

Edgar Filing: ROYAL APPLIANCE MANUFACTURING CO - Form 10-Q

ROYAL APPLIANCE MANUFACTURING CO  
Form 10-Q  
November 13, 2002

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934. For the quarterly period ended SEPTEMBER 30, 2002.
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934. For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 0-19431  
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ROYAL APPLIANCE MFG. CO.

-----  
(Exact name of registrant as specified in its charter)

OHIO

34-1350353

-----  
(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

7005 COCHRAN ROAD, GLENWILLOW, OHIO

44139

-----  
(Address of Principal Executive Offices)

Zip Code

(440) 996-2000

-----  
(Registrant's telephone number, including area code)

Indicate, by check mark, whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No  .  
-----

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

Common Shares, without par value

12,816,452

-----  
(Class)

(Outstanding at November 13, 2002)

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ROYAL APPLIANCE MFG. CO. AND SUBSIDIARIES

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Certification of Principal Executive Officer Pursuant to 15 U.S.C. 78m (a)

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Certification of Principal Financial Officer Pursuant to 15 U.S.C. 78m (a)

Exhibit Index

\*Numbered in accordance with Item 601 of Regulation S-K

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Part I - FINANCIAL INFORMATION  
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ROYAL APPLIANCE MFG. CO. AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEETS  
 (Dollars in thousands)

	September 30, 2002	December 31, 2001
	-----	-----
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash	\$ 2,278	\$ 3,421
Trade accounts receivable, net	38,000	35,986
Inventories	63,114	50,807
Deferred income taxes	4,096	4,549
Prepaid expenses and other	3,069	1,636
	-----	-----
Total current assets	110,557	96,399
	-----	-----
Property, plant and equipment, at cost:		
Land	1,541	1,541
Building	7,777	7,777
Molds, tooling, and equipment	52,403	52,031
Furniture, office and computer equipment and software	15,344	12,154
Assets under capital leases	3,171	3,171
Leasehold improvements and other	7,230	7,456
	-----	-----
Less accumulated depreciation and amortization	87,466 (52,746)	84,130 (46,556)
	-----	-----
	34,720	37,574
	-----	-----
Computer software and tooling deposits	884	4,405
Other	2,412	2,066
	-----	-----
Total assets	\$ 148,573	\$ 140,444

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	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	\$ 33,739	\$ 27,433
Accrued liabilities:		
Advertising and promotion	7,797	11,196
Salaries, benefits, and payroll taxes	4,849	7,258
Warranty and customer returns	9,200	9,950
Income taxes	881	1,370
Other	5,688	6,479
Current portions of capital lease obligations	158	147
	-----	-----
Total current liabilities	62,312	63,833
	-----	-----
Revolving credit facility	43,000	32,000
Capitalized lease obligations, less current portion	1,870	1,978
	-----	-----
Total long-term debt	44,870	33,978
Deferred income taxes	3,675	4,011
	-----	-----
Total liabilities	110,857	101,822
	-----	-----
Commitments and contingencies (Note 3)	--	--
Shareholders' equity:		
Common shares, at stated value	215	214
Additional paid-in capital	45,363	44,167
Retained earnings	72,379	70,489
	-----	-----
	117,957	114,870
Less treasury shares, at cost (13,102,800 and 12,365,700 shares at September 30, 2002 and December 31, 2001, respectively)	(80,241)	(76,248)
	-----	-----
Total shareholders' equity	37,716	38,622
	-----	-----
Total liabilities and shareholders' equity	\$ 148,573	\$ 140,444
	=====	=====

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

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CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)  
(Dollars in thousands, except per share amounts)

	Three Months Ended September 30,		
	(Dollars in thousands, except per share amounts)		
	2002	2001	2000
Net sales	\$ 91,705	\$111,503	\$277,000
Cost of sales	70,619	85,042	211,000
Gross margin	21,086	26,461	66,000
Selling, general and administrative expenses	15,417	19,210	50,000
Income from operations	5,669	7,251	16,000
Interest expense, net	423	674	1,000
Receivable securitization and other expense, net	436	350	1,000
Income before income taxes	4,810	6,227	14,000
Income tax expense	1,676	2,142	5,000
Net income	\$ 3,134	\$ 4,085	\$ 9,000
BASIC			
Weighted average number of common shares outstanding (in thousands)	12,816	13,649	14,000
Earnings per share	\$ .24	\$ .30	\$ .30
DILUTED			
Weighted average number of common shares and equivalents outstanding (in thousands)	13,688	14,269	14,000
Earnings per share	\$ .23	\$ .29	\$ .29

The accompanying notes are an integral part of these financial statements

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Part I - FINANCIAL INFORMATION  
 Item 1 - FINANCIAL STATEMENTS  
 -----

ROYAL APPLIANCE MFG. CO. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)  
 (Dollars in thousands)

	Nine Months Ended September 30,	
	2002	2001
	-----	-----
Cash flows from operating activities:		
Net income	\$ 1,890	\$ 5,551
	-----	-----
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	12,515	11,061
Compensatory effect of stock awards	825	412
Deferred income taxes	117	(839)
(Increase) decrease in assets:		
Trade accounts receivable, net	(2,014)	(6,665)
Inventories	(12,307)	(15,068)
Prepaid expenses and other	(1,433)	(175)
Other	(1,134)	(1,706)
Increase (decrease) in liabilities:		
Trade accounts payable	6,306	11,517
Accrued advertising and promotion	(3,399)	(2,149)
Accrued salaries, benefits, and payroll taxes	(2,409)	2,352
Accrued warranty and customer returns	(750)	(50)
Accrued income taxes	(489)	1,503
Accrued other	(791)	(350)
	-----	-----
Total adjustments	(4,963)	(157)
	-----	-----
Net cash from operating activities	(3,073)	5,394
	-----	-----
Cash flows from investing activities:		
Purchases of tooling, property, plant, and equipment, net	(8,873)	(9,710)
Decrease (increase) in tooling deposits and other	3,521	(2,443)
	-----	-----
Net cash from investing activities	(5,352)	(12,153)
	-----	-----
Cash flows from financing activities:		
Proceeds on bank debt, net	11,000	7,700

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Proceeds from exercise of stock options	372	310
Payments on capital lease obligations	(97)	(102)
Repurchase of common stock	(3,993)	(758)
	-----	-----
Net cash from financing activities	7,282	7,150
	-----	-----
Net (decrease) increase in cash	(1,143)	391
	-----	-----
Cash at beginning of period	3,421	704
	-----	-----
Cash at end of period	\$ 2,278	\$ 1,095
	=====	=====
Supplemental disclosure of cash flow information:		
Cash payments for:		
Interest	\$ 1,150	\$ 1,993
	=====	=====
Income taxes, net of refunds	\$ 1,368	\$ 2,306
	=====	=====

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

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ROYAL APPLIANCE MFG. CO. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (UNAUDITED)  
 (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

NOTE 1: BASIS OF PRESENTATION

The financial information for Royal Appliance Mfg. Co. and Subsidiaries (the Company) included herein is unaudited; however, such information reflects all adjustments (including all normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the consolidated balance sheets as of September 30, 2002 and December 31, 2001, and the related statements of operations and cash flows as of, and for the interim periods ended, September 30, 2002 and 2001. These condensed financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's latest annual report (Form 10-K).

The results of operations for the three and nine month periods ended September 30, 2002, are not necessarily indicative of the results to be expected for the full year.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates. Significant estimates include the allowance for doubtful accounts, the reserve for returns and allowances, reserve for inventory obsolescence and depreciation

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and amortization, among others.

Certain prior year amounts have been reclassified to conform to the 2002 presentation.

Net income per common share is computed based on the weighted average number of common shares outstanding for basic earnings per share and on the weighted average number of common shares and common share equivalents outstanding for diluted earnings per share.

The Company's revenue recognition policy is to recognize revenues when products are shipped. The Company's return policy is to replace, repair or issue credit for product under warranty. Returns received during the current period are expensed as received and a provision is provided for estimated future returns and sales agreements with certain customers. The Company records estimated reductions to net sales for customer programs and incentive offerings including pricing arrangements, promotions and other volume based incentives. If market conditions were to soften, the Company may take actions to increase customer incentives, possibly resulting in a reduction of net sales and gross margins at the time the incentive is offered. The Company's revenue recognition policy is in accordance with Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements." The Company includes royalty income from various license agreements in net sales. During the nine-month periods ended September 30, 2002 and 2001, royalty income totaled \$433 and \$205, respectively.

In fiscal 2001, the Emerging Issues Task Force ("EITF") issued EITF No. 00-14, "Accounting for Certain Sales Incentives," and EITF No. 00-25, "Vendor Income Statement Characterization of Consideration to a Purchaser of the Vendor's Products or Services" (both of which were clarified by EITF 01-09 "Accounting for Consideration Given by a Vendor to a Customer"). These pronouncements address the recognition, measurement and statement of operations classification for certain sales incentives and are effective January 1, 2002. The Company adopted these pronouncements in the first quarter of fiscal 2002 and as a result certain items previously included in selling, general and administrative expenses were reclassified as a reduction of net sales. Additionally, prior period amounts were reclassified to conform to the new requirements. The impact of these two issues resulted in a reduction of net sales of \$1,378 and \$1,223 for the quarters ended September 30, 2002 and 2001, respectively and \$2,967 and \$3,620 for the nine-month periods ended September 30, 2002 and 2001, respectively. These amounts, consisting principally of promotional allowances to the Company's retail customers, were previously recorded as selling, general and administrative expenses; therefore, there was no impact to net income for either period.

International operations, primarily Canadian, are conducted in their local currency. Assets and liabilities denominated in foreign currencies are translated at current exchange rates, and income and expenses are translated using weighted average exchange rates. The net effect of currency gains and losses realized on these business transactions is included in the determination of net income.



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### NOTE 1: BASIS OF PRESENTATION (CONTINUED)

The Company has used forward exchange contracts to reduce fluctuations in foreign currency cash flows related to receivables denominated in foreign currencies. The terms of the currency instruments are consistent with the timing of the transactions being hedged. The purpose of the Company's foreign currency management activity is to protect the Company from the risk that the eventual cash flows from the foreign currency denominated transactions may be adversely affected by changes in exchange rates. Gains and losses on forward exchange contracts are deferred and recognized in income when the related transactions being hedged are recognized. Such gains and losses are generally reported on the same financial line as the hedged transaction. The Company does not use derivative financial instruments for trading or speculative purposes. There were no contracts to purchase foreign currency forward outstanding as of September 30, 2002 or December 31, 2001.

Costs incurred for producing and communicating advertising are expensed during the period aired, including costs incurred under the Company's cooperative advertising program.

### NOTE 2: INVENTORIES

Inventories are stated at the lower of cost or market using the first-in, first-out (FIFO) method. Inventories at September 30, 2002, and December 31, 2001, consisted of the following:

	September 30 -----	December 31 -----
Finished goods	\$56,596	\$43,277
Work in process and purchased parts	6,518 -----	7,530 -----
	\$63,114 =====	\$50,807 =====

### NOTE 3: COMMITMENTS AND CONTINGENCIES

At September 30, 2002, the Company estimates having contractual commitments for future advertising and promotional expense of approximately \$6,700 including commitments for television advertising through December 31, 2002. Other contractual commitments for items in the normal course of business total approximately \$3,000.

The Company is self-insured with respect to workers' compensation benefits in Ohio and carries excess workers' compensation insurance covering aggregate claims exceeding \$350 per occurrence.

### NOTE 3: COMMITMENTS AND CONTINGENCIES (CONTINUED)

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The Hoover Company (Hoover) filed a lawsuit in federal court, in the Northern District of Ohio (case #1:00cv 0347), against the Company on February 4, 2000, under the patent, trademark, and unfair competition laws of the United States. The Complaint asserted that the Company's Dirt Devil Easy Steamer infringed three utility patents and two design patents held by Hoover, and also that the Easy Steamer design infringed the trade dress of Hoover's carpet extractor products. The Court had dismissed charges of infringement against Royal regarding one of the three utility patents, and found that the Dirt Devil Easy Steamer infringed one claim of a second utility patent. The Company filed a lawsuit in federal court, in the Northern District of Ohio (case #1:01cv 2775), against The Hoover Company (Hoover) on December 10, 2001, under the patent, trademark, and unfair competition laws of the United States. The Complaint asserted that Hoover infringed certain patents relating to bagless technology held by the Company. On October 17, 2002, the Company and Hoover reached a settlement of all patent-related litigation described above. Hoover has granted rights to the Company with regard to its existing carpet extractor patents. The Company has granted rights to Hoover with regard to its existing bagless upright vacuum cleaner patents. The settlement includes cash payments to the Company.

The Company filed a lawsuit in federal court, in the Northern District of Ohio (case #1:02cv 0338), against Bissell Homecare, Inc. (Bissell) on February 22, 2002, under the patent, trademark, and unfair competition laws of the United States. The Complaint asserts that Bissell infringes certain patents relating to bagless technology held by the Company. The Company seeks damages, injunction on future production, and legal fees.

Bissell Homecare, Inc. (Bissell) filed a lawsuit in federal court, in the Eastern District of Michigan (case #02cv71079), against the Company on March 20, 2002, under the patent, trademark, and unfair competition laws of the United States. On April 25, 2002, the Company filed a motion to transfer the case from the Eastern District of Michigan to the Northern District of Ohio. On June 19, 2002, the Court transferred the case (now #1:02cv 1358) to the Northern District of Ohio. The Complaint asserts that the Company's Dirt Devil Easy Steamer and Platinum Force Extractor products infringe certain design and utility patents held by Bissell. Bissell seeks damages, injunction on future production, and legal fees. The Company is vigorously defending the suit and believes it is without merit. If Bissell were to prevail on all its claims, it could have a material adverse effect on the consolidated financial position, results of operations, or cash flows of the Company.

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ROYAL APPLIANCE MFG. CO. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)  
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

NOTE 3: COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Company filed a lawsuit in federal court, in the Northern District of Ohio (case #1:02cv 1127), against White Consolidated, Ltd. (Eureka) on June 14, 2002, under the patent, trademark and unfair competition laws of the United States. The Complaint asserts that Eureka infringes certain patents relating to bagless technology held by the Company. The Company seeks damages, injunction on future production, and legal fees.

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The Company is involved in various other claims and litigation arising in the normal course of business. The Company has product liability and general liability insurance policies in amounts management believes to be reasonable. There can be no assurance, however, that such insurance will be adequate to cover all potential product or other liability claims against the Company. In the opinion of management, the ultimate resolution of these actions will not materially affect the consolidated financial position, results of operations, or cash flows of the Company.

### NOTE 4: DEBT

At September 30, 2002, the Company has a collateralized revolving credit facility with availability of up to \$70,000 and a maturity date of April 1, 2005. Under the agreement, pricing options of the bank's base lending rate and LIBOR rate are based on a defined formula. In addition, the Company pays a commitment fee based on a defined formula on the unused portion of the facility. The revolving credit facility contains covenants, which require, among other things, the achievement of minimum net worth levels and the maintenance of certain financial ratios. The Company was in compliance with all applicable covenants as of September 30, 2002. The revolving credit facility is collateralized by the assets of the Company. As long as the Company remains in compliance with all covenants, the revolving credit facility permits share repurchases and dividends based on a defined formula up to \$18,369 as of September 30, 2002.

The Company also utilizes a revolving trade accounts receivable securitization program to sell without recourse, through a wholly-owned subsidiary, certain trade accounts receivable. Under the program, the maximum amount allowed to be sold at any given time is \$30,000, seasonally adjusted to \$35,000 from September to December. At September 30, 2002, the Company had received approximately \$18,100 from the sale of trade accounts receivable that have not yet been collected. The proceeds from the sales were used to reduce borrowings under the Company's revolving credit facility. Costs of the program, which primarily consist of the purchaser's financing cost of issuing commercial paper backed by the receivables, totaled \$584 and \$877 for the nine months ended September 30, 2002 and 2001, respectively, and have been classified as "Receivable securitization and other expense, net" in the accompanying Consolidated Statements of Operations. The Company, as agent for the purchaser of the receivables, retains collection and administrative responsibilities for the purchased receivables. The Company is required to maintain certain financial ratios associated with the receivables included within the program. The current program with the existing provider will be terminated in January 2003 and be replaced by another provider. The terms and conditions of the new agreement are substantially the same as the current program.

### NOTE 5: SHARE REPURCHASE PROGRAM

In April 2001, the Company's Board of Directors authorized a common share repurchase program that provides for the Company to purchase, in the open market and through negotiated transactions, up to 3,400 of its outstanding common shares. As of November 13, 2002, the Company has repurchased approximately 1,322 shares for an aggregate purchase price of approximately \$6,900 under the program that is scheduled to expire in December 2002.

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ROYAL APPLIANCE MFG. CO. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (UNAUDITED)  
 (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

NOTE 6: EARNINGS PER SHARE

The Company follows Statement of Financial Accounting Standards ("SFAS") No. 128, Earnings per Share, for the calculation of earnings per share. Basic earnings per share excludes dilution and is computed by dividing income by the weighted average number of common shares outstanding for the period. Diluted earnings per share includes the dilution of common stock equivalents.

	Three months ended September 30,		N 2002
	2002	2001	
Net income	\$ 3,134	\$ 4,085	\$ 1,8
<b>BASIC:</b>			
Common shares outstanding, net of treasury shares, beginning of period	13,078	13,614	13,4
Weighted average common shares issued during period	3	52	
Weighted average treasury shares repurchased during period	(265)	(17)	(4)
Weighted average common shares outstanding, net of treasury shares, end of period	12,816	13,649	13,0
Net income per common share	\$ 0.24	\$ 0.30	\$ 0.
<b>DILUTED:</b>			
Common shares outstanding, net of treasury shares, beginning of period	13,078	13,614	13,4
Weighted average common shares issued during period	3	52	
Weighted average common share equivalents	872	620	9
Weighted average treasury shares repurchased during period	(265)	(17)	(4)
Weighted average common shares outstanding, net of treasury shares, end of period	13,688	14,269	13,9
Net income per common share	\$ 0.23	\$ 0.29	\$ 0.

ROYAL APPLIANCE MFG. CO. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
(UNAUDITED)  
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

NOTE 7: RELATED PARTY NOTE RECEIVABLE:

On April 2, 2001, the Company and its Chief Executive Officer (Officer) entered into a Promissory Note Agreement in the principal amount of approximately \$543. The non-interest bearing note was used by the Officer to fund the exercise of stock options to purchase 167 common shares of the Company. The promissory note is due and payable in full on April 2, 2008 or, if earlier, within twelve months after the Officer's voluntary termination of employment with the Company. The Officer simultaneously entered into a Stock Pledge Agreement with the Company pledging the 167 common shares as security for the promissory note.

NOTE 8: BUSINESS SEGMENT INFORMATION

The Company has two reportable segments: Consumer Products - Floorcare and Consumer Products - Other. The operations of the Consumer Products - Floorcare segment includes the design, assembly or sourcing, marketing and distribution of a full line of plastic and metal vacuum cleaners. The primary brand names associated with this segment include Dirt Devil and Royal. These products are sold primarily to major mass merchant retailers and independent dealers in North America. The operations of the Consumer Products - Other segment represents business conducted by Privacy Technologies, Inc. and Product Launch Partners, Inc., both of which are wholly owned subsidiaries of the Company. Currently, the primary product line within this segment is the TeleZapper, a telephone attachment that helps reduce unwanted computer-dialed telemarketing calls. These products are sold primarily to major mass merchant retailers and national electronic chains in North America. In August of 2002, the Company licensed the TeleZapper intellectual property to a phone manufacturer for the inclusion in telephones and answering machines.

The Company's reportable segments are distinguished by the nature of products sold. The Company evaluates performance and allocates resources to reportable segments primarily based on net sales and operating income. The accounting policies of the reportable segments are the same as those described in Note 1, the accounting policies footnote. The Company records its federal and state tax assets and liabilities at corporate. There are no intersegment sales.

ROYAL APPLIANCE MFG. CO. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
(UNAUDITED)  
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

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### NOTE 8: BUSINESS SEGMENT INFORMATION (CONTINUED)

Financial information for the Company's Reportable Segments consisted of the following:

	Three months ended September 30, 2002	2001	Nine months ended 2002
	-----	-----	-----
<b>Net Sales</b>			
Consumer Products - Floorcare	\$ 82,937	\$105,857	\$248,953
Consumer Products - Other	8,768	5,646	23,306
	-----	-----	-----
Consolidated Total	\$ 91,705	\$111,503	\$272,259
	=====	=====	=====
<b>Income from Operations</b>			
Consumer Products - Floorcare	\$ 901	\$ 5,846	\$ 157
Consumer Products - Other	4,768	1,405	4,360
	-----	-----	-----
Consolidated Total	\$ 5,669	\$ 7,251	\$ 4,517
	=====	=====	=====
<b>Capital Expenditures</b>			
Consumer Products - Floorcare	\$ 1,586	\$ 3,193	\$ 4,654
Consumer Products - Other	28	63	78
	-----	-----	-----
Total for Reportable Segments	1,614	3,256	4,732
Corporate	143	952	620
	-----	-----	-----
Consolidated Total	\$ 1,757	\$ 4,208	\$ 5,352
	=====	=====	=====
<b>Depreciation and Amortization</b>			
Consumer Products - Floorcare	\$ 2,523	\$ 2,870	\$ 9,002
Consumer Products - Other	132	100	390
	-----	-----	-----
Total for Reportable Segments	2,655	2,970	9,392
Corporate	1,031	775	3,123
	-----	-----	-----
Consolidated Total	\$ 3,686	\$ 3,745	\$ 12,515
	=====	=====	=====
<b>Total Assets</b>			
Consumer Products - Floorcare	\$118,849	\$140,552	\$118,849
Consumer Products - Other	8,211	4,046	8,211
	-----	-----	-----
Total for Reportable Segments	127,060	144,598	127,060
Corporate	21,513	19,122	21,513
	-----	-----	-----
Consolidated Total	\$148,573	\$163,720	\$148,573
	=====	=====	=====

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's discussion and analysis of its financial position and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Actual results could differ from those estimates. Financial Reporting Release No. 60, which was recently issued by the Securities and Exchange Commission ("SEC"), requires all registrants, including the Company, to include a discussion of "Critical" accounting policies or methods used in the preparation of financial statements. Management believes that the critical accounting policies and areas that require the most significant judgments and estimates to be used in the preparation of the consolidated financial statements are revenue recognition, including customer based programs and incentives, allowance for doubtful accounts, useful lives of tooling and other long lived assets and accrued warranty and customer returns.

Revenue Recognition - The Company's revenue recognition policy is to recognize revenues when products are shipped. The Company's return policy is to replace, repair or issue credit for product under warranty. Returns received during the current period are expensed as received and a provision is provided for estimated future returns and sales agreements with certain customers. The Company records estimated reductions to net sales for customer programs and incentive offerings including pricing arrangements, promotions and other volume based incentives. If market conditions were to soften, the Company may take actions to increase customer incentives, possibly resulting in a reduction of net sales and gross margins at the time the incentive is offered. The Company's revenue recognition policy is in accordance with Staff Accounting Bulletin 101, "Revenue Recognition in Financial Statements". The Company includes royalty income from various license agreements in net sales.

Allowance for Doubtful Accounts - The Company maintains an allowance for trade accounts receivable for which collection on specific customer accounts is doubtful. In determining collectibility, management reviews available customer financial statement information, credit rating reports as well as other external documents and public filings. When it is deemed probable that a specific customer account is uncollectible, that balance is included in the reserve calculation. Actual results could differ from these estimates under different assumptions.

Useful Lives of Tooling - The Company capitalizes the cost of tooling used in the production of its products by third party suppliers and global contract manufacturers. The tooling is depreciated on a straight-line basis over 2-3 years, based on the nature of the product and the estimated product life cycle. The useful lives are reviewed on a quarterly basis by management and useful lives may be shortened if needed. In determining whether or not

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shortening of useful lives is required, management reviews product sell-through data at retail, forecasted demand and the timeframe of new product introductions.

Accrued Warranty and Customer Returns - The Company's return policy is to replace, repair or issue credit for products under warranty. Returns received during the current period are expensed as received and a reserve is maintained for future returns from current shipments. Management calculates the reserve utilizing historical return rates for each product family. These rates are reviewed and adjusted periodically. Management utilizes judgment for estimating return rates of new products and adjusts those estimates as actual results become available.

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### ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) (CONTINUED)

#### RESULTS OF OPERATIONS

Net sales decreased 17.8% for the third quarter and decreased 7.4% for the nine-month period ended September 30, 2002, compared with the same periods in the prior year. The decrease in the third quarter net sales was primarily due to lower shipments of the Platinum Force line of products which were launched during the third quarter of 2001, and lower average wholesale prices on floorcare products, partially offset by an increase in shipments of the Telezapper, which was also introduced during the third quarter of 2001. The decrease in net sales for the nine months ended September 30, 2002 was primarily due to lower shipments of carpet extractors and lower average wholesale prices on floorcare products, partially offset by an increase in shipments of the TeleZapper. Overall sales to the top 5 customers (all of which are major retailers) decreased in the first nine months of 2002, both in terms of dollars and as a percentage of total net sales, accounting for approximately 68.0% as compared with approximately 70.3% in the first nine months of 2001. The Company believes that its dependence on sales to its largest customers will continue. Recently, several major retailers have experienced significant financial difficulties and some, including Kmart and Ames, have filed for protection from creditors under applicable bankruptcy laws. As of September 30, 2002, the net exposure related to Kmart and Ames, as well as other customer balances for which management believes that collection is doubtful, was included in the calculation of allowance for doubtful accounts. The Company sells its products to certain customers that are in bankruptcy proceedings, including Kmart.

Gross margin, as a percent of net sales, decreased from 23.7% for the third quarter 2001 to 23.0% in the third quarter 2002, and decreased from 21.4% for the nine months ended September 30, 2001 to 20.5% for the nine months ended September 30, 2002. The gross margin percentage was negatively affected in 2002 by lower average wholesale selling prices on the Company's floorcare products due to continued heightened competition. This negative impact on gross margins was partially offset by favorable TeleZapper margins, lower floorcare product returns, lower costs on certain products and an adjustment to net sales of \$1,400, for certain sales programs.

Selling, general and administrative expenses decreased 19.7% for the third quarter of 2002 and were consistent for the nine-month period ended September 30, 2002, compared with the same periods in 2001. The decrease in



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selling, general and administrative expenses for the third quarter of 2002 was primarily due to decreases in advertising and promotional expenditures.

Interest expense decreased 37.2% for the third quarter 2002, and decreased 45.1% for the nine-month period ended September 30, 2002 compared to the same periods in 2001. The decrease in interest expense is the result of lower effective borrowing rates and lower levels of variable rate borrowings to finance working capital, capital expenditures and share repurchases.

Receivable securitization and other expense, net, principally reflects the effect of the cost of the Company's trade accounts receivable securitization program and foreign currency transaction gains or losses related to the Company's North American assets.

Due to the factors discussed above, the Company had income before income taxes for the third quarter and nine-month period ended September 30, 2002 of \$4,810 and \$2,886, respectively, compared to income before taxes for the third quarter and nine month period ended September 30, 2001 of \$6,227 and \$8,521, respectively.

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### ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) (CONTINUED)

#### LIQUIDITY AND CAPITAL RESOURCES

The Company used net cash generated from operations and bank borrowings to fund its capital expenditures and share repurchases. Working capital was \$48,245 at September 30, 2002, an increase of 48.1% over December 31, 2001. Current assets increased by \$14,158 reflecting in part an increase in trade accounts receivable of \$2,014, an increase in inventory of \$12,307, and a \$1,433 increase in prepaid expenses and other, partially offset by a decrease in cash of \$1,143. Current liabilities decreased by \$1,521, reflecting in part a \$3,399 decrease in accrued advertising and promotion, a \$2,409 decrease in accrued salaries, benefits, and payroll taxes, a \$750 decrease in accrued warranty and customer returns, a \$791 decrease in accrued other, partially offset by an increase of \$6,306 in accounts payable. Inventories have increased, as well as accounts payable related to inventory purchases, in order to meet seasonal demand.

In the first nine months of 2002, the Company utilized \$5,352 of cash for capital expenditures, including approximately \$1,100 of tooling related to a new bagged upright, approximately \$650 of tooling for new metal uprights and approximately \$1,600 of tooling for various other floorcare products.

At September 30, 2002, the Company has a collateralized revolving credit facility with availability of up to \$70,000 and a maturity date of April 1, 2005. Under the agreement, pricing options of the bank's base lending rate and LIBOR rate are based on a defined formula. In addition, the Company pays a commitment fee based on a defined formula on the unused portion of the facility. The revolving credit facility contains covenants, which require, among other things, the achievement of minimum net worth levels and the maintenance of certain financial ratios. The Company was in compliance with all applicable covenants as of September 30, 2002. The revolving credit facility is collateralized by the assets of the Company. As long as the Company remains in compliance with all covenants, the revolving credit facility permits share

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repurchases and dividends based on a defined formula up to \$18,369 as of September 30, 2002.

The Company also utilizes a revolving trade accounts receivable securitization program to sell without recourse, through a wholly-owned subsidiary, certain trade accounts receivable. Under the program, the maximum amount allowed to be sold at any given time is \$30,000, seasonally adjusted to \$35,000 from September to December. At September 30, 2002, the Company had received approximately \$18,100 from the sale of trade accounts receivable that have not yet been collected. The proceeds from the sales were used to reduce borrowings under the Company's revolving credit facility. Costs of the program, which primarily consist of the purchaser's financing cost of issuing commercial paper backed by the receivables, totaled \$584 and \$877 for the nine months ended September 30, 2002 and 2001, respectively, and have been classified as "Receivable securitization and other expense, net" in the accompanying Consolidated Statements of Operations. The Company, as agent for the purchaser of the receivables, retains collection and administrative responsibilities for the purchased receivables. The Company is required to maintain certain financial ratios associated with the receivables included within the program. The current program with the existing provider will be terminated in January 2003 and be replaced by another provider. The terms and conditions of the new agreement are substantially the same as the current program.

In April 2001, the Company's Board of Directors authorized a common share repurchase program that provides for the Company to purchase, in the open market and through negotiated transactions, up to 3,400 of its outstanding common shares. As of November 13, 2002, the Company has repurchased approximately 1,322 shares for an aggregate purchase price of approximately \$6,900 under the program that is scheduled to expire in December 2002.

The Company believes that its revolving credit facilities along with cash generated by operations will be sufficient to provide for the Company's anticipated working capital and capital expenditure requirements for the next twelve months, as well as any additional stock repurchases under the current repurchase program.

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### ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) (CONTINUED)

#### QUARTERLY OPERATING RESULTS

The following table presents certain unaudited consolidated quarterly operating information for the Company and includes all adjustments (consisting only of normal recurring adjustments) that the Company considers necessary for a fair presentation of such information for the interim periods. Certain prior period amounts have been reclassified to conform to current period presentation (See Note 1 to Notes to Consolidated Financial Statements).

Three Months Ended				
-----				
Sept. 30,	June 30,	March 31,	Dec. 31,	Sept. 30,

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	2002	2002	2002	2001	2001
	-----	-----	-----	-----	-----
Net sales	\$ 91,705	\$ 89,390	\$ 91,164	\$127,236	\$111,503
Gross margin	21,086	16,344	18,348	32,663	26,461
Net income (loss)	3,134	(1,329)	85	3,773	4,085
Net income (loss) per share - diluted (a)	\$ 0.23	\$ (0.10)	\$ 0.01	\$ 0.27	\$ 0.29

- (a) The sum of 2001 quarterly net income (loss) per common share does not equal annual net income per common share due to the change in the weighted average number of common shares outstanding due to share repurchases.

The Company believes that a significant percentage of certain of its products are given as gifts and therefore, sell in larger volumes during the Christmas and other holiday shopping seasons. The Company's continued dependency on its major customers, the timing of purchases by these major customers and the timing of new product introductions cause quarterly fluctuations in the Company's net sales. As a consequence, results in prior quarters are not necessarily indicative of future results of operations.

OTHER

The Company's Consumer Products - Floorcare business segment's most significant competitors are Hoover, Eureka and Bissell in the upright vacuum and carpet shampooer markets and, Black & Decker and Euro Pro in the hand-held market. Many of these competitors and several others are subsidiaries or divisions of companies that are more diversified and have greater financial resources than the Company. The Company believes that the domestic vacuum cleaner industry is a mature industry with modest annual growth in many of its products but with a decline in certain other products. Competition is dependent upon price, quality, extension of product lines, and advertising and promotion expenditures. Additionally, competition is influenced by innovation in the design of replacement models and by marketing and approaches to distribution. The Company experiences extensive competition, including price pressure and new advertising and new product offerings from its competitors, in all product lines within the Consumer Products - Floorcare segment. These trends are expected to continue.

The Company's Consumer Products - Other business segment competes with a variety of other consumer products and services. In addition to various state "do not call" lists, the Federal Trade Commission is proposing a national "do not call" list that may have an impact on the sales of the TeleZapper. In August 2002, the Company licensed the TeleZapper intellectual property to a phone manufacturer for the inclusion in telephones and answering machines.

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The Company does not believe that inflation by itself has had a material effect on the Company's results of operations. However, as the Company experiences price increases from its suppliers, which may include increases due to inflation, retail pressures may prevent the Company from increasing its prices.

### LITIGATION

The Hoover Company (Hoover) filed a lawsuit in federal court, in the Northern District of Ohio (case #1:00cv 0347), against the Company on February 4, 2000, under the patent, trademark, and unfair competition laws of the United States. The Complaint asserted that the Company's Dirt Devil Easy Steamer infringed three utility patents and two design patents held by Hoover, and also that the Easy Steamer design infringed the trade dress of Hoover's carpet extractor products. The Court had dismissed charges of infringement against Royal regarding one of the three utility patents, and found that the Dirt Devil Easy Steamer infringed one claim of a second utility patent. The Company filed a lawsuit in federal court, in the Northern District of Ohio (case #1:01cv 2775), against The Hoover Company (Hoover) on December 10, 2001, under the patent, trademark, and unfair competition laws of the United States. The Complaint asserted that Hoover infringed certain patents relating to bagless technology held by the Company. On October 17, 2002, the Company and Hoover reached a settlement of all patent-related litigation described above. Hoover has granted rights to the Company with regard to its existing carpet extractor patents. The Company has granted rights to Hoover with regard to its existing bagless upright vacuum cleaner patents. The settlement includes cash payments to the Company.

The Company filed a lawsuit in federal court, in the Northern District of Ohio (case #1:02cv 0338), against Bissell Homecare, Inc. (Bissell) on February 22, 2002, under the patent, trademark, and unfair competition laws of the United States. The Complaint asserts that Bissell infringes certain patents relating to bagless technology held by the Company. The Company seeks damages, injunction on future production, and legal fees.

Bissell Homecare, Inc. (Bissell) filed a lawsuit in federal court, in the Eastern District of Michigan (case #02cv71079), against the Company on March 20, 2002, under the patent, trademark, and unfair competition laws of the United States. On April 25, 2002, the Company filed a motion to transfer the case from the Eastern District of Michigan to the Northern District of Ohio. On June 19, 2002, the Court transferred the case (now #1:02cv 1358) to the Northern District of Ohio. The Complaint asserts that the Company's Dirt Devil Easy Steamer and Platinum Force Extractor products infringe certain design and utility patents held by Bissell. Bissell seeks damages, injunction on future production, and legal fees. The Company is vigorously defending the suit and believes it is without merit. If Bissell were to prevail on all its claims, it could have a material adverse effect on the consolidated financial position, results of operations, or cash flows of the Company.

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ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) (CONTINUED)

### LITIGATION (CONTINUED)

The Company filed a lawsuit in federal court, in the Northern District of Ohio (case #1:02cv 1127), against White Consolidated, Ltd. (Eureka) on June

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14, 2002, under the patent, trademark and unfair competition laws of the United States. The Complaint asserts that Eureka infringes certain patents relating to bagless technology held by the Company. The Company seeks damages, injunction on future production, and legal fees.

The Company is involved in various other claims and litigation arising in the normal course of business. The Company has product liability and general liability insurance policies in amounts management believes to be reasonable. There can be no assurance, however, that such insurance will be adequate to cover all potential product or other liability claims against the Company. In the opinion of management, the ultimate resolution of these actions will not materially affect the consolidated financial position, results of operations, or cash flows of the Company.

### ACCOUNTING STANDARDS

In fiscal 2001, the Emerging Issues Task Force ("EITF") issued EITF No. 00-14, "Accounting for Certain Sales Incentives," and EITF No. 00-25, "Vendor Income Statement Characterization of Consideration to a Purchaser of the Vendor's Products or Services" (both of which were clarified by EITF 01-09 "Accounting for Consideration Given by a Vendor to a Customer"). These pronouncements address the recognition, measurement and statement of operations classification for certain sales incentives and are effective January 1, 2002. The Company adopted these pronouncements in the first quarter of fiscal 2002 and as a result certain items previously included in selling, general and administrative expenses were reclassified as a reduction of net sales. Additionally, prior period amounts were reclassified to conform to the new requirements. The impact of these two issues resulted in a reduction of net sales of \$1,378 and \$1,223 for the quarters ended September 30, 2002 and 2001, respectively and \$2,967 and \$3,620 for the nine-month periods ended September 30, 2002 and 2001, respectively. These amounts, consisting principally of promotional allowances to the Company's retail customers, were previously recorded as selling, general and administrative expenses; therefore, there was no impact to net income for either period.

### FORWARD-LOOKING STATEMENTS

Forward-looking statements in this release are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date hereof. Potential risks and uncertainties include, but are not limited to: the financial strength of the retail industry particularly in the major mass retail channel; the impact of Kmart's recent bankruptcy filing on Royal's future sales and earnings; the competitive pricing and aggressive product development environment within the floorcare industry; the impact of private-label programs by mass retailers; the cost and effectiveness of planned advertising, marketing and promotional campaigns; the success at retail and the continued acceptance by consumers of the Company's new products, the dependence upon the Company's ability to continue to successfully develop and introduce innovative products; the uncertainty of the Company's global supply chain and suppliers to continuously supply sourced finished goods and component parts; including interruptions from potential port work stoppages, and general business and economic conditions.

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PART II - OTHER INFORMATION

ITEM 3 - Quantitative and Qualitative Disclosures About Market Risk

There were no material changes in information about market risk than that provided in the 2001 Annual Report on Form 10-K.

ITEM 4 - Controls and Procedures

The Company maintains a system of controls and procedures designed to provide reasonable assurance as to the reliability of the financial statements and other disclosures included in this report, as well as to safeguard assets from unauthorized use or disposition. The Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures under supervision and with the participation of management, including the Company's Chief Executive Officer and Chief Financial Officer, within 90 days prior to the filing date of this report. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information required to be included in the Company's periodic Securities and Exchange Commission filings. No significant changes were made to the Company's internal controls or other factors that could significantly affect these controls subsequent to the date of evaluation.

ITEM 6 - Exhibits and Reports on Form 8-K

The Exhibits filed herewith are set forth on the Index to Exhibits filed as part of this report.

Forms 8-K - None

The following documents are furnished as an exhibit and numbered pursuant to Item 601 of Regulation S-K:

None

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Royal Appliance Mfg. Co.

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(Registrant)

/s/ Michael J. Merriman

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Michael J. Merriman  
Chief Executive Officer, President and Director  
(Principal Executive Officer)

Date: November 13, 2002  
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/s/ Richard G. Vasek  
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Richard G. Vasek

Chief Financial Officer, Vice President - Finance  
and Secretary  
(Principal Financial Officer)

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Certification of Principal Executive Officer

Pursuant to 18 U.S.C. 1350

(Section 906 of the Sarbanes-Oxley Act of 2002)

I, Michael J. Merriman, the Chief Executive Officer and President of Royal Appliance Mfg. Co. (the "Company"), certify that to the best of my knowledge, based upon a review of the Quarterly Report on Form 10-Q for the period ended September 30, 2002 of the Company (the "Report"):

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael J. Merriman  
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Michael J. Merriman,  
Royal Appliance Mfg. Co.  
Chief Executive Officer and President

November 13, 2002

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Certification of Principal Financial Officer

Pursuant to 18 U.S.C. 1350

(Section 906 of the Sarbanes-Oxley Act of 2002)

I, Richard G. Vasek, Chief Financial Officer of Royal Appliance Mfg. Co. (the "Company") certify that to the best of my knowledge, based upon a review of the Quarterly Report on Form 10-Q for the period ended September 30, 2002 of the Company (the "Report"):

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Richard G. Vasek  
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Richard G. Vasek  
Royal Appliance Mfg. Co.  
Chief Financial Officer

November 13, 2002

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Certification of Principal Executive Officer

Pursuant to 15 U.S.C. 78m(a) or 78o(d)

(Section 302 of the Sarbanes-Oxley Act of 2002)

I, Michael J. Merriman, the Chief Executive Officer and President of Royal Appliance Mfg. Co. (the "Company"), certify that:

(1) I have reviewed this quarterly report on Form 10-Q of the Company;

(2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

(3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company



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as of, and for, the periods presented in this quarterly report;

(4) The Company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Company and we have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) evaluated the effectiveness of the Company's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

(5) The Company's other certifying officer and I have disclosed, based on our most recent evaluation, to the Company's auditors and the audit committee of Company's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data and have identified for the Company's auditors any material weaknesses in internal controls; and

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(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls; and

(6) The Company's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Michael J. Merriman  
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Michael J. Merriman,

Royal Appliance Mfg. Co.  
Chief Executive Officer and President

November 13, 2002

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### Certification of Principal Financial Officer

Pursuant to 15 U.S.C. 78m(a) or 78o(d)

(Section 302 of the Sarbanes-Oxley Act of 2002)

I, Richard G. Vasek, the Chief Financial Officer of Royal Appliance Mfg. Co. (the "Company"), certify that:

(1) I have reviewed this quarterly report on Form 10-Q of the Company;

(2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

(3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this quarterly report;

(4) The Company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Company and we have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) evaluated the effectiveness of the Company's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

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(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

(5) The Company's other certifying officer and I have disclosed, based on our most recent evaluation, to the Company's auditors and the audit committee of Company's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data and have identified for the Company's auditors any material weaknesses in internal controls; and

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(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls; and

(6) The Company's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Richard G. Vasek

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Richard G. Vasek,

Royal Appliance Mfg. Co.  
Chief Financial Officer

November 13, 2002

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INDEX TO EXHIBITS

PAGE NUMBER

None

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