

HOME SOLUTIONS OF AMERICA INC
Form 10QSB
May 15, 2003

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-QSB

(Mark One)

Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2003

Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission file number 0-22388

HOME SOLUTIONS OF AMERICA, INC.

(Exact Name of Small Business Issuer as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

99-0273889
(IRS Employer
Identification No.)

11850 Jones Road, Houston, Texas 77070

(Address of Principal Executive Offices)

(281) 970-9859

(Issuer's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year,
if Changed Since Last Report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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

Edgar Filing: HOME SOLUTIONS OF AMERICA INC - Form 10QSB

The number of shares outstanding of the registrant's common stock, \$.001 par value per share, as of May 7, 2003 was 11,078,852 shares.

Transitional Small Business Disclosure Format: Yes _____ No X

PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HOME SOLUTIONS OF AMERICA, INC.
CONSOLIDATED BALANCE SHEET
(In Thousands, Except Per Share Data)

	March 31, 2003 (Unaudited)
ASSETS	
Current assets:	
Cash	\$ 422
Accounts receivable, net of allowance for doubtful accounts of \$92	3,581
Prepaid expenses and supplies	464
Total current assets	4,467
Property and equipment, net of accumulated depreciation of \$201	3,107
Goodwill	10,815
Deferred income taxes	32
Due from related party	61
Other assets	409
	\$ 18,891
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable and accrued expenses	\$ 2,715
Due to related party	87
Line of credit borrowings	527
Current portion of long-term debt	2,790
Current portion of capital lease obligations	176
Notes payable	165
Notes payable to related party	1,000
Total current liabilities	7,460
Long-term liabilities:	
Long-term debt, net of current portion	6,427
Capital lease obligations, net of current portion	266
Total liabilities	14,153
Commitments and contingencies	
Stockholders' equity:	
Common stock, \$0.001 par value, 50,000 shares authorized;	

Edgar Filing: HOME SOLUTIONS OF AMERICA INC - Form 10QSB

11,079 shares issued and outstanding	11
Additional paid-in capital	26,789
Accumulated deficit	(22,062)
Total stockholders' equity	4,738
	\$ 18,891

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

2

HOME SOLUTIONS OF AMERICA, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Amounts)

	Three Months Ended	
	March 31,	
	2003	2002
	(Unaudited)	(Unaudited)
Net sales	\$ 3,929	\$ -
Costs and expenses		
Cost of sales	2,072	-
Selling, general and administrative expenses	1,698	410
	3,770	410
Operating income (loss)	159	(410)
Other income (expense):		
Interest income	-	31
Interest expense	(149)	-
Other income	4	-
Total other income (expense)	(145)	31
Income (loss) from continuing operations before income taxes	14	(379)
Income taxes	-	-
Loss from discontinued operations (including loss on disposal of \$104)	-	(247)
Net income (loss)	\$ 14	\$ (626)
Income (loss) per share from continuing operations		
Basic and diluted	\$ 0.00	\$ (0.04)
Loss per share from discontinued operations		
Basic and diluted	\$ 0.00	\$ (0.02)
Net income (loss) per share		
Basic and diluted	\$ 0.00	\$ (0.06)
Weighted average number of common shares outstanding		
Basic	11,079	10,245
Diluted	12,324	10,245

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

HOME SOLUTIONS OF AMERICA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Three Months Ended March 31,	
	2003	2002
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 14	\$ (626)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	126	4
Allowance for doubtful accounts	(2)	-
Loss on sale of PTP	-	104
Stock-based compensation	44	-
Changes in operating assets and liabilities, net of acquisitions and divestitures-		
Accounts receivable	91	284
Costs and estimated earnings in excess of billings on jobs in progress, net	-	6
Prepaid expenses and supplies	50	(39)
Accounts payable and accrued liabilities	352	(370)
Net cash provided by (used in) operating activities	675	(637)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Principal payments received on notes receivable	-	57
Cash transferred in sale of PTP	-	(198)
Fees paid for pending acquisitions	(280)	-
Advances to related party	(1)	-
Purchases of property and equipment	(65)	(135)
Net cash used in investing activities	(346)	(276)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net repayments on line of credit	(1)	-
Proceeds from notes payable to related party	250	-
Proceeds from notes payable	250	-
Principal payments on notes payable	(85)	-
Principal payments on long-term debt and capital leases	(586)	(283)
Net cash used in financing activities	(172)	(283)
NET INCREASE (DECREASE) IN CASH	157	(1,196)
CASH AT BEGINNING OF PERIOD	265	2,210
CASH AT END OF PERIOD	\$ 422	\$ 1,014
Supplemental disclosures of cash flow information		
Cash paid for:		
Interest	\$ 77	\$ 7
Income taxes	\$ -	\$ -

Supplemental schedule of non-cash investing and financing activities:

Edgar Filing: HOME SOLUTIONS OF AMERICA INC - Form 10QSB

Fixed assets acquired through capital lease obligations	\$	15	\$	-
Fixed assets acquired through notes payable	\$	100	\$	-
Common stock returned as settlement	\$	-	\$	2,628

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

HOME SOLUTIONS OF AMERICA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2003
(Dollars and Shares in Thousands, Except Per Share Data)

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Company Description and Nature of Operations

Home Solutions of America, Inc. ("we," "us," "Home Solutions," or the "Company") is a Delaware corporation that was incorporated in 1998. Our growth strategy is to become a leading provider of specialty residential services that protect the homeowner's single largest investment - their home. We seek a dominant market position through the acquisition of strategic, specialized, profitable and well-managed residential service companies and through the above average internal growth of these operations. Home Solutions will provide services such as cleaning and fabric protection, fire and water damage restoration, and the remediation of indoor air contaminants.

In November 2002, Home Solutions acquired PW Stephens, Inc. ("PWS"), a \$15,000 revenue provider of residential and light commercial indoor air remediation services, for \$13,402, consisting of cash, the exchange of certain assets, seller notes, commissions and other costs. These operations are included in our first quarter financial results. Also, the Company has announced letters of intent to acquire three residential service providers located in Texas.

The accompanying unaudited, interim consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America and Regulation S-B, as promulgated by the Securities and Exchange Commission. Certain information and footnote disclosures normally included in audited financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. Accordingly, these interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and related notes as contained in the Company's annual report on Form 10-KSB for the year ended December 31, 2002. In the opinion of management, the interim consolidated financial statements reflect all adjustments, including normal recurring adjustments, necessary for fair presentation of the interim periods presented. The results of operations for the three months ended March 31, 2003 are not necessarily indicative of results of operations to be expected for the full year.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Home Solutions of America, Inc. and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of the contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made by management include, among others, the realizability of accounts receivable, property and equipment and goodwill, and valuation of deferred tax assets. Actual results could differ from these estimates.

Goodwill

Goodwill represents the excess of acquisition cost over the net assets acquired in a business combination and is not amortized in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "*Goodwill and Other Intangible Assets*". Management reviews, on an annual basis, the carrying value of goodwill in order to determine whether impairment has occurred. Impairment is based on several factors including the Company's projection of future undiscounted operating cash flows. If an impairment of the carrying value were to be indicated by this review, the Company would adjust the carrying value of goodwill to its estimated fair value.

Long-Lived Assets

The Company's management assesses the recoverability of its long-lived assets by determining whether the depreciation and amortization of long-lived assets over their remaining lives can be recovered through projected undiscounted future cash flows. The amount of long-lived asset impairment, if any, is measured based on fair value and is charged to operations in the period in which long-lived asset impairment is determined by management. At March 31, 2003, the Company's management believes there is no impairment of its long-lived assets. There can be no assurance, however, that market conditions will not change or demand for the Company's products and services will continue, which could result

in impairment of long-lived assets in the future.

Revenue Recognition

Since the purchase of PWS, revenue is recognized at the time the contract and related services are performed.

Prior to that time, the Company reported revenues from fixed priced contracts using the percentage of completion method for financial reporting purposes. Under the percentage of completion method, revenues with respect to individual contracts were recognized in the proportion that costs incurred to date bore to total estimated costs. Revenue and cost estimates were subject to revision during the terms of the contracts, and any required adjustments were made in the periods in which the revisions become known. Provision was made, where applicable, for the entire amount of future estimated losses on contracts in progress when such losses were determined. General and administrative costs were not allocated to contract costs and were charged to expense as incurred.

HOME SOLUTIONS OF AMERICA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2003

(Dollars and Shares in Thousands, Except Per Share Data)

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

The Company recognized revenues from time and materials contracts and consulting services as those services were performed. Advance payments made under these contracts were recorded as deferred revenue and recognized when the related services were performed.

Stock-Based Compensation

The Company uses the intrinsic value method of accounting for stock-based compensation to employees in accordance with Accounting Principles Board Opinion ("APB") No. 25, as amended, "Accounting for Stock Issued to Employees." The Company accounts for non-employee stock-based compensation under SFAS No. 123, "Accounting for Stock-Based Compensation." At March 31, 2003, the Company has two stock-based employee compensation plans, which are described more fully in Note 4. During the three months ended March 31, 2003 and 2002, no compensation expense was recognized in the accompanying consolidated statements of operations for options issued to employees pursuant to APB 25. No other stock-based employee compensation cost is reflected in the 2003 and 2002 consolidated statements of operations, as all options granted in the three months ended March 31, 2003 and 2002 under those plans had either exercise prices equal to or greater than the market value of the underlying common stock on the date of grant or the vesting period starts after the three months ended March 31, 2003 and 2002. The following table illustrates the effect on net loss and loss per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation:

	Three Months Ended March 31,	
	2003	2002
Net income (loss) as reported	\$ 14	\$ (626)
Add:		
Total stock-based employee compensation expense under APB 25	-	-
Deduct:		
Total stock-based employee compensation expense under fair value based method for all awards, net of related tax effects	(67)	-
Pro forma net loss	\$ (53)	\$ (626)
Basic and diluted loss per share - as reported	\$ 0.00	\$ (0.06)
Basic and diluted loss per share - pro forma	\$ (0.00)	\$ (0.06)

Comprehensive Income

During the periods presented, the Company had no items of comprehensive income and, therefore, has not presented a statement of comprehensive income.

Per Share Data

Basic earnings per share ("BEPS") is computed by dividing income (loss) available to common stockholders by the weighted average number of outstanding common shares during the period of computation. Diluted earnings per share ("DEPS") gives effect to all dilutive potential common shares outstanding during the period of computation. The computation of DEPS does not assume conversion, exercise or contingent exercise of securities that would have an antidilutive effect on earnings. As of March 31, 2003 and 2002, the Company had the following potentially dilutive securities that would affect loss per share if they were to be dilutive:

Edgar Filing: HOME SOLUTIONS OF AMERICA INC - Form 10QSB

	2003	2002
Options	446	12
Warrants	799	-
	1,245	12

Business Segments

The Company currently operates in one segment, indoor air contaminate abatement services for residential and commercial properties.

HOME SOLUTIONS OF AMERICA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2003
(Dollars and Shares in Thousands, Except Per Share Data)

NOTE 2 - ACQUISITIONS AND DISPOSITIONS

On February 22, 2002, the Company sold all of its shares of its former wholly-owned subsidiary, Point To Point Network Services, Inc. ("PTP"), to Point to Point of Louisiana, Inc., a Louisiana corporation (the "Buyer"). The sale price was \$1,000, which the Buyer paid by issuing a Secured Promissory Note (the "Note") to the Company. The Note had interest at 6.5% per annum, and required a payment of accrued interest on February 22, 2003, and a payment of accrued interest and \$100 of principal on February 22, 2004, and all remaining principal and interest accrued thereon on February 22, 2005. The Note was secured by the stock sold, pursuant to a Stock Pledge Agreement dated February 22, 2002. The Note was assigned to the former stockholder of PWS in connection with the acquisition of PWS on November 1, 2002. PTP had revenues of \$253 and incurred a loss from operations of \$143 during the first quarter of 2002. The loss on sale of PTP is comprised of the following:

Current assets	\$	811
Property and equipment		476
Goodwill		837
Current liabilities		(1,066)
Long-term liabilities		(12)
Net book value of net assets sold		1,046
Legal and other transaction costs		58
Sale price		(1,000)
	\$	(104)

Prior to the sale of PTP, the Company entered into a settlement agreement with a former employee and stockholder of PTP. The agreement required the former stockholder to transfer 1,800 of the 2,000 shares of the Company's common stock issued in the acquisition of PTP back to the Company. As a result, the Company reduced previously recorded goodwill related to PTP by \$2,628, the value of the shares on the date of acquisition.

Letters of Intent

Fiber Seal Systems L.P. In March 2003, the Company entered into a letter of intent to acquire Fiber Seal Systems L.P., a company that provides fabric protection services, for the following consideration: (i) approximately \$520 financed through a seller note, (ii) 300 shares of the Company's common stock, and (iii) an option to purchase up to 250 shares of the Company's common stock, subject to Fiber Seal Systems achieving certain revenue targets.

Horizon Cleaning, Inc. In March 2003, the Company entered into a letter of intent to acquire all of the outstanding stock of Horizon Cleaning, Inc., a company that provides specialty residential cleaning and remediation services, for approximately \$2,416, consisting of 953 shares of common stock of the Company and a \$224 seller note.

Central Texas Residential Services, Inc. In March 2003, the Company entered into a letter of intent to acquire all of the outstanding stock of Central Texas Residential Services, Inc., a company that provides specialty residential cleaning and remediation services, for approximately \$2,000 consisting of 850 shares of common stock of the Company.

During the three months ended March 31, 2003, the Company paid fees of \$280,000 related to these potential acquisitions that were capitalized in other assets in the accompanying consolidated balance sheet. All three of these acquisitions are expected to close in the second quarter of 2003; however, each transaction is subject to the satisfactory completion of our due diligence review, and the successful negotiation and execution of definitive purchase and/or loan agreements, which will contain numerous conditions to closing. There can be no assurance that we will be able to consummate these transactions.

Edgar Filing: HOME SOLUTIONS OF AMERICA INC - Form 10QSB

We will continue to actively pursue the acquisition of companies that provide specialty residential services as we proceed with our growth strategy. Our ability to acquire such businesses will be dependent upon, among other factors, our ability to obtain outside financing and/or issue shares of the Company's common stock as a portion of the purchase price.

HOME SOLUTIONS OF AMERICA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2003
(Dollars and Shares in Thousands, Except Per Share Data)

NOTE 3 - SHORT-TERM AND LONG-TERM DEBT

Short-Term Debt

In the three months ended March 31, 2003, the Company borrowed a total of \$500, of which \$250 was from an affiliate of a stockholder of the Company and \$250 from two unrelated entities, to fund general working capital. Of this amount, \$85 has been repaid to the unrelated entity. The remaining balance of \$250 from a related party is due May 31, 2003 and \$165 to unrelated entities is due June 30, 2003. These notes bear interest at rates between 8% and 18%.

The Company has a \$750 note payable to a related party, dated October 29, 2002, secured by a deed of trust, which bears interest of 12% per annum, payable monthly and the balance due on October 29, 2003.

The Company is currently negotiating a new credit facility to re-finance its existing indebtedness of \$1,370 (line of credit borrowings of \$527 and term loan of \$843) at a financial institution which expired January 28, 2003 and to re-finance a portion of its seller notes which were due March 31, 2003 and April 1, 2003 (see below).

Long-Term Debt

Long-term debt consists of the following as of March 31, 2003:

Note payable to seller, interest at 6%, principal due in one payment including interest of \$37 on March 31, 2003, secured by substantially all the assets of the Company. The Company is currently in the process of renegotiating the terms of this note to extend the maturity date.	\$ 1,500
---	----------

Note payable to seller, net of discount of \$148, zero coupon, imputed interest at 5%, principal and interest due in equal monthly installments of \$24 through October 2007, secured by substantially all the assets of the Company.	1,186
---	-------

Note payable to seller, net of discount of \$24, interest starting June 1, 2003 at one-month LIBOR (1.31% at March 31, 2003) plus 1%, principal payments of \$250 due quarterly plus interest beginning November 1, 2003, with final payment of \$200 plus unpaid interest on November 1, 2008, secured by substantially all of the assets of the Company.	5,176
--	-------

Note payable to a financial institution, bearing interest at prime (4.25% at March 31, 2003) plus 0.75%, monthly principal payments of \$18 plus interest, maturing on January 28, 2007. The Company expects to replace the note payable through additional financing from another institution. The Company must maintain certain financial and non-financial covenants. This note is guaranteed by the former stockholder of PWS.	843
--	-----

Note payable to seller, interest at 2.25%, principal payments due as accounts receivable securing the note are collected, remaining amount (if any) due April 1, 2003. The Company is currently in the process of renegotiating the terms of this note to extend the maturity date.	317
---	-----

Edgar Filing: HOME SOLUTIONS OF AMERICA INC - Form 10QSB

Note payable to various financial institutions, collateralized by various automobiles, bearing interest at various annual interest rates ranging from prime plus 0.75% to 7.66%, principal and interest payable in monthly installments ranging from \$0.70 to \$1.7 through March 28, 2009.

	<u>195</u>
	9,217
Less current portion	<u>(2,790)</u>
Total	\$ 6,427

8

HOME SOLUTIONS OF AMERICA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2003

(Dollars and Shares in Thousands, Except Per Share Data)

NOTE 4 - EQUITY

Common Stock

During the three months ended March 31, 2003, the Company did not issue any shares of common stock.

Stock Options

The Company's Board of Directors approved the 2001 Stock Plan (the "2001 Plan") on April 2, 2001. The 2001 Plan provides for awards of incentive stock options, non-qualified stock options, and restricted stock purchase rights. The Company has reserved 2,000 shares of common stock under the 2001 Plan. The exercise price of the awards shall be determined by the Plan administrator at the date of grant, but shall not be less than the fair market value of the stock on the date of grant for employees, or 85 percent of the fair market value for non-employees. The exercise period shall be no more than 10 years and the awards will vest over a period of time determinable by the Board of Directors. The number of options under the 2001 Plan available for grant at March 31, 2003 was 610. At the Company's 2003 annual stockholders' meeting, which will be held on May 20, 2003, the Company's stockholders will be asked to approve an amendment to the 2001 Plan that would increase the options available for grant under the 2001 Plan by 1,000,000.

The Company's Board of Directors approved the 1998 Stock Option Plan (the "1998 Plan"). The 1998 Plan covers two types of options: incentive stock options and non-qualified stock options. The aggregate number of shares that may be issued pursuant to the 1998 Plan may not exceed 1,000 shares. The exercise price for the options shall be determined by the Plan administrator at the date of grant, but shall not be less than the fair market value of the stock at the date of grant. The option period can be no more than 10 years and the options will vest over a period of time determinable by the Board of Directors. The number of options under the 1998 Plan available for grant at March 31, 2003 was 117. At the Company's 2003 annual stockholders' meeting, which will be held on May 20, 2003, the Company's stockholders will be asked to approve an amendment to the 1998 Plan that would increase the options available for grant under the 1998 Plan by 1,000,000.

During the three months ended March 31, 2003, the Company issued options to purchase 250 shares of the Company's common stock at \$2.10 (fair value on the date of grant) to its officer under the 1998 Plan, vesting over a three-year period. The Company also amended the officer's 170 options to fully vest all options in the event that the officer is terminated prior to the expiration of his employment agreement.

Warrants

From time to time, the Company issues warrants pursuant to various consulting and third party agreements.

During the three months ended March 31, 2003, the Company cancelled 125 warrants to purchase shares of the Company's common stock at \$1.50 per share.

NOTE 5 - LITIGATION, COMMITMENTS AND CONTINGENCIES

The nature and scope of the Company's business operations bring it into regular contact with the general public, a variety of businesses and government agencies. These activities inherently subject the Company to potential litigation, which are defended in the normal course of business. At March 31, 2003, there were various claims and disputes incidental to the business. The Company believes that the disposition of all such claims and disputes, individually or in the aggregate, should not have a material adverse affect upon the Company's financial position, results of operations or cash flows. As of March 31, 2003, the Company has not been named as a responsible party for any environmental issues under the Federal Superfund Law.

Edgar Filing: HOME SOLUTIONS OF AMERICA INC - Form 10QSB

An adversary proceeding was commenced on or about February 9, 2001 by American Eco Corporation ("Plaintiff" or "AEC"), which, at the time, was a debtor-in-possession under Chapter 11 of the United States Bankruptcy Code. The proceeding seeks the recovery of certain alleged transfers and recovery of fees against the Company based on theories of breach of contract, promissory estoppel, quantum meruit and pursuant to Sections 542, 544, 548 and 550 of the Bankruptcy Code. The proceeding seeks a recovery in excess of \$1,300 and other equitable relief. The Company has filed its answer, which, in part, denies all liability. An Order Scheduling Pre-Trial Proceedings was signed on October 31, 2001. A trial date has not yet been set. The Company is vigorously defending this suit. At this time, the Company cannot predict the likelihood of an unfavorable outcome.

On or about August 1, 2002, National Union Fire Insurance commenced an adversary proceeding against us entitled *National Union Fire Ins. Co. v. QHI Stephens Contractors, Inc., EIF Holdings, Inc., P.W. Stephens Contracts, Inc., P.W. Stephens Contractors, Inc. (CA), P.W. Stephens Services, Inc., P.W. Stephens Residential, Inc., American Temporary Sanitation, Inc.* in the United States District Court for the Northern District of California. The lawsuit does not list the specific amount of damages being sought. The lawsuit derives from a guarantee that EIF Holdings, Inc., a predecessor of the Company, allegedly made in 1997 for the benefit of a wholly-owned subsidiary of American Eco, when at the time EIF Holdings was a 72%-owned subsidiary of American Eco. The Company is vigorously defending the validity and enforceability of the guarantee that forms the basis for the lawsuit, which is currently in the discovery phase. The Company cannot predict the range of potential loss that may occur related to this proceeding.

On or about October 3, 2002, in the Superior Criminal Court of Los Angeles County, California a misdemeanor claim was filed against the Company and two employees alleging that certain events violated state and local regulations. The Company is vigorously defending this suit. At this time, the Company cannot predict the likelihood of an unfavorable outcome nor estimate the amount or range of potential loss, if any.

HOME SOLUTIONS OF AMERICA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2003
(Dollars and Shares in Thousands, Except Per Share Data)

NOTE 5 - LITIGATION, COMMITMENTS AND CONTINGENCIES (continued)

Pursuant to an indemnification agreement between the Company and Spruce MacIntyre Holding Corp. ("Spruce"), the Company recently settled claims brought by CIT Group/Equipment Financing, Inc. and Ackstar Insurance Company, both filed in the United States District Court for the Eastern District of Missouri. The CIT settlement agreement requires Spruce to make certain payments to the plaintiffs which Spruce has made through the filing date of this Form 10-QSB. In the event that Spruce fails to make the remaining settlement payments, the plaintiffs could seek satisfaction of their \$713 consent judgment against the Company, in which case the Company would have to seek indemnification from Spruce.

The Company has accrued \$225 in the accompanying consolidated financial statements related to the above proceedings. Based on management's analysis, the Company believes that this amount will be sufficient to cover any potential losses that may occur.

NOTE 6 - SUBSEQUENT EVENTS

On April 7, 2003, Willard "Kim" Kimbrell joined the board of directors of the Company and was awarded 100 stock options vesting over three years.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Overview

Home Solutions of America, Inc. ("we," "us," "Home Solutions," or the "Company") is a Delaware corporation that was incorporated in 1998. Our growth strategy, developed in 2002, is to become a leading provider of specialty residential services that protect the homeowner's single largest investment - their home. We seek a dominant market position through the acquisition of strategic, specialized, profitable and well-managed residential service companies and through the above average internal growth of these operations. Home Solutions will provide services such as cleaning and fabric protection, fire and water damage restoration, and the remediation of indoor air contaminants.

Growth Strategy

Home Solutions seeks to acquire companies or internally generate projects that will focus on providing specialty residential services to homeowners. Effective November 1, 2002, we closed our first acquisition as part of this strategy, acquiring PW Stephens, Inc. ("PWS"), a \$15 million revenue provider of indoor air contaminate removal services for homeowners in California. We expect to continue our aggressive growth strategy with additional acquisitions. The following is a list of the targeted services that we are pursuing:

Cleaning and Fabric Protection: We will provide fabric protection services to protect furniture, carpet and draperies from stains and daily wear and tear. This niche market is primarily targeted at above-average income homeowners with an average ticket of approximately \$400 or more. We will provide our customers with an annual fabric protection service agreement that will allow them to have on-site spill clean up during the life of the agreement. In addition, using well-tested methods of cleaning carpet, we will offer maintenance and emergency response services to our customer base to repair carpet damaged by common stains, pet dander, bacteria and dust. This procedure will extend the life of the homeowners' carpets and make the carpet look its finest. Furthermore, air duct cleaning is another under-developed market the Company will approach. Particulate (organic and inorganic) material within a home's heating and air conditioning systems and the transfer air ducts can cause allergic reactions and generally indicate poor air quality. Furthermore, the conditions of these systems, high moisture content and heat are often the breeding ground for many types of mold. It is expected that a portion of our cleaning operations will generate additional opportunities across our other business segments.

Indoor Air Contamination: Indoor air contamination, including contamination from mold, asbestos and lead paint, is a growing concern for the homeowner. With increased media attention regarding the health threat of mold, fewer insurance options, and property transfers at risk, current market conditions have created significant demand for mold inspections, certifications and remediation services. These services consist of property and system inspections, surface and air testing, project design, microbial removal, light interior demolition, repair and specialized

Edgar Filing: HOME SOLUTIONS OF AMERICA INC - Form 10QSB

cleaning work. Home inspections and testing can range from \$300 to several thousand dollars. Customer opportunities are developed through a regional sales force as well as through referrals by real estate firms, insurance adjusters, mortgage companies, attorneys and nationally branded retailers. Although government-promulgated regulation is currently under review, industry practice and general awareness is building momentum. The Company believes it can use its industry experience to give efficacy to its processes and provide homeowners with quality assurance. Furthermore, we plan to provide annual and quarterly monitoring services, in which technicians will regularly inspect, test and certify the air quality of our clients' homes. It is expected that a portion of our indoor air contamination operations will generate additional opportunities across our other business segments.

Fire and Water Damage Restoration: As part of Home Solutions' specialty residential services strategy, we will provide highly trained technicians to respond to fire, water and weather-related emergencies to inspect structural members and contents damaged by water, to determine the likelihood or extent of mold growth, and to provide immediate cleaning, drying, moving, storage, and deodorization, among other services. As most cases of mold are associated with excess moisture, we believe that response to this type of event-related damage will provide significant additional revenue opportunities. The cost and time requirements of these projects can vary dramatically from case-to-case. It is expected that a portion of our fire/water damage restoration operations will generate additional opportunities across our other business segments.

Use of Estimates and Critical Accounting Policies

In preparing our consolidated financial statements, we make estimates, assumptions and judgments that can have a significant effect on our revenues, income (loss) from operations, and net income (loss), as well as on the value of certain assets on our balance sheet. We believe that there are several accounting policies that are critical to an understanding of our historical and future performance as these policies affect the reported amounts of revenues, expenses, and significant estimates and judgments applied by management. While there are a number of accounting policies, methods and estimates affecting our financial statements, areas that are particularly significant include revenue recognition, stock-based compensation, and goodwill. In addition, please refer to Note 1 to the accompanying financial statements for further discussion of our accounting policies.

Revenue Recognition

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

Stock-Based Compensation

The Company uses the intrinsic value method of accounting for stock-based compensation to employees in accordance with Accounting Principles Board Opinion ("APB") No. 25, as amended, "Accounting for Stock Issued to Employees." The Company accounts for non-employee stock-based compensation under Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation." At March 31, 2003, the Company had two stock-based employee compensation plans, which are described more fully in Note 4 of the accompanying consolidated financial statements. The Company accounts for those plans under the recognition and measurement principles of APB 25, and related interpretations. The Company has applied the disclosure provisions in SFAS No. 148 in its consolidated financial statements and the accompanying notes. The Company does not anticipate adopting the fair value based method of accounting for stock-based compensation.

Goodwill

Goodwill represents the excess of acquisition cost over the net assets acquired in a business combination. Management reviews, on an annual basis, the carrying value of goodwill in order to determine whether an impairment has occurred. Impairment is based on several factors including the Company's projection of future undiscounted operating cash flows. If an impairment of the carrying value were to be indicated by this review, the Company would adjust the carrying value of goodwill to its estimated fair value.

Results of Operations (Dollars In Thousands)

Comparison of Three Months ended March 31, 2003 Results of Operations to Three Months ended March 31, 2002

Revenue

The revenue of \$3,929 for the three months ended March 31, 2003 is comprised of revenue from PWS. For the three months ended March 31, 2002, the Company had no revenue during this period other than revenue earned by PTP, the Company's former wholly-owned subsidiary that was divested in February 2002, which revenue is included in the "Income (loss) from discontinued operations" line item on the consolidated statements of operations.

Costs of Sales

Costs of sales were \$2,072 for the three months ended March 31, 2003. For the three months ended March 31, 2002, the Company had no cost of sales during this period other than from the Company's divested subsidiary PTP, which is included in the "Income (loss) from discontinued operations" line item on the consolidated statements of operations.

Selling, General and Administrative Expenses:

Selling, general and administrative expenses were \$1,698 for the three months ended March 31, 2003 compared to \$410 for the three months ended March 31, 2002. This represents an increase of \$1,288 over 2002. This increase is due to the addition of PWS' administrative

costs together with Home Solutions' administrative costs.

Other Income (Expenses):

Interest income decreased from \$31 in 2002 to \$0 in 2003. This is primarily a result of lower cash balances during the first quarter of 2003. Interest expense was \$149 in 2003 compared to \$0 in 2002. This is largely due to the debt incurred with the acquisition of PWS and interest on the line of credit and long-term debt at PWS. Other income was \$4 in 2003 compared to \$0 in 2002.

Liquidity and Capital Resources

The Company's existing capital resources as of March 31, 2003, consisted of cash and accounts receivable totaling \$4,003, compared to cash and notes receivable of \$3,359 as of March 31, 2002. The Company believes that the financing arrangements the Company currently has in place are sufficient throughout the next twelve months to finance its working capital needs. Implementation of the Company's strategic plan of acquiring niche residential services companies will require additional capital, however.

The Company has a credit agreement with a financial institution. The credit agreement includes an \$843 term loan, a revolving line of credit and an equipment line of credit. The credit agreement is guaranteed by the former stockholder of PWS, secured by substantially all PWS assets and contains a provision that requires PWS to maintain certain financial covenants. The revolving line of credit expired on January 28, 2003. The Company is currently negotiating with other financial institutions to refinance this line, the equipment line and the \$843 term loan. The balance on the revolving line of credit was \$499 at March 31, 2003.

The equipment line of credit bears interest at the prime rate plus 1.00% per annum, payable monthly. The terms of the agreement provide for borrowings up to \$200. The equipment line of credit expired on January 31, 2003, at which time all outstanding amounts will be repaid over 36 equal monthly installments including principal and interest through February 28, 2006. The balance at March 31, 2003 was \$27.

During the three months ended March 31, 2003, the Company generated net cash from operating activities of \$675, including a net income of \$14.

The Company's investing activities used net cash of \$346, primarily due to the purchase of property and equipment and payment of fees for pending acquisitions.

The Company's financing activities used net cash of \$172, primarily due to principal payments made on long-term debt and capital leases.

RISKS ASSOCIATED WITH FORWARD-LOOKING STATEMENT INCLUDED IN THIS FORM 10-QSB

This Form 10-QSB contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. These statements include the plans and objectives of management for future operations, including plans and objectives relating to the Company's residential services acquisition strategy and availability of capital to fund such strategy. The forward-looking statements included herein are based on current expectations that involve numerous risks and uncertainties. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions, regulatory framework, and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Company. We refer you to the section entitled "Trends, Risks and Uncertainties" in Item 6 of Part II of our annual report on Form 10-KSB for the year ended December 31, 2002, for a list of specific factors that could cause actual results to differ materially from those indicated by our forward-looking statements made herein and presented elsewhere by management. Although the Company believes that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Form 10-QSB will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives and plans of the Company will be achieved. Furthermore, we do not undertake any obligation to update forward-looking statements made herein.

ITEM 3. CONTROLS AND PROCEDURES.

Within the 90-day period prior to the filing of this report, an evaluation was carried out under the supervision and with the participation of the Company's management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective. No significant changes were made in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

The nature and scope of our business operations bring us into regular contact with the general public, a variety of businesses and government agencies. These activities inherently subject us to potential litigation, which we defend in the normal course of business. At March 31, 2003, there were various claims and disputes incidental to the business. The Company believes that the disposition of all such claims and disputes,

Edgar Filing: HOME SOLUTIONS OF AMERICA INC - Form 10QSB

individually or in the aggregate, should not have a material adverse affect upon our financial position, results of operations or cash flows. As of March 31, 2003, the Company has not been named as a responsible party for any environmental issues under the Federal Superfund Law.

ITEM 2. CHANGES IN SECURITIES.

The Company issued the following shares of its common stock without registration under the Securities Act of 1933, as amended (the "Securities Act"):

1. On December 23, 2002, the Company issued 20,161 shares of common stock, at approximately \$3.10 per share, as payment under a consulting agreement;
2. On December 27, 2002, the Company issued 235,294 shares of common stock, at approximately \$2.55 per share, as payment under a consulting agreement.

The above issuances were unregistered, as the Company was relying on the exemptions from registration contained in Section 4(2) of the Securities Act, and Regulation D promulgated thereunder, on the basis that such transactions did not involve public offerings of securities.

ITEM 5. OTHER INFORMATION.

Effective January 15, 2003, Mark W. White, a businessman and former governor of Texas (and the father of R. Andrew White, our president and chief executive officer), and Michael S. Chadwick, an investment banker with Sanders Morris Harris, joined our Board of Directors. Upon becoming directors, Messrs. White and Chadwick each received 100,000 options to purchase common stock of the Company at an exercise price of \$1.65 per share, vested over a three-year period.

In March 2003, R. Andrew White, our chief financial officer, was promoted to chief executive officer and president of the Company. We have entered into a three-year executive employment agreement with Mr. White, which provides an annual salary of \$165,000. We also granted Mr. White 250,000 options to purchase Home Solutions common stock at \$2.10 per share, subject to vesting over a three-year period, and amended Mr. White's options agreements for 150,000 and 20,000 options, respectively, to fully vest all options in the event that Mr. White is terminated prior to the expiration of his employment agreement. Frank J. Fradella, our former chief executive officer and president, will remain Chairman of the Board and oversee our acquisition program. Our Board of Directors vested the remaining portions of Mr. Fradella's 250,000 stock options and 500,000 stock purchase rights, respectively, in consideration of Mr. Fradella's past contributions and expected future contributions to the Company.

In March 2003, the Company and the former shareholder of PWS conducted negotiations whereby certain of the Company's promissory notes issued to the former shareholder of PWS would be restructured and certain collateral would be provided as security for the restructured notes. Such discussions have not been finalized, and there can be no assurance that definitive agreements will result from such discussions.

The Company's 2003 annual stockholders' meeting will be held at the Company's offices at 9:00 a.m. on May 20, 2003. Details of the items to be voted upon at the meeting are set forth in the Company's proxy statement, which was filed with the SEC and mailed to all stockholders on April 29, 2003.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) *Exhibits*

- 2.1 Stock Purchase and Note Assignment Agreement, dated as of September 29, 2000, between Spruce MacIntyre Holding Corp., P.W. Stephens Environmental, Inc., P.W. Stephens Contractors, Inc., P.W. Stephens Services, Inc., P.W. Stephens Northwest, Inc. and U.S. Industrial Services, Inc. (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed on February 20, 2001, and incorporated herein by reference).
- 2.2 Reorganization Agreement and Plan of Merger, effective as of June 29, 2001, by and among U S Industrial Services, Inc., a Delaware corporation, Point To Point Network Services, Inc., a Massachusetts corporation, and W. Michael Sullivan (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed on July 19, 2001, and incorporated herein by reference).
- 2.3 Agreement for Sale of Shares, dated as of February 22, 2002, between Nextgen Communications Corporation, a Delaware corporation, and Point to Point of Louisiana, Inc., a Louisiana corporation (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed on March 19, 2002, and incorporated herein by reference).
- 2.4 First Amendment to Agreement for Sale of Shares, executed to be effective as of February 22, 2002, by and between Nextgen Communications Corporation and Point to Point of Louisiana, Inc. (filed as Exhibit 2.2 to the Company's Current Report on Form 8-K filed on March 19, 2002, and incorporated herein by reference).
- 2.5 Secured Promissory Note, dated February 22, 2002, issued by Point to Point of Louisiana to Nextgen Communications Corporation. (filed as Exhibit 2.3 to the Company's Current Report on Form 8-K filed on March 19, 2002, and incorporated herein by reference).
- 2.6 First Amendment to Secured Promissory Note, executed to be effective as of February 22, 2002, by and between Point to Point of Louisiana, Inc. and Nextgen Communications Corporation (filed as Exhibit 2.4 to the Company's Current Report on Form 8-K filed on March 19, 2002, and incorporated herein by reference).

Edgar Filing: HOME SOLUTIONS OF AMERICA INC - Form 10QSB

- 2.7 Stock Pledge Agreement, executed to be effective as of February 22, 2002, by and between Point to Point of Louisiana, Inc. and Nextgen Communications Corporation (filed as Exhibit 2.5 to the Company's Current Report on Form 8-K filed on March 19, 2002, and incorporated herein by reference).
- 2.8 Settlement Agreement and Mutual Release of Claims, executed to be effective as of February 20, 2002, by and among Point To Point Network Services, Inc., Nextgen Communications Corporation, and W. Michael Sullivan (filed as Exhibit 2.6 to the Company's Current Report on Form 8-K filed on March 19, 2002, and incorporated herein by reference).
- 2.9 Repurchase Option Agreement, executed to be effective as of February 20, 2002, by and between Nextgen Communications Corporation and W. Michael Sullivan (filed as Exhibit 2.7 to the Company's Current Report on Form 8-K filed on March 19, 2002, and incorporated herein by reference).
- 2.10 Stock Purchase Agreement dated November 1, 2002, by and between Nextgen Communications Corporation and Jane C. Barber (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed on January 17, 2003, and incorporated herein by reference).
- 2.11 Promissory Note dated November 1, 2002, in the original principal amount of \$1,500,000, issued by Nextgen Communications Corporation to Jane C. Barber (filed as Exhibit 2.2 to the Company's Current Report on Form 8-K filed on January 17, 2003, and incorporated herein by reference).
- 2.12 Promissory Note dated November 1, 2002, in the original principal amount of \$1,000,000, issued by Nextgen Communications Corporation to Jane C. Barber (filed as Exhibit 2.3 to the Company's Current Report on Form 8-K filed on January 17, 2003, and incorporated herein by reference).
- 2.13 Promissory Note dated November 1, 2002, in the original principal amount of \$1,444,100, issued by Nextgen Communications Corporation to Jane C. Barber (filed as Exhibit 2.4 to the Company's Current Report on Form 8-K filed on January 17, 2003, and incorporated herein by reference).
- 2.14 Secured Promissory Note dated November 1, 2002, in the original principal amount of \$5,200,000, issued by Nextgen Communications Corporation to Jane C. Barber (filed as Exhibit 2.5 to the Company's Current Report on Form 8-K filed on January 17, 2003, and incorporated herein by reference).
- 2.15 Assignment of Promissory Notes, dated November 1, 2002, by and between Nextgen Communications Corporation and Jane C. Barber (filed as Exhibit 2.6 to the Company's Current Report on Form 8-K filed on January 17, 2003, and incorporated herein by reference).
- 2.16 Warrant Purchase Agreement, dated November 15, 2002 by and between Nextgen Communications Corporation and Jane C. Barber. (filed as Exhibit 2.16 to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2002, and incorporated herein by reference).
- 3.1 Certificate of Incorporation of the Company, as restated on July 31, 2001 (filed as Exhibit A to the Company's Information Statement on Schedule 14C filed on July 9, 2001, and incorporated herein by reference).
- 3.2 Certificate of Amendment to the Certificate of Incorporation of Nextgen Communications Corporation, changing the corporation's name to "Home Solutions of America, Inc.", as filed on December 23, 2002 (filed as Exhibit A to the Company's Information Statement on Schedule 14C filed on December 22, 2002, and incorporated herein by reference).
- 3.3 Bylaws of the Company, as amended on April 2, 2001 (filed as Exhibit 3.2 to the Company's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2001, and incorporated herein by reference).
- 10.1 * 1998 Stock Option Plan (filed as Exhibit 4.1 to the Company's Annual Report on Form 10-KSB for the year ended September 30, 1998, and incorporated herein by reference).
- 10.2 Promissory Notes in principal amounts of \$3,490,000 and \$1,000,000, respectively, issued to ATNAM Enterprises, Inc. by Kenny Industrial Services, L.L.C. (filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-QSB for the quarter ended March 31, 2001, and incorporated herein by reference).
- 10.3 * 2001 Stock Plan (filed as Exhibit B to the Company's Information Statement on Schedule 14C filed on July 9, 2001, and incorporated herein by reference).
- 10.4 Note Modification Agreement dated April 30, 2001, by and between Spruce MacIntyre Holding Corp. and U S Industrial Services, Inc. (filed as Exhibit 10.6 to the Company's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2001, and incorporated

Edgar Filing: HOME SOLUTIONS OF AMERICA INC - Form 10QSB

herein by reference).

- 10.5 * Employment Agreement by and between Frank J. Fradella and U S Industrial Services, Inc., dated April 2, 2001. (filed as Exhibit 10.7 to the Company's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2001, and incorporated herein by reference).
- 10.6 * Registration Rights Agreement by and between Frank J. Fradella and U S Industrial Services, Inc., dated April 2, 2001. (filed as Exhibit 10.8 to the Company's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2001, and incorporated herein by reference).
- 10.7 * Stock Option Agreement executed December 27, 2001, to be effective as of October 3, 2000, by and between Frank J. Fradella and Nextgen Communications Corporation (filed as Exhibit 2 to Amendment No. 3 to Schedule 13D of Frank J. Fradella filed on January 3, 2002, and incorporated herein by reference).
- 10.8* Stock Option Agreement by and between R. Andrew White and Nextgen Communications Corporation, dated February 1, 2002 (filed as Exhibit 10.8 to the Company's Quarterly Report on Form 10-QSB for the quarter ended March 31, 2002, and incorporated herein by reference).
- 10.9* Employment Agreement by and between R. Andrew White and Nextgen Communications Corporation, dated March 1, 2002 (filed as Exhibit 10.9 to the Company's Quarterly Report on Form 10-QSB for the quarter ended March 31, 2002, and incorporated herein by reference).
- 10.10* First Amendment to Stock Option Agreement by and between R. Andrew White and Nextgen Communications Corporation, dated September 2, 2002 (filed as Exhibit 10.10 to the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2002, and incorporated herein by reference).

Edgar Filing: HOME SOLUTIONS OF AMERICA INC - Form 10QSB

- 10.11* Restricted Stock Purchase Agreement by and between Frank J. Fradella and US Industrial Services, Inc. dated April 2, 2001 (filed as Exhibit 10.11 to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2002, and incorporated herein by reference).
- 10.12* Employment Agreement by and between P.W. Stephens, Inc., a California corporation, and Scott Johnson, effective September 1, 2001 (filed as Exhibit 10.12 to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2002, and incorporated herein by reference).
- 10.13 Form of Registration Rights Agreement between Nextgen Communications Corporation and each of four accredited investors, dated November 19, 2002 (filed as Exhibit 10.13 to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2002, and incorporated herein by reference).
- 10.14 Form of Warrant Purchase Agreement between Nextgen Communications Corporation and each of four accredited investors, dated November 19, 2002 (filed as Exhibit 10.14 to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2002, and incorporated herein by reference).
- 10.15* Executive Employment Agreement by and between R. Andrew White and Home Solutions of America, Inc., dated March 15, 2003.+
- 10.16* First Amendment to Stock Option Agreement by and between R. Andrew White and Home Solutions of America, Inc., dated March 15, 2003.+
- 10.17* Second Amendment to Stock Option Agreement by and between R. Andrew White and Home Solutions of America, Inc., dated March 15, 2003.+
- 10.18* Consulting Agreement by and between Frank J. Fradella and Home Solutions of America, Inc., dated March 15, 2003.+
- 10.19* First Amendment to Restricted Stock Purchase Agreement by and between Frank J. Fradella and Home Solutions of America, Inc., dated March 15, 2003.+
- 10.20* First Amendment to Stock Option Agreement by and between Frank J. Fradella and Home Solutions of America, Inc., dated March 15, 2003.+
- 99.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.+

* Denotes a management contract or compensatory plan or arrangement.
+ Filed herewith.

(b) *Reports on Form 8-K*

On January 7, 2003, the Company filed a Current Report on Form 8-K, for an event that occurred on December 31, 2002, to report a change in independent accounting firms.

On January 17, 2003, the Company filed a Current Report on Form 8-K, for an event that occurred on December 27, 2002, to report the closing of the acquisition of P.W. Stephens, Inc.

On February 14, 2003, the Company filed a Current Report on Form 8-K/A, amending the Current Report on Form 8-K that was filed on January 17, 2003, to include the required financial statements of P.W. Stephens, Inc.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HOME SOLUTIONS OF AMERICA, INC.

Dated: May 15, 2003

By: /s/ R. ANDREW WHITE
R. Andrew White
President, Chief Executive Officer,
and Chief Financial Officer (Interim)

CERTIFICATIONS

I, R. Andrew White, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Home Solutions of America, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management of other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ R. ANDREW WHITE
R. Andrew White
Chief Executive Officer and Chief Financial Officer
Date: May 15, 2003