HOME PRODUCTS INTERNATIONAL INC
Form 10-Q
May 07, 2002

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 March 30, 2002

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 0-17237

HOME PRODUCTS INTERNATIONAL, INC.
(Exact name of registrant as specified in its Charter)

Delaware	36-4147027
(State or other jurisdiction of incorporation or organization)	(I.R.S Employer Identification No.)
4501 West 47th Street Chicago, Illinois	60632
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number including area code (773) 890-1010.

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 [ ]

Common shares, par value $0.01, outstanding as of May 4, 2002 - 7,837,438

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PART I FINANCIAL INFORMATION.
Item 1. Financial Statements

HOME PRODUCTS INTERNATIONAL, INC.

Condensed Consolidated Balance Sheets
(in thousands, except share amounts)

	(Unaudited) March 30, 2002	December 29, 2001
Assets		
Current assets:		
Cash and cash equivalents	$ 1,380	$ 1,091
Accounts receivable, net	36,395	36,577
Inventories, net	19,802	17,043
Prepaid expenses and other current assets	1,809	2,275
Total current assets	59,386	56,986
Property, plant and equipment - at cost	88,328	87,502
Less accumulated depreciation and amortization	(47,326)	(44,871)

Property, plant and equipment, net	41,002	42,631
Patents and non-compete agreements, net	1,490	1,616
Goodwill, net	74,759	74,759
Other non-current assets	11,179	11,351
Total assets	$ 187,816	$187,343
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 15,546	$ 16,834
Accrued liabilities	34,978	33,916
Current maturities of long-term obligations	158	158
Total current liabilities	50,682	50,908
Long-term obligations - net of current maturities	129,539	130,447
Other liabilities	3,200	3,168
Stockholders' equity (deficit):		
Preferred Stock - authorized, 500,000 shares, $.01 par value; - None issued	-	-
Common Stock - authorized 15,000,000 shares, $.01 par value; 8,659,832 shares issued at March 30, 2002 and 8,641,338 shares issued at December 29, 2001......................	87	87
Additional paid-in capital	50,010	49,920
Accumulated deficit	(38,833)	(40,262)
Common stock held in treasury - at cost 822,394 shares at March 30, 2002 and December 29, 2001	(6,528)	(6,528)
Deferred compensation	(341)	(397)
Total stockholders' equity	4,395	2,820
Total liabilities and stockholders' equity	$ 187,816	$ 187,343

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

HOME PRODUCTS INTERNATIONAL, INC.
Condensed Consolidated Statements of Operations and Retained Earnings
(unaudited)
(in thousands, except per share amounts)

	Thirteen weeks ended	
	March 30, 2002	March 31, 2001
Net sales	$ 51,007	$ 64,126
Cost of goods sold	38,234	49,918
Special charge, net	-	110
Gross profit	12,773	14,098
Operating expenses:		

Selling.........................	4,317	5,369
Administrative..................	3,309	3,930
Amortization of intangible assets	130	929
Restructuring and other charges..	-	2,483
	7,756	12,711
Operating profit................	5,017	1,387
Other income (expense):		
Interest income	49	10
Interest (expense)	(3,484)	(5,479)
Other income (expense), net	(28)	66
	(3,463)	(5,403)
Income (loss) before income taxes	1,554	(4,016)
Income tax (expense)	(124)	(67)
Net income (loss)	$ 1,430	$ (4,083)
Net income (loss) per common share:		
Basic	$ 0.19	$ (0.55)
Dilutive	$ 0.18	$ (0.55)

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

HOME PRODUCTS INTERNATIONAL, INC.

Condensed Consolidated Statements of Cash Flows
(unaudited)
(dollars in thousands)

	Thirteen weeks ended	
	March 30, 2002	March 31, 2001
Operating activities:		
Net income (loss)...........................	$ 1,430	$ (4,083)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,585	3,996
Amortization of stock compensation	56	56
Loss on the abandonment of assets	167	-
Other, net	198	197
Changes in current assets and liabilities:		
Decrease in accounts receivable	182	2,505
(Increase) in inventories	(2,759)	(1,372)
Decrease in prepaid expenses and other	466	272
(Decrease) in accounts payable	(1,288)	(1,534)
Increase (decrease) in accrued liabilities.	1,062	(334)
Net cash provided (used) by operating activities	2,099	(297)

Investing activities:		
Capital expenditures, net....................	(993)	(1,676)
Net cash used for investing activities	(993)	(1,676)
Financing activities:		
Payments under loan and security agreement...	(859)	-
Net borrowings on revolving line of credit...	-	2,750
Payments on term loan borrowings............	-	(1,500)
Payment of capital lease obligation..........	(49)	(37)
Exercise of stock options, issuance of common stock under stock purchase plan and other..	91	-
	(817)	1,213
Net cash (used) provided by financing activities		
Net increase (decrease) in cash and cash equivalents................................	289	(760)
Cash and cash equivalents at beginning of period......................................	1,091	3,152
Cash and cash equivalents at end of period	$ 1,380	$ 2,392
Supplemental disclosures - Cash paid in the period for:		
Interest....................................	$ 85	$ 1,751
Income taxes, net..........................	$ 15	$ 2

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

HOME PRODUCTS INTERNATIONAL, INC.

Notes to Condensed Consolidated Financial Statements
(Unaudited)
(dollars in thousands, except per share amounts)

Note 1. General Information

Home Products International, Inc. (the "Company"), based in Chicago, is a leading designer, manufacturer and marketer of a broad range of value-priced, quality consumer houseware products. The Company's products are marketed principally through mass-market trade channels in the United States and internationally.

The condensed consolidated financial statements for the thirteen weeks ended March 30, 2002 and March 31, 2001, include, in the opinion of management, all adjustments (consisting of normal recurring adjustments and reclassifications) necessary to present fairly the financial position, results of operations and cash flows as of March 30, 2002 and for all periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto incorporated by reference in the Company's Form 10-K for the year ended December 29, 2001. The results of operations for the thirteen weeks ended March 30, 2002 are not necessarily indicative of the operating results to be expected for the full year. Certain amounts in prior periods' financial statements and related notes have been reclassified to conform to the 2002 presentation.

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

Note 1. Revenue Recognition

Revenue from the sale of products is recognized upon shipment of products to customers. Allowances for estimated returns, discounts and retailer incentives and promotions are recognized when sales are recorded and are based on various market data, historical trends and information from customers. Actual returns, discounts and retailer incentives and promotions have not been materially different from estimates.

Note 2. Advertising Costs.

In accordance with Statement of Position ("SOP") 93-7, "Reporting on Advertising Costs," advertising done on the Company's behalf by retailers is negotiated with each retailer as part of an overall trade allowance program and is paid through advertising allowances. All trade allowance program costs (including advertising allowances) are expensed and accrued as sales are recorded. Trade allowance program costs (including advertising allowances) in first quarter of 2002 and 2001 were $5,191 and $7,413, respectively.

Note 3. New Accounting Standards

In May 2000, the FASB's Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 14, "Accounting for Certain Sales Incentives" ("EITF No. 00-14"). This issue addresses the recognition, measurement, and income statement classification of various types of sales incentives, including discounts, coupons, rebates, and offers for free products. Upon adopting EITF No. 00-14, which is effective with the fourth quarter of 2001, it is required that these sales incentives be classified as deductions from sales within the income statement. The adoption of these new standards did not have an effect on the Company's results of operations as its historical accounting policy has been to include these types of sales incentives as a deduction from sales.

In April 2001, the EITF reached a consensus on Issue No. 00-25 ("EITF 00-25"), "Accounting for Consideration from a Vendor to a Retailer in Connection with the Purchase or Promotion of the Vendor's Products," which requires the costs of certain vendor consideration, such as slotting fees and off-invoice arrangements, to be classified as a reduction of sales rather than as marketing expense. The Company adopted EITF No. 00-25 in the fourth quarter of 2001. The adoption of these new standards did not have an effect on the Company's results of operations as its historical accounting policy has been to include these types of sales arrangements as a deduction of sales.

Note 4. Goodwill and Other Intangibles

In July 2001 the Financial Accounting Standards Board (FASB) issued SFAS No. 141 "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets." SFAS No. 141 requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting, and broadens the criteria for recording intangible assets separate from goodwill. Recorded goodwill and intangibles will be evaluated against this new criteria and may result in certain intangibles being combined into goodwill, or alternatively, amounts initially recorded as goodwill may be separately identified and recognized apart from goodwill. SFAS No. 142 requires the use of a non-amortization approach to account for purchased goodwill and certain intangibles. Under a non-amortization approach, goodwill and certain intangibles will not be amortized into results of operations, but instead would be reviewed for impairment and written down and charged to results of operations only in the periods in which the recorded value of goodwill and certain intangibles is more than its fair value. The provisions of each statement, which apply to goodwill and intangible assets acquired prior to June 30, 2001, were adopted by the Company on December 30, 2001.

Upon adoption of SFAS No. 142, the Company performed an impairment test of its goodwill and determined that no impairment of the recorded goodwill existed. Under SFAS NO. 142, goodwill will be tested for impairment at least annually and more frequently if an event occurs which indicates that goodwill may be impaired. As required by SFAS NO. 142, the results for periods prior to its adoption have not been restated.

The following table provides comparative earnings and earnings per share as if the non-amortization provisions of SFAS No. 142 had been adopted for all periods presented:

	Thirteen weeks ended	
	March 30, 2002	March 31, 2001
Net income (loss), as reported	$ 1,430	$ (4,083)
Goodwill amortization, as reported...	-	799
Net income (loss), as adjusted	$ 1,430	$ (3,284)
Basic earnings (loss) per share, as reported	$ 0.19	$ (0.55)
Goodwill amortization, as reported...	0.00	0.11
Basic earnings (loss) per share, as adjusted	$ 0.19	$ (0.44)
Diluted earnings (loss) per share, as reported	$ 0.18	$ (0.55)
Goodwill amortization, as reported...	0.00	0.11
Diluted earnings (loss) per share, as adjusted	$ 0.18	$ (0.44)

Note 5. Long-Lived Assets

The FASB issued SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", dated August 2001. This statement supercedes SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-lived Assets to be Disposed of", and the accounting and reporting provisions of APB Opinion No. 30, "Reporting Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". SFAS 144 requires that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and it broadens the presentations of discontinued operations to include more disposal transactions. The Company adopted the provisions of SFAS 144 on December 29, 2001. As of March 30, 2002, the Company determined that no impairment of long-lived assets existed.

Note 6. Inventories

The components of the Company's inventory consist of direct labor, direct materials and the applicable portion of the overhead required to manufacture the goods.

	March 30, 2002	December 29, 2001
Finished goods....................	$14,029	$12,016
Work-in-process...................	1,769	1,717
Raw materials.....................	4,004	3,310
	$19,802	$17,043

Note 7. Net Income (Loss) Per Share

The following information reconciles net income (loss) per share basic and diluted:

	Thirteen weeks ended	
	March 30, 2002	March 31, 2001
Net income (loss)	$ 1,430	$ (4,083)
Weighted average common shares outstanding: basic..................................	7,702	7,429
Impact of stock options, warrants and restricted stock	373	-
Weighted average common shares outstanding: diluted................................	8,075	7,429
Net income (loss) per share: basic	$ 0.19	$ (0.55)
Net income (loss) per share: diluted	$ 0.18	$ (0.55)

Earnings per common share - basic is computed based on the weighted average number of outstanding common shares. Earnings per common share - diluted includes the weighted average effect of dilutive options, warrants and restricted stock on the weighted average shares outstanding. In the first quarter 2001 dilutive options, warrants and restricted stock were not included in the computation of diluted earnings per share because the assumed exercise of such equivalents would have been antidilutive.

Note 8. 2001 Special, Restructuring and Other Charges

In fiscal year 2000, the Company began implementation of a restructuring plan that was undertaken to reduce fixed costs and better position the Company for sustained profitability. The restructuring plan entailed the closure of the Leominster, MA facility, reconfiguration of remaining manufacturing facilities, a reduction in headcount and a realignment of the selling process. The Company began to implement the restructuring plan in December 2000.

During the first quarter of 2001 the Company recorded a pretax charge of $2.6 million, of which $0.1 million was deemed to be Special Charges and $2.5 million as Restructuring and Other Charges (collectively referred herein as the "2001 Charges"). All planned restructuring initiatives were completed in 2001 and no additional charges were recorded during the thirteen-week period ended March 30, 2002.
The 2001 Charges are summarized as follows:

	Q1-2001 Additional charge	Q1-2001 Change in estimate	Q1-2001 Net charge
Cost of Goods Sold:			
Special Charges:			
Inventory relocation and liquidation	$ 765	$ (590)	$ 175
SKU reduction and inventory adjustments related to 1999	-	(65)	(65)
Total charge to cost of goods sold	765	(655)	110
Operating Expenses:			
Restructuring and other charges:			
Plant and facilities:			
Relocation of machinery & equipment	1,179	-	1,179
Lease termination & sub-lease costs	11	960	971
Elimination of obsolete assets	-	29	29
Employee related costs	278	63	341
Other costs	36	(73)	(37)
Total charge to operating expenses	1,504	979	2,483
Total net charges	$ 2,269	$ 324	$ 2,593

The 2001 Charges were comprised of (i) $175 charge to relocate and liquidate inventory at Leominster and other facilities, (ii) $1,179 charge for the relocation of machinery and equipment and $971 charge for lease termination & sub-lease costs (total net charge of $2,150), (iii) $29 charge to write off obsolete and duplicate assets that were used at the Leominster facility and other facilities, (iv) $341 charge for employee related severance costs, (v) ($37) reversal of charge associated with other related restructuring costs, and (vi) ($65) reversal of SKU reduction and inventory adjustments relating to the 1999 restructuring plan that was undertaken to further maximize the Company's marketing and operational productivity and to strengthen relationships with its key retail partners ("1999 Special Charges"). The total 2001 Charges were $2,658 excluding the impact of the 1999 Special Charges reversal.

A breakdown of the net charge (excluding the impact of the 1999 Special Charges) between cash and non-cash items is summarized as follows. The special charges are comprised of $120 of cash and $55 for non-cash items. The restructuring and other charges are comprised of $2,311 of cash items and a $172 of charges related to non-cash items.

The Company identified a total of 124 hourly and salaried Leominster employees to be terminated in accordance with the 2001 restructuring initiatives. As of March 30, 2002 all of these employees had been terminated.

Restructuring plans established in connection with the 2000/2001 charges are proceeding as planned and remaining restructuring reserves of $4,070, as of March 30, 2002, are considered adequate. Total net cash outlays were $107 in the first quarter 2002. Restructuring reserve balances as of December 29, 2001, activity during the current year and restructuring reserve balances as of March 30, 2002, were as follows:

	Reserve balance at 12/29/01	Amounts Utilized in 2002	Reserve balance at 03/30/02
Inventory	$ 278	$ (52)	$ 226
Plant and facilities	3,116	(86)	3,030
Obsolete and duplicate assets	373	(21)	352
Employee related costs	50	-	50
Other	412	-	412
	$ 4,229	$ (159)	$ 4,070

Note 9. Divestiture of Product Line

On June 7, 2001, the Company entered into a definitive agreement to sell its commercial servingware product line, Plastics, Inc., to A & E Products Group LP, an affiliate of Tyco International. The company completed the sale on July 6, 2001 for $71 million in cash (the "Sale"). The net sale proceeds of $69.5 million (including transaction costs and other related costs) were used to retire the Company's term debt and a portion of its revolving credit borrowings. For more information about the divestiture see the Current Report on Form 8-K filed with the Securities and Exchange Commission on July 18, 2001 and Current Report on Form 8-K/A filed with the Securities and Exchange Commission on July 27, 2001.

The unaudited pro forma historical results for the thirteen weeks ended March 31, 2001, as if the Plastics, Inc. product line had been sold at the beginning of fiscal 2001, are estimated to be:

	Thirteen weeks ended	
	March 30, 2002	March 31, 2001
Net sales	$ 51,007	$ 56,995

Net income (loss), excluding the 2001 Charges	$ 1,430	$ (489)
Net income (loss) per common share, excluding the 2001 Charges	$ 0.18	$ (0.07)
EBITDA, excluding the 2001 Charges	$ 7,574	$ 6,810

The pro forma results reflect a decrease in goodwill amortization and a reduction of interest expense on the retirement of debt due to the divestiture. The pro forma results are not necessarily indicative of what actually would have occurred if the divestiture had been completed as of the beginning of each of the fiscal periods presented, nor are they necessarily indicative of future consolidated results.

Note 10. Income Taxes

As of fiscal year end 2001 the Company had income tax loss carryforwards relating to U.S. net operating losses of approximately $39 million which expire in 2010 to 2020. Accordingly, the income tax provision primarily reflects foreign taxes.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This commentary should be read in conjunction with the Company's consolidated financial statements and related footnotes and management's discussion and analysis of financial condition and results of operations contained in the Company's Form 10-K for the year ended December 29, 2001.

2001 Special, Restructuring and Other Charges

In fiscal year 2000, the Company began implementation of a restructuring plan that was undertaken to reduce fixed costs and better position the Company for sustained profitability. The restructuring plan entailed the closure of the Leominster, MA facility, reconfiguration of remaining manufacturing facilities, a reduction in headcount and a realignment of the selling process. The Company began to implement the restructuring plan in December 2000.

During the first quarter of 2001 the Company recorded a pretax charge of $2.6 million, of which $0.1 million was deemed to be Special Charges and $2.5 million as Restructuring and Other Charges (collectively referred herein as the "2001 Charges"). All planned restructuring initiatives were completed in 2001 and no additional charges were recorded during the thirteen-week period ended March 30, 2002.

Divestiture of the Plastics, Inc. Product Line

On July 6, 2001, the Company completed the sale of its commercial servingware product line, Plastics, Inc. ("PI"), to A & E Products Group LP, an affiliate of Tyco International (the "Sale"). The net sale proceeds of $69.5 million, net of transaction costs and other related costs, were used to retire the Company's term debt and a portion of its revolving credit borrowings. The Sale affects the comparability of financial results between periods.

Thirteen weeks ended March 30, 2002 compared to the thirteen weeks ended March 31, 2001

In the discussion and analysis that follows, all references to the first quarter of 2002 are to the thirteen-week period ended March 30, 2002 and all references to the first quarter of 2001 are to the thirteen-week period ended March 31, 2001. The following discussion and analysis compares the actual results for the first quarter of 2002 to the actual results for the first quarter of 2001 with reference to the following (in thousands; unaudited):

	Thirteen weeks ended			
	March 30, 2002		March 31, 2001	
Net sales	$ 51,007	100.0%	$ 64,126	100.0%
Cost of goods sold	38,234	75.0	49,918	77.8
Special charges, net	-	-	110	0.2
Gross profit	12,773	25.0	14,098	22.0
Operating expenses	7,626	15.0	9,299	14.5
Amortization of intangible assets.	130	0.3	929	1.4
Restructuring and other charges...	-	-	2,483	3.9
Operating profit	5,017	9.7	1,387	2.2
Interest expense	(3,484)	(6.8)	(5,479)	(8.5)
Other income	21	0.0	76	0.1
Income (loss) before income taxes	1,554	2.9	(4,016)	(6.2)
Income tax (expense)	(124)	(0.2)	(67)	(0.1)
Net income (loss)	$ 1,430	2.7%	$ (4,083)	(6.3)%
Net income (loss) per share - Basic	$0.19		$(0.55)	
Net income (loss) per share - Diluted	$0.18		$(0.55)	
Weighted average common shares Outstanding -				
Basic	7,702		7,429	
Diluted	8,075		7,429	

Net sales. Net sales of $51.0 million in 2002 decreased $13.1 million from $64.1 million in 2001. Approximately $4.0 million of the sales decline was due to the bankruptcy of several customers, primarily Ames. Kmart sales were down $2 million to a year ago as they balanced inventory to accommodate their announced store closings. Also impacting comparisons to 2001 was the divestiture of the servingware product line which accounted for $7.1 million of the sales decrease. Sales to the Company's top three customers were 70% of total sales in 2002 as compared to 51% in the prior year.

Special Charges. In 2001 the Company recorded Special Charges of $0.1 million in connection with the closure of the Leominster facility and the realignment of other manufacturing facilities. The primary component of the Special Charges included inventory reserves to relocate and liquidate inventory.

Gross profit. The Company's gross profit in the quarter was $12.8 million as compared to $14.1 million in 2001 and gross profit margins improved to 25.0% from 22.0% a year ago. The divested servingware product line contributed $2.5 million of gross profit in 2001. Excluding the servingware product line, gross margins were 25.0% as compared to 20.6% in the prior year. Gross margins benefited from productivity and efficiency initiatives as well as other factory cost reduction programs. Additional margin improvements were the result of favorable raw material prices as well as lower freight and selling commission costs.

Operating expenses. Operating expenses in 2002 were $7.6 million versus $9.3 million in 2001. The sale of PI reduced operating expenses by $1.6 million. During the quarter, a bad debt provision of $0.5 million was recorded relating to January 2002 sales prior to the Kmart bankruptcy filing. In 2001, bad debt expense was $0.3 million.

Amortization of intangible assets. Amortization of intangible assets in 2002 was 0.3% of net sales or $0.1 million versus 1.4% or $0.9 million in 2001. The decrease in 2001 reflects the reduction of goodwill relating to the disposition of PI as well as a change in accounting principles that eliminates goodwill amortization. Remaining amortization of intangible assets relates to patents and non-compete agreements.

Restructuring and Other Charges. In 2001, the Company recorded Restructuring and Other Charges of $2.5 million related to the continued implementation of the fourth quarter 2000 restructuring plan. The charges are comprised of (i) charge for the relocation of machinery and equipment, (ii) lease termination and sub-lease costs, (iii) write off of obsolete and duplicate assets that were used at the Leominster facility and other facilities, (iv) employee related severance costs, and (v) reversal of other related restructuring costs.

Interest expense. Interest expense of $3.5 million in 2002 decreased $2.0 million from $5.5 million in 2001. The decrease in interest expense is primarily due to the significant retirement of debt during the last twelve months. Outstanding debt at March 30, 2002 was $93.1 million lower than a year ago. Debt paydowns are due to the proceeds from the sale of PI as well as over $22 million of positive cash flow from operating results.

Other income. Other income in both years is due to small amounts of interest income and the sale of retired fixed assets. Such amounts are insignificant to total operating results.

Income tax expense. The income tax provision recorded in both years relates to foreign taxes. No federal income taxes were recognized in either year due to the Company's significant tax loss carryforwards.

Net income (loss). In 2002 the Company had net income of $1.4 million, or $0.18 per diluted share, as compared to a net loss of $4.1 million, or $0.55 per share in 2001. On a pro forma basis that excludes the results of PI from 2001 as well as the 2001 Charges, the net loss in 2001 would have been $0.5 million, $0.07 per share.

The weighted average number of shares outstanding increased to 8,075,198 from 7,428,549 a year ago. The increase in the weighted average number of shares outstanding was due to increases in the Company's stock price and the resulting dilutive impact of stock options on the number of shares outstanding.

Capital Resources and Liquidity

The Company's primary sources of liquidity and capital resources include cash provided from operations and borrowings under the Company's credit facility.

The Company's net debt position (short and long term debt, net of cash on hand) was reduced in the first quarter. Net debt was $128.3 million on March 30, 2002 as compared to $129.5 million at December 29, 2001. The decrease of $1.2 million was due to positive operating results offset by an increase in working capital.

The Company's working capital, excluding cash and short term debt, was $7.5 million or $2.4 million higher than December 29, 2001. The increase in working capital was due to higher inventories in anticipation of the Company's seasonally higher sales in the second quarter.

Capital spending in the first quarter was $1.0 million as compared to $1.7 million a year ago. Capital spending in the current year is primarily related to new product development.

The Company believes its $50 million line of credit together with its cash flow from operations will provide sufficient capital to fund operations, make required debt repayments and meet anticipated capital spending needs. There were no borrowings outstanding under the line of credit at March 30, 2002 and our borrowing availability was approximately $38 million.

The Company was in compliance with all loan covenants as of March 30, 2002.

Management Outlook and Commentary

* The first quarter sales were below a year ago due to customer bankruptcies. As we continue through the year, comparisons will be negatively impacted as a result of the lost sales such bankruptcies represent.

* In January 2002, Kmart announced that it had filed for bankruptcy protection. Kmart is the Company's second largest customer and did $50 million of business with the Company in 2001. The Company's receivable from Kmart at the time of the bankruptcy filing was $6.7 million. The Company does not expect to collect this money in 2002 but is hopeful that some portion will be recovered in 2003 when Kmart expects to emerge from bankruptcy. As part of Kmart's recovery plan, they have announced the closure of 284 stores, approximately 13% of their total store count. To date, Kmart has been unable to estimate the likely impact of the store closings on our sales.

* The Company's primary raw materials are plastic resin, steel, fabric and corrugated packaging. Fluctuations in the cost of these materials can have a significant impact on reported results. Management does not expect to see a significant change in the cost of these materials as compared to 2001. However the cost of these items is affected by many variables outside the control of the Company and changes to the current perceived trends are possible. During the first quarter, market prices for resin were about the same as in the fourth quarter of 2001.

* Plastic resin currently represents approximately 15% to 20% of the Company's cost of goods sold. Although last year's divestiture of the servingware product line has reduced the Company's exposure to resin price fluctuations, resin costs continue to be a meaningful element of the Company's cost structure. During 2001, resin prices were down slightly to the prior year and were lower than historical averages. These cost decreases were largely passed on to customers through selling

price reductions. There is no assurance that the current costing levels will continue or that future resin price increases can be passed on to customers. Plastic resin costs are impacted by several factors outside the control of the Company including supply and demand characteristics, oil and natural gas prices and the overall health of the economy. Any of these factors could potentially have a positive or negative impact on plastic resin prices and the Company's profitability.

* Recently announced steel tariffs will likely have a negative impact on the Company's steel costs. The Company currently uses domestic steel in its ironing boards. Due to the protection afforded by the 30% tariff, domestic steel suppliers have already announced price increases.

* During the first half of 2001, the Company completed all of its restructuring initiatives including the closure of its east coast operations and the realignment of several manufacturing facilities. These changes were made to improve production efficiency and lower costs. Savings as compared to 2001 were realized in the first quarter of 2002 and will continue through the second quarter.

* As a result of operating losses and restructuring write-offs incurred in 2000, the Company has significant tax loss carryforwards. These carryforwards can be used to reduce taxable income in future periods. The Company estimates that its tax loss carryforwards as of December 29, 2001 are in excess of $39 million.

* The Company is highly leveraged with total debt representing over 2 times our net tangible assets. Accordingly, earnings and cash flow could be materially impacted by changes in interest rates or other business factors. Furthermore, the financial and operating covenants related to the Company's debt agreement place some restrictions on operations. During all of 2001 and the first quarter of 2002, the Company operated well within its financial and operating covenants and expects to operate within the covenants in 2002.

* The Company's financing arrangements with Fleet Capital provide increased flexibility for the use of borrowed funds. The Company is now free to pursue selected acquisitions that would increase shareholder value. The covenants take into account seasonal fluctuations and give recognition to the Company's collateral base. Because the financing is asset based, availability of funds to borrow is dependent on the quality of the Company's asset base, primarily its receivables and inventory. Should Fleet Capital determine that such assets do not meet the bank's credit tests, availability can be restricted. Given the Company's retail customer base, it is possible that certain customers could be excluded from the asset base.

* Over the past 4 years, the Company's growth has come via acquisition. The Company still believes that acquisitions provide the best opportunity to meaningfully grow the Company's sales and profits. However, until we are able to significantly increase our cash position or reduce our debt levels, we will not pursue any major acquisitions.

Critical Accounting Policies

In the Company's Form 10-K for the year ended December 29, 2001, the Company's most critical accounting policies and estimates upon which our financial status depends upon were identified as those relating to revenue recognition, inventory valuation and restructuring reserves. The Company reviewed its policies and determined that those policies remain our most critical accounting policies for the quarter ended March 30, 2002. The Company did not make any changes in those policies during the quarter.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's primary market risk is impacted by changes in interest rates and price volatility of certain commodity based raw materials.

Interest Rate Risk. The Company's revolving credit agreement is LIBOR-based and is subject to interest rate movements. During the first quarter 2002 the Company did not experience any material changes in interest rate risk that would affect the disclosures presented in the Company's Annual Report on Form 10-K for the fifty-two week period ended December 29, 2001.

Commodity Risk. The Company is subject to price fluctuations in commodity based raw materials such as plastic resin, steel and griege fabric. Changes in the cost of these materials may have a significant impact on the Company's operating results. Management does not anticipate significant fluctuations in the cost of these materials during the remainder of 2002. On the other hand the cost of these items is affected by many factors outside of the Company's control and changes to the current trends are possible. There have been no significant changes in the costs of plastic resin, steel and griege fabric during the first quarter 2002 as compared to the fourth quarter 2001. See "Management Outlook and Commentary" above.

The Company has entered into commitments to purchase certain minimum annual volumes of plastic resin. These purchase commitments approximate 64% of the Company's total annual plastic resin purchases. The Company expects to purchase in excess of 120 million pounds of resin in 2002. The agreements expire in December 2002 and December 2003. The purchase commitment pricing is not tied to fixed rates; therefore, the Company's results of operations or financial position could be affected by significant changes in the market cost of plastic resin.

Forward Looking Statements

This quarterly report on Form 10-Q, including the "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Management Outlook and Commentary" and "Quantitative and Qualitative Disclosures about Market Risk" sections, contain forward-looking statements within the meaning of the "safe-harbor" provisions of the Private Securities Litigation Reform Act of 1995. Such statements are based on management's current expectations and are subject to a number of factors and uncertainties which could cause actual results to differ materially from those described in the forward-looking statements. Such factors and uncertainties include, but are not limited to:

* the impact of the level of the Company's indebtedness
* restrictive covenants contained in the Company's various debt documents
* general economic conditions
* the Company's dependence on a few large customers
* price fluctuations in the raw materials used by the Company, particularly plastic resin
* competitive conditions in the Company's markets
* the seasonal nature of the Company's business
* fluctuations in the stock market
* the extent to which the Company is able to retain and attract key personnel
* financial condition of our retail customers
* relationships with retailers
* the impact of federal, state and local environmental requirements (including the impact of future environmental claims against the Company)

As a result, the Company's operating results may fluctuate, especially when measured on a quarterly basis. The Company undertakes no obligation to revise forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers are also urged to carefully review and consider the various disclosures made by the Company in this report and in the Company's periodic reports on Forms 10-K, 10-Q and 8-K filed with the Securities and Exchange Commission. Such reports attempt to advise interested parties of the factors which affect the Company's business.

PART II. OTHER INFORMATION

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit Index

99.1 Press release dated February 26, 2002
99.2 Press release dated April 30, 2002

(b) Reports on Current Form 8-K.

Registrant filed a Current Report on Form 8-K dated February 26, 2002, to disclose that the Registrant issued a press release disclosing its financial results for its fourth quarter and fiscal year end 2001 results.

Registrant filed a Current Report on Form 8-K dated May 2, 2002, to disclose that the Registrant issued a press release disclosing its financial results for its first quarter 2002.

SIGNATURE

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 hereunto duly authorized.

Home Products International, Inc.

By: /s/ James E. Winslow

James E. Winslow
Executive Vice President and
Chief Financial Officer

Dated: May 7, 2002