HOME PRODUCTS INTERNATIONAL INC
Form 10-Q
August 14, 2001

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2001

or

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

Commission file number 0-17237

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

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

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

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

Common shares, par value $0.01, outstanding as of August 4, 2001 - 7,773,142

HOME PRODUCTS INTERNATIONAL, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	(unaudited) June 30, 2001	December 30, 2000
Assets		
Current assets:		
Cash and cash equivalents	$ 1,778	$ 3,152
Accounts receivable, net	43,430	46,095
Inventories, net	28,414	27,388
Prepaid expenses and other current assets	3,230	4,051
Total current assets	76,852	80,686
Property, plant and equipment - at cost....	97,378	94,161
Less accumulated depreciation and amortization............................	(44,329)	(38,280)
Property, plant and equipment, net.........	53,049	55,881

Intangible, net and other assets	127,286	129,085
Total assets	$ 257,187	$ 265,652
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 16,374	$ 20,521
Accrued liabilities	34,885	34,981
Current maturities of long-term obligations	7,058	6,558
Total current liabilities	58,317	62,060
Long-term obligations - net of current maturities	213,475	215,051
Other liabilities	3,103	3,038
Stockholders' deficit:		
Preferred Stock - authorized, 500,000 shares, $.01 par value; - None issued	-	-
Common Stock - authorized 15,000,000 shares, $.01 par value; 8,568,038 shares issued at June 30, 2001 and 8,561,642 shares issued at December 30, 2000	86	86
Additional paid-in capital	49,811	49,811
Accumulated deficit	(60,565)	(57,242)
Common stock held in treasury - at cost 822,394 shares at June 30, 2001 and December 30, 2000	(6,528)	(6,528)
Deferred compensation	(512)	(624)
Total stockholders' deficit	(17,708)	(14,497)
Total liabilities and stockholders' deficit	$ 257,187	$ 265,652

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

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

	Thirteen weeks ended		Twenty-six weeks ended	
	June 30, 2001	June 24, 2000	June 30, 2001	June 24, 2000
Net sales	$65,858	$70,910	$129,984	$138,999
Cost of goods sold	49,954	56,026	99,872	108,196
Special charge, net	-	-	110	-
Gross profit	15,904	14,884	30,002	30,803
Operating expenses:				
Selling	5,032	6,129	10,401	13,235
Administrative	3,788	3,769	7,718	7,641

Amortization of intangible assets	930	1,315	1,859	2,635
Restructuring and other charges..	-	-	2,483	-
	9,750	11,213	22,461	23,511
Operating profit	6,154	3,671	7,541	7,292
Other income (expense):				
Interest income	7	33	17	48
Interest (expense)	(5,391)	(5,634)	(10,870)	(10,771)
Other income (expense), net	21	33	87	(564)
	(5,363)	(5,568)	(10,766)	(11,287)
Income (loss) before income taxes	791	(1,897)	(3,225)	(3,995)
Income tax (expense) benefit	(31)	793	(98)	1,674
Net income (loss)	$ 760	$(1,104)	$ (3,323)	$ (2,321)
Net income (loss) per common share:				
Basic	$ 0.10	$ (0.15)	$ (0.45)	$ (0.32)
Dilutive	$ 0.10	$ (0.15)	$ (0.45)	$ (0.32)

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 30, 2001	June 24, 2000
Operating activities:		
Net loss	$ (3,323)	$ (2,321)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	7,965	9,208
Amortization of stock compensation	112	-
Other, net	(52)	688
Changes in current assets and liabilities:		
Decrease in accounts receivable	2,665	6,645
(Increase) in inventories	(1,026)	(12,913)
Decrease in prepaid expenses and other........	360	2,335
Increase (decrease) in accounts payable.......	(4,147)	3,882
(Decrease) in accrued liabilities	(1,314)	(6,109)
Net cash provided by operating activities........	1,240	1,415
Investing activities:		
Proceeds from sale of building, net	1,218	-
Capital expenditures, net	(2,756)	(7,884)

Net cash used for investing activities..........	(1,538)	(7,884)
Financing activities:		
Payments on term loan borrowings	(1,500)	(2,500)
Borrowings under revolving line of credit.......	500	7,750
Payment of capital lease obligation	(76)	(92)
Exercise of stock options, issuance of common stock under stock purchase plan and other......	-	247
Net cash (used) provided by financing activities	(1,076)	5,405
Net decrease in cash and cash equivalents.......	(1,374)	(1,064)
Cash and cash equivalents at beginning of period	3,152	4,861
Cash and cash equivalents at end of period......	$ 1,778	$ 3,797
Supplemental disclosures: Cash paid in the period for:		
Interest	$ 9,983	$ 10,130
Income taxes, net	$ 208	$ -

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 include the accounts of the Company and its subsidiary. All significant intercompany transactions and balances have been eliminated.

The unaudited condensed financial statements included herein as of and for the thirteen-weeks ended June 30, 2001 and June 24, 2000 reflect, in the opinion of the Company, all adjustments (which include only normal recurring adjustments) necessary for the fair presentation of the financial position, the results of operations and cash flows. These unaudited financial statements should be read in conjunction with the audited financial statements and related notes thereto included in the Company's 2000 Annual Report on Form 10-K. The results for the interim periods presented are not necessarily indicative of results to be expected for the full year.

Note 2. Reclassifications

Certain prior year amounts have been reclassified to conform to the current year's presentation.

Note 3. New Accounting Standards and Pending Accounting Changes

In June 1998 and 1999, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133 and No. 137, respectively. The FASB issued SFAS No. 138 to amend SFAS No. 133, in June 2000. Collectively, these statements are intended to represent the comprehensive guidance on accounting for derivatives and hedging activities. The adoption of these new standards on December 31, 2000 did not have an effect on the Company's results of operations as it has no derivatives or hedging instruments.

Current and Pending Accounting Changes.

In May 2000, the FASB's Emerging Issues Task Force (EITF) reached a consensus on Issue No. 14, "Accounting for Certain Sales Incentives". This issue addresses the recognition, measurement, and income statement classification of various types of sales incentives, including discounts, coupons, rebates, and offers for free products. Upon adopting EITF No. 00-14, which is effective with the fourth quarter of 2001, it is required that these sales incentives be classified as deductions from sales within the income statement. The Company's historical accounting policy has been to include these types of sales incentives as a deduction of sales.

In January 2001, the EITF reached a consensus on Issue 3 of No. 00-22, "Accounting for Points and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to be Delivered in the Future". This consensus required that certain rebate offers and free products that are delivered subsequent to a single exchange transaction be recognized when incurred and reported as a reduction of sales. The Company is currently in compliance with this pronouncement, which was effective the first quarter 2001.

In April 2001, the EITF reached a consensus on Issue No. 00-25 ("EITF 00-25"), "Accounting for Consideration from a Vendor to a Retailer in Connection with the Purchase or Promotion of the Vendor's Products," which requires the costs of certain vendor consideration, such as slotting fees and off-invoice arrangements, to be classified as a reduction of revenue rather than as marketing expense. The Company will be required to adopt EITF No. 00-25 by the fourth quarter of 2001. The Company believes that it is currently in compliance with this pronouncement.

In July 2001 the Financial Accounting Standards Board (FASB) issued SFAS No. 141 "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets." SFAS No. 141 requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting, and broadens the criteria for recording intangible assets separate from goodwill. Recorded goodwill and intangibles will be evaluated against this new criteria and may result in certain intangibles being combined into goodwill, or alternatively, amounts initially recorded as goodwill may be separately identified and recognized apart from goodwill. SFAS No. 142 requires the use of a nonamortization approach to account for purchased goodwill and certain intangibles. Under a nonamortization approach, goodwill and certain intangibles will not be amortized into results of operations, but instead would be reviewed for impairment and written down and charged to results of operations only in the periods in which the recorded value of goodwill and certain intangibles is more than its fair value. The provisions of each statement, which apply to goodwill and intangible assets acquired prior to June 30, 2001, will be adopted by the Company on January 1, 2002. The adoption of these accounting standards will reduce the Company's amortization of goodwill commencing January 1, 2002.

Note 4. Inventories

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

	June 30, 2001	December 30, 2000
Finished goods....................	$21,007	$15,420
Work-in-process...................	2,112	2,027
Raw materials.....................	5,295	9,941
	$28,414	$27,388

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 30, 2001	June 24, 2000	June 30, 2001	June 24, 2000
Net income (loss)	$ 760	$(1,104)	$(3,323)	$(2,321)
Weighted average common shares outstanding: basic	7,467	7,272	7,465	7,272
Impact of stock options and warrants	156	-	-	-
Weighted average common shares outstanding: diluted	7,623	7,272	7,465	7,272
Net income (loss) per share: basic..	$ 0.10	$ (0.15)	$ (0.45)	$ (0.32)
Net income (loss) per share: diluted	$ 0.10	$ (0.15)	$ (0.45)	$ (0.32)

Stock options and warrants are not considered dilutive in the thirteen week period ended June 24, 2000 and twenty-six week periods ended June 30, 2001 and June 24, 2000 because the effect would be anti-dilutive.

Note 6. Divestiture of the Plastics, Inc. Product Line

On June 7, 2001, the Company entered into a definitive agreement to sell its commercial servingware product line, Plastics, Inc., to A & E Products Group LP, an affiliate of Tyco International. The company completed the sale on July 6, 2001 for $71 million in cash (the "Sale"). The net sale proceeds of $68 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 on July 18, 2001 and Current Report on Form 8-K/A filed on July 27, 2001.

The unaudited pro forma historical results for the thirteen weeks ended June 30, 2001 and June 24, 2000 as well as the twenty-six weeks ended June 30, 2001 and June 24, 2000, as if the Plastics, Inc. product line had been sold at the beginning of fiscal 2001 and 2000, respectively, are estimated to be:

	Thirteen weeks ended		Twenty-six weeks ended	
	June 30, 2001	June 24, 2000	June 30, 2001	June 24, 2000
Net sales	$54,386	$60,054	$111,381	$121,339
Net loss	$ (691)	$(1,438)	$ (3,773)	$ (2,024)
Net loss per common share ...	$ (0.09)	$ (0.20)	$ (0.51)	$ (0.28)

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

Note 7. 2001 Special, Restructuring and Other Charges

In 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 entails 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 and accordingly a pretax charge of $12.4 million was taken, of which $1.9 million was deemed to be Special Charges and $10.5 million as Restructuring and Other Charges (collectively referred to herein as the "2000 Charges"). During the first quarter of 2001 the Company recorded a pretax charge of $2.6 million, of which $0.1 million was deemed to be Special Charges and $2.5 million as Restructuring and Other Charges (collectively referred herein as "2001 Charges"). No additional charges were recorded during the thirteen-week period ended June 30, 2001. The restructuring actions are expected to be complete by the third quarter of 2001.

The Company anticipates that these restructuring actions will result in annual pretax cash savings of $5.0-$6.0 million of which $2.0-$3.0 million is expected to be realized in 2001.

The 2001 Charges are summarized as follows:

	Thirteen Weeks Ended June 30, 2001	Twenty-six Weeks Ended June 30, 2001
Cost of Goods Sold:		
Special Charges:		
Inventory relocation and liquidation	$ -	$ 175
SKU reduction and inventory adjustments related to 1999	-	(65)

Total charge to cost of goods sold	-	110	
Operating Expenses:			
Restructuring and other charges:			
Plant and facilities:			
Relocation of machinery & equipment	-	1,179	
Lease termination & sub-lease costs	-	971	
Elimination of obsolete assets	-	29	
Employee related costs	-	341	
Other costs	-	(37)	
Total charge to operating expenses	-	2,483	
Total net charges	$ -	$ 2,593	(1)

(1) The 2001 Charges of $2,593, is comprised of $2,269 in additional charges and a change in estimate of $389 and is net of $(65) adjustment related to 1999 restructuring.

The components of the 2001 Charges were (i) $175 charge to relocate and liquidate inventory at Leominster and other facilities, (ii) $1,179 charge for the relocation of machinery and equipment and $971 charge for lease termination & sub-lease costs (total net charge of $2,150), (iii) $29 charge to write off obsolete and duplicate assets that were used at the Leominster facility and other facilities, (iv) $341 charge for employee related severance costs, (v) ($37) reversal of charge associated with other related restructuring costs, and (vi) ($65) reversal of SKU reduction and inventory adjustments relating to the 1999 Special Charges. The total 2001 Charges were $2,658 excluding the impact of the 1999 Special Charges reversal.

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

As a result of the closure of the Leominster facility the Company eliminated approximately 124 hourly and salaried positions in Leominster.

Restructuring plans established in connection with the 2000/2001 charges are proceeding as planned and remaining restructuring reserves of $8,300, as of June 30, 2001, are considered adequate to cover committed restructuring actions. Restructuring reserve balances as of December 30, 2000, activity during the current year and restructuring reserve balances as of June 30, 2001, were as follows:

	Reserve balance at 12/30/00	Additional charge 2001	Change in estimate 2001	Amounts utilized in 2001		Reserve balance at 06/30/01
Inventory	$ 2,744	$ 765	$ (590)	$(1,645)		$ 1,274
Plant and facilities	3,950	1,190	960	(702)	(a)	5,398
Obsolete and duplicate assets	916	-	29	(243)		702
Employee related costs	835	278	63	(885)		291
Other	875	36	(73)	(203)		635

	$ 9,320	$ 2,269	$ 389	$(3,678) (a)	$ 8,300

(a) The plant and facilities reserve includes cash proceeds of $1,218 from the sale of certain assets. The proceeds were in excess of the reserve established for the disposal of these assets, resulting in a gain of $1,218. The gain is currently included in the plant and facilities reserve pending the finalization/completion of the Company's remaining plant and facilities restructuring actions as well as the restructuring reserve in total. Amounts utilized, excluding the cash proceeds of $1,218, were $4,896 for the twenty-six week period ended June 30, 2001. Net cash outlays were $2,330.

Certain reserve balances as of December 30, 2000 were reclassified to be consistent with the current presentation. The reclassifications did not effect the initial charges recorded in the fourth quarter of 2000.

Note 8. 1999 Special, Restructuring and Other Nonrecurring Charges

In the third quarter of 1999, the Company recorded a $15,000 pretax charge, comprised of a Special Charge and a Restructuring and Other Nonrecurring Charge (collectively referred to herein as the "1999 Charges"). The 1999 Charges were incurred in accordance with a plan adopted in July 1999 to consolidate two of the Company's wholly-owned subsidiaries and to implement a national branding strategy.

Restructuring plans established in connection with the 1999 charges are proceeding as planned and remaining restructuring reserves of $906 as of June 30, 2001, are considered adequate to cover committed restructuring actions. Restructuring reserve balances as of December 30, 2000, activity during the current year and restructuring reserve balances as of June 30, 2001, were as follows:

	Reserve balance at 12/30/00	Amounts utilized in 2001	Reversal of reserve 2001	Change in estimate 2001	Reserve balance at 06/30/01
Inventory	$ 212	$ (112)	$ (65)	$ -	$ 35
Elimination of duplicate assets	830	(90)	-	-	740
Employee costs	75	(25)	-	(50)	-
Other	101	(20)	-	50	131
	$ 1,218	$ (247)	$ (65)	$ -	$ 906

The total amount utilized during the twenty-six week period ended June 30, 2001 was $247, which included $135 of cash costs.

During the first quarter of 2001 the Company reversed $65 relating to SKU reduction and inventory adjustment reserves which were no longer needed as a result of change in estimates by management.

Amounts in the change in estimate column represent reallocation of accruals between categories and not increases in initial charges. These reallocations were due to reductions in employee related cost estimates offset by higher than anticipated other transaction costs.

Note 9. Income Taxes

The Company incurred significant pre-tax losses in the fourth quarter of 2000. Accordingly, the income tax provision primarily reflects foreign taxes. On a tax return basis, the Company had income tax carryforwards relating to U.S. net operating losses of approximately $34 million, which expire in 2012 to 2020.

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

This commentary should be read in conjunction with the Company's consolidated financial statements and related footnotes and management's discussion and analysis of financial condition and results of operations contained in the Company's Form 10-K for the year ended December 30, 2000.

Divestiture of the Plastics, Inc. Product Line

One June 7, 2001, the Company entered into a definitive agreement to sell its commercial servingware product line, Plastics, Inc., to A & E Products Group LP, an affiliate of Tyco International. The company completed the sale on July 6, 2001 for $71 million in cash (the "Sale"). The net sale proceeds of $68 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. See Note 6 of this Form 10-Q for additional information. The following discussion of business results does not take into account the divestiture of the Plastics, Inc. product line.

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 entails 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 and accordingly a pretax charge of $12.4 million was taken, of which $1.9 million was deemed to be Special Charges and $10.5 million as Restructuring and Other Charges (collectively referred to herein as the "2000 Charges"). During the first quarter of 2001 the Company recorded a pretax charge of $2.6 million, of which $0.1 million was deemed to be Special Charges and $2.5 million as Restructuring and Other Charges (collectively referred herein as "2001 Charges"). No additional charges were recorded during the thirteen-week period ended June 30, 2001. The restructuring actions are expected to be complete by the third quarter of 2001.

As disclosed in Note 6 to the Consolidated Financial Statements of this Form 10-Q, the 2001 Charges were comprised of (i) charge to relocate and liquidate inventory at Leominster and other facilities, (ii) charge for the relocation of machinery and equipment used at the Leominster facility and other facilities, (iii) charge for lease termination and sub-lease costs, (iv) charge to write off obsolete and duplicate assets that were used at the Leominster facility and other facilities, (v) charge for employee related severance costs, and (vi) charge for other related restructuring costs. The total 2001 Charges include a reversal of $0.1 million for SKU reduction and inventory adjustments relating to the 1999 Charges.

The Company anticipates that the result of these restructuring actions will generate annual pretax cash savings of $5.0-$6.0 million of which $2.0-

$3.0 million is expected to be realized in 2001.

Thirteen weeks ended June 30, 2001 compared to the thirteen weeks ended June 24, 2000

In the discussion and analysis that follows, all references to the second quarter of 2001 are to the thirteen-week period ended June 30, 2001 and all references to the second quarter of 2000 are to the thirteen-week period ended June 24, 2000. The following discussion and analysis compares the actual results for the second quarter of 2001 to the actual results for the second quarter of 2000 with reference to the following (in thousands; unaudited):

	Thirteen weeks ended			
	June 30, 2001		June 24, 2000	
Net sales....................	$65,858	100.0%	$70,910	100.0%
Cost of goods sold...........	49,954	75.9	56,026	79.0
Gross profit................	15,904	24.1	14,884	21.0
Operating expenses............	8,820	13.4	9,898	14.0
Amortization of intangible assets......................	930	1.4	1,315	1.8
Operating profit............	6,154	9.3	3,671	5.2
Interest expense.............	(5,391)	(8.1)	(5,634)	(8.0)
Other income (expense)........	28	0.0	66	0.1
Income (loss) before income taxes.............	791	1.2	(1,897)	(2.7)
Income tax (expense) benefit..	(31)	(0.0)	793	1.1
Net income (loss)............	$ 760	1.2%	$(1,104)	(1.6)%
Net loss per share - Basic....	$ 0.10		$ (0.15)	
Net loss per share - Diluted..	$ 0.10		$ (0.15)	
Weighted average common shares Outstanding -				
Basic	7,467		7,272	
Diluted	7,623		7,272	

Net sales. Net sales of $65.9 million in the second quarter of 2001 decreased $5.0 million or 7.1% from $70.9 million in the comparable quarter of 2000. Approximately $4.5 million of the sales decline was due to the bankruptcy of several customers as well as management's decision to reduce sales to various low margin and financially challenged customers. The discontinuation of the food storage product line by a large retailer accounted for approximately $1.6 million of the sales decline. These declines were partially offset by internal sales growth from a new private label laundry product, which is sold to a major retailer. Also offsetting the decline was an increase in sales to the Company's three largest customers. Sales to the Company's three largest customers were $32.6 million in the second quarter 2001, a $1.8 million or 5.8% increase from the prior year comparable quarter.

Gross profit. The Company's gross profit in the second quarter of 2001 increased to $15.9 million from $14.9 million in the comparable quarter of 2000. Gross profit margins improved to 24.1% from 21.0% in the prior year comparable quarter. The improvement in profit margins is primarily due to a reduction in fixed costs as well as a decrease in sales to certain low margin customers. Overall reduction in fixed costs is primarily a result of the successful implementation of restructuring actions (closure of the Leominster facility and the realignment of other facilities) as well as improved manufacturing production efficiencies. A reduction in raw material costs (primarily plastic resin) and a decrease in sales rep commissions, which were due to the realignment of the Company's selling process, also positively impacted margins. These cost benefits were slightly offset by selling price declines as compared to a year ago.

Operating expenses. Operating expenses improved to 13.4% of net sales or $8.8 million versus 14.0% or $9.9 million in the comparable quarter of 2000. As part of the restructuring initiatives warehouse space was consolidated resulting in decreased distribution and logistics costs in the second quarter of 2001.

Amortization of intangible assets. Amortization of intangible assets in the second quarter of 2001 was 1.4% of net sales or $0.9 million versus 1.8% or $1.3 million in the comparable quarter of 2000. The decrease in the current quarter reflects the December 2000 $44.4 million asset impairment charge to reduce the carrying value of goodwill.

Interest expense. Interest expense of $5.4 million in the second quarter of 2001 decreased $0.2 million from $5.6 million in the second quarter of 2000. The reduction in interest expense is a function of lower debt balances in the current quarter.

Other income (expense). During the second quarter of 2001 the Company generated other income of $0.03 million as compared to $0.07 million in the prior year comparable quarter. Other income in the current quarter as well as the prior year quarter were primarily due to gains on the disposal of assets.

Income tax (expense) benefit. The income tax provision recorded in the second quarter of 2001 primarily relates to foreign taxes. A significant prior year operating loss has resulted in tax operating loss carryforwards. The Company did not record a tax benefit in the current quarter, as there are no assurances that future income will be sufficient to utilize the Company's loss carryforwards. In the second quarter of 2000 a tax benefit of $0.8 million was recorded.

Net income (loss). The Company had net income of $0.8 million, or $0.10 per share in the second quarter of 2001, as compared to a net loss of $1.1 million, or $(0.15) per share, in the comparable quarter of 2000. The weighted average common shares outstanding in the second quarter 2001 increased to 7,467 from 7,272 in the second quarter 2000. The primary contributor to the increase in weighted average common shares outstanding was the vesting of restricted stock, which was issued by the Company during the fourth quarter of 2000.

Twenty-six weeks ended June 30, 2001 compared to the twenty-six weeks ended June 24, 2000

In the discussion and analysis that follows, all references to 2001 are to the twenty-six week period ended June 30, 2001 and all references to 2000 are to the twenty-six week period ended June 24, 2000. The following discussion and analysis compares the actual results of 2001 to the actual results of 2000 with reference to the following (in thousands; unaudited):

	Twenty-six weeks ended			
	June 30, 2001		June 24, 2000	
Net sales......................	$129,984	100.0%	$138,999	100.0%
Cost of goods sold.............	99,872	76.8	108,196	77.8
Special charges, net...........	110	0.1	-	-
Gross profit.................	30,002	23.1	30,803	22.2
Operating expenses.............	18,119	14.0	20,876	15.0
Amortization of intangible assets.......................	1,859	1.4	2,635	1.9
Restructuring and other charges	2,483	1.9	-	-
Operating profit.............	7,541	5.8	7,292	5.3
Interest expense...............	(10,870)	(8.4)	(10,771)	(7.8)
Other income (expense).........	104	0.1	(516)	(0.4)
Loss before income taxes.....	(3,225)	(2.5)	(3,995)	(3.1)
Income tax (expense) benefit...	(98)	(0.1)	1,674	1.2
Net loss.......................	$ (3,323)	(2.6)%	$ (2,321)	(1.7)%
Net loss per share - Basic.....	$ (0.45)		$(0.32)	
Net loss per share - Diluted...	$ (0.45)		$(0.32)	
Weighted average common shares Outstanding -				
Basic	7,465		7,272	
Diluted	7,465		7,272	

Net sales. Net sales of $130.0 million in 2001 decreased $9.0 million or 6.5% from $139.0 million in 2000. The majority of the sales decrease can be attributed to Bradlee's and several other retail customers who filed for bankruptcy protection. The discontinuation of the food storage product line by a large retailer accounted for approximately $2.6 million of the sales decline. These declines were partially offset by strong sales of laundry products to existing customers and an increase in sales to the Company's top three customers. Sales to the Company's three largest customers were $65.0 million in 2001, a $3.7 million increase or 6.0% from 2000.

Special Charges. In 2001 the Company recorded Special Charges of $0.1 million in connection with the closure of the Leominster facility as well as the realignment of other manufacturing facilities which began in the fourth quarter of 2000. The primary component of the Special Charges includes inventory reserves to relocate and liquidate inventory. The Special Charges are net of a $0.1 million reversal of a portion of the special charge recorded in the third quarter of 1999 to undertake a restructuring and consolidation plan.

Gross profit before special charges. The Company's gross profit before Special Charges in 2001 was $30.1 million as compared to $30.8 million in 2000. Gross profit margins improved to 23.2% from 22.2% in the prior year. The closure of the Leominster facility as well as the realignment of other facilities reduced fixed costs and increased production efficiencies resulting in improved margins. Additional margin improvements were a result of a decrease in raw material costs (primarily plastic resin). A decrease in sales rep commissions, which were due to the realignment of the Company's selling process, also positively affected margins. These benefits were partially offset by selling price declines, which occurred in response to various competitive pressures.

Operating expenses. Operating expenses improved to 14.0% of net sales or $18.1 million versus 15.0% or $20.9 million in 2000. As part of the 2000 restructuring initiatives, warehouse space was consolidated resulting in a decrease of distribution and logistics costs in 2001. Additional benefits were achieved as a result of planned headcount reductions that were completed in the early part of 2001.

Amortization of intangible assets. Amortization of intangible assets in 2001 was 1.4% of net sales or $1.9 million versus 1.9% or $2.6 million in 2000. The decrease in the current year reflects the December 2000 $44.4 million asset impairment charge to reduce the carrying value of goodwill.

Restructuring and Other Charges. The Company recorded Restructuring and Other Charges of $2.5 million in 2001 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 $10.9 million in 2001 increased $0.1 million from $10.8 million in 2000. The increase in interest expense is a function of higher borrowing rates partially offset by lower average debt levels in 2000. Borrowing rates under the Company's senior loan agreement were increased as a result of the September 2000 amendment to the Company's Revolving Credit Agreement.

Other income (expense). During 2001 the Company generated other income of $0.1 million primarily due to gains on sale of assets. In 2000, the Company incurred approximately $0.5 million of fees and expenses associated with a review of strategic alternatives in an effort to enhance shareholder value.

Income tax (expense) benefit. The income tax provision recorded in 2001 primarily relates to foreign taxes. A significant prior year operating loss has resulted in tax operating loss carryforwards. The Company did not record a tax benefit in the current quarter, as there are no assurances that future income will be sufficient to utilize the Company's loss carryforwards. In 2000 a tax benefit of $1.7 million was recorded.

Net loss. In 2001 the Company had a net loss of $3.3 million, or $0.45 per share, as compared to a net loss of $2.3 million, or $0.32 per share in 2000. Excluding the effects of the special, restructuring and other charges, the loss in the 2001 was $0.7 million ($0.10 per share) as compared to a loss of $2.3 million ($0.32 per share) in 2000. The weighted average common shares outstanding increased to 7,465 from 7,272 in 2000. The primary contributor to the increase in weighted average common shares was the vesting of restricted shares which were issued in the fourth quarter of 2000.

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 revolving credit facility.

Cash and cash equivalents were $1.8 million, a decrease of $1.4 million from December 30, 2000. The Company's total debt decreased $1.1 million in 2001 to $220.5 million. The decrease in debt is primarily due to proceeds from the sale of a former manufacturing facility as well as positive cash flow from operations.

The Company's working capital, excluding cash and short term debt, was $23.8 million or $1.8 million higher than December 30, 2000.

Net cash used for restructuring activities was $2.5 million in 2001. Such cash payments represent relocation of inventory and assets, lease termination costs, employee termination benefits and other restructuring expenses.

Capital spending in 2001 was $2.8 million as compared to $7.9 million in 2000. Capital spending in the current year includes various information technology and production facility projects as well as the replacement of machinery and equipment. The significantly higher capital spending in 2000 was primarily due to the build out of the El Paso facility as well as information technology projects.

On June 29, 2001, the Company reached an agreement with its principal lenders and The Chase Manhattan Bank as administrative agent (the "Bank Group"), to amend the Company's senior credit agreement. The amendment became effective on July 6, 2001 when the Company completed the sale of its Plastics Inc. product line. As a result of the asset sale and corresponding paydown of debt, the Bank Group agreed to amend all financial covenants through the remaining term of the credit agreement consistent with internal Company projections. In addition, the revolving line of credit was reduced from $85 million to $50 million. The Company believes that the credit agreement, which has a maturity date of May 2003, will provide sufficient funds for the Company's working capital needs during the remaining term of the credit agreement. The Company was in compliance with all amended loan covenants as of June 30, 2001.

The Company believes its existing financing facilities together with its cash flow from operations will provide sufficient capital to fund operations, make required debt repayments payments and meet anticipated capital spending needs. Availability under the amended Revolving Credit Agreement at July 31, 2001 was $27.2 million.

Management Outlook and Commentary

* On July 6, 2001, the Company completed the sale of its Plastics Inc. product line for $71 million in cash. The net sale proceeds of $68 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. Although the Company expects to record a significant gain on the sale, prior year net tax operating losses will be used to absorb income taxes related to the gain. As part of the sale the Company will reduce goodwill by approximately $37 million. See the Current Report on Form 8-K filed on July 18, 2001 and Current Report on Form 8-K/A filed on July 27, 2001 for additional information.

* The continuing weak economic conditions have negatively impacted the Company's current year operating results. These conditions negatively impacted sales as several of the Company's retail customers recently filed for bankruptcy protection. The Company estimates that it has lost approximately $6 million in sales due to these bankruptcies. As the weak economic conditions continue the Company may encounter further consolidation of its retail customer base through additional customer

bankruptcies. Also, further business may be lost in 2001 as the Company evaluates its relationships with several other financially challenged customers.

* As part of the Company's 2000 restructuring plan, management decided to close the Leominster facility. This facility was selected because it was highly inefficient as compared to the Company's other manufacturing facilities. In addition, many of the customers served by this facility were financially challenged with unacceptable profit margins. This will likely mean that the Company will lose up to $10.0 million of annual sales, however, management believes that the closing of an inefficient factory and reducing sales to low margin customers may have a positive impact on the Company's operating results. As a result of these actions management expects to save approximately $1.0 million annually. The closure of the Leominster facility was completed in the first quarter of 2001.

* During the second half of 2000 the Company experienced deterioration in the selling prices of various plastic houseware products. This occurred in response to competitive pressures from existing competition as well as new entrants to the market. These competitive pressures forced the Company to reduce selling prices to maintain shelf space. As a result, third quarter year to year comparisons are expected to be negatively impacted.

* The Company's 2000 restructuring plan also included the realignment of several manufacturing facilities to improve production efficiency and lower costs. During the first half of 2001 the Company centralized the manufacturing process of several products to enable the Company to better utilize key management and manufacturing strengths as well as balance production that has shifted from the closure of the Leominster facility. As part of these actions management estimates annual cost savings of approximately $1-$2 million. The facility realignment plan was completed in the second quarter of 2001.

* Plastic resin represents approximately 20% to 25% of the Company's cost of goods sold. During the first half of 2001, resin prices were down slightly to prior year (approximately $0.02 per pound) and approximated the average cost over the last 20 years. However, there is no assurance that the current costing levels will continue. The future cost of plastic resin is very difficult to predict. 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.

* As a result of the operating loss incurred in 2000 and the costs associated with the Company's 2000/2001 restructuring plan, significant tax operating loss carryforwards have been generated. As a result management does not expect to pay any federal income tax for the foreseeable future.

* Effective August 1, 2001 the Company began trading under the new NASDAQ SmallCap symbol HOMZ (formerly HPII). The Company's HOMZ brand has been in the marketplace for almost two years and has become an asset of great value to the Company, its shareholders and customers. In recognition of the importance of our brand in creating a true consumer franchise the Company changed its trading symbol to HOMZ.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk. The Company's revolving credit agreement is LIBOR-based and is subject to interest rate movements. During the first half of 2001 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-three week period ended December 30, 2000.

Commodity Risk. The Company is subject to price fluctuations in commodity based raw materials such as plastic resin, steel and griege fabric. Changes in the cost of these materials may have a significant impact on the Company's operating results. Management does not anticipate significant fluctuations in the cost of these materials during the remainder of 2001. On the other hand the cost of these items is affected by many factors outside of the Company's control and changes to the current trends are possible. There have been no significant changes in the costs of plastic resin, steel and griege fabric during the twenty-six week period ended June 30, 2001, although plastic resin prices have decreased slightly during the first half of 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 50% of the Company's total annual plastic resin purchases. The Company expects to purchase in excess of 125 million pounds of resin in 2001. The agreements expire in May and August of 2002. 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 "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 and conditions in the retail environment
* 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
* relationships with retailers
* the impact of federal, state and local environmental requirements (including the impact of current or 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 which 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 24, 2001, the 2001 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

	Number of Shares		
Nominee	For	Withheld	Broker Non-Votes
Charles R. Campbell	6,313,046	36,679	1,395,919
Marshall Ragir	6,251,046	98,679	1,395,919
Jeffrey C. Rubenstein	6,219,214	130,511	1,395,919
Daniel B. Shure	6,312,046	37,679	1,395,919
Joel D. Spungin	6,311,046	38,679	1,395,919
James R. Tennant	6,141,969	207,756	1,395,919

Proposal No. 2. The ratification of the 2000 Employee Stock Purchase plan was ratified, with 2,961,547 votes for, 497,336 votes against, 9,867 abstentions and 4,276,894 broker non-votes.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits - none

(b) Reports on Current Form 8-K.

Registrant filed a Current Report on Form 8-K dated June 15, 2001, to disclose that the Registrant had entered into a definitive agreement to sell its commercial servingware product line, Plastics, Inc., to A & E Products Group LP, an affiliate of Tyco International.

SIGNATURE

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

Home Products International, Inc.

By: /s/ James E. Winslow

James E. Winslow
Executive Vice President and
Chief Financial Officer

Dated: August 14, 2001