

HOME SOLUTIONS OF AMERICA INC  
Form 8-K/A  
February 14, 2003

**SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 8-K/A**

**CURRENT REPORT PURSUANT  
TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

Date of Report (Date of earliest event reported) December 27, 2002

HOME SOLUTIONS OF AMERICA, INC.  
(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction of Incorporation)

0-22388  
(Commission File Number)

99-0273889  
(IRS Employer Identification No.)

11850 Jones Road, Houston, Texas  
(Address of Principal Executive Offices)

77070  
(Zip Code)

(281) 970-9859  
(Registrant's Telephone Number, Including Area Code)

(Former Name or Former Address, if Changed Since Last Report)

**Item 2. Acquisition or Disposition of Assets.**

As previously reported, on December 27, 2002, Home Solutions of America, Inc. (formerly Nextgen Communications Corporation), a Delaware corporation (the "Company"), completed the acquisition of 100% of the outstanding capital stock (the "Stock Purchase") of P.W. Stephens, Inc., a California corporation.

On January 17, 2003, the Company filed with the Securities and Exchange Commission a current report on Form 8-K, disclosing the acquisition of P.W. Stephens, Inc., but omitted the financial statements required by Item 7 of Form 8-K, as permitted by applicable rules and regulations.

Through this Form 8-K/A, the Company amends its current report filed on January 17, 2002, to include the information required by Item 7 of Form 8-K.

**Item 7. Financial Statements and Exhibits.**

(a) Financial statements of businesses acquired:

P.W. Stephens, Inc. - Financial Statements for the Nine Months Ended September 30, 2002 and 2001 (Unaudited)

P.W. Stephens, Inc. - Financial Statements for the Years Ended December 31, 2001 and 2000 with independent Auditors' Report Thereon

(b) Pro forma financial information:

Home Solutions Of America, Inc. - Pro Forma Combined Balance Sheets as of September 30, 2002 (Unaudited)

Home Solutions Of America, Inc. - Pro Forma Combined Statements of Operations For the Nine-Month Period Ended September 30, 2002 (Unaudited)

Home Solutions Of America, Inc. - Pro Forma Combined Statements of Operations For the Year Ended December 31, 2001 (Unaudited)

Home Solutions Of America, Inc. - Notes To Unaudited Pro Forma Combined Financial Statements (Unaudited)

**P.W. STEPHENS, INC.**

**FINANCIAL STATEMENTS**

**For The Nine Months Ended September 30, 2002 and 2001 (Unaudited)**

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**P.W. STEPHENS, INC.****BALANCE SHEET (Unaudited)**

	September 30, 2002
<b>ASSETS</b>	
Current assets:	
Cash	\$ 67,462
Accounts receivable, net of allowance for doubtful accounts of \$96,085	3,597,827
Prepaid expenses and supplies	107,406
Due from related party	<u>60,940</u>
Total current assets	3,833,635
Property and equipment, net of accumulated depreciation and amortization of \$739,812	2,021,594
- Goodwill, net of accumulated amortization of \$573,484	2,293,935
Deferred income taxes	31,662
Other assets	<u>128,123</u>
	\$ 8,308,949
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>	
Current liabilities:	
Line of credit borrowings	\$ 516,330
Accounts payable and accrued expenses	1,327,933
Due to related party	1,310,469
Current portion of long-term debt and capital lease obligations	<u>555,618</u>
Total current liabilities	3,710,350
Long-term liabilities:	
Long-term debt and capital lease obligations, net of current portion	<u>2,098,489</u>
Total liabilities	<u>5,808,839</u>
Commitments and contingencies	
Stockholder's equity:	
Common stock, no par value; 100,000 shares authorized; 100 shares issued and outstanding	100,000
Additional paid in capital	334,833
Retained earnings	<u>2,065,277</u>
Total stockholder's equity	<u>2,500,110</u>
	\$ 8,308,949

*See accompanying notes to financial statements*



**P.W. STEPHENS, INC.****STATEMENTS OF INCOME (Unaudited)**

	<b>For Nine Months Ended September 30,</b>	
	<b>2002</b>	<b>2001</b>
Net sales	\$ 10,855,586	\$ 9,586,110
Cost of sales	<u>5,062,440</u>	<u>4,720,674</u>
Gross profit	<u>5,793,146</u>	<u>4,865,436</u>
Operating expenses:		
Payroll and related benefits	2,545,368	2,100,437
General and administrative	1,677,877	813,691
Depreciation and amortization	252,731	239,637
Bad debt expense and write-off of related party advances	<u>242,457</u>	<u>53,914</u>
Total operating expenses	<u>4,718,433</u>	<u>3,207,679</u>
Income from operations	<u>1,074,713</u>	<u>1,657,757</u>
Other income (expense):		
Interest income	537	1,896
Interest expense	(162,368)	(162,930)
Loss on disposal of property and equipment	<u>(12,506)</u>	<u>(29,886)</u>
Total other income (expense)	<u>(174,337)</u>	<u>(190,920)</u>
Income before provision for income taxes	900,376	1,466,837
Provision for income taxes	<u>360,150</u>	<u>586,735</u>
Net income	\$ 540,226	\$ 880,102

*See accompanying notes to financial statements*

**P.W. STEPHENS, INC.****STATEMENTS OF CASH FLOWS (Unaudited)**

	<b>For Nine Months Ended September 30,</b>	
	<b>2002</b>	<b>2001</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 540,226	\$ 880,102
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	168,971	239,637
Bad debt expense and write-off of related party advances	242,457	53,914
Deferred income taxes	-	(31,662)
Loss on disposal of property and equipment	12,506	29,886
Changes in operating assets and liabilities:		
Accounts receivable	(938,614)	(965,179)
Prepaid expenses and supplies	9,663	29,848
Other assets	(68,599)	5,457
Accounts payable and accrued expenses	<u>367,060</u>	<u>476,465</u>
Net cash provided by operating activities	<u>333,670</u>	<u>718,468</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(120,546)	(98,768)
Advances to (from) related parties	<u>(320,537)</u>	<u>(240,111)</u>
Net cash used in investing activities	<u>(441,083)</u>	<u>(338,879)</u>
<b>Cash flows used in financing activities:</b>		
Net borrowings on line of credit	516,330	-
Payments on long-term debt	(260,464)	(295,406)
Payments on capital lease obligations	<u>(112,494)</u>	<u>(54,487)</u>
Net cash provided by (used in) financing activities	<u>143,372</u>	<u>(349,893)</u>
Net change in cash	35,959	29,696
Cash, beginning of period	<u>31,503</u>	<u>30,080</u>
Cash, end of period	\$ 67,462	\$ 59,776
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the period for interest	\$ 167,880	\$ 126,827
Cash paid during the period income taxes	\$ -	\$ -

**Supplemental disclosure of non-cash investing and financing activities:**

During 2002 and 2001, the Company incurred capital lease obligations of approximately \$363,000 and \$131,000, respectively, for the purchases of equipment.

During 2002, the Company received property and equipment with a net book value of approximately \$889,000 in exchange for amounts due from a related party.

*See accompanying notes to financial statements*

**P.W. STEPHENS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**For The Nine Months Ended September 30, 2002 and 2001**

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**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization and Line of Business

P.W. Stephens, Inc. (the "Company") was incorporated on December 28, 1998 under the laws of the State of California. The Company provides abatement services for residential and commercial properties for asbestos, lead and mold materials and contamination to customers located throughout California. As of September 30, 2002, the Company has three branches in California located in Huntington Beach, Fremont and San Diego.

Through April 30, 2001, the Company was a wholly owned subsidiary of American Temporary Sanitation, Inc. ("ATS"). ATS was owned by the Barber family. Effective May 1, 2001, ATS agreed to transfer its ownership of the Company to Jane Barber in exchange for the repayment of all intercompany balances owed, the assumption of a \$1,199,981 SBA loan by Jane Barber and Mrs. Barber's ownership interest in ATS. As the transfer of ownership interest was between entities under common control, no purchase accounting entries were recorded.

As part of the agreement, income taxes arising from the Company's estimated taxable income for the period January 1, 2001 to April 30, 2001 were assumed by ATS (who files a consolidated return). As a result, the intercompany obligation of the Company for income taxes payable to ATS of \$334,833 was considered a capital contribution by ATS at the time of transfer of ownership and recorded as additional paid in capital by the Company on April 1, 2001.

As a result, of the above transaction, the SBA loan and the debt incurred by ATS to purchase the assets of the Company (see Note 5) have been "pushed down" on the accompanying balance sheet as an obligation of the Company with a corresponding increase to goodwill. The related interest and amortization expense for the periods ended September 30, 2002 and 2001 has been included in the accompanying statements of income.

Concentration of Credit Risk

*Cash*

The Company maintains cash balances at a financial institution that is insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$100,000. At September 30, 2002, the Company had approximately \$39,000 in these accounts in excess of the FDIC insurance limits.

*Customers*

The Company extends credit to a variety of customers in the normal course of business. The Company performs ongoing credit evaluations of its customers. The Company does not obtain collateral with which to secure its accounts receivable. The Company estimates credit losses based on management's historical experience and current industry trends. Although the Company expects to collect amounts due, actual collections may differ from the estimated amounts.





P.W. STEPHENS, INC.

NOTES TO FINANCIAL STATEMENTS

For The Nine Months Ended September 30, 2002 and 2001

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**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Use of Estimates

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 effect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the recorded amounts of revenues and expenses during the reporting period. Significant estimates made by management include, among others, the allowance for doubtful accounts. Actual results could differ from those estimates.

Property and Equipment

Property and equipment are stated at cost, and are being depreciated using the straight-line method over the estimated useful lives of the related assets, ranging from three to seven years. Leasehold improvements are amortized on a straight-line basis over the lesser of the estimated useful lives of the assets or the related lease terms. Maintenance and repairs are charged to expense as incurred. Significant renewals and betterments are capitalized. At the time of retirement or other disposition of property and equipment, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the statement of income.

Goodwill

Goodwill relates to the acquisition of the Company by ATS in 1998 and prior to January 1, 2002 was being amortized on a straight-line basis over 15 years. Amortization expense recorded on the accompanying statement of income totaled \$0 and \$137,499 for the periods ended September 30, 2002 and 2001, respectively.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "*Goodwill and Other Intangible Assets*," which is effective for fiscal years beginning after December 15, 2001. SFAS 142 addresses how intangible assets that are acquired individually or with a group of other assets should be accounted for in the financial statements upon their acquisition and after they have been initially recognized in the financial statements. SFAS 142 requires that goodwill and intangible assets that have indefinite useful lives not be amortized but rather be tested at least annually for impairment, and intangible assets that have finite useful lives be amortized over their useful lives. SFAS 142 provides specific guidance for testing the impairment of goodwill and intangible assets that will not be amortized. In addition, SFAS 142 expands the disclosure requirements about goodwill and other intangible assets in the years subsequent to their acquisition. Impairment losses for goodwill and indefinite-life intangible assets that arise due to the initial applicable of SFAS 142 are to be reported as resulting from a change in accounting principle. The Company adopted SFAS 142 on January 1, 2002. As a result, no amortization was recorded in 2002 and management determined there was no impairment at September 30, 2002.

Long-Lived Assets

The Company's management assesses the recoverability of its long-lived assets by determining whether the depreciation and amortization of long-lived assets over their remaining lives can be recovered through projected undiscounted future cash flows. The amount of long-lived asset impairment, if any, is measured based on fair value and is charged to operations in the period in which long-lived asset impairment is determined by management. At September 30, 2002 the Company's management believes there is no impairment of its long-lived assets. There can be no assurance however, that market conditions will not change or demand for the Company's services will continue, which could result in impairment of long-lived assets in the future.

P.W. STEPHENS, INC.

NOTES TO FINANCIAL STATEMENTS

For The Nine Months Ended September 30, 2002 and 2001

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**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), *"Accounting for the Impairment or Disposal of Long-Lived Assets."* SFAS 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. The provisions of SFAS 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within these fiscal years, with early adoption encouraged. The Company adopted SFAS 144 on January 1, 2002, with no impact on its financial statements.

**Revenue Recognition**

Revenue is recognized at the time the contract and related services are performed.

**Advertising**

The Company expenses the cost of advertising when incurred as general and administrative expense. These amounts were not significant for the periods ended September 30, 2002 and 2001.

**Income Taxes**

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109 ("SFAS 109"), *"Accounting for Income Taxes."* Under the asset and liability method of SFAS 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for certain deferred tax assets if it is more likely than not that the Company will not realize tax assets through future operations.

Through April 30, 2001, the Company was a wholly owned subsidiary of ATS. For tax purposes, the Company filed a consolidated income tax return with ATS. ATS had incurred losses, which consolidated with the Company, resulted in no payment of tax liability. For periods subsequent to April 1, 2001, the shareholder has continues to file a consolidated return, including the Company. For purposes of these financial statements, the Company recorded tax provisions pursuant to SFAS 109 on a stand-alone basis, resulting in a liability for taxes, which has been recorded as a related party payable as of and for the periods ended September 30, 2002 and 2001.

**Business Segments**

The Company currently operates in one segment.



**P.W. STEPHENS, INC.****NOTES TO FINANCIAL STATEMENTS****For The Nine Months Ended September 30, 2002 and 2001****NOTE 2 - PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at September 30, 2002:

Automobile and trucks	\$	1,087,092
Machinery and equipment		1,381,359
Computer equipment		128,842
Office equipment		79,620
Furniture and fixtures		64,067
Leasehold improvements		<u>20,426</u>
		2,761,406
Less accumulated depreciation and amortization		<u>(739,812)</u>
	\$	2,021,594

Depreciation and amortization expense recorded in the accompanying statements of income totaled \$168,971 and \$96,267 for the periods ended September 30, 2002 and 2001, respectively.

**NOTE 3 - RELATED PARTY TRANSACTIONS**

As of September 30, 2002, the Company had advances of \$60,940 to related parties through common ownership. The advances are non-interest bearing.

As of September 30, 2002, the Company owed \$1,310,469 to a related party through common ownership. This amount is comprised primarily of the Company's share of the consolidated tax liability, less amounts paid by the Company on behalf of the shareholder.

The Company paid amounts a related party for services performed totaling approximately \$137,000. These payments are reflected in general and administrative expenses in the accompanying statement of income.

**NOTE 4 - LINES OF CREDIT**

The Company currently has two lines of credit available. The revolving line of credit bears interest at the prime rate plus 0.75% per annum, payable monthly. The terms of the agreement provide for borrowings up to the lesser of \$500,000 or the aggregate of 80% of eligible accounts receivable, as defined. The revolving line of credit expires on January 31, 2003, at which time the Company expects to replace the line through additional financing from another institution. As of September 30, 2002, the Company had outstanding borrowings totaling \$487,330 under this agreement.

The equipment line of credit bears interest at the prime rate plus 1.00% per annum, payable monthly. The terms of the agreement provide for borrowings up to \$200,000. The equipment line of credit expired on January 31, 2003, at which time all outstanding amounts totaling \$29,000 will be repaid over 36 equal monthly installments including principal and interest through February 28, 2006. As of September 30, 2002, the Company had outstanding

borrowings totaling \$29,000 under this agreement.

**P.W. STEPHENS, INC.****NOTES TO FINANCIAL STATEMENTS****For The Nine Months Ended September 30, 2002 and 2001****NOTE 5 - LONG-TERM DEBT**

Long-term debt consists of the following at September 30, 2002:

Note payable to Home Solutions of America, Inc. ("HSA") payable in monthly installments totaling \$37,438, including interest at 7.75%, maturing July 1, 2005, secured by certain assets held by the shareholder of the Company. This note was forgiven as part of the acquisition of the Company subsequent to September 30, 2002 (see Note 7).	\$ 1,228,623
Note payable to a financial institution, payable in monthly installments of \$18,333, plus interest at prime (4.75% at December 31, 2001) plus 0.75%, maturing January 28, 2007, guaranteed by stockholder.	953,333
Capital lease obligations, payable in monthly installments ranging from approximately \$470 to \$900 at effective interest rates ranging from 4.6% to 16.5%, maturing through February 2006, secured by leased equipment.	<u>472,151</u>
	2,654,107
Less current portion	<u>(555,618)</u>
	\$ 2,098,489

**NOTE 6 - COMMITMENTS AND CONTINGENCIES****Operating Leases**

The Company leases its facilities under non-cancelable operating lease agreements. The leases expire on various dates through December 2004 and provide for monthly rents ranging from approximately \$1,200 to \$4,200. Rental expense under these operating leases for the periods ended September 30, 2002 and 2001 were approximately \$79,000 and \$63,000, respectively.

**Legal**

The Company continues to be involved in various claims, lawsuits, and disputes with third parties, actions involving allegations or discrimination or breach of contract actions incidental in the normal operations of the business. The Company is currently not involved in any such litigation which management believes could have a material adverse effect on its financial position or results of operations.

**NOTE 7 - SUBSEQUENT EVENT**

On December 27, 2002, pursuant to a stock purchase agreement, the Company's stockholder agreed to sell 100% of the outstanding stock of P.W. Stephens, Inc. to HSA. The sale, which will be accounted for as a purchase, was



comprised of the following:

Cash	\$	1,000,000
Promissory notes issued by HSA		8,975,000
Assignment of promissory notes from third parties held by HSA		1,175,000
Cancellation of note payable to HSA (see Note 5)		1,154,000
Warrant to purchase stock of HSA		<u>425,000</u>
	\$	12,729,000

**P.W. STEPHENS, INC.****NOTES TO FINANCIAL STATEMENTS****For The Nine Months Ended September 30, 2002 and 2001****NOTE 7 - SUBSEQUENT EVENT, continued**

The promissory notes issued by HSA are as follows:

Note payable, interest at 6%, principal due in one payment including interest of \$37,500 on March 31, 2003, secured by the assets of the Company.	\$ 1,500,000
Note payable, including discount of \$169,000, zero coupon, imputed interest at 5%, principal and interest due in equal monthly installments of \$24,067 through October 2007, secured by assets of the Company.	1,275,000
Note payable, interest starting June 1, 2003 at one-month LIBOR (1.75% at November 1, 2002) plus 1%, principal payments of \$250,000 due quarterly plus interest beginning on November 1, 2003, with final payment of \$200,000 plus unpaid interest November 1, 2008, secured by assets of the Company.	5,200,000
Note payable, interest at 2.25%, principal payments due as accounts receivable securing note are collected, remaining amount (if any) due April 1, 2003.	<u>1,000,000</u>
	\$ 8,975,000

The warrant issued by HSA entitles the holder to purchase 293,412 shares of the common stock of HSA at a purchase price of \$0.01 per share, which expires on November 15, 2007. The fair value of the warrant has been determined using the Black-Scholes option pricing model.

**P.W. STEPHENS, INC.**

**FINANCIAL STATEMENTS**

**For The Years Ended December 31, 2001 and 2000**

*with*

**INDEPENDENT AUDITORS' REPORT THEREON**

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
P.W. Stephens, Inc.

We have audited the accompanying balance sheets of P.W. Stephens, Inc. (the "Company") as of December 31, 2001 and 2000, and the related statements of income, stockholder's equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of P.W. Stephens, Inc. as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Corbin & Company, LLP

**Corbin & Company, LLP**

Irvine, California  
January 21, 2003

## BALANCE SHEETS

	2001	December 31, 2000
<b>ASSETS</b>		
Current assets:		
Cash	\$ 31,503	\$ 30,080
Accounts receivable, net of allowance for doubtful accounts of \$146,956 in 2001 and \$133,608 in 2000	2,800,386	2,164,157
Prepaid expenses and supplies	<u>117,069</u>	<u>143,669</u>
Total current assets	2,948,958	2,337,906
Property and equipment, net of accumulated depreciation and amortization of \$503,466 in 2001 and \$302,678 in 2000	947,138	814,960
- Goodwill, net of accumulated amortization of \$573,484 in 2001 and \$382,323 in 2000	2,293,935	2,485,096
Deferred income taxes	31,662	-
Due from related party	246,483	34,202
Other assets	<u>59,524</u>	<u>21,986</u>
	\$ 6,527,700	\$ 5,694,150
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 960,873	\$ 930,384
Due to related party	943,265	1,155,606
Current portion of long-term debt	607,280	393,502
Current portion of capital lease obligations	<u>92,494</u>	<u>46,294</u>
Total current liabilities	2,603,912	2,525,786
Long-term liabilities:		
Long-term debt, net of current portion	1,835,140	2,433,185
Capital lease obligations, net of current portion	<u>128,764</u>	<u>74,311</u>
Total liabilities	<u>4,567,816</u>	<u>5,033,282</u>
Commitments and contingencies		
Stockholder's equity:		
Common stock, no par value; 100,000 shares authorized;		
100 shares issued and outstanding	100,000	100,000
Additional paid in capital	334,833	-
Retained earnings	<u>1,525,051</u>	<u>560,868</u>
Total stockholder's equity	<u>1,959,884</u>	<u>660,868</u>
	\$ 6,527,700	\$ 5,694,150

*See independent auditors' report and  
accompanying notes to financial statements*

**P.W. STEPHENS, INC.****STATEMENTS OF INCOME**

	<b>For The Years Ended December 31,</b>	
	<b>2001</b>	<b>2000</b>
Net sales	\$ 12,854,434	\$ 9,411,635
Cost of sales	<u>6,083,794</u>	<u>4,403,641</u>
Gross profit	<u>6,770,640</u>	<u>5,007,994</u>
Operating expenses:		
Payroll and related benefits	2,901,692	2,271,646
General and administrative	1,373,993	1,062,288
Depreciation and amortization	398,766	362,970
Bad debt expense and write-off of related party advances	<u>114,069</u>	<u>255,655</u>
Total operating expenses	<u>4,788,520</u>	<u>3,952,559</u>
Income from operations	<u>1,982,120</u>	<u>1,055,435</u>
Other income (expense):		
Interest income	2,041	529
Interest expense	(261,056)	(154,570)
Loss on sale of property and equipment	<u>(9,850)</u>	<u>(22,884)</u>
Total other income (expense)	<u>(268,865)</u>	<u>(176,925)</u>
Income before provision for income taxes	1,713,255	878,510
Provision for income taxes	<u>749,072</u>	<u>370,043</u>
Net income	\$ 964,183	\$ 508,467

*See independent auditors' report and  
accompanying notes to financial statements*

**P.W. STEPHENS, INC.****STATEMENT OF STOCKHOLDER'S EQUITY****For the Years Ended December 31, 2001 and 2000**


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	Common Stock		Additional Paid in Capital	Retained Earnings	Total
	Shares	Amount			
Balance, January 1, 2000	100	\$100,000	\$ -	\$ 52,401	\$ 152,401
Net income	-	-	-	508,467	508,467
Balance, December 31, 2000	100	100,000	-	560,868	660,868
Assumption of income tax liability by parent company	-	-	334,833	-	334,833
Net income	-	-	-	964,183	964,183
Balance, December 31, 2001	100	\$100,000	\$ 334,833	\$ 1,525,051	\$ 1,959,884

*See independent auditors' report and  
accompanying notes to financial statements*



**P.W. STEPHENS, INC.****STATEMENTS OF CASH FLOWS**

	<b>For The Years Ended December 31,</b>	
	<b>2001</b>	<b>2000</b>
Cash flows from operating activities:		
Net income	\$ 964,183	\$ 508,467
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	398,766	362,970
Bad debt expense and write-off of related party advances	114,069	255,655
Deferred income taxes	(31,662)	-
Loss on sale of property and equipment	9,850	22,884
Changes in operating assets and liabilities:		
Accounts receivable	(669,577)	(825,685)
Prepaid expenses and supplies	26,600	(45,582)
Other assets	(37,538)	(4,982)
Accounts payable and accrued expenses	<u>39,724</u>	<u>85,717</u>
Net cash provided by operating activities	<u>814,415</u>	<u>359,444</u>
Cash flows from investing activities:		
Purchases of property and equipment	(177,917)	(71,810)
Proceeds on sale of property and equipment	2,600	612
Advances to (from) related parties	<u>(170,510)</u>	<u>(45,631)</u>
Net cash used in investing activities	<u>(345,827)</u>	<u>(116,829)</u>
Cash flows from financing activities:		
Payments on long-term debt	(393,502)	(218,975)
Payments on capital lease obligations	<u>(73,663)</u>	<u>(28,674)</u>
Net cash used in financing activities	<u>(467,165)</u>	<u>(247,649)</u>
Net change in cash	1,423	(5,034)
Cash, beginning of year	<u>30,080</u>	<u>35,114</u>
Cash, end of year	\$ 31,503	\$ 30,080

*Continued*

**P.W. STEPHENS, INC.****STATEMENTS OF CASH FLOWS - CONTINUED**


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	<b>For The Years Ended December 31,</b>	
	<b>2001</b>	<b>2000</b>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 288,816	\$ 140,112
Cash paid during the year for income taxes	\$ -	\$ -

## Supplemental disclosure of non-cash investing and financing activities:

During 2001 and 2000, the Company incurred capital lease obligations of \$174,316 and \$71,860, respectively, for the purchases of equipment.

Due to a change in ownership during 2001, the previous parent company assumed \$334,833 in intercompany income taxes payable that resulted from Company income which was recorded as an increase to additional paid-in capital.

*See independent auditors' report and  
accompanying notes to financial statements*

**P.W. STEPHENS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**For The Years Ended December 31, 2002 and 2001**

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**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization and Line of Business

P.W. Stephens, Inc. (the "Company") was incorporated on December 28, 1998 under the laws of the State of California. The Company provides abatement services for residential and commercial properties for asbestos, lead and mold materials and contamination to customers located throughout California. As of December 31, 2001, the Company has three branches in California located in Huntington Beach, Fremont and San Diego.

Through April 30, 2001, the Company was a wholly owned subsidiary of American Temporary Sanitation, Inc. ("ATS"). ATS was owned by the Barber family. Effective May 1, 2001, ATS agreed to transfer its ownership of the Company to Jane Barber in exchange for the repayment of all intercompany balances owed, the assumption of a \$1,199,981 SBA loan by Jane Barber and Mrs. Barber's ownership interest in ATS. As the transfer of ownership interest was between entities under common control, no purchase accounting entries were recorded.

As part of the agreement, income taxes arising from the Company's estimated taxable income for the period January 1, 2001 to April 30, 2001 were assumed by ATS (who files a consolidated return). As a result, the intercompany obligation of the Company for income taxes payable to ATS of \$334,833 was considered a capital contribution by ATS at the time of transfer of ownership and recorded as additional paid in capital by the Company on April 1, 2001.

As a result of the above transaction, the SBA loan and the debt incurred by ATS to purchase the assets of the Company (see Note 4) have been "pushed down" on the accompanying balance sheets as an obligation of the Company with a corresponding increase to goodwill. The related interest and amortization expense for the years ended December 31, 2001 and 2000 has been included in the accompanying statements of income.

Concentration of Credit Risk

*Cash*

The Company maintains cash balances at a financial institution that is insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$100,000. At December 31, 2001 and 2000, the Company had approximately \$120,000 and \$83,000, respectively, in these accounts in excess of the FDIC insurance limits.

*Customers*

The Company extends credit to a variety of customers in the normal course of business. The Company performs ongoing credit evaluations of its customers. The Company does not obtain collateral with which to secure its accounts receivable. The Company estimates credit losses based on management's historical experience and current industry trends. Although the Company expects to collect amounts due, actual collections may differ from the estimated amounts.

As of and during the years ended December 31, 2001 and 2000, respectively, the Company's largest customer represented approximately 13% and 15% of net sales and 14% and 20% of accounts receivable.

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Use of Estimates

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 effect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the recorded amounts of revenues and expenses during the reporting period. Significant estimates made by management include, among others, the allowance for doubtful accounts. Actual results could differ from those estimates.

Property and Equipment

Property and equipment are stated at cost, and are being depreciated using the straight-line method over the estimated useful lives of the related assets, ranging from three to seven years. Leasehold improvements are amortized on a straight-line basis over the lesser of the estimated useful lives of the assets or the related lease terms. Maintenance and repairs are charged to expense as incurred. Significant renewals and betterments are capitalized. At the time of retirement or other disposition of property and equipment, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the statement of income.

Goodwill

Goodwill relates to the acquisition of the Company by ATS in 1998 and is being amortized on a straight-line basis over 15 years. Amortization expense recorded on the accompanying statements of income totaled \$191,161 and \$191,161 for the years ended December 31, 2001 and 2000, respectively.

Long-Lived Assets

The Company's management assesses the recoverability of its long-lived assets by determining whether the depreciation and amortization of long-lived assets over their remaining lives can be recovered through projected undiscounted future cash flows. The amount of long-lived asset impairment, if any, is measured based on fair value and is charged to operations in the period in which long-lived asset impairment is determined by management. At December 31, 2001 and 2000, the Company's management believes there is no impairment of its long-lived assets. There can be no assurance however, that market conditions will not change or demand for the Company's services will continue, which could result in impairment of long-lived assets in the future.

Revenue Recognition

Revenue is recognized at the time the contract and related services are performed.

Advertising

The Company expenses the cost of advertising when incurred as general and administrative expense. Advertising expense was approximately \$13,600 and \$36,500 for the years ended December 31, 2001 and 2000.



**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109 ("SFAS 109"), *"Accounting for Income Taxes."* Under the asset and liability method of SFAS 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for certain deferred tax assets if it is more likely than not that the Company will not realize tax assets through future operations.

Through April 30, 2001, the Company was a wholly owned subsidiary of ATS. For tax purposes, the Company filed a consolidated income tax return with ATS. ATS had incurred losses, which consolidated with the Company, resulted in no payment of tax liability. For periods subsequent to April 1, 2001, the shareholder has elected to continue to file a consolidated return, including the Company. For purposes of these financial statements, the Company recorded tax provisions pursuant to SFAS 109 on a stand-alone basis, resulting in a liability for taxes, which has been recorded as a related party payable as of and for the years ended December 31, 2001 and 2000.

Recent Pronouncements

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), *"Goodwill and Other Intangible Assets,"* which is effective for fiscal years beginning after December 15, 2001. SFAS 142 addresses how intangible assets that are acquired individually or with a group of other assets should be accounted for in the financial statements upon their acquisition and after they have been initially recognized in the financial statements. SFAS 142 requires that goodwill and intangible assets that have indefinite useful lives not be amortized but rather be tested at least annually for impairment, and intangible assets that have finite useful lives be amortized over their useful lives. SFAS 142 provides specific guidance for testing the impairment of goodwill and intangible assets that will not be amortized. In addition, SFAS 142 expands the disclosure requirements about goodwill and other intangible assets in the years subsequent to their acquisition. Impairment losses for goodwill and indefinite-life intangible assets that arise due to the initial applicability of SFAS 142 are to be reported as resulting from a change in accounting principle. The Company will adopt SFAS 142 in fiscal 2002 and believes there will be no significant impact as a result of the adoption on its financial statements.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), *"Accounting for the Impairment or Disposal of Long-Lived Assets."* SFAS 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. The provisions of SFAS 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within these fiscal years, with early adoption encouraged. The Company will adopt SFAS 144 in fiscal 2002 and believes there will be no significant impact as a result of the adoption on its financial statements.

Business Segments

The Company currently operates in one segment.



## NOTES TO FINANCIAL STATEMENTS

For The Years Ended December 31, 2002 and 2001

**NOTE 2 - PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at December 31:

	<u>2001</u>	<u>2000</u>
Automobile and trucks	\$ 838,637	\$ 692,286
Machinery and equipment	358,304	197,683
Computer equipment	127,122	110,085
Office equipment	75,597	66,640
Furniture and fixtures	48,421	48,421
Leasehold improvements	<u>2,523</u>	<u>2,523</u>
	1,450,604	1,117,638
Less accumulated depreciation and amortization	<u>(503,466)</u>	<u>(302,678)</u>
	\$ 947,138	\$ 814,960

Depreciation and amortization expense recorded in the accompanying statements of income totaled \$207,605 and \$171,809 for the years ended December 31, 2001 and 2000, respectively.

**NOTE 3 - RELATED PARTY TRANSACTIONS**

During 2001 and 2000, the Company wrote-off approximately \$83,000 and \$225,000, respectively, of advances to related parties through common ownership. As of December 31, 2001 and 2000, the balance is \$0.

During 2001, the Company advanced \$246,483 to a related party through common ownership. The advances are non-interest bearing. The balance was satisfied subsequent to year-end through the transfer of equipment. As a result, the Company has classified these advances as non-current.

As of December 31, 2001 and 2000, the Company owed \$943,265 and \$1,155,606, respectively, to a related party through common ownership. These amounts are comprised primarily of the Company's share of the consolidated tax liability, less amounts paid by the Company on behalf of the related party and have been cancelled subsequent to year-end as a result of the purchase of the Company (see Note 7).

**NOTE 4 - LONG-TERM DEBT**

Long-term debt consists of the following at December 31, 2001 and 2000:

<u>2001</u>	<u>2000</u>
\$ 1,401,708	\$ 1,550,000

Note payable to Home Solutions of America, Inc. ("HSA") payable in monthly installments totaling \$37,438, including interest at 7.75%, maturing July 1, 2005, secured by certain assets and certain assets held by the shareholder of the Company. This note was forgiven as part of the acquisition of the Company subsequent to year-end (see Note 7).

## NOTES TO FINANCIAL STATEMENTS

For The Years Ended December 31, 2002 and 2001

**NOTE 4 - LONG-TERM DEBT, continued**

	<u>2001</u>	<u>2000</u>
Note payable to a financial institution, payable in monthly installments totaling \$26,977, including interest at prime (4.75% at December 31, 2001) plus 2.75%, maturing December 31, 2005, secured by substantially all assets of the Company. This note was paid off subsequent to year-end with a new term loan (see Note 7).	1,040,712	1,276,687
	2,442,420	2,826,687
Less current portion	(607,280)	(393,502)
	\$1,835,140	\$2,433,185

The above loans require that the Company maintain certain financial covenants including minimum tangible net worth, current and debt service ratios. The Company was in compliance with such covenants at December 31, 2001.

Future minimum principal payments pursuant to the above long-term debt are as follows:

<u>Years Ending December 31,</u>	
2002	\$ 607,280
2003	655,371
2004	707,271
2005	<u>472,498</u>
	\$ 2,442,420

**NOTE 5 - INCOME TAXES**

The provision for income taxes in the accompanying financial statements consists of the following for the years ended December 31:

	<u>2001</u>	<u>2000</u>
Current:		
Federal	\$ 612,324	\$ 287,134
State	<u>168,410</u>	<u>82,909</u>
	<u>780,734</u>	<u>370,043</u>
Deferred:		
Federal	(25,071)	-
State	<u>(6,591)</u>	<u>-</u>
	<u>(31,662)</u>	<u>-</u>

\$ 749,072 \$ 370,043

## NOTES TO FINANCIAL STATEMENTS

For The Years Ended December 31, 2002 and 2001

**NOTE 5 - INCOME TAXES, continued**

Deferred income taxes consist primarily of accelerated depreciation for income tax purposes and other reserves. The effective tax rate is different than the statutory federal income tax rate due to the effect of state taxes and permanently non-deductible items.

**NOTE 6 - COMMITMENTS AND CONTINGENCIES****Operating Leases**

The Company leases its facilities under non-cancelable operating lease agreements. The leases expire on various dates through December 2004 and provide for monthly rents ranging from approximately \$1,200 to \$4,200. Rental expense under these operating leases for the years ended December 31, 2001 and 2000 were approximately \$90,000 and \$83,000, respectively.

**Capital Leases**

The Company leases certain equipment under capital lease agreements, which expire at various dates through November 2004. The leases are payable in monthly installments ranging from approximately \$550 to \$900 at effective interest rates ranging from 12.4% to 16.5%. The assets and liabilities under capital leases are recorded at lease inception at the lower of the present value of the minimum lease payments or the fair market value of the related assets. The leases are payable in monthly installments ranging from approximately \$470 to \$670 at effective interest rates ranging from 4.6% to 4.8%.

Future minimum lease payments under non-cancelable leases are as follows.

<u>Years Ending December 31,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>	<u>Total</u>
2002	\$ 117,000	\$ 101,000	\$ 218,000
2003	90,000	72,000	162,000
2004	<u>56,000</u>	<u>53,000</u>	<u>109,000</u>
Total lease payments	263,000	\$ 226,000	\$ 489,000
Less amount representing interest	<u>41,742</u>		
Present value of future minimum lease payments	221,258		
Less current portion	<u>92,494</u>		
	\$ 128,764		

## NOTES TO FINANCIAL STATEMENTS

For The Years Ended December 31, 2002 and 2001

**NOTE 6 - COMMITMENTS AND CONTINGENCIES, continued**

The following is an analysis of the leased equipment under capital lease, which is included in property and equipment as of December 31, 2001 and 2000:

	<u>2001</u>	<u>2000</u>
Automobiles and trucks	\$ 323,868	\$ 161,942
Machinery and equipment	<u>33,295</u>	<u>20,905</u>
	357,163	182,847
Less accumulated depreciation	<u>(96,538)</u>	<u>(42,573)</u>
	\$ 260,625	\$ 140,274

**Legal**

The Company continues to be involved in various claims, lawsuits, and disputes with third parties, actions involving allegations or discrimination or breach of contract actions incidental in the normal operations of the business. The Company is currently not involved in any such litigation which management believes could have a material adverse effect on its financial position or results of operations.

**NOTE 7 - SUBSEQUENT EVENTS**

Subsequent to year-end, the Company entered into a credit agreement with a financial institution. The credit agreement includes a term loan, a revolving line of credit and an equipment line of credit. The credit agreement is guaranteed by the stockholders of the Company, secured by substantially all Company assets and contains a provision that requires the Company to maintain certain financial covenants.

The \$1,100,000 term loan bears interest at the prime rate plus 0.75% with monthly principal payments of \$18,333 plus accrued interest thereon. The loan matures January 28, 2007. The proceeds of the term loan were used to pay off the SBA loan (see Note 4).

The revolving line of credit bears interest at the prime rate plus 0.75% per annum, payable monthly. The terms of the agreement provide for borrowings up to the lesser of \$500,000 or the aggregate of 80% of eligible accounts receivable, as defined. The revolving line of credit expires on January 28, 2003, at which time the Company expects to replace the line through additional financing from another institution.

The equipment line of credit bears interest at the prime rate plus 1.00% per annum, payable monthly. The terms of the agreement provide for borrowings up to \$200,000. The equipment line of credit expires on January 31, 2003, at which time all outstanding amounts will be repaid over 36 equal monthly installments including principal and interest

through February 28, 2006.

## NOTES TO FINANCIAL STATEMENTS

For The Years Ended December 31, 2002 and 2001

**NOTE 7 - SUBSEQUENT EVENTS, continued**

On December 27, 2002, pursuant to a stock purchase agreement, the Company's stockholder agreed to sell 100% of the outstanding stock of P.W. Stephens, Inc. to HSA. The sale, which will be accounted for as a purchase, was comprised of the following:

Cash	\$	1,000,000
Promissory notes issued by HSA		8,975,000
Assignment of promissory notes from third parties held by HSA		1,175,000
Cancellation of note payable to HSA (see Note 4)		1,154,000
Warrant to purchase stock of HSA		<u>425,000</u>
	\$	12,729,000

The promissory notes issued by HSA are as follows:

Note payable, interest at 6%, principal due in one payment including interest of \$37,500 on March 31, 2003, secured by the assets of the Company.	\$	1,500,000
Note payable, including discount of \$169,000, zero coupon, imputed interest at 5%, principal and interest due in equal monthly installments of \$24,067 through October 2007, secured by assets of the Company.		1,275,000
Note payable, interest starting June 1, 2003 at one-month LIBOR (1.75% at November 1, 2002) plus 1%, principal payments of \$250,000 due quarterly plus interest beginning November 1, 2003, with final payment of \$200,000 plus unpaid interest on November 1, 2008, secured by assets of the Company.		5,200,000
Note payable, interest at 2.25%, principal payments due as accounts receivable securing note are collected, remaining amount (if any) due April 1, 2003.		<u>1,000,000</u>
	\$	8,975,000

The warrant issued by HSA entitles the holder to purchase 293,412 shares of the common stock of HSA at a purchase price of \$0.01 per share, which expires on November 15, 2007. The fair value of the warrant has been determined using the Black-Scholes option pricing model.





**Home Solutions Of America, Inc.**  
**Pro Forma Combined Balance Sheets**  
**September 30, 2002**  
**(Unaudited) (In thousands)**

ASSETS	HSA	PWS	Pro Forma Adjustments	Pro Forma Combined
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Current assets:				
Cash	14	67	1,400 (a) (1,000) (b)	481
Accounts receivable	-	3,598		3,598
Prepaid expenses and supplies	-	107		107
Note receivable, current portion	513	-	(139) (b) (374) (d)	-
Other current assets	89	-	(45) (b) (30) (d)	14
Due from related party	-	61		61
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total current assets	616	3,833	(188)	4,261
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Note receivable, long-term portion	1,766	-	(911) (b) (855) (d)	-
Deferred acquisition costs	450	-		450
Property and equipment	143	2,021		2,164
Goodwill	-	2,294	11,620 (b) (3,810) (c) 839 (e)	10,943
Deferred income taxes	-	32		32
Other assets	-	128		128
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	2,975	8,308	6,695	17,978
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

LIABILITIES AND  
STOCKHOLDER'S EQUITY

Current liabilities:				
Line of credit borrowings	-	516		516
Accounts payable and accrued expenses	480	1,328	(30) (d) 239 (e)	2,017
Due to affiliate	265	1,310	(1,310) (c)	265
Current portion of long-term debt and capital lease obligations	27	556	2,736 (b)	

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			(374) (d)	2,945
Total current liabilities	772	3,710	1,261	5,743
Long-term debt and capital lease obligations	281	2,098	6,239 (b) (855) (d)	7,763
Total liabilities	1,053	5,808	6,645	13,506
Stockholder's equity:				
Common stock	9	100	1 (a) (100) (c)	10
Additional paid in capital	23,892	335	1,399 (a) 425 (b) (335) (c)	26,316
Notes receivable	(125)	-	125 (b)	-
Retained earnings (deficit)	(21,854)	2,065	(2,065) (c)	(21,854)
Total stockholder's equity	1,922	2,500	50	4,472
Total liabilities & stockholder's equity	2,975	8,308	6,695	17,978

See notes to unaudited pro forma combined financial statements.

**Home Solutions Of America, Inc.**  
**Pro Forma Combined Statements of Operations**  
**For the Nine-Month Period Ended September 30, 2002**  
**(Unaudited) (In thousands)**

	HSA	PWS	Pro Forma Adjustments	Pro Forma Combined
Revenue	253	10,855		11,108
Cost of revenue	157	5,062		5,219
Gross profit	96	5,793	-	5,889
Operating expenses	1,563	4,718	-	6,281
Income from operations	(1,467)	1,075	-	(392)
Other income (expense):				
Interest income	123	1	(73) (a)	
Interest expense	(20)	(162)	73 (a)	14
Reversal of prior accruals	1,220	-	(132) (b)	1,220
Loss on sale of assets	(111)	(13)		(124)
Total other income (expense)	1,212	(174)	(169)	869
Income before provision for income taxes	(255)	901	(169)	477
Provision for income taxes	-	360	(170) (d)	190
Net income	(255)	541	1	287
Per share	\$(0.03)			\$0.03
Weighted avg. shares outstanding	9,271,878		1,635,294 (e)	10,907,172

See notes to unaudited pro forma combined financial statements.

**HOME SOLUTIONS OF AMERICA, INC.**  
**Pro Forma Combined Statements of Operations**  
**For the Year Ended December 31, 2001**  
**(Unaudited)**  
**(In thousands)**

	HSA	PWS	Pro Forma Adjustments	Pro Forma Combined
Revenue	4,433	12,854		17,287
Cost of revenue	2,943	6,084		9,027
Gross profit	1,490	6,770	-	8,260
Operating expenses	2,605	4,788	(183) (f)	7,210
Income from operations	(1,115)	1,982	183	1,050
Other income (expense):				
Interest income	282	2	(147) (a)	137
Interest expense	(23)	(261)	147 (a)	(291)
			(154) (b)	
Reversal of prior accruals	-	-		-
Loss on sale of assets	(1,591)	(10)		(1,601)
Total other income (expense)	(1,332)	(269)	(154)	(1,755)
Income before provision for income taxes	(2,447)	1,713	29	(705)
Provision for income taxes	-	749	(1,031) (d)	(282)
Net income	(2,447)	964	1,060	(423)
Per share	\$(0.25)			\$(0.04)
Weighted avg. shares outstanding	9,868,000		1,635,000 (e)	11,503,000

See notes to unaudited pro forma combined financial statements.

**HOME SOLUTIONS OF AMERICA, INC.**

**NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS**

**Note 1 - Basis of Presentation**

The unaudited pro forma combined balance sheets give effect to the acquisition of P.W. Stephens, Inc. as if the acquisition had occurred as of September 30, 2002. The unaudited pro forma combined statements of operations assume the acquisition took place as of January 1, 2001.

The actual acquisition of P.W. Stephens, Inc. closed on December 27, 2002, effective November 1, 2002. Therefore, the actual purchase price allocation to the net assets acquired will be significantly different from the information presented in these pro forma financial statements.

The pro forma information has been prepared for comparative purposes only, and does not purport to be indicative of Home Solutions of America, Inc.'s ("HSA") results of operations that would have actually occurred had the transaction been in effect as of the date or for the periods presented, or of results that may occur in the future. The unaudited pro forma combined financial statements should be read in conjunction with HSA's historical financial statements and related notes.

**Note 2 - Pro Forma Adjustments**

The pro forma adjustments are based on HSA's management's preliminary estimates of the value of the tangible and intangible assets acquired. A valuation of the net assets acquired in the acquisition will be conducted by a third-party appraisal firm. As a result, the actual adjustments may differ materially from those presented in these unaudited pro forma combined financial statements.

Description of pro forma adjustments:

Pro Forma Adjustments to Combined Balance Sheets:

- a) Record the issuance of 1,400,000 shares of common stock for cash which was used to purchase the common stock of P.W. Stephens and pay for acquisition costs
- b) Record the purchase of P.W. Stephens stock in exchange for the following:

Cash	\$ 1,000,000
Promissory notes issued by HSA	8,975,000
Assignment of promissory notes held by HSA	1,220,000
Warrant to purchase stock of HSA	<u>425,000</u>
	\$ 11,620,000

- c) Eliminate amounts due to the shareholder of P.W. Stephens and historical equity of P.W. Stephens
- d) Eliminate note payable and related interest payable from P.W. Stephens to HSA
- e) To record legal and professional fees incurred related to the acquisition to be settled in cash and 235,294 shares of common stock

Pro Forma Adjustments to Statements of Operations:

- a) Eliminate interest expense and interest income on note payable from P.W. Stephens to HSA
- b) Record interest expense for promissory notes issued in connection with purchase of P.W. Stephens
- c) Reverse interest income on promissory notes issued in 2002 held by HSA assigned to shareholder of P.W. Stephens as part of the P.W. Stephens acquisition
- d) Adjust tax provision
- e) Record issuance of shares to raise cash used for the acquisition of P.W. Stephens and for settlement of acquisition expenses
- f) Reverse amortization of goodwill from previous acquisition

**SIGNATURES**

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

**HOME SOLUTIONS OF AMERICA, INC.**

Date: February 14, 2003

By: /s/ R. ANDREW WHITE  
R. Andrew White  
Chief Financial Officer