is considered material to the business as a whole.

Competition for the Company's products is governed by geography and region, since large capacity tanks and bulky hollow products are expensive to ship long distances and, as such, any prospective competitor is constrained by shipping costs. There are numerous single-location, as well as a growing trend to structure multi-location, rotationally molding businesses throughout the United States. However, each of these businesses still competes in a geographic region, which is determined by customer demand within that region, a constraint inherent to the industry. Due to its nationwide presence, the Company has substantially alleviated this constraint. The Company's sales are



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usually not subject to large seasonal fluctuations as the business typically operates on significant backlogs with a diverse product mix. Peak season is usually experienced in the period from April through June. Historically, the quarter from January through March is the slowest production period of the year. The Company's backlog was \$4,421,100 and \$3,001,200 as of June 30, 2005 and 2004, respectively. All of the backlog orders as of June 30, 2005 are expected to be filled during fiscal 2006.

The Company's products are marketed through the in-house sales and engineering staff, various distributors and outside commission-based sales representatives. The Company continues to build a strong, broad and diverse customer base, which covers a multitude of industries. Since fiscal 1991, no sales to any one single customer represented a material part of the Company's business.

Research and development expenditures for the Company were insignificant for the last three fiscal years.

### Regulation

The Company believes it is in compliance with all applicable federal, state and local laws relating to the protection of the environment, and does not anticipate any such laws will have material effect on its financial position, capital expenditures, or competitive position.

### Employees

As of June 30, 2005, the Company employed a total of 428 individuals. The Company maintains, for its respective employees who are eligible, a medical insurance plan (some of which is contributory), a group life insurance plan, an annual bonus plan and a semi-annual attendance bonus plan.

### Item 2. Properties

The Company's corporate office occupies a separate building that uses approximately 3,600 square feet of the facilities of RMI-G in Gardena, California.

The operating divisions lease warehouse, production and office space as follows:

| <b>Property Location</b> | <b>Building Square Footage</b> | <b>Total Facility Square Footage</b> | <b>Annual Base Rent</b> | <b>Expiration Date (2)</b> |
|--------------------------|--------------------------------|--------------------------------------|-------------------------|----------------------------|
| Gardena, California (1)  | 42,800                         | 183,300                              | \$ 324,600              | October 2011               |

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|                        |        |         |    |         |                |
|------------------------|--------|---------|----|---------|----------------|
| Caldwell, Idaho        | 21,250 | 71,200  | \$ | 105,600 | September 2005 |
| Bartow, Florida        | 46,200 | 174,600 | \$ | 131,400 | September 2009 |
| Miami, Florida (3)     | 50,000 | 86,000  | \$ | 172,600 | March 2013     |
| Gainesville, Texas (4) |        | 108,900 | \$ | 1,000   | April 2006     |
| Brownwood, Texas       | 42,800 | 136,120 | \$ | 76,300  | March 2013     |
| Las Vegas, Nevada      | 30,000 | 90,000  | \$ | 142,600 | March 2013     |
| Knoxville, Tennessee   | 44,000 | 174,240 | \$ | 155,000 | March 2013     |

- 
- (1) The Company has a first right to purchase option on this facility.
  - (2) Does not give effect to any renewal options.
  - (3) The Company is currently sub-leasing one of the Miami buildings (18,000 sq. ft.) for \$4,500 per month and is also sub-leasing a portion of the other building s office space for \$2,500 per month.
  - (4) Represents a 2.5 acre ground lease adjacent to owned, Gainesville, Texas facility.

The Company owns 2.1 acres (including 38,000 square feet of warehouse, production and office space) in Gainesville, Texas. In September 1994, the Company purchased 3.1 acres (including 63,300 square feet of warehouse, production and office space) in Bensenville, Illinois, for the Company's Illinois manufacturing operations. The Texas and Illinois facilities were encumbered by a combined \$1.77 million mortgage, which was paid in full on August 15, 2002. In February 1997, the Company purchased for cash 9.73 acres (including 63,000 square feet of warehouse, production and office space) in Commerce City, Colorado, for the Company's Colorado manufacturing operations. The Company currently leases a portion of this facility for \$7,800 per month. The Company also owned approximately 1.59 unencumbered acres (including 35,100 square feet of warehouse, production, and office space) in Deerfield, Wisconsin, which was vacated in December 1995 by the Company, and its operations were incorporated into the Illinois facility. The Wisconsin facility was sold in November 2004 for \$425,000.

Item 3. Legal Proceedings

In the normal course of business, the Company encounters certain litigation matters, which in the opinion of management will not have a significant adverse effect on the financial position or the results of operations of the Company.

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

None.

PART IIItem 5. Market for Registrant's Common Stock and Related Stockholder Matters

The Company's Common Stock (\$.01 stated value) is traded on the American Stock Exchange ( AMEX ) under the symbol RMI . The number of stockholders of record of the Company's Common Stock was approximately 3,650 at September 6, 2005.

Price Range of Common Stock

The following table sets forth the quarterly price ranges of the Company's Common Stock in Fiscal 2005 and 2004, as reported on the composite transactions reporting system for AMEX listed stocks.

| <b>Fiscal Period</b>                   | <b>High</b> | <b>Low</b> |
|--|-------------|------------|
| <b>Fiscal 2004:</b>                    |             |            |
| First Quarter Ended September 30, 2003 | \$ 1.71     | \$ 1.25    |
| Second Quarter Ended December 31, 2003 | 1.70        | 1.32       |
| Third Quarter Ended March 31, 2004     | 1.60        | 1.27       |
| Fourth Quarter Ended June 30, 2004     | 1.90        | 1.38       |
| <b>Fiscal 2005:</b>                    |             |            |
| First Quarter Ended September 30, 2004 | \$ 2.62     | \$ 1.60    |
| Second Quarter Ended December 31, 2004 | 3.50        | 1.85       |
| Third Quarter Ended March 31, 2005     | 5.49        | 2.99       |
| Fourth Quarter Ended June 30, 2005     | 5.30        | 2.41       |

Since fiscal 1996 the Company has paid eight regular cash dividends on its Common Stock and in fiscal 2005, the Company declared a regular cash dividend of \$.05 per common share on its Common Stock that was paid in July 2005. Any future cash dividends or other distributions of stock will be determined solely by the Board of Directors ( the Board ) and will be based on the Company's future financial ability to declare and pay such dividends. Additionally, certain lending agreements restrict the Company from declaring or paying dividends beyond set limits on its Common Stock (see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations: Liquidity and Capital Resources ). According to the lending agreement with its bank, the Company may declare or pay any dividend or distribution in a maximum aggregate of \$700,000 and may redeem, retire, repurchase or otherwise acquire shares of any class of the Company's stock in a maximum aggregate of \$1,000,000 in any fiscal year. Transactions that would exceed these limits would require prior bank authorization and the appropriate waivers.

The table below discloses the following information with respect to the Company's equity compensation plans that have been approved by stockholders and plans that have not been approved by stockholders as of June 30, 2005.

Equity Compensation Plan Information

| <b>Plan category</b>                                   | <b>(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights</b> | <b>(b) Weighted-average exercise price of outstanding options, warrants and rights</b> | <b>(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</b> |
|--|--|--|--|
| Equity compensation plans approved by stockholders     |  | \$   | 850,000  |
| Equity compensation plans not approved by stockholders |  | \$   |  |
| <b>Total</b>   |  | \$   | <b>850,000</b>   |

The table below discloses the following information with respect to purchases of the Company's common stock during the fourth quarter of fiscal 2005.

Issuer Purchases of Common Stock

| Period                                     | (a) Total number of shares (or units) purchased | (b) Average price paid per share (or unit) | (c) Total number of shares (or units) purchased as part of publicly announced plans or programs | (d) Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs (1) |
|--|---|--|---|---|
| Month #1<br>April 1, 2005 - April 30, 2005 |   |  |   | \$ 65,300   |
| Month #2<br>May 1, 2005 - May 31, 2005     | 24,094  | \$ 2.71                                    | 24,094  | \$  |
| Month #3<br>June 1, 2005 - June 30, 2005   |   |  |   | \$ 1,000,000  |
| Total                                      | 24,094  | \$ 2.71                                    | 24,094  | \$ 1,000,000  |

(1) In fiscal 2001, the Board of Directors approved a common stock buyback program to purchase up to \$1,000,000 of the Company's common stock. This program was completed in May 2005. In June 2005, the Board of Directors approved a new common stock buyback program to purchase up to \$1,000,000 of the Company's common stock. At June 30, 2005, the Company had \$1,000,000 available for additional purchases under the program. The buyback program does not have an expiration date.

Item 6. Selected Financial Data

|   | Year ended June 30, |               |               |               |               |
|---|---------------------|---------------|---------------|---------------|---------------|
|   | 2005                | 2004          | 2003          | 2002          | 2001          |
| <u>Income Statement Data</u>                          |                     |               |               |               |               |
| Net sales   | \$ 45,131,600       | \$ 40,332,900 | \$ 35,972,100 | \$ 37,973,300 | \$ 40,520,100 |
| Cost of goods sold                                    | 35,190,100          | 31,140,600    | 26,927,300    | 27,765,900    | 31,158,700    |
| Gross margin  | 9,941,500           | 9,192,300     | 9,044,800     | 10,207,400    | 9,361,400     |
| Selling, general, and administrative expenses         | 7,088,500           | 6,888,600     | 7,068,700     | 7,540,900     | 7,635,400     |
| Interest expense                                      | 196,900             | 211,800       | 266,000       | 464,100       | 743,100       |
| Net income from operations                            | \$ 1,769,900        | \$ 1,304,200  | \$ 1,156,600  | \$ 1,408,700  | \$ 473,700    |
| Basic/diluted income per common share from operations | \$ 0.15             | \$ 0.11       | \$ 0.09       | \$ 0.11       | \$ 0.04       |
| Avg. common shares outstanding (A)                    | 11,965,200          | 12,155,500    | 12,486,000    | 12,758,800    | 12,835,200    |
| <u>Other Financial Data</u>                           |                     |               |               |               |               |
| Net income from operations as a percent of sales      | 3.9%                | 3.2%          | 3.2%          | 3.7%          | 1.2%          |

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(A) Computed on the basis of the weighted average number of common shares outstanding during each year.

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|                                     | 2005          | 2004          | At June 30,<br>2003 | 2002          | 2001          |
|-------------------------------------|---------------|---------------|---------------------|---------------|---------------|
| <b>Balance Sheet Data</b>           |               |               |                     |               |               |
| Current assets                      | \$ 13,157,900 | \$ 12,980,600 | \$ 11,440,200       | \$ 12,043,100 | \$ 13,379,700 |
| Current liabilities                 | 4,584,900     | 5,224,300     | 4,710,700           | 4,559,400     | 4,185,600     |
| Working capital surplus             | 8,573,000     | 7,756,300     | 6,729,500           | 7,483,700     | 9,194,100     |
| Total assets                        | 26,590,200    | 27,351,800    | 26,450,200          | 27,841,800    | 34,500,800    |
| Long-term debt                      | 1,281,800     | 2,474,000     | 2,362,100           | 3,937,200     | 7,396,200     |
| Total liabilities                   | 8,289,900     | 10,174,600    | 9,500,200           | 11,061,700    | 14,193,700    |
| Current ratio                       | 2.9 to 1      | 2.5 to 1      | 2.4 to 1            | 2.6 to 1      | 3.2 to 1      |
| Net book value per common share (A) | \$ 1.53       | \$ 1.43       | \$ 1.37             | \$ 1.33       | \$ 1.59       |
| Dividends (B)                       | \$ 0.05       | \$ 0.05       | \$ 0.05             | \$ 0.05       | \$ 0.04       |

(A) Computed on the basis of the actual number of common shares outstanding at the end of the fiscal year. Fiscal 2002 net book value includes the write-down of goodwill amounting to \$4.1 million in connection with the adoption of SFAS No. 142.

(B) Based on cash dividends declared per common share during the respective periods.



Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

**Introduction**

To the extent that this 10-K Annual 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 the heading: Item 1,

Business, Item 3, Legal Proceedings, under this Item 7, 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, estimates and similar expressions are generally intended to identify forward-looking statements. You should not place undue reliance on these forward-looking statements, which reflect our opinion only as of the date of the Annual 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 described in other documents we file from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q to be filed by us in fiscal 2006.

**Operations**

Net sales improved by 11.9% to \$45,131,600 in fiscal 2005 compared to \$40,332,900 in fiscal 2004. All of our major product groups contributed to the notable \$4.8 million increase in our net sales during fiscal 2005. As we look back at fiscal 2005, we would like to acknowledge that a significant contribution to this growth was attributed to our efforts to bring new product offerings to the marketplace as well as modify existing product line offerings to better serve our customers. As a result, our industrial product group, led by tank, material handling and linen & laundry products increased by 16.4%; marine, which includes our rivers & waterways line, increased by 15.2%; and refuse, led by medical waste products, increased by 7.6%. Our net sales also benefited from an 11.3% increase in contract manufacturing sales. We continue to realize a consistent flow of products in this group, which included an impressive array of outdoor spas in fiscal 2005. We remain optimistic about the outlook for fiscal 2006 and believe that the recent tragic events that have occurred in our Gulf Coast also bring hope of more jobs, business opportunities and a stronger nation. To date, our backlog levels are higher than they were this time last year, which combined with our investments in new energy efficient machinery and tooling and our efforts to expand our marketing channels will continue to benefit future periods.

In fiscal 2004, net sales improved by 12.1% to \$40,332,900 compared to \$35,972,100 in fiscal 2003. During fiscal 2004, the majority of our product groups reflected improvements with the most notable being a 20.6% increase in refuse products, a 16.5% increase in contract manufacturing products and a 8.7% increase in industrial products. We believe a key component to our 2004 sales growth was the \$1,525,000 spent on new equipment, tooling and improvements that fulfilled our commitment to increase our sales, improve productivity and continue to improve the quality of our product offerings.

Cost of goods sold was \$35,190,100, or 78% of net sales, in fiscal 2005 compared to \$31,140,600 and \$26,927,300, or 77.2% and 74.9% of net sales, in fiscal 2004 and 2003, respectively. The increase in our net sales along with our manufacturing efficiencies and systematic price increases have been instrumental in mitigating the overall increase in our cost of goods sold. Our largest hurdle in fiscal 2005 was combating rising raw material and natural gas costs. Since the material we use in our manufacturing process is derived from natural gas, the correlation between the two continues to impact our operations. To put this in perspective, resin prices increased a minimum of 20% in fiscal 2005, or roughly 2.8% as a percentage of net sales, so in retrospect we are extremely pleased with our efforts to minimize the impact to our operating results. With the recent disaster in our Gulf Coast region coupled with sales of resin to foreign countries, we anticipate these costs to continue to

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escalate in the ensuing months. As such, we will continue to implement strategies to minimize their potential impact to future operating results.

Selling general and administrative ( SG&A ) expenses were \$7,088,500, or 15.7% of net sales, in fiscal 2005 compared to \$6,888,600 and \$7,068,700, or 17.1% and 19.7% of net sales, in fiscal 2004 and 2003, respectively. Although overall costs increased \$199,900 in fiscal 2005, we noted a 1.4% drop in SG&A costs as a percentage of net sales. We were pleased with this correlation as it again confirms our efforts to maintain SG&A levels in line with our revenue growth. The fiscal 2005 increase in SG&A costs of \$199,900 is primarily linked to increased wage

costs associated with our sales/marketing and cost efficiency efforts. We believe the benefits obtained as seen in the increase in our net sales and operating efficiencies has more than justified any minimal increase in our overall SG&A costs. The \$180,100 decrease in SG&A costs between fiscal 2004 and 2003 is primarily attributed to the \$190,000 one-time administrative contractual charge that was incurred in fiscal 2003.

Income from operations was \$2,853,000, or 6.3% of net sales, in fiscal year 2005 compared to \$2,303,700 and \$1,976,100, or 5.7% and 5.5% of net sales, in fiscal 2004 and 2003, respectively. We are pleased that we continue to post year-on-year improvements to our operating results in spite of the challenges to offset rising raw material and utility costs as previously mentioned. Fiscal 2005 operating results also benefited from overall reductions in our insurance costs, which had previously impacted prior year results, as well as our efforts to keep SG&A costs in check with the 11.9% increase in our net sales. Because of the uncertainties surrounding our nation's recent disaster, we fully anticipate raw material and natural gas costs will continue to rise in the near term. If the general health of the economy remains positive, it is our hope that we can keep pace with these cost escalations by continuing to institute price increases and from the savings obtained from our recently installed energy efficient equipment.

Total interest expense decreased \$14,900 to \$196,900 in fiscal 2005, compared to \$211,800 and \$266,000 in fiscal 2004 and 2003, respectively. Although our debt level is down \$1.2 million in comparison to amounts outstanding at the end of fiscal 2004, any potential savings in interest costs for borrowings not covered under our interest rate swap agreement have been diminished by an increase in the bank's prime interest rate of 2% over the last twelve months. The converse was true in fiscal 2004, which benefited from historically lower interest rates coupled with a more favorable debt structure as compared to fiscal 2003. Because of our interest rate swap agreement, which matures in August 2006, we do not foresee any significant increases in future interest costs even if additional rate hikes are instituted.

Income taxes were \$1,119,300, \$898,500 and \$677,400 in fiscal 2005, 2004 and 2003, respectively. The majority of our income tax provision relates to current taxes due and is consistent with the respective level of taxable income between the periods.

Net income increased \$465,700 to \$1,769,900, or \$.15 per common share, for fiscal 2005 compared to \$1,304,200, or \$.11 per common share, in fiscal 2004. The 11.9% increase in our net sales in fiscal 2005 continued to play a pivotal role in boosting our net income by 35.7%. The increased revenues provided a stronger base to cover our fixed operating and SG&A costs and helped mitigate the ongoing volatility we have experienced in raw material and utility costs. Secondly, we will continue to benefit from our existing as well as future installations of energy efficient equipment that continue to improve our operating efficiencies. Although the recent events that have stricken our great nation have temporarily clouded future market conditions, as a leader in our industry we will strive to take advantage of all opportunities as they present themselves.

Net income increased \$147,600 to \$1,304,200, or \$.11 per common share, for fiscal 2004 compared to \$1,156,600, or \$.09 per common share, in fiscal 2003. The second half of fiscal 2004 offered a renewed vigor in the marketplace, that coupled with our efforts to improve sales volumes through enhanced product offerings and productivity resulted in our 12.1% increase in fiscal 2004 sales volumes. The significant increase in sales volumes provided the needed base to mitigate the rising raw material, utility and insurance costs that challenged our operations, along with the \$200,000 fiscal 2004 inventory write down. We successfully recouped a portion of these costs, which coupled with the reduction in SG&A and interest costs provided the 12.8% increase in current years net income.

### **Liquidity and Capital Resources**

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Working capital increased \$816,700 to \$8,573,000 at June 30, 2005, compared to \$7,756,300 at June 30, 2004. Working capital benefited from the \$465,700 increase in our net income, the \$388,000 in proceeds received from the sale of our Wisconsin property, collection of note receivable payments and distributions from our partnership investment. These influxes of capital were used to purchase resin, pay our \$.05 common stock dividend and pay down our bank line of credit. Cash flows from operations increased \$811,000 to \$3,326,600 in fiscal 2005 compared to \$2,515,600 for the same period last year. The increase again is primarily related to the \$465,700 increase in our net income and cash flows obtained from accounts receivable reductions that were offset by a decrease in accounts payable and an increase in inventories that is consistent with current production requirements and to take advantage of preferred resin pricing.

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We expended \$1,801,000 for property, plant and equipment ( PP&E ) in fiscal 2005, compared to \$1,525,000 in fiscal 2004. During fiscal 2005, we placed into service three new energy efficient rotational molding machines at a combined cost of \$817,300 with the balance of our expenditures primarily going to new tooling and various tooling and machinery enhancement projects. These expenditures continue to mirror our commitment to allocate funding for capital expenditure projects that have provided us with the foundation to improve our operating efficiencies and promote increased sales revenues. We anticipate capital expenditures to total between \$1.2-\$1.5 million in fiscal 2006, which currently includes the installation of one new energy efficient rotational molding machine.

Net borrowings under the line of credit decreased \$327,900 to \$1,029,400 between June 30, 2004 and June 30, 2005. The decrease is due to cash flows obtained from the increase in our net income and overall reductions in outstanding accounts receivable balances. In addition, since June 30, 2004, our total debt borrowings have also declined by \$1,192,200. We anticipate that this trend will continue through fiscal 2006. At June 30, 2005, we had \$3,970,600 available for future borrowings under the line of credit.

Effective October 1, 2004, the bank extended the maturity date on the line of credit to October 1, 2006. In addition, the maturity date for the letter of credit subfeature of our credit facility was extended to February 1, 2007. All other terms and conditions surrounding our credit facility with the bank remained the same.

The following is a summary of the Company's contractual commitments associated with its debt and lease obligations as of June 30, 2005:

|                              | For the year ended June 30, |              |              |              |            |              |              |  |
|------------------------------|-----------------------------|--------------|--------------|--------------|------------|--------------|--------------|--|
|                              | 2006                        | 2007         | 2008         | 2009         | 2010       | Thereafter   | Total        |  |
| Principal payments-term debt | \$ 864,300                  | \$ 252,400   | \$           | \$           | \$         | \$           | \$ 1,116,700 |  |
| Line of credit               |                             | 1,029,400    |              |              |            |              | 1,029,400    |  |
| Operating leases             | 1,071,200                   | 1,029,900    | 1,027,300    | 1,024,000    | 921,400    | 1,948,900    | 7,022,700    |  |
| Total commitments            | \$ 1,935,500                | \$ 2,311,700 | \$ 1,027,300 | \$ 1,024,000 | \$ 921,400 | \$ 1,948,900 | \$ 9,168,800 |  |

In fiscal 2005, we acquired 40,560 shares of common stock at a total cost of \$98,400, which completed our 2001 buyback program. In June 2005, the Board of Directors approved a new buyback program to acquire up to \$1,000,000 of the Company's common stock. This buyback program does not have an expiration date. At June 30, 2005, we had 11,940,598 shares of common stock outstanding.

On June 28, 2005, the Board declared a dividend of \$.05 per share of common stock payable on July 29, 2005 to stockholders of record on July 18, 2005. This marks the ninth payment of dividends since 1996 on our common stock. The Board is committed to annually review a dividend program for our common stock.

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 is effective for the Company as of the beginning of the first interim period that begins after June 15, 2005. The Company does not expect the adoption of this standard to have a significant impact on its 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 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not believe adoption of SFAS 151 will have a material effect on its 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 will become effective for the Company as of the first interim period that begins after June 15, 2005. The Company does not expect the adoption of this standard to have a material effect on its 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 commitments. Certain financial and operating restrictions under these agreements are fully disclosed in notes 7 and 8 of the consolidated financial statements.

#### **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.

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

#### **Accounts receivable**

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

#### **Inventory valuation**

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



do occur on a regular basis. Although we believe that our inventory counts and values are reasonable the inventory does have some inherent 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-K.

#### Revenue Recognition

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

#### Income taxes

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

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

**Factors That May Affect Our Future Results or the Market Price of Our Stock**

We operate in a rapidly changing economic environment that presents numerous risks. Many of these risks are beyond our control and are driven by factors that we cannot predict. The following discussion highlights some of these risks.

Economic, political and market conditions can adversely affect our revenue growth.

Our revenue growth and profitability depends on the overall demand for plastic products for commercial, recreational and residential uses. Because our sales are primarily to corporate and government customers, our business depends on general economic and business conditions. In the past, the general weakening of the global economy, the weakening of business conditions in the manufacturing industry, and governmental budgetary constraints have resulted in a decreased demand for our products. If demand for our products weakens again, our revenue growth rates will be adversely affected. In addition, our country's war on terrorism, the recent natural disaster that hit our Gulf Coast, as well as federal and state budgetary concerns, have contributed to economic, political and other uncertainties that could adversely affect our revenue growth and results of operations. If economic and market conditions do not remain healthy, our business will be adversely affected.

Management has no comparative advantage in forecasting macroeconomic trends and developments relating to general business conditions. Our management is, however, required to make such forecasts in order to develop budgets, plan research and development strategies and perform a wide variety of general management functions. To the extent that our forecasts are in error, because we are either overly optimistic or overly pessimistic about the performance of an economy or of a sector, our performance can suffer because of a failure properly to match corporate strategy with economic conditions.

If we do not successfully manage our operating margins, our business can be negatively impacted.

Our future operating results will depend on our ability to forecast revenues accurately and control expenses. While we can control certain internal factors, our future operating results can be adversely impacted by external factors, such as a slowing in demand for certain of our products. If there is an unexpected decline in revenues, which is not offset by a decrease in expenses, our business and operating results will be adversely affected.

We may be required to change our business practices if there are changes in accounting regulations and related interpretations and policies.

Policies, guidelines and interpretations related to revenue recognition, income taxes, facilities consolidation, accounting for acquisitions, allowances for doubtful accounts and other financial reporting matters require difficult judgments as to complex matters that are often subject to multiple sources of authoritative guidance. Some of these matters are also among topics currently under re-examination by accounting standards groups and regulators. These standard groups and regulators could promulgate interpretations and guidance that could result in material and potentially adverse, changes to our accounting policies.

Business disruptions could affect our future operating results.

Our operating results and financial condition could be materially and adversely affected in the event of a major earthquake, fire or other catastrophic event, such as terrorist attacks upon the United States. Our corporate headquarters, a significant portion of our research and development activities and certain other critical business operations are located in California, near major earthquake faults. A catastrophic event that results in the destruction of any of our critical business or information technology systems could severely affect our ability to conduct normal business operations and as a result our future operating results could be adversely affected. In 2001, California experienced ongoing power shortages, which resulted in rolling blackouts. These blackouts, blackouts in other regions or procedures implemented to avert blackouts could cause disruptions to our operations and the operations of our customers. Such disruptions, particularly at the end of a quarter, could adversely affect quarterly revenues and net income.

Our stock price could remain volatile and your investment could lose value.

Our stock price has fluctuated widely in the past and could continue to do so in the future. Your investment in our stock could lose value. Some of the factors that could significantly affect the market price of our stock include:

quarterly variations in our results of operations or those of our competitors;

changes in our or our competitors' prices;

changes in our revenue and revenue growth rates as a whole or for specific geographic areas, business units, products or product categories;

announcements of new products or product enhancements by us or our competitors;

changes in management;

changes in our accounting policies;

changes in recommendations or earnings estimates by financial analysts;

speculation in the press or analyst community;

changes in economic and market conditions either generally or specifically to particular industries;

changes in plastic resin and natural gas costs;

changes in interest rates; and

changes in investors' beliefs as to the appropriate price-earnings ratios for us and our competitors.

A significant drop in our stock price could expose us to the risk of securities class action lawsuits. Defending against such lawsuits could result in substantial costs and divert management's attention and resources. Furthermore, any settlement or adverse determination of these lawsuits could adversely affect us.

Item 7a. Quantitative and Qualitative Disclosures About Market Risk

**Interest Rate Risk**

We are exposed to certain market risks relating to interest rate volatility on its existing and future issuances of variable rate debt with the bank. Primary exposures include movements in U.S. Treasury rates and LIBOR rates, which in turn affect the bank's prime and LIBOR option rates.

We had approximately \$2.1 million of variable rate debt as of June 30, 2005. In efforts to reduce interest rate volatility and mitigate exposure on variable rate debt, we entered into an interest rate swap effective July 15, 1998, as amended on August 15, 2002. The swap, which has a notional amount of \$3 million as of June 30, 2005, stepped down to \$2 million on August 15, 2005 and will remain at this amount until its expiration on August 15, 2006. The swap fixes the bank's LIBOR option rate at 4.83% over the term of the contract. The fair value of the swap, net of tax, amounted to (\$15,800) as of June 30, 2005. If interest rates increased by 1% during fiscal 2006 as compared to fiscal 2005, and additional borrowings are not incurred, we would not expect a significant increase in projected fiscal 2006 interest expense.

Item 8. Financial Statements and Supplementary Data

See Financial Statements and Financial Statement Schedules listed in Item 14(a)(1) and (2).

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9a. 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 Rules 13a-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 reasonably likely to materially affect, our internal controls over financial reporting.



PART IIIItem 10. Directors and Executive Officers of the RegistrantDirectors

The Company incorporates by reference the information set forth under the caption "Election of Directors" in the Proxy Statement to be filed with the Securities and Exchange Commission, and mailed to stockholders in connection with the Company's Annual Meeting of the Stockholders to be held on December 5, 2005 (the Proxy Statement).

Executive Officers

As of September 6, 2005, the executive officers of the Company were as follows:

| <b>Name</b>        | <b>Age</b> | <b>Position</b>   |
|--------------------|------------|---|
| Sherman McKinniss  | 69         | Chairman of the Board, President, Chief Executive Officer |
| E. Paul Tonkovich  | 67         | Secretary, Director                                       |
| Douglas W. Russell | 44         | Chief Financial Officer, Assistant Secretary/Treasurer    |

Sherman McKinniss. Mr. McKinniss served as President and Chief Executive Officer from August 1991 to December 2001 and again was appointed President and Chief Executive Officer in June 2003. Mr. McKinniss has also served as Director of the Company since 1991, and was appointed as Chairman of the Board in December 1994. He was President and a Director of Rotonics from 1987-1991. Previously, he owned and operated RMI, which he sold to the Company in 1986. Mr. McKinniss is also a 50% owner of Atlantic Meeco, Inc., a marina dock building company, and has served as a board member of that company since 1993.

E. Paul Tonkovich. Mr. Tonkovich has served as Secretary and a Director of the Company since August 1991. He has been a practicing attorney since January 1966. He was legal counsel to Mr. McKinniss and predecessors of the Company and is now legal counsel for the Company.

Douglas W. Russell. Mr. Russell has served as Chief Financial Officer and Assistant Secretary/Treasurer of the Company since 1991. Prior to that, he was a Senior Auditor for the accounting firm Hallstein & Warner from 1988 until 1991, and was Assistant Controller of RMI from September 1985 to September 1987.

Item 11. Executive Compensation

The Company incorporates by reference the information set forth under the captions Compensation of Executive Officers , the Summary Compensation Table and related disclosure information, Certain Transactions , and Compensation of Directors in the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The Company incorporates by reference the information set forth under the caption Security Ownership by Certain Beneficial Holders in the Proxy Statement.

Item 13. Certain Relationships and Related Transactions

The Company incorporates by reference the information set forth under the headings Information Concerning the Board of Directors under the caption Election of Directors , Executive Officers , and Certain Transactions in the Proxy Statement.

Item 14. Principal Accounting Fees and Services

The information required by this item is incorporated herein by reference to the caption "Ratification of Appointment of Independent Auditors" in the definitive Proxy Statement for our 2005 Annual Meeting of Stockholders that will be filed with the SEC within 120 days after the end of the fiscal year covered by this report.

PART IV

Item 15. Exhibits, Financial Statements, Schedules, and Reports on form 8-K

(a) The following documents are filed as part of this report:

(1) Financial Statements:

Report of Independent Registered Public Accounting Firm  
Consolidated Balance Sheets, June 30, 2005 and 2004  
Consolidated Statements of Operations and Comprehensive Income,  
Years Ended June 30, 2005, 2004, and 2003  
Consolidated Statements of Changes in Stockholders' Equity,  
Years Ended June 30, 2005, 2004, and 2003  
Consolidated Statements of Cash Flows,  
Years Ended June 30, 2005, 2004, and 2003  
Notes to Consolidated Financial Statements

(2) Financial Statement Schedules:

II Valuation and Qualifying Accounts,  
Years Ended June 30, 2005, 2004, and 2003

All other schedules are omitted because they are not applicable, or the required information is shown in the financial statements or notes thereto.

(b) Reports on Form 8-K

On April 18, 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 April 18, 2005 outlining our unaudited financial results for the nine months and three months ended March 31, 2005.

(c) The following exhibits are filed or furnished as part of this report:

| <b>Exhibit Number</b> | <b>Exhibit Title</b>  |
|-----------------------|---|
| 23.1                  | Consent of Independent Registered Public Accounting Firm Windes & McLaughry Accountancy Corporation |
| 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



Jules Sandford

/s/ BILL ALLEN  
Bill Allen

Director

09/22/2005

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM



## Edgar Filing: ROTONICS MANUFACTURING INC/DE - Form 10-K

To the Board of Directors  
and Stockholders of Rotonics Manufacturing Inc.:

We have audited the accompanying consolidated balance sheets of ROTONICS MANUFACTURING INC. (a Delaware corporation) as of June 30, 2005 and 2004 and the related consolidated statements of operations and comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended June 30, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Rotonics Manufacturing Inc. as of June 30, 2005 and 2004, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2005 in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the index appearing under Item 15(a)(2) is presented for purposes of complying with the Securities and Exchange Commission's rules and is not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ WINDES & McCLAUGHRY ACCOUNTANCY CORPORATION

Long Beach, California  
August 12, 2005

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ROTONICS MANUFACTURING INC.CONSOLIDATED BALANCE SHEETS

|   | June 30,      |               |
|---|---------------|---------------|
|   | 2005          | 2004          |
| <u>ASSETS</u>   |               |               |
| Current assets:   |               |               |
| Cash  | \$ 310,500    | \$ 56,500     |
| Accounts receivable, net of allowance for doubtful accounts of \$291,500 and \$256,100, respectively                                      | 5,430,800     | 5,784,900     |
| Inventories   | 6,974,000     | 6,629,000     |
| Deferred income taxes, net  | 226,900       | 243,700       |
| Prepaid expenses and other current assets   | 215,700       | 266,500       |
| Total current assets  | 13,157,900    | 12,980,600    |
| Notes receivable  |               | 138,600       |
| Investment in partnership   |               | 100,900       |
| Property, plant and equipment, net  | 13,196,700    | 13,849,700    |
| Intangible assets, net  | 171,100       | 216,700       |
| Other assets  | 64,500        | 65,300        |
|   | \$ 26,590,200 | \$ 27,351,800 |
| <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>   |               |               |
| Current liabilities:  |               |               |
| Current portion of long-term debt   | \$ 864,300    | \$ 864,300    |
| Accounts payable  | 2,819,300     | 3,450,900     |
| Accrued liabilities   | 901,300       | 909,100       |
| Total current liabilities   | 4,584,900     | 5,224,300     |
| Bank line of credit   | 1,029,400     | 1,357,300     |
| Long-term debt, less current portion  | 252,400       | 1,116,700     |
| Deferred income taxes, net  | 2,304,200     | 2,393,300     |
| Other liabilities   | 119,000       | 83,000        |
| Total liabilities   | 8,289,900     | 10,174,600    |
| Commitments and contingencies (Note 14)   |               |               |
| Stockholders' equity:   |               |               |
| Common stock, stated par value \$.01: authorized 20,000,000 shares; issued and outstanding 11,940,598 and 11,981,158 shares, respectively | 22,029,500    | 22,127,900    |
| Accumulated other comprehensive loss  | (15,800)      | (64,400)      |
| Accumulated deficit   | (3,713,400)   | (4,886,300)   |
| Total stockholders' equity  | 18,300,300    | 17,177,200    |
|   | \$ 26,590,200 | \$ 27,351,800 |

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



ROTONICS MANUFACTURING INC.CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

|  | For the year ended June 30, |               |               |
|--|-----------------------------|---------------|---------------|
|  | 2005                        | 2004          | 2003          |
| Net sales  | \$ 45,131,600               | \$ 40,332,900 | \$ 35,972,100 |
| Costs and expenses:  |                             |               |               |
| Cost of goods sold   | 35,190,100                  | 31,140,600    | 26,927,300    |
| Gross profit   | 9,941,500                   | 9,192,300     | 9,044,800     |
| Selling, general, and administrative expenses  | 7,088,500                   | 6,888,600     | 7,068,700     |
| Income from operations   | 2,853,000                   | 2,303,700     | 1,976,100     |
| Other income/(expense):  |                             |               |               |
| Interest expense   | (196,900)                   | (211,800)     | (266,000)     |
| Other income, net  | 233,100                     | 110,800       | 123,900       |
| Total other income/(expense), net  | 36,200                      | (101,000)     | (142,100)     |
| Income before income taxes   | 2,889,200                   | 2,202,700     | 1,834,000     |
| Income tax provision   | (1,119,300)                 | (898,500)     | (677,400)     |
| Net income   | 1,769,900                   | 1,304,200     | 1,156,600     |
| Other comprehensive income/(loss), before tax:                                       |                             |               |               |
| Unrealized holding gain/(loss) arising during the period                             | 1,100                       | 36,800        | (199,200)     |
| Less: Reclassification adjustments for losses included in net income                 | 79,900                      | 119,400       | 149,000       |
| Total other comprehensive income/(loss) before tax                                   | 81,000                      | 156,200       | (50,200)      |
| Income tax (provision)/benefit related to items of other comprehensive income/(loss) | (32,400)                    | (62,400)      | 20,000        |
| Total other comprehensive income/(loss), net of tax                                  | 48,600                      | 93,800        | (30,200)      |
| Comprehensive income   | \$ 1,818,500                | \$ 1,398,000  | \$ 1,126,400  |
| Net income per common share:   |                             |               |               |
| Basic and diluted  |                             |               |               |
| Net income   | \$ 0.15                     | \$ 0.11       | \$ 0.09       |

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

ROTONICS MANUFACTURING INC.CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

|  | Shares     | Common Stock<br>Amount | Accumulated<br>Other<br>Comprehensive<br>Income/(Loss) | Accumulated<br>Deficit | Total         |
|--|------------|------------------------|--|------------------------|---------------|
| Balances, June 30, 2002                | 12,614,942 | \$ 23,040,100          | \$ (128,000)   | \$ (6,132,000)         | \$ 16,780,100 |
| Repurchase of common stock             | (270,151)  | (340,500)              |  |                        | (340,500)     |
| Common stock dividends                 |            |                        |  | (616,000)              | (616,000)     |
| Other comprehensive loss, net of tax   |            |                        | (30,200)   |                        | (30,200)      |
| Net income                             |            |                        |  | 1,156,600              | 1,156,600     |
| Balances, June 30, 2003                | 12,344,791 | 22,699,600             | (158,200)  | (5,591,400)            | 16,950,000    |
| Exercise of stock options              | 96,000     | 108,000                |  |                        | 108,000       |
| Repurchase of common stock             | (459,633)  | (679,700)              |  |                        | (679,700)     |
| Common stock dividends                 |            |                        |  | (599,100)              | (599,100)     |
| Other comprehensive income, net of tax |            |                        | 93,800   |                        | 93,800        |
| Net income                             |            |                        |  | 1,304,200              | 1,304,200     |
| Balances, June 30, 2004                | 11,981,158 | 22,127,900             | (64,400)   | (4,886,300)            | 17,177,200    |
| Repurchase of common stock             | (40,560)   | (98,400)               |  |                        | (98,400)      |
| Common stock dividends                 |            |                        |  | (597,000)              | (597,000)     |
| Other comprehensive income, net of tax |            |                        | 48,600   |                        | 48,600        |
| Net income                             |            |                        |  | 1,769,900              | 1,769,900     |
| Balances, June 30, 2005                | 11,940,598 | \$ 22,029,500          | \$ (15,800)  | \$ (3,713,400)         | \$ 18,300,300 |

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

ROTONICS MANUFACTURING INC.CONSOLIDATED STATEMENT OF CASH FLOWS

|   | For the year ended June 30, |              |              |
|---|-----------------------------|--------------|--------------|
|   | 2005                        | 2004         | 2003         |
| Cash flows from operating activities:   |                             |              |              |
| Net income  | \$ 1,769,900                | \$ 1,304,200 | \$ 1,156,600 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                             |              |              |
| Depreciation and amortization   | 2,177,000                   | 2,182,700    | 2,120,400    |
| Gain on sales of plant and equipment  | (109,600)                   | (1,000)      | (2,100)      |
| Deferred income tax benefit   | (104,800)                   | (83,300)     | (101,800)    |
| Provision for doubtful accounts   | 146,100                     | 100,400      | 125,000      |
| Changes in assets and liabilities:  |                             |              |              |
| Decrease/(increase) in accounts receivable  | 261,600                     | (1,465,600)  | 577,300      |
| Increase in inventories   | (345,000)                   | (258,600)    | (61,900)     |
| Decrease/(increase) in prepaid expenses and other current assets                  | 50,800                      | (10,100)     | 6,200        |
| Decrease/(increase) in other assets   | 800                         | (22,800)     | (2,000)      |
| (Decrease)/increase in accounts payable   | (629,500)                   | 676,200      | 715,100      |
| Increase in accrued liabilities   | 73,300                      | 10,500       | 22,300       |
| Decrease in income taxes payable  |                             |              | (128,800)    |
| Increase in other liabilities   | 36,000                      | 83,000       |              |
| Net cash provided by operating activities   | 3,326,600                   | 2,515,600    | 4,426,300    |
| Cash flows from investing activities:   |                             |              |              |
| Repayments on notes receivable  | 85,000                      | 92,100       | 116,400      |
| Capital expenditures  | (1,801,100)                 | (1,525,000)  | (1,532,600)  |
| Proceeds from sales of plant and equipment  | 432,300                     | 1,500        | 2,400        |
| Distribution from investment in partnership                                       | 100,900                     | 3,400        | 4,400        |
| Net cash used in investing activities   | (1,182,900)                 | (1,428,000)  | (1,409,400)  |
| Cash flows from financing activities:   |                             |              |              |
| Borrowings under line of credit   | 11,847,300                  | 10,502,100   | 7,253,900    |
| Repayments under line of credit   | (12,175,200)                | (9,526,000)  | (7,064,700)  |
| Repayments of long-term debt  | (864,300)                   | (864,200)    | (2,257,600)  |
| Payment of common stock dividends   | (599,100)                   | (616,000)    | (630,200)    |
| Proceeds from exercise of stock options   |                             | 108,000      |              |
| Repurchases of common stock   | (98,400)                    | (679,700)    | (340,500)    |
| Net cash used in financing activities   | (1,889,700)                 | (1,075,800)  | (3,039,100)  |
| Net increase/(decrease) in cash   | 254,000                     | 11,800       | (22,200)     |
| Cash at beginning of year   | 56,500                      | 44,700       | 66,900       |
| Cash at end of year   | \$ 310,500                  | \$ 56,500    | \$ 44,700    |

The accompanying notes are an integral part of these financial statements

ROTONICS MANUFACTURING INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1- ORGANIZATION, OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES:

Organization and operations

Rotonics Manufacturing Inc. (the Company), a Delaware corporation, manufactures and markets plastic products for commercial, agricultural, refuse, pharmaceutical, marine, recreation, medical waste, healthcare, retail, recreation and residential use, as well as an array of custom molded plastic products to customers in a variety of industries, located in diverse geographic markets. The Company's operations are conducted under one operating segment. No single customer accounted for more than 10% of the Company's net sales in fiscal 2005, 2004, or 2003. In fiscal 2005, the Company purchased in aggregate approximately 98% of its plastic resin from eight vendors. Plastic resin represents a significant portion of the Company's manufacturing costs. As such, economic factors that affect the Company's plastic resin vendors will have a potential impact on the Company's future operations.

The Company's significant accounting policies are as follows:

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.

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.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair value of financial instruments



The carrying value of accounts receivable and trade payables approximates the fair value due to their short-term maturities. The carrying value of the Company's line of credit and notes payable is considered to approximate fair market value, because the interest rates of these instruments are based predominately on variable reference rates.

Account receivable and allowance for doubtful accounts

The Company records accounts receivable net of a reserve for doubtful accounts. The Company estimates its allowance for doubtful accounts based on an assessment of the collectibility of specific accounts and the overall aging of the accounts receivable. When evaluating the adequacy of the allowance for doubtful accounts, the Company analyzes specific trade and other receivables, historical bad debts, customer credits, customer concentrations, customer credit-worthiness, current economic trends and changes in customers' payment terms and/or patterns. The Company reviews the allowance for doubtful accounts on a quarterly basis and records adjustments as considered necessary. Customer accounts are written-off against the allowance for doubtful accounts when an account is considered uncollectible.

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Inventories

Inventories are stated at the lower of cost or market. Cost is determined on the first-in, first-out method.

Property, plant and equipment

Depreciation is computed using the straight-line method and the estimated useful lives of the assets range from three to thirty-nine years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is included in income for the period. The cost of maintenance and repairs is charged to income as incurred; costs relating to significant renewals and betterments are capitalized.

Intangible assets

Patents are amortized on the straight-line basis over their useful lives of seventeen years, or at their remaining useful life from date of acquisition. Legal costs associated with defending existing patents are capitalized as additional costs of the patent, when successful defense is probable.

Impairment of long-lived assets



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The Company evaluates the recoverability of long-lived assets and the related estimated remaining lives at each balance sheet date. Should events or changes in circumstances indicate that the carrying amount may not be recoverable or the useful life has changed, the Company records an impairment charge or changes the useful life.

### **Stock-based compensation**

Stock-based compensation is accounted for using the intrinsic value method under which no compensation expense is recognized when the exercise price of the employee's stock option equals or exceeds the market price of the underlying stock on the date of grant. Had compensation cost for the plan been determined in accordance with the fair value method as set out in SFAS No. 123, as amended by SFAS No. 148, the Company's net income and income per common share data would not have been significantly different.

Income taxes

The Company accounts for income taxes pursuant to an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. In estimating future tax consequences, expected future events other than enactments of changes in tax laws or rates, are considered.

Derivative instruments



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The Company accounts for its derivative instruments and hedging activities in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 149, Amendment of Statement 133 on Derivative Instrument and Hedging Activities, which established methods of accounting and reporting for derivative instruments and hedging activities related to those instruments as well as other hedging activities.

### 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 table below details the components of the basic and diluted EPS calculations:

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|                                  | Net Income   | Weighted<br>Average Shares<br>Outstanding | EPS     |
|----------------------------------|--------------|---|---------|
| <b><u>June 30, 2005</u></b>      |              |   |         |
| Basic EPS                        |              |   |         |
| Net income                       | \$ 1,769,900 | 11,965,167                                | \$ 0.15 |
| Effect of dilutive stock options |              |   |         |
| Diluted EPS                      | \$ 1,769,900 | 11,965,167                                | \$ 0.15 |
| <b><u>June 30, 2004</u></b>      |              |   |         |
| Basic EPS                        |              |   |         |
| Net income                       | \$ 1,304,200 | 12,155,548                                | \$ 0.11 |
| Effect of dilutive stock options |              | 1,115                                     |         |
| Diluted EPS                      | \$ 1,304,200 | 12,156,663                                | \$ 0.11 |
| <b><u>June 30, 2003</u></b>      |              |   |         |
| Basic EPS                        |              |   |         |
| Net income                       | \$ 1,156,600 | 12,486,038                                | \$ 0.09 |
| Effect of dilutive stock options |              | 10,633                                    |         |
| Diluted EPS                      | \$ 1,156,600 | 12,496,671                                | \$ 0.09 |

Geographic and Product Information

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All of the Company's manufacturing operations are located within the United States. The Company's revenues were almost exclusively generated in North America for the years ended June 30, 2005, 2004, and 2003. The Company categorizes its products into five main groups. Net sales for these products are summarized as follows:

| Product Group:         | For Year Ended June 30, |               |               |
|------------------------|-------------------------|---------------|---------------|
|                        | 2005                    | 2004          | 2003          |
| Contract Manufacturing | \$ 19,343,800           | \$ 17,379,600 | \$ 14,915,100 |
| Industrial             | 13,991,800              | 12,017,600    | 11,058,500    |
| Marine                 | 3,428,600               | 2,975,600     | 2,774,700     |
| Refuse                 | 5,226,400               | 4,858,400     | 4,029,100     |
| Consumer               | 3,141,000               | 3,101,700     | 3,194,700     |
| Total net sales        | \$ 45,131,600           | \$ 40,332,900 | \$ 35,972,100 |

Impact of Recent Accounting Pronouncements

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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 is effective for the Company as of the beginning of the first interim period that begins after June 15, 2005. The Company does not expect the adoption of this standard to have a significant impact on its 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 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not believe adoption of SFAS 151 will have a material effect on its 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 will become

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effective for the Company as of the first interim period that begins after June 15, 2005. The Company does not expect the adoption of this standard to have a material effect on its consolidated financial position, results of operation or cash flows.

### NOTE 2 - NOTES RECEIVABLE:

In July 2001, the Company and a former customer agreed to convert an open trade receivable balance due from the customer in the amount of \$150,000 to a note receivable bearing interest at 8% per annum and maturing on June 15, 2004. In March 2005, the Company reached an out of court settlement with the former customer that resulted in a write down of the remaining note balance from \$138,600 to \$85,000, a contingency that was accrued in a prior year by increasing our allowance for doubtful accounts. The remaining balance of the note was paid in full in May 2005.

### NOTE 3 - INVENTORIES:

Inventories consist of:

|                | <b>June 30,</b>     |                     |
|----------------|---------------------|---------------------|
|                | <b>2005</b>         | <b>2004</b>         |
| Raw materials  | \$ 2,470,700        | \$ 2,525,900        |
| Finished goods | 4,503,300           | 4,103,100           |
|                | <b>\$ 6,974,000</b> | <b>\$ 6,629,000</b> |

### NOTE 4 - INVESTMENT IN PARTNERSHIP:

The Company owned a 33-1/3% interest in a real estate venture that was acquired in 1998 and was being accounted for using the equity method. The investment consisted principally of a note receivable which was payable in monthly installments, including interest at 7%, to 2008. The principal portion of the note receivable was paid in full in June 2005. The Company anticipates the final dissolution of the partnership in 2005.

### NOTE 5 - PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment consist of:

|                                     | <b>For Year Ended June 30,</b> |              |
|-------------------------------------|--------------------------------|--------------|
|                                     | <b>2005</b>                    | <b>2004</b>  |
| Land                                | \$ 1,027,300                   | \$ 1,039,500 |
| Buildings and building improvements | 4,941,500                      | 5,291,000    |

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|  |               |               |
|--|---------------|---------------|
| Machinery, equipment, furniture and fixtures     | 29,877,100    | 28,938,400    |
| Construction in progress                         | 28,500        | 164,200       |
|  | 35,874,400    | 35,433,100    |
| Less - accumulated depreciation and amortization | (22,677,700)  | (21,583,400)  |
|  | \$ 13,196,700 | \$ 13,849,700 |

NOTE 6 - INTANGIBLE ASSETS:

Intangible assets consist of:

|                               | For Year Ended June 30, |            |
|-------------------------------|-------------------------|------------|
|                               | 2005                    | 2004       |
| Patents                       | \$ 475,700              | \$ 475,700 |
| Less accumulated amortization | (304,600)               | (259,000)  |
| Net patents                   | \$ 171,100              | \$ 216,700 |

Aggregate amortization expense for each of the fiscal years ended June 30, 2005, 2004, and 2003 was \$45,600, \$45,900 and \$46,100, respectively. Future estimated amortization expense will be approximately \$45,000 for each of the next three years and \$34,000 in fiscal 2009.

NOTE 7 - BANK LINE OF CREDIT:

The Company has a \$5,000,000 revolving line of credit with Wells Fargo Bank. The line matures on October 1, 2006 and is secured by the Company's machinery and equipment, accounts receivable and inventories. Interest is payable monthly at the respective bank's prime rate minus .25% (6.0% per annum at June 30, 2005). In addition, 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 up to 90-day periods. At June 30, 2005, total borrowings under the Company's

line of credit were \$1,029,400 of which \$1,000,000 was borrowed under the LIBOR option bearing a LIBOR interest of 4.24% per annum and maturing July 15, 2005. Proceeds from the loan were used for working capital purposes. At June 30, 2005, the Company had approximately \$3,970,600 available for future borrowings under the revolving line of credit. The loan agreement contains various covenants pertaining to tangible net worth, net income and liquidity ratios, capital expenditures, payments of dividends, payment of subordinated debt as well as various other restrictions. The Company was in compliance with these covenants during fiscal 2005.

**NOTE 8 - LONG-TERM DEBT:**

Long-term debt consists of:

|                         | For Year Ended June 30, |              |
|-------------------------|-------------------------|--------------|
|                         | 2005                    | 2004         |
| Note payable - Bank (A) | \$ 1,116,700            | \$ 1,981,000 |
| Less current portion    | (864,300)               | (864,300)    |
|                         | \$ 252,400              | \$ 1,116,700 |

(A) On October 1, 2000, the bank issued a \$6,050,000 seven year note due in monthly principal installments of \$72,000 plus interest at the bank's prime rate minus .25% (6.0% per annum at June 30, 2005). In addition, the loan agreement allows the Company to convert all or a portion of the outstanding principal to a LIBOR-based loan for periods up to one year. At June 30, 2005, the total outstanding principal balance was under the LIBOR option at 4.49% per annum maturing July 15, 2005. The note is secured by the Company's machinery and equipment, accounts receivable and inventories and matures October 15, 2007.

The Company has an interest rate swap agreement with the bank. The agreement allows the Company to fix a portion of its outstanding term and line of credit debt (\$3 million as of June 30, 2005) from a variable floating LIBOR rate to a fixed LIBOR rate in efforts to protect against future increases in the banks LIBOR rate. The notional amount of the swap agreement will remain at \$3 million until August 15, 2005 at which time it will be reduced to \$2 million and will remain at this amount through to the swap's maturity on August 15, 2006. At June 30, 2005 the notional amount of our interest rate swap exceeded our total debt borrowings associated with the swap. In fiscal 2005, the amount of hedge ineffectiveness for our swap was approximately \$5,000.

Aggregate annual maturities of long-term debt are summarized as follows:

| Year Ending June 30 |              |
|---------------------|--------------|
| 2006                | \$ 864,300   |
| 2007                | 252,400      |
|                     | \$ 1,116,700 |

**NOTE 9 - RELATED PARTY TRANSACTIONS:**

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The Company sold molded plastic products and molds under arms length terms to Atlantic Meeco, Inc. ( AMI ) a company in which the President/CEO/Chairman of the Board of the Company has a 50% equity interest. Sales to AMI amounted to \$113,400, \$75,000 and \$101,600 in fiscal years 2005, 2004 and 2003, respectively. Amounts due on sales to AMI were \$23,600 and \$8,100 at June 30, 2005 and 2004, respectively, and are included in accounts receivable in the accompanying consolidated balance sheet. In fiscal 2005, the Company also purchased \$11,200 of resin from AMI. No amounts were due AMI as of June 30, 2005.

The Company purchased injection molded products under arms-length terms from Custom Plastics ( Custom ) a company in which the owner has a 8.5% equity interest in the Company. Purchases from Custom amounted to \$168,100, \$172,000 and \$141,000 in fiscal 2005, 2004 and 2003 respectively. Amounts due on purchases from Custom were \$2,000 and \$8,600 at June 30, 2005 and 2004, respectively, and are included in accounts payable in the accompanying consolidated balance sheets.

In fiscal years 2005, 2004 and 2003, the Company incurred legal fees and costs amounting to \$22,000, \$60,100 and \$21,000, respectively, for services by E. Paul Tonkovich Professional Corporation, of which an officer/director of the Company is an employee.

NOTE 10 - ACCRUED LIABILITIES:

Accrued liabilities consist of:

|   | June 30,   |            |
|---|------------|------------|
|   | 2005       | 2004       |
| Salaries, wages, commissions and related payables | \$ 604,900 | \$ 572,500 |
| Other   | 296,400    | 336,600    |
|   | \$ 901,300 | \$ 909,100 |

NOTE 11 - STOCK OPTION PLAN:

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

Stock Option Activity



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|   | Outstanding<br>Shares | Exercisable<br>Shares | Weighted<br>Average Price<br>Per Share |
|---|-----------------------|-----------------------|--|
| Balance outstanding at June 30, 2002        | 200,000               | 185,000               | \$ 1.1000                              |
| Cancelled-prior plan                        | (95,000)              |                       | \$ 1.0724                              |
| Balance outstanding at June 30, 2003        | 105,000               | 105,000               | \$ 1.1250                              |
| Exercised-prior plan                        | (96,000)              |                       | \$ 1.1250                              |
| Cancelled-prior plan                        | (9,000)               |                       | \$ 1.1250                              |
| Balance outstanding at June 30, 2004 & 2005 |                       |                       |  |

The Company did not grant any options in fiscal 2004 or in fiscal 2005. At June 30, 2005, the Company had 850,000 shares available for future grants.

NOTE 12 - COMMON STOCK:

In fiscal 2005 and 2004, the Company acquired 40,560 and 459,633 shares of its common stock at a total cost of \$98,400 and \$679,700, respectively. All shares acquired were subsequently cancelled. At June 30, 2005 and 2004, there was no outstanding treasury stock. On June 28, 2005 the Board declared a dividend of \$.05 per share of common stock payable on July 29, 2005 to stockholders of record on July 18, 2005.

NOTE 13 - INCOME TAXES:

The components of the income tax provision were:

|                  | 2005           | For Year Ended June 30,<br>2004 | 2003         |
|------------------|----------------|---------------------------------|--------------|
| <b>Current:</b>  |                |                                 |              |
| Federal          | \$ (1,031,800) | \$ (811,500)                    | \$ (667,100) |
| State            | (192,300)      | (170,300)                       | (112,100)    |
|                  | (1,224,100)    | (981,800)                       | (779,200)    |
| <b>Deferred:</b> |                |                                 |              |
| Federal          | 77,800         | 74,700                          | 69,900       |
| State            | 27,000         | 8,600                           | 31,900       |
|                  | 104,800        | 83,300                          | 101,800      |
|                  | \$ (1,119,300) | \$ (898,500)                    | \$ (677,400) |

At June 30, 2005, the Company has net operating loss (NOL) carry-forwards of approximately \$7,344,600 for state income tax purposes. The NOL carry-forwards, which are available to offset future 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. The state NOL carry-forwards expire as follows:

| Amount of<br>Unused State<br>Operating Loss<br>Carryforwards | Expiration<br>During Year<br>Ended June 30, |
|--|---|
| \$ 533,400   | 2006  |
| 582,600  | 2007  |
| 603,100  | 2008  |
| 840,200  | 2009  |
| 242,300  | 2010  |
| 342,700  | 2011  |
| 476,700  | 2012  |
| 395,300  | 2013  |
| 850,400  | 2014  |
| 262,500  | 2015  |
| 482,800  | 2016  |
| 179,800  | 2017  |
| 235,200  | 2018  |
| 716,700  | 2019  |
| 600,900  | 2020  |
| \$ 7,344,600   |   |

In connection with the Rotocast merger, the Company recorded a deferred tax asset of \$394,400, net of a valuation allowance of \$192,400 as of June 30, 1998, for the future benefit related to state NOL carry-forwards. The current state valuation allowance, amounting to \$381,300, represents the estimated amount of state NOL s that will expire prior to their utilization. The valuation allowance increased by \$22,900 in fiscal 2005 as a result of additional state NOL s incurred that will not be utilized prior to their expiration. Realization of the future tax benefits of the NOL carry-forwards is dependent on the Company s ability to generate taxable income within the carry-forward period. Management will continue to assess the likelihood of utilizing its state NOL s by taking into consideration historical results and current economic conditions in which the Company operates. Management does not consider any non-routine transactions in assessing the likelihood of realization of the recorded deferred tax asset. Any future adjustments to the valuation allowance will be reflected as a component of the current years tax provision.

**The following reconciles the federal statutory income tax rate to the effective rate of the provision for income taxes:**

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|   | 2005  | For Year Ended June 30, |  | 2003  |
|---|-------|-------------------------|--|-------|
|   |       | 2004                    |  |       |
| Federal statutory rate                      | 34.0% | 34.0%                   |  | 34.0% |
| State income taxes (net of federal benefit) | 4.0   | 4.0                     |  | 3.8   |
| Other items, net                            | 0.7   | 2.8                     |  | (0.9) |
| Effective income tax rate                   | 38.7% | 40.8%                   |  | 36.9% |

Deferred tax assets and liabilities are summarized as follows:

|   | 2005           | June 30, | 2004        |
|---|----------------|----------|-------------|
| Deferred tax assets:                                  |                |          |             |
| State NOL (net of federal benefit)                    | \$ 406,800     | \$       | 408,300     |
| Employment-related reserves                           | 93,200         |          | 102,400     |
| Allowance for doubtful accounts                       | 116,600        |          | 102,400     |
| Interest rate swap derivative                         | 10,500         |          | 43,000      |
| Other liabilities                                     | 44,600         |          | 33,200      |
|   | 671,700        |          | 689,300     |
| Deferred tax liabilities:                             |                |          |             |
| Depreciation and amortization                         | (2,367,700)    |          | (2,480,500) |
| Net deferred tax liability before valuation allowance | (1,696,000)    |          | (1,791,200) |
| Deferred tax assets valuation allowance               | (381,300)      |          | (358,400)   |
| Net deferred tax liability                            | \$ (2,077,300) | \$       | (2,149,600) |

NOTE 14 - COMMITMENTS AND CONTINGENCIES:Commitments

The Company leases various office and warehouse facilities, and equipment under long-term operating leases expiring through March 2013. Certain of the leases provide for five-year renewal options and rental increases based on the Consumer Price Index. Operating lease expense for fiscal 2005, 2004, and 2003 amounted to \$1,143,400, \$1,119,800 and \$1,122,400, respectively.

At June 30, 2005, the future minimum lease commitments, excluding insurance and taxes, are as follows:

| <b>Year Ending June 30,</b> |    |           |
|-----------------------------|----|-----------|
| 2006                        | \$ | 1,071,200 |
| 2007                        |    | 1,029,900 |
| 2008                        |    | 1,027,300 |
| 2009                        |    | 1,024,000 |
| 2010                        |    | 921,400   |
| Thereafter                  |    | 1,948,900 |
|                             | \$ | 7,022,700 |

Contingencies

In the normal course of business, the Company encounters certain litigation matters, which in the opinion of management will not have a significant adverse effect on the financial position or the results of operations of the Company.

NOTE 15 - SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Supplemental disclosures of cash flow information are as follows:

|  | <b>For the Year Ended June 30,</b> |             |             |
|--|------------------------------------|-------------|-------------|
|  | <b>2005</b>                        | <b>2004</b> | <b>2003</b> |
| Cash paid during the year for:             |                                    |             |             |
| Interest                                   | \$ 199,300                         | \$ 213,300  | \$ 272,200  |
| Income taxes                               | \$ 1,218,900                       | \$ 943,500  | \$ 925,400  |
| Non-cash financing activities:             |                                    |             |             |
| Common dividends declared but not paid     | \$ 597,000                         | \$ 599,100  | \$ 616,000  |
| Change in fair value of interest rate swap | \$ (48,600)                        | \$ (93,800) | \$ 30,200   |

The following reconciles the federal statutory income tax rate to the effective rate of the provision for income taxes:

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NOTE 16 - UNAUDITED QUARTERLY RESULTS:

|                                     | Quarter Ended |              |               |               |
|-------------------------------------|---------------|--------------|---------------|---------------|
|                                     | September     | December     | March         | June          |
| Fiscal Year 2005:                   |               |              |               |               |
| Net sales                           | \$ 11,969,500 | \$ 9,935,400 | \$ 10,873,200 | \$ 12,353,500 |
| Gross profit                        | 3,024,000     | 1,986,800    | 2,422,600     | 2,508,100     |
| Net income                          | 657,800       | 181,400      | 339,800       | 590,900       |
| Per share:                          |               |              |               |               |
| Net income-basic and diluted        | \$ .05        | \$ .02       | \$ .03        | \$ .05        |
| Fiscal Year 2004:                   |               |              |               |               |
| Net sales                           | \$ 8,874,900  | \$ 9,129,400 | \$ 10,036,100 | \$ 12,292,500 |
| Gross profit                        | 2,081,700     | 1,673,400    | 2,382,000     | 3,055,200     |
| Net income/(loss)                   | 198,400       | (94,200)     | 375,700       | 824,300       |
| Per share:                          |               |              |               |               |
| Net income/(loss)-basic and diluted | \$ .02        | \$ (.01)     | \$ .03        | \$ .07        |

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The following reconciles the federal statutory income tax rate to the effective rate of the provision for income taxes:

## ROTONICS MANUFACTURING INC.

## SCHEDULE II

## VALUATION AND QUALIFYING ACCOUNTS

Years Ended June 30, 2005, 2004 and 2003

| Column A<br>Description                | Column B<br>Balance at<br>Beginning of<br>Period | Column C<br>Additions<br>Charged to Costs<br>and Expenses | Other        | Column D<br>Deductions | Column E<br>Balance at End<br>of Period |
|--|--|---|--------------|------------------------|---|
| June 30, 2005:                         |  |   |              |                        |   |
| Allowance for doubtful accounts        | \$ 256,100                                       | \$ 146,100  | \$           | \$ (110,700)(1)        | \$ 291,500                              |
| Deferred tax asset valuation allowance | \$ 358,400                                       | \$  | \$ 22,900(2) | \$                     | \$ 381,300                              |
| June 30, 2004:                         |  |   |              |                        |   |
| Allowance for doubtful accounts        | \$ 231,100                                       | \$ 98,700   | \$           | \$ (73,700)(1)         | \$ 256,100                              |
| Deferred tax asset valuation allowance | \$ 307,200                                       | \$  | \$ 51,200(2) | \$                     | \$ 358,400                              |
| June 30, 2003:                         |  |   |              |                        |   |
| Allowance for doubtful accounts        | \$ 175,000                                       | \$ 123,000  | \$           | \$ (66,900)(1)         | \$ 231,100                              |
| Deferred tax asset valuation allowance | \$ 307,200                                       | \$  | \$           | \$                     | \$ 307,200                              |

(1) Doubtful accounts written off during the year, net of recoveries.

(2) Represents valuation allowance for potential state NOL s, which may expire prior to utilization.