HARTMARX CORP/DE
Form 10-Q
April 09, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For quarterly period ended February 28, 2002

or

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

For the transition period from ____________ to ____________

Commission file number 1-8501

HARTMARX CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	36-3217140
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
101 North Wacker Drive Chicago, Illinois	60606
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code	312/372-6300

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, and (2) has been subject to such filing requirements for the past 90 days.

Yes X No _______

At March 31, 2002 there were 33,774,122 shares of the Company's common stock outstanding.

HARTMARX CORPORATION

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Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

HARTMARX CORPORATION

UNAUDITED CONSOLIDATED STATEMENT OF EARNINGS
(000's Omitted)

	Three Months Ended Febr	
	2002	
Net sales	$ 139,621	$
Licensing and other income	809	
	140,430	
Cost of goods sold	101,484	
Selling, general and administrative expenses	35,661	
	137,145	
Earnings before restructuring charge, interest and taxes	3,285	
Restructuring charge	-	
Earnings before interest and taxes	3,285	
Interest expense	4,170	
Loss before taxes	(885)	
Tax benefit	350	
Net loss	$ (535)	$
Basic and diluted loss per share	$ (.02)	$
Dividends per common share	$ -	$
Basic and diluted average shares outstanding	32,012	

(See accompanying notes to unaudited consolidated financial statements)

HARTMARX CORPORATION
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET
ASSETS
(000's Omitted)

CURRENT ASSETS	Feb. 28, 2002	Nov. 30, 2001
Cash and cash equivalents	$ 3,054	$ 1,555
Accounts receivable, less allowance for doubtful accounts of $10,030, $10,335 and $8,303	146,718	143,261
Inventories	127,305	149,613
Prepaid expenses	10,587	8,293
Recoverable and deferred income taxes	19,900	19,900
Total current assets	307,564	322,622
INVESTMENTS AND OTHER ASSETS	52,132	53,740
DEFERRED INCOME TAXES	44,588	43,304
PROPERTIES		
Land	2,008	2,008
Buildings and building improvements	36,688	36,565
Furniture, fixtures and equipment	102,295	102,314
Leasehold improvements	24,474	23,786
	165,465	164,673
Accumulated depreciation and amortization	(130,241)	(128,982)
Net properties	35,224	35,691
TOTAL ASSETS	$ 439,508	$ 455,357

(See accompanying notes to unaudited consolidated financial statements)

HARTMARX CORPORATION
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET
LIABILITIES AND SHAREHOLDERS' EQUITY
(000's Omitted)

	Feb. 28, 2002	Nov. 30, 2001
CURRENT LIABILITIES		
Current maturities of long-term debt	$ 25,552	$ 25,000
Accounts payable and accrued expenses	77,859	96,836
Total current liabilities	103,411	121,836
LONG-TERM DEBT, less current maturities	145,281	146,553
SHAREHOLDERS' EQUITY		
Preferred shares, $1 par value; 2,500,000 authorized and unissued	-	-
Common shares, $2.50 par value; 75,000,000 shares authorized; 36,619,564 shares issued at February 28, 2002, 36,280,064 shares issued at November 30, 2001 and 36,328,564 shares issued at February 28, 2001.	91,549	90,700
Capital surplus	70,349	80,236
Retained earnings	46,259	46,794
Unearned employee benefits	(4,416)	(3,931)
Common shares in treasury, at cost, 2,922,148 at February 28, 2002, 6,076,646 at November 30, 2001 and 6,406,207 at February 28, 2001.	(12,889)	(26,801)
Accumulated other comprehensive income (loss)	(36)	(30)
Total shareholders' equity	190,816	186,968
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 439,508	$ 455,357

(See accompanying notes to unaudited consolidated financial statements)

HARTMARX CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENT
OF CASH FLOWS
(000's Omitted)

Three Months Ended

	2002
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from operating activities:	
Net loss	$ (535)
Reconciling items to adjust net loss to net cash provided by (used in) operating activities:	
Depreciation and amortization of fixed assets	1,642
Amortization of long lived assets, debt discount and unearned employee benefits	1,232
Changes in:	
Receivables, inventories, prepaids and other assets	15,389
Accounts payable and accrued expenses	(16,357)
Taxes and deferred taxes on earnings	(1,279)
Net cash provided by (used in) operating activities	92
Cash Flows from investing activities:	
Capital expenditures	(1,027)
Cash paid for acquisition	(2,156)
Cash proceeds from sale of assets held for sale	1,071
Net cash used in investing activities	(2,112)
Cash Flows from financing activities:	
Increase in borrowings under Credit Facility	12,493
Payment of 10 7/8% senior subordinated notes in connection with note exchange	(9,404)
Purchase of 10 7/8% senior subordinated notes	-
Payment of debt	(130)
Other equity transactions	560
Net cash provided by financing activities	3,519
Net increase (decrease) in cash and cash equivalents	1,499
Cash and cash equivalents at beginning of period	1,555
Cash and cash equivalents at end of period	$ 3,054
Supplemental cash flow information:	
Net cash paid during the period for:	
Interest	$ 5,000
Income taxes	900

Non-cash financing transaction:
Pursuant to the January 16, 2002 exchange of the Company's new 12 1/2% senior unsecured notes, ca
for the maturing 10 7/8% senior subordinated notes, as more fully described in the Notes to Unaud
Consolidated Financial Statements, the Company exchanged $25,321 in debt and issued 2,949,495 sha
treasury stock.

(See accompanying notes to unaudited consolidated financial statements)

HARTMARX CORPORATION

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1

The accompanying financial statements are unaudited, but in the opinion of management include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of operations, financial position and cash flows for the applicable period presented. Results of operations for any interim period are not necessarily indicative of results for any other periods or for the full year. These unaudited interim financial statements should be read in conjunction with the financial statements and related notes contained in the Annual Report on Form 10-K for the year ended November 30, 2001. Certain prior year amounts have been reclassified to conform to the current year's presentation.

Note 2

The calculation of basic earnings per share for each period is based on the weighted average number of common shares outstanding. The calculation of diluted earnings per share reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock using the treasury stock method. None of the 2,500,000 authorized preferred shares for Hartmarx Corporation have been issued.

Note 3

Long-term debt comprised the following (000's omitted):

	Feb. 28, 2002	Nov. 30, 2001	Feb. 28, 2001
Borrowings under Credit Facility	$ 97,469	$ 84,976	$ 82,50
Term loan	15,000	15,000	
12 1/2% senior unsecured notes, net	21,638	-	
10 7/8% senior subordinated notes, net	-	34,721	60,58
Industrial development bonds	17,250	17,250	17,31
Mortgages and other debt	19,476	19,606	2,58
	170,833	171,553	162,98
Less - current	25,552	25,000	15,07
Long-term debt	$ 145,281	$ 146,553	$ 147,90

In March 1994, the Company entered into a then three-year financing agreement providing for a senior credit facility ("Credit Facility") with a group of lenders at which time it also issued $100 million principal amount of 10 7/8% Senior Subordinated Notes due January 15, 2002 ("Notes") in a public offering. The Credit Facility currently provides for maximum revolving borrowings of $200 million (subject to the borrowing base calculations and minimum excess availability requirements), including a $50 million letter of credit sub-facility. The Credit Facility currently is in effect through June 2003.

Several amendments to the Company's Credit Facility were completed during fiscal 2001 to address (i) operating results which required revisions to certain financial covenants, (ii) additional financing resources required relating to the acquisition of the Consolidated Apparel Group, L.L.C. ("CAG") and (iii) financing alternatives regarding the January 15, 2002 maturity of the $34.7 million of outstanding Notes. On December 13, 2001, the Company entered into an amendment under its Credit Facility whereby a requirement to obtain $25 million of junior capital by December 14, 2001 would be satisfied by the completion of an exchange offer for the Company's Notes and a requirement to obtain $10 million of additional liquidity proceeds ($5.8 million of such proceeds realized as of February 28, 2002) was extended to June 30, 2002. This amendment also adjusted various covenants under the Credit Facility to reflect current and anticipated business levels and provides borrowing availability which the Company believes under current circumstances will be sufficient to fund its operations after making the cash payments to the holders of the Notes who exchanged their Notes in the exchange offer and to those who were paid upon maturity of the notes.

The exchange offer was accepted by holders of 91.2% of the Notes and was successfully completed on January 16, 2002. For each $1,000 principal amount of Notes outstanding, the Company paid $200 in cash and issued $800 principal amount of new 12 1/2% senior unsecured notes ("New Notes") due September 15, 2003 and 93 shares of common stock. Upon completion of the exchange offer, all of the $34.7 million of Notes were retired and $25.3 million face value of New Notes were issued. The New Notes have been recorded at estimated fair value, which at February 28, 2002 was $21.6 million, reflecting unamortized debt discount of $3.7 million.

The Credit Facility includes various other events of default and contains certain restrictions on the operation of the business, including covenants pertaining to capital expenditures, asset sales, operating leases and incurrence or existence of additional indebtedness and liens, as well as other customary covenants, representations and warranties, and events of default. As of February 28, 2002, the Company is in compliance with all covenants under the Credit Facility and its other borrowing agreements. The Company expects that it will satisfy the various provisions of its Credit Facility, as amended, and its other borrowing agreements; however, there can be no assurance that the Company will remain in compliance with its financial covenants.

Note 4

Inventories at each date consisted of (000's omitted):

	Feb. 28, 2002	Nov. 30, 2001	Feb. 28, 2001
Raw materials	$ 42,135	$ 46,227	$ 51,032
Work-in-process	5,563	7,758	12,958
Finished goods	79,607	95,628	111,395
	$ 127,305	$ 149,613	$ 175,385

Inventories are stated at the lower of cost or market. At February 28, 2002, November 30, 2001 and February 29, 2001, approximately 38%, 48% and 53% of the Company's total inventories, respectively, are valued using the last-in, first-out (LIFO) method representing certain work-in-process and finished goods. The first-in, first-out (FIFO) method is used for substantially all raw materials and the remaining inventories.

Note 5

The Company is engaged in the manufacturing and marketing of apparel. The Company's customers comprise major department and specialty stores, value oriented retailers and direct mail companies. The Company 's Men's Apparel Group designs, manufactures and markets tailored clothing, slacks, sportswear and dress furnishings; the Women's Apparel Group markets women's career apparel, sportswear and accessories to both retailers and to individuals who purchase women's apparel through a direct mail catalog.

Information on the Company's operations and total assets for the three months ended and as of February 28, 2002 and 2001 is summarized as follows (in millions):

	Men's Apparel Group	Women's Apparel Group	Adj.	Consol.
2002				
Net sales	$127.5	$12.1	-	$139.6
Earnings (loss) before taxes	6.0	(0.1)	(6.8)	(0.9)
Total assets	299.5	36.5	103.5	439.5
2001				
Net sales	$126.9	$14.3	$ -	$141.2
Earnings (loss) before taxes	4.2	0.6	(6.3)	(1.5)
Total assets	327.1	36.0	92.1	455.2

During the three months ended February 28, 2002 and 2001, there were no intergroup sales and there was no change in the basis of measurement of group earnings or loss.

Operating expenses incurred by the Company in generating sales are charged against the respective group; indirect operating expenses are allocated to the groups benefitted. Group results exclude any allocation of general corporate expense, interest expense or income taxes.

For the three months ended February 28, 2001, Men's Apparel Group results include $.6 million of restructuring charges.

Amounts included in the "adjustment" column for earnings (loss) before taxes consist principally of interest expense and general corporate expenses. Adjustments of total assets are for cash, recoverable and deferred income taxes, investments, other assets and corporate properties. The Men`s Apparel Group total assets include goodwill related to acquisitions.

Note 6

During the third quarter of 2001, the Company acquired certain assets, properties and operations of the Consolidated Apparel Group, L.L.C. ("CAG"), a privately held marketer of popular priced sportswear. The acquisition was consistent with the Company's previously stated strategy to expand its apparel offerings in non-tailored product categories. The purchase price of the assets acquired was $18 million plus the assumption of debt and other specified payables and accruals. Additional contingent consideration is payable to the seller based upon the achievement of specified levels of earnings before interest and taxes of the business during five annual periods within a specified period beginning July 1, 2001, or upon a change in control. Such contingent consideration is considered as additional purchase price and, accordingly, is reflected as goodwill. CAG's results of operations have been included in the Company's financial statements since the effective date of the acquisition. Pursuant to the terms of the purchase agreement, contingent consideration of $1.8 million earned for the initial period ended November 30, 2001 and recorded as additional goodwill as of that date was paid to the seller during the first quarter of fiscal 2002.

Note 7

During fiscal 2001, the Company initiated a number of gross margin improvement and cost reduction actions in response to the weak sales of apparel at retail and reduced consumer confidence. These actions included the wind-up of certain moderate tailored clothing operations, the closing of six facilities engaged in fabric cutting and sewing operations, one distribution center, several administrative offices, early voluntary retirement programs and other administrative workforce reductions. The accompanying statement of earnings for the three months ended February 28, 2001 reflects a restructuring charge of $.6 million, representing costs for severance and related fringe benefits and estimated closing costs for owned facilities or exist costs for leased facilities.

The remaining liability balance at February 28, 2002 consisted of the following (000's omitted):

	Severance and Benefits	Lease Termination and Facility Closing Costs
Balance November 30, 2001	$ 1,165	$ 3,427
Payments during 2002	834	553
Balance at February 28, 2002	$ 331	$ 2,874

In April 2002, one sewing facility was closed and the one time costs associated with this action are currently estimated in the range of $.6 million to $.8 million and will be reflected as a restructuring charge in the Company's second fiscal quarter ending May 31, 2002.

Note 8

Comprehensive income, which includes all changes in the Company's equity during the period, except transactions with stockholders, was as follows (000's omitted):

	Three Months Ended	
	Feb. 28, 2002	Feb. 28, 2001
Net loss	$ (535)	$ (895)
Other comprehensive income (loss):		
Change in fair value of foreign currency hedge contracts, net of tax	(6)	286
Comprehensive loss	$ (541)	$ (609)

Accumulated Other Comprehensive Income (Loss) consists of the following (000's omitted):

As of November 30, 2001	$ (30)
Current period change in fair value of foreign exchange contracts, net of tax	(6)
As of February 28, 2002	$ (36)

Note 9

Effective on December 1, 2001, the Company adopted Financial Accounting Standards Board Statement No. 142, "Goodwill and Other Intangible Assets". Upon adoption of the new standard, the Company ceased amortizing goodwill relating to acquisitions prior to June 30, 2001, of which the net carrying amount was approximately $1.3 million, and no adjustment to the carrying value of goodwill was required.

HARTMARX CORPORATION

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

Liquidity and Capital Resources

November 30, 2001 to February 28, 2002

Since November 30, 2001, net accounts receivable increased $3.5 million or 2.4% to $146.7 million, reflecting the seasonal increase from tailored clothing shipments in the Men's Apparel Group, largely offset by seasonal collections of trade receivables related to CAG. Inventories of $127.3 million declined $22.3 million or 14.9% reflecting normal seasonal decreases in the Men's Apparel Group, but also from the actions to reduce inventory commitments in light of the generally lackluster environment at retail for apparel products and de-emphasis or elimination of certain brands or programs not offering the prospects of adequate profitability over the long term. Net properties decreased $.5 million to $35.2 million as depreciation expense exceeded capital additions. Accounts payable and accrued expenses declined $19.0 million reflecting normal seasonal payments and the reduced inventory commitments. Total debt, including current maturities, decreased $.7 million to $170.8 million, as the seasonal increase in working capital requirements that would ordinarily result was more than offset by the actions taken to reduce inventories. Total debt represented 47% of total capitalization at February 28, 2002 compared to 48% at November 30, 2001.

In addition to the information provided below relating to debt, credit facilities, guarantees, future commitments, liquidity and risk factors, the reader should also refer to the Company's Annual Report on Form 10-K for the year ended November 30, 2001.

In March 1994, the Company entered into the Credit Facility with a group of lenders for an initial $175 million commitment and three-year term, at which time it also issued $100 million principal amount of Notes in a public offering. The Credit Facility currently provides for maximum revolving borrowings of $200 million (subject to borrowing base calculations and minimum excess availability requirements), including a $50 million letter of credit sub-facility. The Credit Facility is in effect through June 2003.

Several amendments to the Company's Credit Facility were completed during 2001 to address (i) operating results which required revisions to certain financial covenants and minimum excess availability levels, (ii) additional financing resources required related to the CAG acquisition, and (iii) financing alternatives regarding the January 15, 2002 maturity of the $34.7 million of outstanding Notes. On December 13, 2001, the Company entered into a Credit Facility amendment whereby a requirement to obtain $25 million of junior capital by December 14, 2001 would be satisfied by the completion of an exchange offer for the Notes, and a requirement to obtain $10 million of additional liquidity proceeds was extended to June 30, 2002 ($5.8 million of such proceeds realized as of February 28, 2002). This amendment also adjusted various covenants under the Credit Facility to reflect more current and anticipated business levels and provided borrowing availability which the Company believes under current circumstances will be sufficient to fund its operations after making the cash payments to the holders of the Notes who exchanged their Notes in the exchange offer and pay the unexchanged Notes at maturity. The exchange offer was accepted by holders of 91.2% of the Notes and was successfully completed on January 16, 2002. For each $1,000 principal amount of Notes outstanding, the Company paid $200 in cash and issued $800 principal amount of new 12 1/2% senior unsecured notes ("New Notes") and 93 shares of common stock. Upon completion of the exchange offer, $25.3 million face value of New Notes due September 15, 2003 and 2.9 million additional common shares were issued and all of the $34.7 million of Notes were retired. The Credit Facility includes various other events of default and contains certain restrictions on the operation of its business, including covenants pertaining to capital expenditures, asset sales, operating leases and incurrence or existence of additional indebtedness and liens, as well as other customary covenants, representations and warranties, and events of default. As of February 28, 2002, the Company is in compliance with all covenants under the Credit Facility and its other borrowing agreements. The Company expects it will satisfy the various provisions of its Credit Facility, as amended, and its other borrowing agreements; however, there can be no assurance that the Company will remain in compliance with its financial covenants.

There are a number of factors which can affect the Company's ability to (i) remain in compliance with the financial covenants currently contained in its Credit Facility, and to a lesser extent, in its other borrowing arrangements or, alternatively, (ii) to obtain replacement financing for its Credit Facility. The following summarizes the most significant items:

> The apparel environment is cyclical, and the level of consumer spending on apparel often declines during recessionary periods when disposable income declines. The tailored clothing market relating to suits has experienced unit declines for the past several years. If the tailored clothing market continues to decline, sales and profitability would be adversely affected.

> Continuation of the trend toward casual dressing in the workplace could further reduce the demand for tailored clothing products, especially for tailored suits. While the Company markets several sportswear and casual product lines, consumer receptiveness to these casual and sportswear product offerings may not offset the declines in the tailored clothing unit sales.

> The Company's customers include major U.S. retailers (certain of which are under common ownership and control), several of whom reported declines in sales during various monthly periods of 2001, as well as into fiscal 2002. A decision by the controlling management of a group of stores or any other significant customer, whether motivated by competitive conditions, financial difficulties or otherwise, to decrease the amount of merchandise purchased from the Company, or change their manner of doing business could have a material adverse effect on the Company's financial conditions and results of operations.

> The completion on January 16, 2002 of the previously described exchange offer satisfied the principal debt service requirement for fiscal 2002. The Company's Credit Facility requires, among other things, that the Company maintain cumulative consolidated adjusted earnings before interest, taxes, depreciation and amortization and other specified non-cash items at or above a prescribed minimum for designated periods. If the Company is not able to maintain its minimum cumulative adjusted earnings amount or satisfy the $4.2 million remaining additional liquidity proceeds requirement, particularly if current recessionary economic trends persist, or if there is insufficient cash flow and capital resources to meet debt service obligations, the Company would need its lenders to approve a modification of such earnings covenants, to refinance or further restructure its debt obligations or to obtain additional equity capital. The Company has from time to time engaged in discussions with other potential lenders concerning alternative or additional sources of financing. While the Company believes alternative sources of financing are available, there can be no assurance that alternative financing would be available and if so, on acceptable terms.

> The Company relies on the continuing willingness of suppliers and trade factors to extend credit to finance inventory purchases. There can be no assurance that such suppliers and factors will continue to extend credit to the Company on the same basis as in the past.

The Company's various borrowing arrangements are either fixed rate or variable rate borrowing arrangements. None of the arrangements have rating agency "triggers" which would impact either the borrowing rate or borrowing commitment. The Company has not entered into off balance sheet financing arrangements, other than operating leases, and has made no financial commitments or guarantees with any unconsolidated subsidiaries or special purpose entities. All of the Company's subsidiaries are wholly owned and included in the accompanying unaudited consolidated financial statements. There have been no related party transactions nor any other transactions which have not been conducted on an arm's-length basis.

At February 28, 2002, the Company had approximately $12 million of letters of credit outstanding, relating to either contractual commitments for the purchase of inventories from unrelated third parties or for such matters as workers' compensation requirements in lieu of cash deposits. Such letters of credit are issued pursuant to the Company's $200 million Credit Facility and are considered as usage for purposes of determining the maximum available credit line and excess availability. The Company has also entered into surety bond arrangements aggregating $8.3 million with unrelated parties for the purposes of satisfying workers' compensation deposit requirements of various states where the Company has operations. At February 28, 2002, there were an aggregate of $1 million of outstanding foreign exchange contracts directly related to inventory purchase commitments during 2002. The Company has not committed to and has not provided any guarantees of other lines of credit, stand-by letters of credit, repurchase obligations, etc., to any other third party.

February 28, 2001 to February 28, 2002

Net accounts receivable of $146.7 million increased $3.5 million or 2.5%, principally reflecting the inclusion of CAG. Inventories of $127.3 million declined $48.1 million or 27.4%, reflecting the previously described actions taken to reduce inventories. Current period inventories included $5.0 million attributable to CAG. Net properties of $35.2 million decreased $.4 million, as the $.8 million attributable to CAG and capital additions were more than offset by higher depreciation expense and valuation allowances to reflect the closing or disposition of certain facilities associated with 2001 restructuring actions. Accounts payable and accrued expenses of $77.9 million declined $15.4 million primarily reflecting the lower inventory levels. Debt levels are being favorably impacted by the reduced inventories and other restructuring actions. At November 30, 2001 total debt had been $46 million higher than the year earlier amount. At February 28, 2002, total debt of $170.8 million was $7.9 million higher than the year earlier level and by March 31, 2002 total debt was $12.3 million lower than the year earlier amount. Total debt represented 47% of total capitalization at February 28, 2002 compared to 45% at February 28, 2001.

Results of Operations

First Quarter 2002 Compared to First Quarter 2001

First quarter consolidated sales were $139.6 million compared to $141.2 million in 2001; higher in-stock tailored clothing shipments and increased sportswear sales largely offset lower tailored clothing Spring `02 advance order shipments. Current period revenues included approximately $7 million related to the acquisition of CAG. Women's Apparel Group revenues, which represented 9% and 10% of consolidated sales in 2002 and 2001, respectively, decreased approximately $2.2 million. Aggregate sportswear and other non-tailored clothing product categories represented approximately 38% of total first quarter revenues compared to 37% a year ago.

The consolidated gross margin percentage to sales was 27.3% compared to 27.9% last year; the current period gross margin rate was adversely affected by the disposition of surplus inventories. Consolidated selling, general and administrative expenses declined to $35.7 million in the current period from $37.6 million in 2001 and the ratio to sales was 25.5% in 2002 compared to 26.7% in 2001. Overall expense reductions emanating from the various 2001 restructuring actions are being realized as anticipated. The current period also reflected $3.0 million of incremental expenses related to the inclusion of CAG and the Hickey-Freeman retail store in New York City which opened in October 2001.

Earnings before interest and taxes (EBIT) were $3.3 million in 2002 compared to $1.8 million last year; the prior period included a restructuring charge of $.6 million. EBIT represented 2.4% of net sales in 2002 and 1.3% of net sales in 2001, reflecting the improved operating expense ratio compared to the prior year. Interest expense was $4.2 million this period compared to $3.3 million last year; the current period reflected $.8 million of non-cash interest, including $.3 million of debt discount amortization related to the new notes. The consolidated pre-tax loss was $.9 million compared to a loss of $1.5 million last year. After reflecting the applicable tax benefit, the consolidated net loss was $.5 million this period compared to a loss of $.9 million last year. The basic and diluted loss per share was $.02 compared to a loss of $.03 per share in 2001.

It is anticipated that second quarter revenues will be below the second quarter of 2001, reflecting the current difficult retail environment and the impact of lower Spring `02 advance orders which retailers placed approximately six months previously. The expected expense savings from the 2001 restructuring actions are being realized. One additional manufacturing facility was closed in April 2002 and one time costs associated with this action, estimated to be in the range of $.6 million to $.8 million, will be included as a restructuring charge in second quarter results. In-stock business continues to be ahead of the prior year levels and Fall `02 advance orders are trending higher in the better and luxury price-point tailored clothing product categories, which are expected to contribute to a stronger second half and profitability for the full year.

This quarterly report on Form 10-Q contains forward-looking statements made in reliance upon the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The statements could be significantly impacted by such factors as the level of consumer spending for men's and women's apparel, the prevailing retail environment, the Company's relationships with its suppliers, customers, lenders, licensors and licensees, actions of competitors that may impact the Company's business and the impact of unforeseen economic changes, such as interest rates, or in other external economic and political factors over which the Company has no control. The reader is also directed to the Company's 2001 Annual Report on Form 10-K for additional factors that may impact the Company's results of operations and financial condition. Forward-looking statements are not guarantees as actual results could differ materially from those expressed or implied in forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Item 3 -- Quantitative and Qualitative Disclosures About Market Risk

The Company does not hold financial instruments for trading purposes or engage in currency speculation. The Company enters into foreign exchange forward contracts from time to time to limit the currency risks associated with purchase obligations denominated in foreign currencies. Foreign exchange contracts are generally for amounts not to exceed forecasted purchase obligations and require the Company to exchange U.S. dollars for foreign currencies at rates agreed to at the inception of the contracts. These contracts are typically settled by actual delivery of goods. The effects of movements in currency exchange rates on these instruments, which have not been significant, are recognized in earnings in the period in which the purchase obligations are satisfied. As of February 28, 2002, the Company had entered into foreign exchange contracts, aggregating approximately $1 million corresponding to approximately 1 million euros, primarily related to inventory purchases applicable to fiscal 2002.

The Company is subject to the risk of fluctuating interest rates in the normal course of business, primarily as a result of borrowings under its Credit Facility, which bear interest at variable rates. The variable rates may fluctuate over time based on economic conditions, and the Company could be subject to increased interest payments if market interest rates rise rapidly. In the last three years, the Company has not used derivative financial instruments to manage interest rate risk.

Part II -- OTHER INFORMATION

Item 2 - Changes in Securities and Use of Proceeds

(A) None

(B) None

(C) In connection with the consummation of its exchange offer for its 10 7/8% Senior Subordinated Notes Due 2002 (the "Notes") on January 16, 2002, the Company issued an aggregate of 2,949,495 shares of its Common Stock, par value $2.50 per share (the "Common Stock") to holders of the Notes in exchange for an aggregate of $31,682,000 principal amount of the Notes. In the exchange offer, holders of the Notes also received an aggregate cash payment of $6,361,000, and an aggregate of $25,321,000 principal amount of the Company's 12 1/2% Senior Unsecured Notes due 2003. The Common Stock was issued in a transaction exempt from registration under Section 3(a)(9) under the Securities Act of 1933, as amended.

(D) None

Item 6. Exhibits and Reports on Form 8-K

(A) Exhibits:

None

(B) On December 17, 2001, the Company filed a Form 8-K relating to an Offer to Exchange 12 1/2% Senior Subordinated Notes due 2005 and cash for all of the outstanding 10 7/8% Senior Subordinated Notes due 2002.

On January 10, 2002, the Company filed a Form 8-K amending its pending exchange offer to exchange 12

1/2% Senior Unsecured Notes due 2003, cash and stock for all of the outstanding 10 7/8% Senior Subordinated Notes due 2002.

SIGNATURES

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 thereunto duly authorized.

HARTMARX CORPORATION

April 9, 2002 By /s/ GLENN R. MORGAN

Glenn R. Morgan
Executive Vice President,
Chief Financial Officer and Treasurer

(Principal Financial Officer)

April 9, 2002 By /s/ ANDREW A. ZAHR

Andrew A. Zahr
Vice President and Controller

(Principal Accounting Officer)