BOLLINGER INDUSTRIES INC
Form 10-Q
February 14, 2001

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended December 31, 2000
or

[ ] 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 0-22716

BOLLINGER INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	75-2502577
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

602 FOUNTAIN PARKWAY, GRAND PRAIRIE, TEXAS 75050
(Address of principal executive offices)
(Zip Code)

(972) 343-1000
(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 such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

As of February 6, 2001, 4,400,210 shares of the registrant's common stock, $0.01 par value per share, were outstanding.

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BOLLINGER INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS	DECEMBER 31, 2000 (unaudited)	MARCH 2000
CURRENT ASSETS		
Cash	$ 32,369	$ 959
Accounts receivable - trade, net allowance for doubtful accounts of $470,465 and $543,387 and allowance for returns and allowances of $688,732 and $1,748,847 and		

allowance for advertising of $893,555 and $327,510	7,477,422	6,277
Prepaid expenses	352,668	129
Inventories, net	11,825,419	9,581
Other current assets	3,288	47
Total current assets	19,691,166	16,995
PROPERTY AND EQUIPMENT - NET	1,429,776	1,815
OTHER ASSETS		
Goodwill, net of accumulated amortization of $799,425 and $532,950	2,753,575	3,020
License rights, net of accumulated amortization of $160,875 and $107,250	554,125	607
Deferred marketing costs, net of accumulated amortization of $1,069,000 and $534,500	1,068,405	1,602
Deferred financing fees, net of accumulated amortization of $760,954 (fully amortized) and $711,398	--	49
Notes receivable and other	102,444	106
Total other assets	4,478,549	5,386
TOTAL ASSETS	$25,599,491	$24,197

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

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BOLLINGER INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(CONTINUED)

LIABILITIES AND STOCKHOLDERS' EQUITY	DECEMBER 31, 2000	MARC 20
	(unaudited)	
CURRENT LIABILITIES		
Current portion of long-term debt (Note D)	$ 7,882,399	$ 1,
Current portion of capital lease obligations	227,957	
Accounts payable-trade	10,293,287	6,
Taxes payable	51,304	
Accrued liabilities	706,482	
Accrued product liability	274,791	
Total current liabilities	19,436,220	8,
LONG-TERM LIABILITIES		
Long-term debt, less current portion	748,411	8,
Capital lease obligations, less current portion	698,570	
Contingency for legal settlement	2,850,000	3,

Other long-term liabilities	33,335	
Total long-term liabilities	4,330,316	12,
Total liabilities	23,766,536	21,
COMMITMENTS AND CONTINGENCIES (Note F)		
STOCKHOLDERS' EQUITY		
Preferred stock -- $0.01 par value; 1,000,000 shares authorized; none issued	--	
Common stock -- $0.01 par value; 20,000,000 shares authorized; 4,400,210 shares issued	44,002	
Capital in excess of par	15,519,058	15,
Accumulated deficit	(13,718,158)	(12,
Treasury stock, at cost	(11,947)	
Total stockholders' equity	1,832,955	2,
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 25,599,491	$ 24,

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

BOLLINGER INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	THREE MONTHS ENDED DECEMBER 31, 2000	THREE MONTHS ENDED DECEMBER 31, 1999	NINE MONTHS ENDED DECEMBER 31, 2000	NIN DEC
Net sales	$ 12,757,244	$ 10,895,874	$ 31,464,540	$ 2
Cost of goods sold	8,610,782	7,572,965	21,268,298	1
Gross profit	4,146,462	3,322,909	10,196,242	
Selling expenses	1,305,143	792,228	3,383,658	
Distribution, general and administrative expenses	2,247,216	2,039,989	6,477,838	
	3,552,359	2,832,217	9,861,496	
Operating profit	594,103	490,692	334,746	
Other expense (income)				

Interest expense	395,095	308,599	1,110,783	
Gain on sale of assets	(2,000)	(98)	(2,000)	
Other	1	130,652	29	
	393,096	439,153	1,108,812	
Earnings (loss) before income tax expense (benefit)	201,007	51,539	(774,066)	
Income tax expense (benefit)	--	--	--	
Net earnings (loss)	$ 201,007	$ 51,539	$ (774,066)	$
Per share data (basic and diluted):				
Basic earnings (loss) per share	$ 0.05	$ 0.01	$ (0.18)	$
Diluted earnings (loss) per share	$ 0.05	$ 0.01	$ (0.18)	$
Shares used in the calculation of per share amounts:				
Basic common shares	4,400,210	4,400,210	4,400,210	
Dilutive impact of stock options	--	--	--	
Diluted common shares	4,400,210	4,400,210	4,400,210	

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

BOLLINGER INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	NINE MONTHS ENDED DECEMBER 31, 2000	NINE MONTHS ENDED DECEMBER 31 1999
Cash flows from operating activities		
Net loss	$ (774,066)	$ (507,472
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Gain on sale of assets	(2,000)	(5,850
Contingency for legal settlement	(150,000)	--
Depreciation and amortization	1,445,082	893,644

Provision for returns and allowances	1,346,026	1,468,982
Provision for doubtful accounts	(10,535)	245,000
Provision for advertising	889,097	655,000
Provision for obsolete inventory	352,584	--
Changes in operating assets and liabilities		
Accounts receivable-trade	(3,424,933)	(3,799,090
Other	44,500	(126,252
Inventories	(2,596,327)	(2,886,584
Prepaid and other expenses	(223,055)	(94,814
Notes receivable and other assets	1,716	3,332
Accounts payable-trade	3,866,218	2,585,577
Taxes payable	(1,800)	(8,175
Accrued liabilities	61,809	(116,888
Accrued product liability	(117,088)	(98,266
Other long-term liabilities	--	33,335
Net cash provided by (used in) operating activities	707,228	(1,758,521
Cash flows from investing activities		
Purchases of property and equipment	(152,913)	(31,911
Proceeds from sale of assets	2,000	8,575
Net cash used in investing activities	(150,913)	(23,336
Cash flows from financing activities		
Net proceeds from (payments on) debt	(1,407,502)	1,877,796
Payments on capital lease obligations	(63,739)	(176,482
Purchase of treasury stock	(11,947)	--
Net cash provided by (used in) financing activities	(1,483,188)	1,701,314
Net decrease in cash	(926,873)	(80,543
Cash at beginning of period	959,242	125,719
Cash at end of period	$ 32,369	$ 45,176

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

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BOLLINGER INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE A - GENERAL

The consolidated interim financial statements include the accounts of Bollinger Industries, Inc., its wholly-owned subsidiaries, and Bollinger Industries, L.P., a partnership wholly-owned by Bollinger Industries, Inc.'s subsidiaries (collectively the "Company").

The consolidated interim financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the consolidated financial statements and notes for the fiscal year ended March 31, 2000 contained in the Company's Annual Report on Form 10-K.

In the opinion of management, the unaudited interim consolidated financial statements of the Company contain all adjustments, consisting only of those of a normal recurring nature, necessary to present fairly the Company's financial position and the results of its operations and cash flows for the periods presented. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year.

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expense during the reporting period. Actual results could differ from these estimates.

Reclassifications

When necessary, certain prior year amounts may have been reclassified to conform to the current year presentation.

Revenue Recognition and Provisions for Chargebacks and Buybacks

The Company recognizes sales revenue at the time products are shipped to its customers. Provision is made currently for estimated product returns and deductions, which may occur. These returns are generally for products that are salable with minor reworking of packaging or replacement of missing components. The term "chargebacks" refers to the action taken by the customer to withhold payments or to apply for credit amounts for items such as volume discounts or rebates under marketing programs or pricing discrepancies, penalties, vendor compliance issues, shipping shortages and any other similar item under vendor compliance guidelines established by the customer.

BOLLINGER INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED - CONTINUED)

NOTE A - GENERAL-CONTINUED

The provision for returns is estimated based on current trends and historical experience of returns. The provision for chargebacks is estimated based on the marketing programs designed for customers and recent historical experience based on volume.

In certain limited circumstances, the Company has followed a "buyback" policy whereby the Company purchases competitors' products from a new customer in order to obtain shelf space for the Company's product lines. The cost of such "buyback" is amortized over the life of the program, which typically has been two to three years.

NOTE B - CONSOLIDATED STATEMENTS OF CASH FLOWS

Supplemental disclosures are as follows:

	NINE MONTHS ENDED DECEMBER 31,	
	2000	1999
Interest paid	$1,036,555	$ 676,998
Non-cash financing and investing transactions:		
Purchase of assets financed by debt	--	$ 415,000

In December 1999 the Company entered into a capital lease for $415,000 for computer equipment.

NOTE C - INVENTORIES

	December 31, 2000	March 31, 2000
Finished goods	$ 12,310,374	$ 9,922,317
Raw materials	261,129	360,934
Reserve for obsolescence	(746,084)	(701,575)
	$ 11,825,419	$ 9,581,676

BOLLINGER INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED-CONTINUED)

NOTE D - NOTES PAYABLE AND LONG-TERM DEBT

The Company currently has a revolving credit facility with a financial institution providing a maximum line of $15 million, subject to certain borrowing base requirements and covenants, which expires in August 2002. The outstanding balance under the credit line is collateralized by substantially all of the Company's assets, including accounts receivable and inventory. As of December 31, 2000 there was a $7,464,287 outstanding balance and availability under the line was $9,869. As of December 31, 2000 the Company was in default on certain financial covenants specifically the current ratio and tangible net worth covenants; therefore, this debt is classified as a current liability in the accompanying financial statements. The Company's ability to utilize the credit facility is predicated on future levels of accounts receivable and inventory and the forbearance of the lender regarding covenant defaults. If the loan is accelerated, the Company will seek alternative financing, but there is no guarantee the Company would be successful in obtaining this financing. This action could have a materially adverse effect on the Company.

The Company has a convertible subordinated note payable for $1,400,000 with a five-year term pursuant to an asset purchase agreement with The Step Company. As of December 31, 2000 there was a $916,543 outstanding balance. The note bears interest at the rate of prime plus one percent adjusted quarterly. The holder has the right to convert the outstanding principal balance into fully paid and non-assessable shares of the Company's unregistered common stock subject to predefined ratios.

NOTE E - INCOME TAXES

The Company's effective income tax rates for the three and nine months ended December 31, 1999 and 2000 was 0% as the Company generated losses for financial and income tax reporting purposes. Such losses are offset by a 100% valuation allowance. At December 31, 2000 the Company had net operating losses available to offset future taxable income of approximately $8.5 million, which begin expiring in 2011.

NOTE F - COMMITMENTS AND CONTINGENCIES

Cause No. 96-02952; Suntrust Bank Atlanta, as Trustee for Suntrust Retirement Sunbelt Equity Fund v. Bollinger Industries, Inc., Glenn D. Bollinger, Bobby D. Bollinger, Michael J. Beck, John L. Maguire, and Grant Thornton, L.L.P.; in the 191st (originally filed in the 68th Judicial District Court) Judicial District Court of Dallas County, Texas (the "Suntrust Lawsuit"):

BOLLINGER INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED-CONTINUED)

NOTE F - COMMITMENTS AND CONTINGENCIES-CONTINUED

The Company, Glenn D. Bollinger (Chairman and CEO), Bobby D. Bollinger (President), Michael J. Beck (former CAO), John L. Maguire (Director), and Grant Thornton, L.L.P. (former independent accountants) are defendants in a securities fraud lawsuit filed on March 22, 1996 by shareholder Suntrust Bank Atlanta, as Trustee for Suntrust Retirement Sunbelt Equity Fund, on behalf of themselves and all persons similarly situated. This lawsuit was filed as a class action on behalf of those who purchased securities through a public offering of the Company's stock, alleging that the price of the stock was artificially inflated and maintained in violation of the anti-fraud provisions of the securities law as well as common law. Further, Grant Thornton has cross-claimed against the underwriters, and against the Company, Glenn D. Bollinger and Bobby D. Bollinger, generally seeking contribution.

The case was transferred to the 191st Judicial District Court and trial is currently stayed pending an appeal of the class certification filed by Grant Thornton and the Bollinger parties. The Appellants' Briefs of Grant Thornton and the Bollinger parties was heard on January 16, 2001 and is pending. This case continues to be mediated through the ongoing efforts of a mediator.

Civil Action No. 3:96C-V-0823-L; STI Classic Fund and STI Classic Sunbelt v. Bollinger Industries, Inc., Glenn D. Bollinger, Bobby D. Bollinger, and Michael J. Beck; in the United States District Court for the Northern District of Texas, Dallas Division (the "STI Lawsuit"):

The Company, Glenn D. Bollinger, Bobby D. Bollinger, and Michael J. Beck are defendants in a lawsuit filed on March 22, 1996 in the United States District Court for the Northern District of Texas, Dallas Division, by shareholders STI Classic Fund and STI Classic Sunbelt, on behalf of themselves and all persons similarly situated. Like the Suntrust lawsuit, this lawsuit was also filed as a class action on behalf of a class of persons who purchased securities of the Company at prices which allegedly were artificially inflated and maintained in violation of the anti-fraud provisions under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 10b-5 thereunder. A class certification has been granted by the court. The Defendants dispute the claims and are contesting the claims vigorously. The Plaintiffs have filed a Motion for Partial Summary Judgment against Bollinger Industries, Inc., which has been briefed and is pending. The case is not set for trial, and through the efforts of a mediator, mediation is ongoing.

Civil Action No. 00-1842-J; Curtis Logan v. Bollinger Industries, Inc.; in the 191st Judicial District Court, Dallas County, Texas ("the Logan Lawsuit"):

Logan's cross-claim for indemnity against the Company was severed after the Court granted summary judgment as to liability on Logan's indemnity claims, plus his attorneys' fees and expenses, and this case is the result. Settlement negotiations have produced a Rule 11 Agreement, which was executed during the quarter ending June 30, 2000 for $150,000. The Company paid $30,000 during June 2000 and the remaining $120,000 was paid in October 2000.

BOLLINGER INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED-CONTINUED)

NOTE F - COMMITMENTS AND CONTINGENCIES-CONTINUED

At December 31, 2000 the Company has a $975,387 standby letter of credit with a financial institution. The standby letter of credit collateralizes certain capitalized leased equipment and related software.

Cause No. EDCV00-312-RT; Precise Exercise Equipment, Inc. and Fitness Innovations and Technologies, Inc. v. Kmart Corporation and Bollinger Industries, Inc.; in the United States District Court for the Central District of California, Eastern Division filed on January 24, 2000. The Plaintiffs asserted claims of patent infringement relating to a patent on a sit-up exerciser. Defendants Bollinger and Kmart brought counterclaims alleging invalidity and unenforceability of the patent.

Cause No. 400-CV-0135A; Bollinger Industries v. Precise Exercise Equipment, Inc.

and Fitness Innovations and Technologies, Inc. was filed in United States District Court in the Northern District of Texas, Fort Worth Division on February 29, 2000 seeking a declaratory judgment that Precise's patent being asserted in the California litigation was invalid or unenforceable and did not infringe. This case involved the same subject matter as the California litigation.

The Company and Precise Exercise Equipment, Inc. ("Precise") and Fitness Innovations and Technologies, Inc. entered into a Patent Settlement Agreement which allows the Company to sell its remaining inventory of the sit-up exerciser through March 1, 2001 in the normal course of business and requires the Company to assist in the transition of the Company's customer base for the sit-up exerciser to Precise. Concurrently, the Company entered into a Sublicense Agreement with Precise, which grants Precise rights for a period of three years to an unrelated Bollinger held patented product. This settlement agreement settles both the California and Texas actions.

In connection with an investigation by the Securities and Exchange Commission, in September 1996 the Company consented to the entry of an order of permanent injunction which enjoins the Company from violating the antifraud, periodic reporting, record keeping and internal accounting controls provisions of the Exchange Act and regulations promulgated thereunder in the conduct of its business. Glenn Bollinger consented to the entry of an order of permanent injunction enjoining him from violations of the antifraud, record keeping, periodic reporting and internal accounting controls provisions of the Exchange Act and regulations promulgated thereunder, and agreed to the payment of a monetary penalty in the amount of $40,000. Ronald Bollinger consented to the entry of an order of permanent injunction enjoining him from violations of the antifraud, record keeping, periodic reporting and internal accounting controls provisions of the Exchange Act and regulations promulgated thereunder, and agreed not to act as a director or officer of a registered or reporting entity in the future.

From time to time, the Company is a party to various legal proceedings arising in the ordinary course of business. The Company is not currently a party to any other material litigation and is not aware of any litigation threatened against the Company, arising in the ordinary course of business, that could have a material adverse effect on the Company.

BOLLINGER INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED-CONTINUED)

NOTE G - ONGOING OPERATIONS

The Company's ability to continue as a going concern is dependent on its ability to generate sufficient funding from operations, the resolution of the shareholder lawsuits and continued lender forbearance related to the Company's line of credit.

The consolidated financial statements do not include any adjustments to reflect the possible effects on the recoverability and classification of assets or classification of liabilities, which may result from the inability of the Company to continue as a going concern.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Company's Annual Reports on Form 10-K and consolidated financial statements for the fiscal years ended March 31, 2000 and March 31, 1999; the Company's Quarterly Reports on Form 10-Q for the fiscal quarters ended June 30, 1999, September 30, 1999, December 31, 1999, June 30, 2000 and September 30, 2000; and the consolidated financial statements and related notes for the quarter ended December 31, 2000 found elsewhere in this report.

THREE MONTHS AND NINE MONTHS ENDED DECEMBER 31, 2000 COMPARED WITH THREE MONTHS AND NINE MONTHS ENDED DECEMBER 31, 1999

Net sales increased for the quarter ended December 31, 2000 by $1,861,000 on a comparative basis with the prior year, an increase of 17.1%. For the nine months net sales increased by $3,870,000 (compared to the prior year), an increase of 14%. Sales to a major mass merchandiser continue to show improvement over previous quarter and previous year and directly affect the Company's overall sales growth.

The Company continues to source its products from the highest quality low cost providers available. Many of the Company's products are sourced globally and consolidated for inspection, review and reshipping from the Grand Prairie, Texas facility. Several of the Company's major customers have specific shipping guidelines that require specialized handling and dedicated electronic interfaces. The ability to provide these services enables the Company to remain price competitive and further- more allows the Company to offer sales "programs" to the mass merchandisers. The cost of these programs is reflected in returns and discounts as a deduction from net sales.

Gross profits as a percent of net sales increased to 32.5% in the quarter ended December 31, 2000 from 30.5% in the quarter ended December 31, 1999. Gross profits as a percent of net sales decreased to 32.4% in the nine months ended December 31, 2000 from 33.6% in the nine months ended December 31, 1999. The quarterly improvement was primarily due to improved returns and allowances and fewer variances in the cost of inbound freight. The percentage decrease for the nine months ended December 31, 2000 was directly related to an increase in the provision for slow moving inventory.

Selling expenses for the quarter ended December 31, 2000 increased by $513,000 as compared to the quarter ended December 31, 1999, and increased as a percentage of net sales to 10.2% from 7.3%. Selling expenses for the nine months ended December 31, 2000 increased by $819,000 as compared to the nine months ended December 31, 1999, and increased as a percentage of net sales to 10.8% from 9.3%. The three and nine month dollar and percentage increase in selling expense was primarily related to the increased cost of advertising and commission due to the higher sales volume and the increase in royalty costs related to a settlement with a patent holder (see "Part II, item 1, Legal Proceedings").

Distribution, general and administrative expenses for the quarter ended December 31, 2000 increased by $207,000 as compared to the quarter ended December 31, 1999, and decreased as a

percentage of net sales to 17.6% in 2000 from 18.7% in 1999. Distribution, general and administrative expenses for the nine months ended December 31, 2000 increased by $202,000 as compared to the same period in 1999 and decreased as a percentage of net sales to 20.6% from 22.7%. The increase in distribution, general and administrative expenses for both the three-month and the nine-month periods resulted from increased electronic data interchange, freight and supply costs related to increased sales volume, and depreciation expense partially offset by lower bad debt and legal costs.

The Company generated an operating profit of $594,000 for the quarter ended December 31, 2000, as compared to an operating profit of $491,000 in the same quarter in 1999. As a percentage of net sales, the operating profit increased to 4.7% in 2000 from 4.5% in 1999. The Company generated an operating profit of $335,000 for the nine months ended December 31, 2000 as compared to an operating profit of $442,000 in the same period of 1999. As a percentage of net sales, the operating profit decreased to 1.1% in 2000 from 1.6% in 1999.

Interest expense for the quarter ended December 31, 2000 was $395,000 compared to $309,000 for the same quarter in 1999. Interest expense for the nine months ended December 31, 2000 was $1,111,000 compared to $828,000 for the same period in 1999. The increase in interest expense was primarily due to an increase in the borrowed balance and a 1.6% increase in the interest rate assessed by the Company's lender.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal source of outside financing in the past several years has been short-term borrowings from an asset-based lender. Net cash provided by operating activities for the nine months ended December 31, 2000 was $707,000 compared to cash used in operating activities for the same period in the prior year of $1,758,000. The increase in cash provided was primarily from increases in trade accounts payable and was primarily used to fund higher inventory levels.

The Company currently has a revolving credit facility with a financial institution providing a maximum line of $15 million, subject to certain borrowing base requirements and covenants, which expires in August 2002. The outstanding balance under the credit line is collateralized by substantially all of the Company's assets, including accounts receivable and inventory. As of December 31, 2000 there was a $7,464,287 outstanding balance and availability under the line was $9,869. As of December 31, 2000 the Company was in default on certain financial covenants, specifically the current ratio and tangible net worth covenants; therefore, this debt is classified as a current liability in the accompanying financial statements. The Company's ability to utilize the credit facility is predicated on future levels of accounts receivable and inventory and the forbearance of the lender regarding covenant defaults. If the loan is accelerated, the Company will seek alternative financing, but there is no guarantee the Company would be successful in obtaining this financing. This action could have a materially adverse effect on the Company.

Outstanding balances under the revolving credit facility for the quarter ended December 31, 2000 bore interest at a rate of 11.5% compared to an approximate rate of 10.4% for the quarter ended December 31, 1999.

The Company has a convertible subordinated note payable for $1,400,000 with a five-year term pursuant to the asset purchase agreement with The Step Company. As of December 31, 2000 there was a $916,543 outstanding balance. The note bears interest at the rate of prime plus one percent

adjusted quarterly. The holder has the right to convert the outstanding principal balance into fully paid and non-assessable shares of the Company's unregistered common stock subject to predefined ratios.

In March 1999 the Company recorded a contingent liability of $3,000,000 in anticipated settlement of both the STI and Suntrust Lawsuits. The plaintiffs withdrew the negotiated settlement offer subsequent to the end of June 1999. After resolution of the Curtis Logan Lawsuit a $2,850,000 accrual for legal contingency remains on the balance sheet in anticipation of reaching a settlement through continuing negotiations. The Company believes this accrual is ample for resolution of this contingency. Whether the Company will be successful in securing a final settlement is uncertain.

FACTORS THAT COULD AFFECT FUTURE PERFORMANCE

Certain statements contained in this Report, including without limitation, statements containing the words "believes," "anticipates," "intends," "expects," and words of similar import, constitute "forward-looking statements." Such forward-looking statements involve numerous assumptions about known and unknown risks, uncertainties and other factors, which may ultimately prove to be inaccurate. Certain of these factors are discussed in more detail elsewhere in this Report and include the Company's ability to continue to improve gross margin, to maintain good relationships with its customers and suppliers and to generate sufficient cash to fund operations. Actual results may differ materially from any future results expressed or implied by such forward-looking statements. The Company disclaims any obligation to update any forward-looking statements or publicly revise any of the forward-looking statements contained herein to reflect future events or developments.

Whether the STI and Suntrust Lawsuits will be settled or will proceed through the judicial process is uncertain. There can be no assurances that the Company and the plaintiffs will ultimately reach an acceptable settlement and there can be no assurances that the Company could fund an extensive legal proceeding or withstand an unfavorable judgment at trial.

The Company's ability to generate sufficient funding for operations, including the resolution of the STI and Suntrust Lawsuits, depend on future operating earnings, market conditions, satisfactory availability under the revolving credit facility and lender forbearance.

Investors are cautioned that forward-looking statements involve certain risks and uncertainties that could cause actual results of the Company to differ materially from those contained in the forward-looking statements. In addition to the factors mentioned above, other important factors include, but are not limited to: seasonality, advertising and promotional efforts, availability and terms of capital, future acquisitions, economic conditions, consumer preferences, lack of success of new products, loss of customer loyalty, heightened competition and other factors discussed in this Report.

The Company generated operating profits for the nine months ended December 31, 2000 but after interest and other non-operating expenses experienced net losses for the same period. Nothing contained in these financial statements or in Management's Discussion and Analysis of Financial Condition and Results of

Operations should be interpreted as a guarantee of future earnings or a change in financial condition. The actual results of the Company could differ materially from the statements found in this section and elsewhere in this Report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS.

Not applicable.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Cause No. 96-02952; Suntrust Bank Atlanta, as Trustee for Suntrust Retirement Sunbelt Equity Fund v. Bollinger Industries, Inc., Glenn D. Bollinger, Bobby D. Bollinger, Michael J. Beck, John L. Maguire, and Grant Thornton, L.L.P.; in the 191st (originally filed in the 68th Judicial District Court) Judicial District Court of Dallas County, Texas (the "Suntrust Lawsuit"):

The Company, Glenn D. Bollinger (Chairman and CEO), Bobby D. Bollinger (President), Michael J. Beck (former CAO), John L. Maguire (Director), and Grant Thornton, L.L.P. (former independent accountants) are defendants in a securities fraud lawsuit filed on March 22, 1996 by shareholder Suntrust Bank Atlanta, as Trustee for Suntrust Retirement Sunbelt Equity Fund, on behalf of themselves and all persons similarly situated. This lawsuit was filed as a class action on behalf of those who purchased securities through a public offering of the Company's stock, alleging that the price of the stock was artificially inflated and maintained in violation of the anti-fraud provisions of the securities law as well as common law. Further, Grant Thornton has cross-claimed against the underwriters, and against the Company, Glenn D. Bollinger and Bobby D. Bollinger, generally seeking contribution.

The case was transferred to the 191st Judicial District Court and trial is currently stayed pending an appeal of the class certification filed by Grant Thornton and the Bollinger parties. The Appellants' Briefs of Grant Thornton and the Bollinger parties was heard on January 16, 2001 and is pending. This case continues to be mediated through the ongoing efforts of a mediator.

Civil Action No. 3:96C-V-0823-L; STI Classic Fund and STI Classic Sunbelt v. Bollinger Industries, Inc., Glenn D. Bollinger, Bobby D. Bollinger, and Michael J. Beck; in the United States District Court for the Northern District of Texas, Dallas Division (the "STI Lawsuit"):

The Company, Glenn D. Bollinger, Bobby D. Bollinger, and Michael J. Beck are defendants in a lawsuit filed on March 22, 1996 in the United States District Court for the Northern District of Texas, Dallas Division, by shareholders STI Classic Fund and STI Classic Sunbelt, on behalf of themselves and all persons similarly situated. Like the Suntrust lawsuit, this lawsuit was also filed as a class action on behalf of a class of persons who purchased securities of the Company at prices which allegedly were artificially inflated and maintained in violation of the anti-fraud provisions under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 10b-5 thereunder. A class certification has been granted by the court. The Defendants dispute the claims and are contesting the claims vigorously. The Plaintiffs have filed a Motion for Partial Summary Judgment against Bollinger Industries, Inc., which has been briefed and is pending. The case is not set for trial, and through the efforts of a mediator, mediation is ongoing.

Civil Action No. 00-1842-J; Curtis Logan v. Bollinger Industries, Inc.; in the 191st Judicial District Court, Dallas County, Texas ("the Logan Lawsuit"):

Logan's cross-claim for indemnity against the Company was severed after the Court granted summary judgment as to liability on Logan's indemnity claims, plus his attorneys' fees and expenses, and this case is the result. Settlement negotiations have produced a Rule 11 Agreement,

which was executed during the quarter ending June 30, 2000 for $150,000. The Company paid $30,000 during June 2000 and the remaining $120,000 was paid in October 2000.

Cause No. EDCV00-312-RT; Precise Exercise Equipment, Inc. and Fitness Innovations and Technologies, Inc. v. Kmart Corporation and Bollinger Industries, Inc.; in United States District Court for the Central District of California, Eastern Division filed on January 24, 2000. The Plaintiffs asserted claims of patent infringement relating to a patent on a sit-up exerciser. Defendants Bollinger and Kmart brought counterclaims alleging invalidity and unenforceability of the patent.

Cause No. 400-CV-0135A; Bollinger Industries v. Precise Exercise Equipment, Inc. and Fitness Innovations and Technologies, Inc. was filed in United States District Court in the Northern District of Texas, Fort Worth Division on February 29, 2000 seeking a declaratory judgment that Precise's patent being asserted in the California litigation was invalid or unenforceable and did not infringe. This case involved the same subject matter as the California litigation.

The Company and Precise Exercise Equipment, Inc. ("Precise") and Fitness Innovations and Technologies, Inc. entered into a Patent Settlement Agreement which allows the Company to sell its remaining inventory of the sit-up exerciser through March 1, 2001 in the normal course of business and requires the Company to assist in the transition of the Company's customer base for the sit-up exerciser to Precise. Concurrently, the Company entered into a Sublicense Agreement with Precise, which grants Precise rights for a period of three years to an unrelated Bollinger held patented product. This settlement agreement settles both the California and Texas actions.

In connection with an investigation by the Securities and Exchange Commission, in September 1996 the Company consented to the entry of an order of permanent injunction which enjoins the Company from violating the antifraud, periodic reporting, record keeping and internal accounting controls provisions of the Exchange Act and regulations promulgated thereunder in the conduct of its business. Glenn Bollinger consented to the entry of an order of permanent injunction enjoining him from violations of the antifraud, record keeping, periodic reporting and internal accounting controls provisions of the Exchange Act and regulations promulgated thereunder, and agreed to the payment of a monetary penalty in the amount of $40,000. Ronald Bollinger consented to the entry of an order of permanent injunction enjoining him from violations of the antifraud, record keeping, periodic reporting and internal accounting controls provisions of the Exchange Act and regulations promulgated thereunder, and agreed not to act as a director or officer of a registered or reporting entity in the future.

From time to time, the Company is a party to various legal proceedings arising in the ordinary course of business. The Company is not currently a party to any other material litigation and is not aware of any litigation threatened against the Company, arising in the ordinary course of business, that could have a material adverse effect on the Company.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

11 Computation of Earnings Per Share

(b) No reports on Form 8-K were filed during the three-month period ended December 31, 2000.

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.

BOLLINGER INDUSTRIES, INC.

Date: February 14, 2001

/S/ Glenn D. Bollinger

Glenn D. Bollinger
Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

Date: February 14, 2001

/S/ Rose Turner

Rose Turner
Executive Vice President - Finance, Chief Financial Officer, Chief Operating Officer Treasurer and Secretary
(Principal Financial and Operating Officer)

Date: February 14, 2001

/S/ Floyd DePauw

Floyd DePauw
Controller and Chief Accounting Officer
(Principal Accounting Officer)

BOLLINGER INDUSTRIES, INC. AND SUBSIDIARIES

EXHIBIT INDEX

Exhibits	Description
11	Computation of Earnings Per Share