

Edgar Filing: HOME PRODUCTS INTERNATIONAL INC - Form 10-Q

HOME PRODUCTS INTERNATIONAL INC
Form 10-Q
August 13, 2002

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

FORM 10-Q

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

For the Quarterly Period Ended June 29, 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 No

Common shares, par value \$0.01, outstanding as of August 3, 2002 - 7,847,435

HOME PRODUCTS INTERNATIONAL, INC.

INDEX

Page
Number

Part I. Financial Information

Edgar Filing: HOME PRODUCTS INTERNATIONAL INC - Form 10-Q

| | | |
|----------------------------|---|-----|
| Item 1. | Financial Statements | |
| | Condensed Consolidated Balance Sheets | 3 |
| | Condensed Consolidated Statements of Operations | 4 |
| | Condensed Consolidated Statements of Cash Flows | 5 |
| | Notes to Condensed Consolidated Financial Statements | 6 |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 13 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk | 21 |
| Part II. Other Information | | |
| | Items 1 through 3 and Item 5 are not applicable | n/a |
| Item 4. | Submission of Matters to a Vote of Security Holders | 24 |
| Item 6. | Exhibits and Reports on Form 8-K | 24 |
| | Signature | 25 |

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HOME PRODUCTS INTERNATIONAL, INC.
Condensed Consolidated Balance Sheets
(in thousands, except share amounts)

| | (Unaudited) | |
|--|------------------|----------------------|
| | June 29, 2002 | December 29, 2001 |
| | ----- | ----- |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 501 | \$ 1,091 |
| Accounts receivable, net | 39,914 | 36,577 |
| Inventories | 26,183 | 17,043 |
| Prepaid expenses and other current assets | 1,372 | 2,275 |
| | ----- | ----- |
| Total current assets | 67,970 | 56,986 |
| | ----- | ----- |
| Property, plant and equipment - at cost ... | 89,498 | 87,502 |
| Less accumulated depreciation and amortization | (50,042) | (44,871) |
| | ----- | ----- |
| Property, plant and equipment, net | 39,456 | 42,631 |
| | ----- | ----- |

Edgar Filing: HOME PRODUCTS INTERNATIONAL INC - Form 10-Q

| | | |
|---|------------|------------|
| Patents and non-compete agreements, net ... | 1,363 | 1,616 |
| Goodwill, net | 74,759 | 74,759 |
| Other non-current assets | 12,043 | 11,351 |
| | ----- | ----- |
| Total assets | \$ 195,591 | \$ 187,343 |
| | ===== | ===== |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 19,640 | \$ 16,834 |
| Accrued liabilities | 33,304 | 33,916 |
| Current maturities of long-term obligations | 158 | 158 |
| | ----- | ----- |
| Total current liabilities | 53,102 | 50,908 |
| | ----- | ----- |
| Long-term obligations - net of current maturities | 131,069 | 130,447 |
| Other liabilities | 3,233 | 3,168 |
| Stockholders' equity: | | |
| 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 June 29, 2002 and 8,641,338 shares issued at December 29, 2001 | 87 | 87 |
| Additional paid-in capital | 50,010 | 49,920 |
| Accumulated deficit | (35,098) | (40,262) |
| Common stock held in treasury - at cost 822,394 shares at June 29, 2002 and December 29, 2001 | (6,528) | (6,528) |
| Deferred compensation | (284) | (397) |
| | ----- | ----- |
| Total stockholders' equity | 8,187 | 2,820 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 195,591 | \$ 187,343 |
| | ===== | ===== |

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

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

| | Thirteen weeks ended | | Twenty-six weeks ended | |
|---------------------------|----------------------|---------------|------------------------|---------------|
| | June 29, 2002 | June 30, 2001 | June 29, 2002 | June 30, 2001 |
| Net sales | \$59,623 | \$65,858 | \$110,630 | \$129,984 |
| Cost of goods sold | 44,092 | 49,954 | 82,326 | 99,872 |
| Special charge, net | - | - | - | 110 |
| | ----- | ----- | ----- | ----- |
| Gross profit | 15,531 | 15,904 | 28,304 | 30,002 |
| Operating expenses: | | | | |
| Selling | 4,503 | 5,032 | 8,820 | 10,401 |

Edgar Filing: HOME PRODUCTS INTERNATIONAL INC - Form 10-Q

| | | | | |
|-------------------------------------|----------|---------|----------|------------|
| Administrative | 3,376 | 3,788 | 6,685 | 7,718 |
| Amortization of intangible assets | 123 | 930 | 253 | 1,859 |
| Restructuring and other charges.. | - | - | - | 2,483 |
| | ----- | ----- | ----- | ----- |
| | 8,002 | 9,750 | 15,758 | 22,461 |
| | ----- | ----- | ----- | ----- |
| Operating profit | 7,529 | 6,154 | 12,546 | 7,541 |
| | ----- | ----- | ----- | ----- |
| Other income (expense): | | | | |
| Interest income | 5 | 7 | 54 | 17 |
| Interest expense | (3,454) | (5,391) | (6,938) | (10,870) |
| Other income (expense), net | (169) | 21 | (197) | 87 |
| | ----- | ----- | ----- | ----- |
| | (3,618) | (5,363) | (7,081) | (10,766) |
| | ----- | ----- | ----- | ----- |
| Income (loss) before income taxes | 3,911 | 791 | 5,465 | (3,225) |
| | ----- | ----- | ----- | ----- |
| Income tax expense | (176) | (31) | (300) | (98) |
| | ----- | ----- | ----- | ----- |
| Net income (loss) | \$ 3,735 | \$ 760 | \$ 5,165 | \$ (3,323) |
| | ===== | ===== | ===== | ===== |
| Net income (loss) per common share: | | | | |
| Basic | \$ 0.48 | \$ 0.10 | \$ 0.67 | \$ (0.45) |
| | ===== | ===== | ===== | ===== |
| Diluted | \$ 0.45 | \$ 0.10 | \$ 0.63 | \$ (0.45) |
| | ===== | ===== | ===== | ===== |

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)

| | Twenty-six weeks ended | |
|---|------------------------|------------------|
| | June 29 2002 | June 30, 2001 |
| | ----- | ----- |
| Operating activities: | | |
| Net income (loss) | \$ 5,165 | \$ (3,323) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 5,422 | 7,965 |
| Amortization of stock compensation | 113 | 112 |
| Loss on the abandonment of assets | 186 | - |
| Other, net | (627) | (52) |
| Changes in current assets and liabilities: | | |
| (Increase) decrease in accounts receivable... | (3,337) | 2,665 |
| Increase in inventories..... | (9,140) | (1,026) |
| Decrease in prepaid expenses and other..... | 903 | 360 |
| Increase (decrease) in accounts payable..... | 2,806 | (4,147) |
| Decrease in accrued liabilities..... | (612) | (1,314) |
| | ----- | ----- |
| Net cash provided by operating activities..... | 879 | 1,240 |
| | ----- | ----- |
| Investing activities: | | |
| Proceeds from sale of building, net | - | 1,218 |
| Capital expenditures, net | (2,059) | (2,756) |

Edgar Filing: HOME PRODUCTS INTERNATIONAL INC - Form 10-Q

| | | |
|---|----------|----------|
| Net cash used for investing activities | (2,059) | (1,538) |
| Financing activities: | | |
| Net borrowings under loan and security agreement | 592 | - |
| Net borrowings on revolving line of credit..... | - | 500 |
| Payments on term loan borrowings | - | (1,500) |
| Payments of capital lease obligation | (93) | (76) |
| Exercise of stock options, issuance of common stock under stock purchase plan and other..... | 91 | - |
| Net cash provided (used) by financing activities | 590 | (1,076) |
| Net decrease in cash and cash equivalents..... | (590) | (1,374) |
| Cash and cash equivalents at beginning of year.. | 1,091 | 3,152 |
| Cash and cash equivalents at end of period..... | \$ 501 | \$ 1,778 |
| Supplemental disclosures | | |
| Cash paid in the period: | | |
| Interest | \$ 6,178 | \$ 9,983 |
| Income taxes, net | \$ 155 | \$ 208 |
| Non-cash financing activities: | | |
| Capital lease obligation | \$ 123 | \$ - |

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 June 29, 2002 and June 30, 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 June 29, 2002 and for all periods presented.

Certain information and note 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 and twenty-six weeks ended June 29, 2002 are not necessarily indicative of the operating

Edgar Filing: HOME PRODUCTS INTERNATIONAL INC - Form 10-Q

results to be expected for the full year. Certain amounts in prior period 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 2. Goodwill and Other Intangibles

In June 2001 the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards ("SFAS") No. 141 "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets." SFAS No. 141 requires business combinations initiated after July 1, 2001 to be accounted for using the purchase method of accounting, and broadens the criteria for recording intangible assets separate from goodwill. Previously recorded goodwill and other 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 SFAS No. 141 and SFAS No. 142 were adopted by the Company on July 1, 2001 and December 30, 2001, respectively.

Upon adoption of SFAS No. 142, the Company performed an impairment test of its goodwill in the first quarter of 2002 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 adoption have not been restated.

Estimated amortization expense for the next five fiscal years and thereafter from December 30, 2001 based on intangible assets at June 29, 2002 is as follows (in thousands):

| Fiscal Year | Estimated Amortization Expense |
|-------------|--------------------------------------|
| ----- | ----- |
| 2002 | \$505 |
| 2003 | \$505 |
| 2004 | \$505 |
| 2005 | \$ 3 |
| 2006 | \$ - |
| Thereafter | \$ - |

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 | Twenty-six weeks ended |
|-------------------------|---------------------------|

Edgar Filing: HOME PRODUCTS INTERNATIONAL INC - Form 10-Q

| | June 29, 2002 | June 30, 2001 | June 29, 2002 | June 30, 2001 |
|---|------------------|------------------|------------------|------------------|
| Net income (loss), as reported ... | \$ 3,735 | \$ 760 | \$ 5,165 | \$ (3,323) |
| Goodwill amortization, as reported | - | 770 | - | 1,540 |
| Net income (loss), as adjusted ... | \$ 3,735 | \$ 1,530 | \$ 5,165 | \$ (1,783) |
| Basic earnings (loss) per share, as reported | \$ 0.48 | \$ 0.10 | \$ 0.67 | \$ (0.45) |
| Goodwill amortization, as reported | - | 0.10 | - | 0.21 |
| Basic earnings (loss) per share, as adjusted | \$ 0.48 | \$ 0.20 | \$ 0.67 | \$ (0.24) |
| Diluted earnings (loss) per share, as reported | \$ 0.45 | \$ 0.10 | \$ 0.63 | \$ (0.45) |
| Goodwill amortization, as reported | - | 0.10 | - | 0.21 |
| Diluted earnings (loss) per share, as adjusted | \$ 0.45 | \$ 0.20 | \$ 0.63 | \$ (0.24) |

Note 3. Long-Lived Assets

The FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", dated August 2001. This statement supercedes SFAS No. 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 No. 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 No. 144 on December 29, 2001. No impairment of long-lived assets has been recorded under SFAS No. 144.

Note 4. New Accounting Standards

In June 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement applies to all entities and applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. It requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs would be capitalized as part of the carrying amount of the long-lived asset. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company has not yet determined the effects SFAS No. 143 will have on its financial position, results of operations or cash flows.

In June 2002, the Financial Accounting Standards Board issued SFAS No.

Edgar Filing: HOME PRODUCTS INTERNATIONAL INC - Form 10-Q

146, " Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Prior guidance required that a liability for an exit cost be recognized at the date of an entity's commitment to an exit plan. This Statement also establishes that fair value is the objective for initial measurement of the liability. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The Company is currently evaluating the potential impact, if any, the adoption of SFAS No. 146 will have on its results of operations, cash flows or financial position.

Note 4. 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.

| | June 29, 2002 | December 29, 2001 |
|----------------------|------------------|----------------------|
| | ----- | ----- |
| Finished goods..... | \$17,793 | \$12,016 |
| Work-in-process..... | 2,428 | 1,717 |
| Raw materials..... | 5,962 | 3,310 |
| | ----- | ----- |
| | \$26,183 | \$17,043 |
| | ===== | ===== |

Note 5. Net Income (Loss) Per Share

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

| | Thirteen weeks ended | | Twenty-six weeks ended | |
|---|-------------------------|------------------|---------------------------|------------------|
| | June 29, 2002 | June 30, 2001 | June 29, 2002 | June 30, 2001 |
| | ----- | ----- | ----- | ----- |
| Net income (loss) | \$ 3,735 | \$ 760 | \$ 5,165 | \$ (3,323) |
| Weighted average common shares outstanding: basic | 7,750 | 7,467 | 7,744 | 7,465 |
| Impact of stock options, warrants and restricted stock | 462 | 156 | 417 | - |
| | ===== | ===== | ===== | ===== |
| Weighted average common shares outstanding: diluted | 8,212 | 7,623 | 8,161 | 7,465 |
| | ===== | ===== | ===== | ===== |
| Net income (loss) per share: basic | \$ 0.48 | \$ 0.10 | \$ 0.67 | \$ (0.45) |
| | ===== | ===== | ===== | ===== |
| Net income (loss) per share: diluted | \$ 0.45 | \$ 0.10 | \$ 0.63 | \$ (0.45) |
| | ===== | ===== | ===== | ===== |

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. For the

Edgar Filing: HOME PRODUCTS INTERNATIONAL INC - Form 10-Q

twenty-six weeks ended June 30, 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. The antidilutive stock options, warrants and restricted stock not included above is 78.

Note 6. 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 (included in cost of goods sold) and \$2.5 million was 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 and twenty-six weeks ended June 29, 2002.

The 2001 Charges are summarized as follows:

| | 2001 Charge ----- | 2001 Change in estimate ----- | 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

Edgar Filing: HOME PRODUCTS INTERNATIONAL INC - Form 10-Q

termination and 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 2001 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 June 29, 2002 all of these employees had been terminated.

Restructuring plans established in connection with the 2001 Charges are proceeding as planned and remaining restructuring reserves of \$3,920, as of June 29, 2002, are considered adequate. Total net cash outlays were \$222 in the twenty-six week period ended June 29, 2002. Restructuring reserve balances as of December 29, 2001, activity during the current year and restructuring reserve balances as of June 29, 2002, were as follows:

| | Reserve balance at 12/29/01 ----- | Amounts Utilized in 2002 ----- | Reserve balance at 06/29/02 ----- |
|---|--|---|--|
| Inventory | \$ 278 | \$ (87) | \$ 191 |
| Leased plant and facilities | 3,116 | (172) | 2,944 |
| Obsolete and duplicate leased assets | 373 | (42) | 331 |
| Employee related costs | 50 | - | 50 |
| Other | 412 | (8) | 404 |
| | ----- | ----- | ----- |
| | \$ 4,229 | \$ (309) | \$ 3,920 |
| | ===== | ===== | ===== |

Note 7. Divestiture of Product Line

On June 7, 2001, the Company entered into a definitive agreement to sell its commercial servingware product line, Plastics, Inc. ("PI"), 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 and twenty-six weeks ended June 30, 2001, as if the Plastics, Inc. product line had been sold at the beginning of fiscal 2001, are estimated to be:

Edgar Filing: HOME PRODUCTS INTERNATIONAL INC - Form 10-Q

| | Thirteen weeks ended | Twenty-six weeks ended |
|------------------------------------|----------------------------|------------------------------|
| | June 30, 2001 | June 30, 2001 |
| Net sales | \$ 54,386 | \$111,381 |
| Net income (loss) | \$ (691) | \$(3,773) |
| Net income (loss) per common share | \$ (0.09) | \$(0.51) |

The pro forma results reflect the elimination of PI related goodwill amortization and a reduction of interest expense on the retirement of debt due to the divestiture for fiscal 2001. 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 8. 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 notes 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.

Critical Accounting Policies

The Company's most critical accounting policies and estimates upon which its financial position and results of operations depend are those relating to revenue recognition, inventory valuation and restructuring reserves. Since the end of the first quarter of fiscal year 2002, the Company added the policy for allowance for doubtful accounts to its list of critical accounting policies. During the second quarter, the Company did not change those policies or adopt any new polices. The Company summarizes its most critical accounting policies below.

* 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.

Edgar Filing: HOME PRODUCTS INTERNATIONAL INC - Form 10-Q

- * Allowance for Doubtful Accounts. The Company evaluates the collectibility of its accounts receivable based upon an analysis of historical trends, aging of accounts receivable, write-off experience and expectations of future performance. Delinquent accounts are written off to selling, general and administrative expense when circumstances make further collection unlikely. In the event of a specific customer bankruptcy or reorganization, specific reserves are established to write down accounts receivable to the level of anticipated recovery. The Company may consult with third-party purchasers of bankruptcy receivables when establishing specific reserves.
- * Inventory valuation. The Company values inventory at cost (not in excess of market) determined by the first-in, first-out (FIFO) method. Inventory costs are based on standard costs, which are updated periodically and supported by actual cost data. The Company includes materials, labor and manufacturing overhead in the cost of inventories. Management regularly reviews inventory for salability and has established obsolescence reserves to absorb estimated losses. The Company also maintains reserves against inventory shrinkage. At a minimum, the Company takes a physical inventory verifying the items on hand and comparing its perpetual records to physical counts. Periodic cycle counting procedures are used to verify inventory accuracy between physical inventories. In the interim periods, a reserve for shrinkage is established based upon historical experience and recent physical inventory results. Inventory obsolescence and shrinkage are charged to cost of sales.
- * Restructuring reserves. Upon approval of a restructuring plan by management with the appropriate level of authority, the Company records restructuring reserves for certain costs associated with plant closures and business reorganization activities. Such costs are recorded as a liability and include lease termination costs, employee severance and certain employee termination benefits. These costs are not associated with nor do they benefit continuing business activities. Inherent in the estimation of these costs are assessments related to the most likely expected outcome of the significant actions to accomplish the restructuring. The Company reviews the status of restructuring activities on an ongoing basis and, if appropriate, records changes based on updated estimates.

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 (included in cost of goods sold) and \$2.5 million was 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 and twenty-six week periods ended June 29, 2002.

Divestiture of the Plastics, Inc. Product Line

Edgar Filing: HOME PRODUCTS INTERNATIONAL INC - Form 10-Q

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 June 29, 2002 compared to the thirteen weeks ended June 30, 2001

In the discussion and analysis that follows, all references to the second quarter of 2002 are to the thirteen week period ended June 29, 2002 and all references to the second quarter of 2001 are to the thirteen week period ended June 30, 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, except per share amounts; unaudited):

| | Thirteen weeks ended | | | |
|-----------------------------------|----------------------|--------|---------------|--------|
| | June 29, 2002 | | June 30, 2001 | |
| Net sales | \$59,623 | 100.0% | \$65,858 | 100.0% |
| Cost of goods sold | 44,092 | 74.0 | 49,954 | 75.9 |
| | ----- | ----- | ----- | ----- |
| Gross profit | 15,531 | 26.0 | 15,904 | 24.1 |
| Operating expenses | 7,879 | 13.2 | 8,820 | 13.4 |
| Amortization of intangible assets | 123 | 0.2 | 930 | 1.4 |
| | ----- | ----- | ----- | ----- |
| Operating profit | 7,529 | 12.6 | 6,154 | 9.3 |
| Interest expense | (3,454) | (5.8) | (5,391) | (8.1) |
| Other income, net | (164) | (0.3) | 28 | 0.0 |
| | ----- | ----- | ----- | ----- |
| Income before income taxes | 3,911 | 6.5 | 791 | 1.2 |
| Income tax | (176) | (0.3) | (31) | (0.0) |
| | ----- | ----- | ----- | ----- |
| Net income | \$ 3,735 | 6.2% | \$ 760 | 1.2% |
| | ===== | ===== | ===== | ===== |
| Net income per share - Basic | \$ 0.48 | | \$ 0.10 | |
| Net income per share - Diluted | \$ 0.45 | | \$ 0.10 | |
| Weighted average common shares | | | | |
| Outstanding - | | | | |
| Basic | 7,750 | | 7,467 | |
| Diluted | 8,212 | | 7,623 | |

Net sales. Net sales of \$59.6 million in 2002 decreased \$6.2 million from \$65.9 million in 2001. The divestiture of the servingware product line resulted in a sales reduction of \$11.5 million leaving a sales increase of \$5.3 million for the remaining product lines. Sales increases were the result of additional product placement at the Company's top three customers. Sales to the top three customers were \$41.4 million in 2002 and \$32.4 million in 2001. The Company's primary selling season is during the second

Edgar Filing: HOME PRODUCTS INTERNATIONAL INC - Form 10-Q

and third quarters of the calendar year. Growth rates in any individual quarter may not be indicative of the entire year or coming quarters.

Gross profit. The Company's gross profit in the quarter was \$15.5 million as compared to \$15.9 million in 2001 and gross profit margins improved to 26.0% from 24.1% a year ago. The divested servingware product line contributed \$4.5 million of gross profit in 2001. Excluding the servingware product line, gross margins were 26.0% as compared to 20.9% 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 \$7.9 million versus \$8.8 million in 2001. The sale of PI reduced operating expenses by \$1.3 million. During the 2002 quarter, a bad debt provision of \$0.4 million was recorded related to certain export receivables.

Amortization of intangible assets. Amortization of intangible assets in 2002 was 0.2% of net sales or \$0.1 million versus 1.4% or \$0.9 million in 2001. The decrease in 2002 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 trademarks.

Interest expense. Interest expense of \$3.5 million in 2002 decreased \$1.9 million from \$5.4 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 June 29, 2002 was \$89.3 million lower than a year ago. Debt paydowns are due to the proceeds from the sale of PI, improved operating results and reductions in working capital.

Other income (expense). Other income (expense) in both years is due to small amounts of interest income and the gain or loss on 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 tax expense was recorded in either year due to the Company's significant tax loss carryforwards.

Net income (loss). In 2002 the Company had net income of \$3.7 million, or \$0.45 per diluted share, as compared to net income of \$0.8 million, or \$0.10 per diluted share in 2001. On a pro forma basis that excludes the 2001 earnings from PI and the impact of the change in accounting for goodwill, the net loss in 2001 would have been \$0.2 million, a loss of \$0.02 per share. Improved results on a pro forma basis are due to increased sales, improved margins and reduced interest expense.

The diluted weighted average number of shares outstanding increased to 8,212,095 from 7,750,251 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.

Twenty-six weeks ended June 29, 2002 compared to the twenty-six weeks ended June 30, 2001

In the discussion and analysis that follows, all references to 2002 are to the twenty-six week period ended June 29, 2002 and all references to 2001 are to the twenty-six week period ended June 30, 2001. The following discussion and analysis compares the actual results for 2002 to the actual

Edgar Filing: HOME PRODUCTS INTERNATIONAL INC - Form 10-Q

results for 2001 with reference to the following (in thousands, except per share amounts; unaudited):

| | Twenty-six weeks ended | | | |
|---------------------------------------|------------------------|--------|---------------|--------|
| | June 29, 2002 | | June 30, 2001 | |
| | ----- | ----- | ----- | ----- |
| Net sales | \$110,630 | 100.0% | \$129,984 | 100.0% |
| Cost of goods sold | 82,326 | 74.4 | 99,872 | 76.8 |
| Special charges, net | - | - | 110 | 0.1 |
| | ----- | ----- | ----- | ----- |
| Gross profit | 28,304 | 25.6 | 30,002 | 23.1 |
| Operating expenses | 15,505 | 14.0 | 18,119 | 14.0 |
| Amortization of intangible assets | 253 | 0.2 | 1,859 | 1.4 |
| Restructuring and other charges | - | - | 2,483 | 1.9 |
| | ----- | ----- | ----- | ----- |
| Operating profit | 12,546 | 11.4 | 7,541 | 5.8 |
| Interest expense | (6,938) | (6.3) | (10,870) | (8.4) |
| Other income (expense), net | (143) | (0.1) | 104 | 0.1 |
| | ----- | ----- | ----- | ----- |
| Income (loss) before income taxes.. | 5,465 | 5.0 | (3,225) | (2.5) |
| Income tax (expense) | (300) | (0.3) | (98) | (0.1) |
| | ----- | ----- | ----- | ----- |
| Net income (loss) | \$ 5,165 | 4.7% | \$ (3,323) | (2.6)% |
| | ===== | ===== | ===== | ===== |
| Net income (loss) per share - Basic.. | \$ 0.67 | | \$ (0.45) | |
| Net income (loss) per share - Diluted | \$ 0.63 | | \$ (0.45) | |
| Weighted average common shares | | | | |
| Outstanding - | | | | |
| Basic | 7,744 | | 7,465 | |
| Diluted | 8,161 | | 7,465 | |

Net sales. Net sales of \$110.6 million in 2002 decreased \$19.4 million from \$130.0 million in 2001. The divestiture of the servingware product line resulted in a sales reduction of \$18.6 million. An additional \$6.0 million of sales was lost due to the bankruptcy of several customers, primarily Ames. More than offsetting the lost sales to bankrupt customers was favorable sales gains at the Company's largest three customers. Sales to the top three customers totaled \$76.9 million in 2002 as compared to \$64.9 million in 2001, an increase of 18%. The higher sales at these customers are the result of increased product placement as well as the shift in sales that has occurred as a result of several retailer bankruptcies.

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 year to date was \$28.3 million as compared to \$30.0 million in 2001 and gross profit margins improved to 25.6% from 23.1% a year ago. The divested servingware product line, which had higher margins than the housewares product lines, contributed \$7.0 million of gross profit in 2001. Excluding the servingware

Edgar Filing: HOME PRODUCTS INTERNATIONAL INC - Form 10-Q

product line, gross margins were 25.6% in 2002 as compared to 20.8% 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 \$15.5 million versus \$18.1 million in 2001. The sale of PI reduced operating expenses by \$3.0 million. Pro forma operating expenses, which exclude PI, have increased between years due to higher bad debt charges on export and Kmart receivables.

Amortization of intangible assets. Amortization of intangible assets in 2002 was 0.2% of net sales or \$0.3 million versus 1.4% or \$1.9 million in 2001. The decrease in 2002 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 trademarks.

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 \$6.9 million in 2002 decreased \$4.0 million from \$10.9 million in 2001. The decrease in interest expense is primarily due to the significant retirement of debt during the last twelve months. Debt paydowns are due to the proceeds from the sale of PI, improved operating results and reductions in working capital.

Other income (expense). Other income (expense) in both years is due to small amounts of interest income and the gain or loss on 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 tax expense was recorded in either year due to the Company's significant tax loss carryforwards.

Net income (loss). In 2002 the Company had net income of \$5.2 million, or \$0.63 per diluted share, as compared to a net loss of \$3.3 million, or \$0.45 per diluted share in 2001. On a pro forma basis that excludes the 2001 earnings from PI, the 2001 Charges and the impact of the change in accounting for goodwill, the net loss in 2001 would have been \$0.1 million, a loss of \$0.02 per share.

The diluted weighted average number of shares outstanding increased to 8,161,168 from 7,465,369 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. For 2001 dilutive options, warrants and restricted stock were not included in the diluted weighted average number of shares due to the loss in the period.

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

Edgar Filing: HOME PRODUCTS INTERNATIONAL INC - Form 10-Q

credit facility.

The Company's net debt position (short and long term debt, net of cash on hand) increased during the second quarter. Net debt at June 29, 2002 was \$130.7 million as compared to \$128.3 million on March 30, 2002 and \$129.5 million at December 29, 2001. Negative cash flow during the second quarter was \$2.5 million as receivables and inventory increased to meet the seasonally higher sales levels of the second and third quarters. In addition, semi annual high yield bond interest payments of \$6 million were funded during the quarter. The Company's current working capital, excluding cash and short term debt, was \$14.5 million or \$7.0 million higher than March 30, 2002.

Capital spending in the second quarter was \$1.3 million which brings capital spending for the first six months of the year to \$2.2 million. Capital spending in the first six months of 2001 was \$2.8 million. Capital spending in the current year is primarily related to new product tooling.

The Company will make a payment of approximately \$2.4 million to A & E Products Group LP, an affiliate of Tyco International, in the third quarter of 2002. This payment represents a final post-closing adjustment related to the sale of the Company's Plastics, Inc. servingware product line to A & E Products Group LP, which was completed on July 6, 2001.

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 interest payments and meet anticipated capital spending needs. Borrowings of \$1.5 million were outstanding at June 29, 2002 and our borrowing availability was \$42.8 million.

The Company was in compliance with all loan covenants as of June 29, 2002.

Management Outlook and Commentary

- * 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, our sales to Kmart have increased over prior years despite the store closings and reduced sales volumes in stores that have remained open. Given the dynamic nature and size of the Kmart bankruptcy filing, future results may be either favorably or unfavorably impacted by any number of factors related to Kmart.
- * The Company's primary selling season is during the second and third quarters of the calendar year. Growth rates in any individual quarter may not be indicative of the entire year or coming quarters.
- * The sales in the first six months 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. Third and fourth quarter comparisons will be less impacted than were the first six months.
- * The Company's primary raw materials are plastic resin, steel, fabric and corrugated packaging. Fluctuations in the cost of these materials can

Edgar Filing: HOME PRODUCTS INTERNATIONAL INC - Form 10-Q

have a significant impact on reported results.

- * Plastic resin currently represents approximately 15% to 20% of the Company's cost of goods sold. Although last year's divestiture of the Serveware 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. During the first six months of 2002, market prices for resin have increased. Second half costs are expected to exceed the costs paid a year ago. There is no assurance 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 half of 2002 and the improved processes remain in place. As we begin to anniversary the changed processes, incremental savings between years will be less.
- * 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 two 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 half of 2002, the Company operated well within its financial and operating covenants and expects to operate within the covenants in the remainder of 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 thus reducing credit availability.
- * Over the past four years, the Company's growth has come primarily via acquisition. The Company still believes that acquisitions provide the best opportunity to meaningfully grow the Company's sales and profits.

Edgar Filing: HOME PRODUCTS INTERNATIONAL INC - Form 10-Q

However, until we are able to significantly increase our cash position or reduce our debt levels, we will not pursue any major acquisitions.

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 thirteen and twenty-six weeks ended June 29, 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 grieger 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 grieger fabric during the second 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 140 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

Edgar Filing: HOME PRODUCTS INTERNATIONAL INC - Form 10-Q

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

On May 23, 2002, the 2002 Annual Meeting of Stockholders of the Company was held. The following is a brief description of the matters voted upon at the meeting and tabulation of the voting therefor:

Proposal No. 1. The election of the following directors, who will serve until the next annual meeting of stockholders, or until their successors are elected and qualified, or their earlier death or resignation:

| Nominee ----- | For --- | Withheld ----- |
|-----------------------|------------|-------------------|
| Charles R. Campbell | 7,671,793 | 20,506 |
| Marshall Ragir | 7,604,293 | 88,006 |
| Jeffrey C. Rubenstein | 7,585,932 | 106,367 |
| Daniel B. Shure | 7,671,793 | 20,506 |
| Joel D. Spungin | 7,645,799 | 46,500 |
| James R. Tennant | 7,660,658 | 31,641 |

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits - none

(b) Current reports on Form 8-K.

Registrant filed a Current Report on Form 8-K dated May 13, 2002, to disclose that the Registrant terminated the engagement of Arthur Andersen LLP as its independent accountant. The decision to terminate the engagement of Arthur Andersen LLP was recommended by the Company's Audit Committee and approved by its Board of Directors.

Registrant filed a Current Report on Form 8-K dated May 20, 2002, to disclose that the Registrant named KPMG LLP as the Company's independent accountant to audit the Company's financial statements.

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

Edgar Filing: HOME PRODUCTS INTERNATIONAL INC - Form 10-Q

undersigned thereunto duly authorized.

Home Products International, Inc.

By: /s/ James E. Winslow

James E. Winslow
Executive Vice President and
Chief Financial Officer

Dated: August 13, 2002