Home Products International, Inc.
Distress Investing Case
by Prof. Fernando Diz

Background Information[1]
Home Products International, Inc. (the "Company" or "HPI") through its wholly owned subsidiary designs, manufactures and markets a broad range of quality consumer housewares products. The Company is a leading supplier to large national retailers of value-priced laundry management products, general storage products, closet storage products, bath ware products, kitchen storage products and juvenile products. The Company holds a significant market share in the United States in each of its key product categories. The Company's products are sold in the United States through most of the large national retailers, including Wal-Mart, Target, Kmart, Home Depot, Toys 'R Us, Walgreen's and Bed Bath & Beyond. The Company generated $233.6 million in net sales for 2003, which makes HPI one of the largest companies in the fragmented U.S. consumer housewares industry.

The Company was originally founded as Salix, Inc. ("Selfix") in 1952. In February 1997, the Company became the holding company for, and successor registrant under the Securities Exchange Act of 1934 ("Exchange Act") to Selfix and Selfix became a wholly owned subsidiary of the Company through a holding company reorganization under the laws of the State of Delaware. Currently, the Company has one operating subsidiary, Home Products International – North America, Inc. ("HPNA"). Effective December 26, 1999, all of the Company's operating subsidiaries were merged into HPNA.

CONSOLIDATION STRATEGY
The Company plans to take advantage of consolidation opportunities in the housewares industry, a large market comprised of a highly fragmented supplier base. To provide complete product lines to national retailers, suppliers of housewares products have begun to consolidate. The Company believes that there are numerous excellent acquisition candidates because the suppliers of consumer houseware products are highly fragmented with no single supplier accounting for more than 10% of the total sales. The Company believes it is well positioned to pursue its strategy of growth through acquisitions given its access to the capital markets and its increased visibility from its acquisitions.

To improve margins and operating efficiencies, the Company believes large national retailers are continuing to reduce their number of suppliers of housewares products. These retailers are forming key partnerships with suppliers that can provide complete product lines within product categories, profitable fast-turning products, timely delivery and merchandising support. With its numerous product lines and strong relationships with these retailers, the Company believes it is well positioned to continue to meet their needs.

The Company intends to aggressively pursue a strategy of disciplined growth through acquisitions. By consolidating product lines and channels of distribution through acquisitions, the Company has successfully found tremendous cost-saving synergies among its acquired companies. The Company believes it can successfully gain market share and increase sales in all of its key product categories.

[1] From company 10K for fiscal year ended December 26, 1998 and December 27, 2003.

The following are acquisitions that the company completed in the 1997-1999 period.

Entity	Date Acquired
Tamor Plastics Corporation and its affiliated product distribution company Houseware Sales, Inc.	January 1, 1997
Seymour Sales Corporation and its wholly owned subsidiary Seymour Housewares Corporation	December 30, 1997
Tenex Corporation's consumer product storage line	August 14, 1998
Prestige Plastics, Inc. (AHP and PI)	September 8, 1998
Epic product lines	May 12, 1999

Tamor Acquisition
Effective January 1, 1997, the Company acquired Tamor Plastics Corporation, a privately held company founded in 1947, and its affiliated product distribution company, Houseware Sales, Inc. (collectively "Tamor"). Tamor designs, manufactures and markets quality plastic housewares products within the general storage, closet storage and juvenile product categories. Tamor was merged into HPNA effective December 26, 1999. ($43 million in cash and assumption of debt).

Seymour Acquisition
Effective December 30, 1997, the Company acquired Seymour Sales Corporation and its wholly owned subsidiary, Seymour Housewares Corporation (collectively, "Seymour"), a privately held company originally founded in 1942. Seymour is a leading designer, manufacturer, and marketer of consumer laundry care products. Seymour produces a full line of ironing boards, ironing board covers and pads and numerous laundry related accessories. Seymour was merged into HPNA effective December 26, 1999. (Purchase price of $100.6 million from a private equity firm.)

Tenex Asset Acquisition
Effective August 14, 1998, the Company acquired certain assets (inventory and molds) which comprised Tenex Corporation's consumer product storage line. This product line consisted of plastic storage bins and containers, rolling carts and stacking drawer systems. (Purchase price of $16.4 all cash transaction).

Newell Asset Acquisition
Effective September 8, 1998 the Company acquired the assets and assumed certain liabilities comprising the businesses of Anchor Hocking Plastics ("AHP") and Plastics, Inc. ("PI"). AHP is a leading supplier of food storage containers and PI is a leading supplier of disposable plastic serving ware. Prestige Plastics, Inc. (a subsidiary of the Company created to facilitate the acquisition of AHP and PI) was merged into HPNA effective December 26, 1999. (Purchase price of $78 million.)

1999 Acquisition
Effective May 12, 1999, the Company acquired certain assets (primarily inventory and molds) from Austin Products, Inc. which were sold under the Epic brand name. The product lines obtained included the following plastic housewares products: laundry baskets, tote caddies, crates, bins and utility buckets.

Customers

DEPENDENCE UPON A SINGLE CUSTOMER OR FEW CUSTOMERS (1998 vs. 2003)

1998
The Company is dependent upon a few customers for a large portion of its revenues. In 1998 and 1997 two customers each accounted for more than 10% of consolidated net sales. The Company's top

two customers, Wal-Mart and Kmart, accounted for 18.5% and 12.1% of net sales respectively in 1998. These same two customers accounted for 15.7% and 10.1% respectively in 1997. The loss of one of these customers could have a material effect on the Company. No other customer accounted for more than 10% of consolidated net sales in 1998 or 1997.

2003

The Company is dependent upon a few customers for a large portion of its consolidated net sales. The table below sets forth the customers that each account for more than 10% of consolidated net sales. The loss of one of these customers could have a material effect on the Company. No other customer accounted for more than 10% of consolidated net sales in 2003, 2002 or 2001.

	2003	2002	2001
	Net Sales %	Net Sales %	Net Sales %
Kmart	33.2%	29.6%	20.4%
Walmart	27.6%	27.5%	25.4%
Target	12.5%	16.6%	12.4%
Total	73.3%	73.7%	58.2%

In January 2002, Kmart Corporation filed a petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code and in May 2003 emerged from bankruptcy. Throughout 2002 and into 2003 Kmart continued to close underperforming stores. Kmart accounted for approximately 33% of the Company's consolidated net sales in 2003. Although the Company plans to continue doing business with Kmart for the foreseeable future and, based upon the information currently available, believes that Kmart's prior bankruptcy proceedings and store closings will not have any material adverse effect on the Company's business, financial condition or results of operations, there can be no assurances that further deterioration, if any, in Kmart's financial condition will not have such an effect on the Company.

Competition

The consumer products business is highly competitive. The Company competes with numerous other manufacturers and distributors of consumer products, many of which are larger and have substantially greater resources than the Company, and which may therefore have the ability to spend more aggressively on advertising and marketing and have more flexibility than the Company to respond to changing business and economic conditions. The Company's principal customers are national and regional discounters, hardware/home centers, food/drug stores, juvenile stores and specialty stores. The rapid growth of these large mass merchandisers, together with changes in consumer shopping patterns, have contributed to a significant consolidation of the consumer products retail industry and the formation of dominant multi-category retailers, many of which have strong bargaining power with suppliers. This environment significantly limits the Company's ability to recover cost increases through selling prices. Other trends among retailers are to foster high levels of competition among suppliers, to demand that manufacturers supply innovative new products and to require suppliers to maintain or reduce product prices and deliver products with shorter lead times. Another trend, in the absence of a strong new product development effort or strong end-user brands, is for the retailer to import generic products directly from foreign sources. The combination of these market influences has created an intensely competitive environment in which the Company's principal customers continuously evaluate which product suppliers to use, resulting in pricing pressures and the need for new product introductions and line extensions and continuing improvements in customer service.

The Company believes that large mass merchandisers are continuing to reduce the number of suppliers of housewares products with which they do business to improve margins and operating efficiencies. These retailers are forming key relationships with suppliers that can provide complete product lines within product categories, profitable fast-turning products, timely delivery and merchandising support. With its numerous product lines and strong relationships with these retailers, the Company believes that it is well positioned to continue to meet their needs.

The Company currently manufacturers most of its laundry products in the U.S. and Mexico. Management believes that its current manufacturing structure provides increased flexibility to meet customer needs. All of the Company's major laundry competitors rely heavily on foreign sourced products. Such products are produced in several countries, including a significant portion from China. These foreign sourced competitive products have been introduced at selling prices below ours. This has caused our profit margins and market share to decline. We have initiated many cost cutting and other steps to protect our market share and profit margins. We are also aggressively pursuing the increased importation of certain laundry products. We will continue to analyze the competitiveness of our North American based laundry manufacturing operations.

Financial Statements
1998

CONSOLIDATED STATEMENTS OF OPERATIONS

	FISCAL YEAR		
	1998	1997	1996
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
Net sales	$252,429	$129,324	$38,200
Cost of goods sold	169,213	88,888	22,992
Gross profit	83,216	40,436	15,208
Operating expenses			
Selling	31,262	18,332	9,042
Administrative	15,796	8,474	4,600
Amortization of intangible assets	5,508	882	201
	52,566	27,688	13,843
Operating profit	30,650	12,748	1,365
Other income (expense)			
Interest income	236	50	80
Interest (expense)	(15,568)	(5,152)	(707)
Other income (expense)	33	20	68
	(15,299)	(5,082)	(559)
Earnings before income taxes and extraordinary charge	15,351	7,666	806
Income tax (expense)	(6,601)	(346)	--
Earnings before extraordinary charge	$ 8,750	$ 7,320	$ 806
Extraordinary charge for early retirement of debt, net of tax benefits of $3,633	(5,107)	--	--
Net earnings	$ 3,643	$ 7,320	$ 806
Earnings before extraordinary charge, per common share -- basic	$ 1.11	$ 1.35	$ 0.21
Extraordinary charge for early retirement of debt, net of tax	(0.65)	--	--
Net earnings per common share -- basic	$ 0.46	$ 1.35	$ 0.21
Earnings before extraordinary charge, per common share -- diluted	$ 1.07	$ 1.29	$ 0.21
Extraordinary charge for early retirement of debt, net of tax	(0.62)	--	--
Net earnings per common share -- diluted	$ 0.45	$ 1.29	$ 0.21

CONSOLIDATED STATEMENTS OF CASH FLOWS

	FISCAL YEAR		
	1998	1997	1996
		(IN THOUSANDS)	
OPERATING ACTIVITIES:			
Net earnings	$ 3,643	$ 7,320	$ 806
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	14,731	5,687	2,214
Extraordinary charge on early retirement of debt	8,739	--	--
Changes in assets and liabilities:			
Increase in accounts receivable	(11,933)	(5,428)	(1,786)
Decrease (increase) in inventories	6,644	(2,280)	760
Decrease in refundable income taxes	--	--	222
Decrease (increase) in net deferred tax asset	2,096	(3,466)	--
Increase (decrease) in accounts payable	4,163	(4,695)	622
(Decrease) increase in accrued liabilities	(1,315)	5,060	(793)
Other operating activities, net	(6,075)	(1,320)	(222)
Net cash provided by operating activities	20,693	878	1,823
INVESTING ACTIVITIES:			
Tamor Acquisition, net of cash acquired	--	(27,876)	--
Seymour Acquisition, net of cash acquired	(84,882)	--	--
Tenex Asset Acquisition	(16,725)	--	--
Newell Asset Acquisition, net of cash acquired	(78,321)	--	--
Proceeds from sale of marketable securities	--	--	515
Capital expenditures, net	(11,933)	(8,382)	(1,624)
Net cash used by investing activities	(191,861)	(36,258)	(1,109)
FINANCING ACTIVITIES:			
Payments on borrowings -- 2/27/97 Facility	(28,076)	(34,609)	(860)
Payments on borrowings -- 12/30/97 Facility	(120,000)	--	--
Payments on Industrial Revenue Bonds	(2,400)	--	--
Borrowings, net -- 12/30/97 Facility	117,538	--	--
Borrowings, net -- Senior Subordinated Notes	120,809	--	--
Borrowings, net -- $50,000 Term Loan	49,460	--	--
Borrowings, net -- term loans and warrant	--	44,158	--
Borrowings under revolving line of credit, net	44,000	3,355	--
Prepayment penalty on early retirement of debt	(3,282)	--	--
Net proceeds from secondary stock offering	--	20,171	--
Payment of capital lease obligation	(335)	(164)	(32)
Purchase of treasury stock	(2,378)	--	--
Exercise of common stock options and issuance of common stock under stock purchase plan	235	174	74
Net cash provided (used) by financing activities	175,571	33,085	(818)
Net increase (decrease) in cash and cash equivalents	4,403	(2,295)	(104)
Cash and cash equivalents at beginning of year	583	2,878	2,982
Cash and cash equivalents at end of year	4,986	$ 583	$ 2,878

CONSOLIDATED BALANCE SHEETS

	AS OF FISCAL YEAR END 1998	AS OF FISCAL YEAR END 1997
	(IN THOUSANDS, EXCEPT SHARE AMOUNTS)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,986	$ 583
Accounts receivable, net of allowance for doubtful accounts of $7,196 at December 26, 1998 and $1,716 at December 27, 1997	50,238	20,802
Notes and other receivables	--	80
Inventories, net	25,296	12,797
Prepaid expenses and other current assets	6,880	428
Total current assets	87,400	34,690
Property, plant and equipment -- at cost	87,854	47,634
Less accumulated depreciation and amortization	(27,654)	(19,254)
Property, plant and equipment, net	60,200	28,380
Deferred income taxes	10,491	3,466
Intangible and other assets	181,952	32,807
Total assets	$340,043	$ 99,343
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Current maturities of long-term obligations	$ 3,549	$ 3,850
Accounts payable	20,510	9,664
Accrued liabilities	35,664	12,913
Total current liabilities	59,723	26,427
Other long term liabilities	2,783	--
Long-term obligations -- net of current maturities	219,536	30,700
Stockholders' equity:		
Preferred stock -- authorized, 500,000 shares, $.01 par value; none issued	--	--
Common stock -- authorized 15,000,000 shares, $.01 par value; 8,024,123 shares issued at December 26, 1998 and 6,674,271 shares issued at December 27, 1997	80	67
Additional paid-in capital	48,455	33,956
Retained earnings	12,259	8,616
Common stock held in treasury -- at cost (376,462 shares at December 26, 1998 and 58,762 at December 27, 1997)	(2,642)	(264)
Currency translation adjustments	(151)	(159)
Total stockholders' equity	58,001	42,216
Total liabilities and stockholders' equity	$340,043	$ 99,343

Summary of Relevant data 1997-1999

	FISCAL YEAR				
	1999	1998	1997	1996	1995
	(IN THOUSANDS, EXCEPT SHARE DATA)				
STATEMENT OF OPERATIONS DATA:					
Net sales..............................	$294,001	$252,429	$129,324	$38,200	$41,039
Cost of goods sold....................	195,301	169,213	88,888	22,992	25,678
Special charges......................	8,589	--	--	--	--
Gross profit................	90,111	83,216	40,436	15,208	15,361
Operating expenses....................	59,889	52,566	27,688	13,843	17,385
Restructuring and other expenses......	5,966	--	--	--	--
Other nonrecurring expenses...........	445	--	--	--	--
Restructuring charge..................	--	--	--	--	2,051
Operating profit (loss).....	23,811	30,650	12,748	1,365	(4,075)
Interest expense......................	20,271	15,568	5,152	707	896
Other income, net.....................	542	269	70	148	688
Earnings (loss) before income taxes and extraordinary charge............	4,082	15,351	7,666	806	(4,283)
Income tax expense (benefit)..........	2,072	6,601	346	--	(273)
Net earnings (loss) before extraordinary charge................	$ 2,010	$ 8,750	$ 7,320	$ 806	$(4,010)
Net earnings (loss) before extraordinary charge per common share -- basic......................	$ 0.27	$ 1.11	$ 1.35	$ 0.21	$ (1.11)
Net earnings (loss) before					

HOME PRODUCTS INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	FISCAL YEAR		
	1999	1998	1997
	(IN THOUSANDS)		
OPERATING ACTIVITIES:			
Net earnings	$ 2,010	$ 3,643	$ 7,320
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Write off of fixed and other assets included in the Special and Restructuring Charges	3,940	--	--
Depreciation and amortization	16,241	14,731	5,687
Extraordinary charge on early retirement of debt	--	8,739	--
Changes in assets and liabilities:			
Increase in accounts receivable	(10,302)	(11,933)	(5,428)
Decrease (increase) in inventories	1,119	6,644	(2,280)
Decrease (increase) in prepaids and other current assets	(713)	(6,452)	(328)
Decrease (increase) in net deferred tax asset	2,074	2,096	(3,466)
Increase (decrease) in accounts payable	3,716	4,163	(4,695)
(Decrease) increase in accrued liabilities	(1,836)	(1,315)	5,060
Other, net	(1,634)	377	(992)
Net cash provided by operating activities	14,615	20,693	878
INVESTING ACTIVITIES:			
Proceeds on sale of business, net	4,092	--	--
Proceeds on sale of building	977	--	--
1999 Acquisition	(5,962)	--	--
Tamor Acquisition, net of cash acquired	--	--	(27,876)
Seymour Acquisition, net of cash acquired	--	(84,882)	--
Tenex Asset Acquisition	--	(16,725)	--
Newell Asset Acquisition, net of cash acquired	571	(78,321)	--
Capital expenditures, net	(14,698)	(11,933)	(8,382)
Net cash used by investing activities	(15,020)	(191,861)	(36,258)
FINANCING ACTIVITIES:			
Borrowings under revolving line of credit, net	4,250	44,000	3,355
Additions to capital lease obligation	3,137	--	--
Borrowings, net -- Senior Subordinated Notes	--	120,809	--
Borrowings, net -- $50,000 Term Loan	--	49,460	--
Borrowings, net -- 12/30/97 Facility	--	117,538	--
Borrowings, net -- term loans and warrant	--	--	44,158
Payments -- $50,000 Term Loan	(3,000)	--	--
Payments on Industrial Revenue Bonds	(400)	(2,400)	(800)
Payment of capital lease obligation	(167)	(335)	(164)
Payments on borrowings	--	(148,076)	(33,809)
Prepayment penalty on early retirement of debt	--	(3,282)	--
Purchase of treasury stock	(3,886)	(2,378)	--
Net proceeds from secondary stock offering	--	--	20,171
Exercise of common stock options and issuance of common stock under various stock plans	346	235	174
Net cash provided by financing activities	280	175,571	33,085
Net increase (decrease) in cash and cash equivalents	(125)	4,403	(2,295)
Cash and cash equivalents at beginning of year	4,986	583	2,878
Cash and cash equivalents at end of year	4,861	4,986	$ 583
Supplemental disclosures:			
Cash paid during the year for:			
Interest	$ 19,864	$ 11,436	$ 3,568
Income taxes, net	$ 3,485	$ 3,458	$ 1,255

	AS OF FISCAL YEAR END	
	1999	1998
	(IN THOUSANDS, EXCEPT SHARE AMOUNTS)	
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,861	$ 4,986
Accounts receivable, net of allowance for doubtful accounts of $10,158 at December 25, 1999 and $7,196 at December 26, 1998	59,571	50,238
Inventories, net	24,064	25,296
Prepaid expenses and other current assets	7,558	6,880
Total current assets	96,054	87,400
Property, plant and equipment -- at cost	98,678	87,854
Less accumulated depreciation and amortization	(31,420)	(27,654)
Property, plant and equipment, net	67,258	60,200
Deferred income taxes	8,417	10,491
Intangible and other assets	172,177	181,952
Total assets	$343,906	$340,043
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term obligations	$ 5,571	$ 3,549
Accounts payable	23,820	20,510
Accrued liabilities	33,651	35,664
Total current liabilities	63,042	59,723
Other long term liabilities	2,908	2,783
Long-term obligations -- net of current maturities	221,334	219,536
Stockholders' equity:		
Preferred stock -- authorized, 500,000 shares, $.01 par value; none issued	--	--
Common stock -- authorized 15,000,000 shares, $.01 par value; 8,068,863 shares issued at December 25, 1999 and 8,024,123 shares issued at December 26,1998	81	80
Additional paid-in capital	48,800	48,455
Retained earnings	14,269	12,259
Common stock held in treasury -- at cost (822,394 shares at December 25, 1999 and 376,462 at December 26, 1998)	(6,528)	(2,642)
Currency translation adjustments	--	(151)
Total stockholders' equity	56,622	58,001
Total liabilities and stockholders' equity	$343,906	$340,043

2003

HOME PRODUCTS INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Year		
	2003	2002	2001
	(in thousands, except per share amounts)		
Net sales	$ 233,602	$ 249,192	$ 249,721
Cost of goods sold	197,560	190,705	188,299
Special income, net	—	(106)	(414)
Gross profit	36,042	58,593	61,836
Operating expenses:			
Selling and marketing	17,054	17,233	17,886
General and administrative	12,747	13,496	19,024
Amortization of intangible assets	503	505	3,190
Restructuring and other income, net	(1,245)	(1,303)	(480)
Asset impairment charges	—	567	—
	29,059	30,498	39,620
Operating profit	6,983	28,095	22,216
Other income (expense):			
Interest income	64	86	38
Interest expense	(13,653)	(13,823)	(18,284)
Other income, net	2,140	473	13,985
	(11,449)	(13,264)	(4,261)
Earnings (loss) before income taxes	(4,466)	14,831	17,955
Income tax expense	(6,871)	(527)	(975)
Net earnings (loss)	$ (11,337)	$ 14,304	$ 16,980
Net earnings (loss) per common share—basic	$ (1.42)	$ 1.83	$ 2.24
Net earnings (loss) per common share—diluted	$ (1.42)	$ 1.73	$ 2.19

HOME PRODUCTS INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Year		
	2003	2002	2001
		(in thousands)	
Operating activities:			
Net earnings (loss)	$ (11,337)	$ 14,304	$ 16,980
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Non-cash restructuring income and asset impairment charges, net	(1,986)	(842)	—
Depreciation and amortization	10,322	10,416	13,379
Amortization of restricted stock compensation	170	227	227
Gain on the sale of the servingware product line	—	(663)	(14,489)
Gain on bond buyback	(2,258)	—	—
Charge on early retirement of debt	—	—	598
Loss on the abandonment of assets	45	169	—
Decrease in deferred income taxes	7,766	435	—
Other operating activities, net	512	936	473
Changes in assets and liabilities, excluding acquisitions and divestitures:			
(Increase) decrease in accounts receivable	889	(14,588)	6,727
(Increase) decrease in inventories	6,427	(7,493)	7,238
Decrease in prepaids and other current assets	485	396	1,064
Increase (decrease) in accounts payable	(1,561)	6,152	(2,189)
Decrease in accrued liabilities	(9,031)	(653)	(6,682)
Net cash provided by operating activities	443	8,796	23,326
Investing activities:			
Proceeds on sale of the servingware product line, net	—	—	69,501
Proceeds on sale of building	—	—	1,218
Capital expenditures, net	(6,467)	(5,084)	(5,213)
Net cash (used for) provided by investing activities	(6,467)	(5,084)	65,506
Financing activities:			
Borrowings (payments) under loan and security agreement	9,811	(859)	859
Bond buyback at cost	(6,692)	—	—
Payment of debt issuance costs	(220)	—	—
Payments under revolving line of credit	—	—	(50,000)
Payments – $50,000 Term Loan	—	—	(40,500)
Payments on Industrial Revenue Bonds	—	—	(1,200)
Payment of capital lease obligation	(93)	(86)	(163)
Exercise of common stock options and issuance of common stock under various stock plans	41	116	111
Net cash provided by (used in) financing activities	2,847	(829)	(90,893)
Net increase (decrease) in cash and cash equivalents	(3,177)	2,883	(2,061)
Cash and cash equivalents at beginning of year	3,974	1,091	3,152
Cash and cash equivalents at end of year	$ 797	$ 3,974	$ 1,091

CONSOLIDATED BALANCE SHEETS

	As of Fiscal Year End	
	2003	2002
	(in thousands, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 797	$ 3,974
Accounts receivable, net of allowance for doubtful accounts and deductions of $4,824 at December 27, 2003 and $6,839 at December 28, 2002	47,963	48,937
Inventories	17,903	25,357
Deferred income taxes	—	2,559
Prepaid expenses and other current assets	2,421	1,879
Total current assets	69,084	82,706
Property, plant and equipment—at cost	91,647	91,917
Less accumulated depreciation and amortization	(58,835)	(54,728)
Property, plant and equipment, net	32,812	37,189
Deferred income taxes	—	5,207
Patents and non-compete agreements, net	608	1,111
Goodwill, net	73,752	73,752
Other non-current assets	4,019	3,553
Total assets	$ 180,275	$ 203,518
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Revolving line of credit and other current debt	$ 9,969	$ 158
Accounts payable	21,425	22,986
Accrued liabilities	17,976	28,993
Total current liabilities	49,370	52,137
Long-term obligations—net of current debt	120,578	129,621
Other long term liabilities	3,986	4,293
Stockholders' equity:		
Preferred stock—authorized, 500,000 shares, $.01 par value; none issued	—	—
Common stock—authorized 15,000,000 shares, $.01 par value; 8,687,828 shares issued at December 27, 2003 and 8,671,079 shares issued at December 28, 2002	87	87
Additional paid-in capital	50,077	50,036
Accumulated deficit	(37,295)	(25,958)
Common stock held in treasury—at cost (822,394 shares at December 27, 2003 and December 28, 2002)	(6,528)	(6,528)
Unearned employee benefits	—	(170)
Total stockholders' equity	6,341	17,467
Total liabilities and stockholders' equity	$ 180,275	$ 203,518

Market for Registrant's Common Stock
1998-99

The Company's common stock is traded on The NASDAQ National Market(SM) under the symbol *"HPII"*. The Company believes that as of February 11, 1999 there were 275 holders of record and in excess of 1,000 beneficial holders of the Company's common stock.

The Company has never paid a cash dividend on its common stock and currently anticipates that all of its earnings will be retained for use in the operation and expansion of its business.

The following table sets forth for the periods indicated the high and low sales prices for the Common Stock as reported on The NASDAQ National Market(SM). The prices reported reflect inter-dealer prices, without retail mark-up, markdown or commission, and may not reflect actual transactions.

The following table sets forth for the periods indicated the high and low sales prices for the Common Stock as reported on The NASDAQ National Market(SM).

	HIGH	LOW
Fifty-two weeks ended December 25, 1999:		
First Quarter	$11.75	$ 8.63
Second Quarter	$ 9.56	$ 8.19
Third Quarter	$11.88	$ 7.50
Fourth Quarter	$11.00	$ 8.38
Fifty-two weeks ended December 26, 1998:		
First Quarter	$16.50	$10.75
Second Quarter	$16.63	$10.00
Third Quarter	$11.69	$ 8.00
Fourth Quarter	$10.75	$ 6.88

2003

The Company's common stock is traded on The NASDAQ SmallCap Market^{SM} under the symbol "HOMZ". The Company believes that as of March 1, 2004 there were approximately 220 holders of record and in excess of 1,250 beneficial holders of the Company's common stock.

The Company has never paid a cash dividend on its common stock and currently anticipates that all of its future earnings, if any, will be retained for use in the operation and expansion of its business. The Company's 9.625% Senior Subordinated Notes due 2008 issued in a public offering in May 1998 contain certain restrictions on the Company's ability to pay dividends.

The following table sets forth for the periods indicated the high and low bid prices for the common stock as reported on The NASDAQ SmallCap Market^{SM}. Such quotations reflect inter-dealer prices, without retail mark-up, markdown or commission and may not necessarily represent actual transactions.

	2003		2002	
	High	Low	High	Low
First Quarter	$5.03	$2.25	$4.19	$1.90
Second Quarter	$3.13	$2.00	$5.45	$3.31
Third Quarter	$2.43	$1.20	$4.75	$2.98
Fourth Quarter	$1.91	$1.00	$4.75	$2.52

During the fourth quarter of fiscal 2003, the Company did not repurchase (in the open market or otherwise) any of its outstanding Common Stock. As of December 27, 2003, the Company did not have any plan or program in place with respect to the repurchase of its outstanding Common Stock.

Capital Resources and Liquidity

Long-term debt obligations 1998.

Long-term obligations consist of the following:

	1998	1997
Revolving credit facility, variable rate, due September 8, 2003	$ 44,000	$ --
Term Loan, variable rate, due September 8, 2004	50,000	--
Senior Subordinated Notes, 9.625%, due 2008	125,000	--
2/27/97 Facility, variable rate, due 2002	--	$28,076
Illinois Development Finance Authority (IDFA) variable rate demand Industrial Development Revenue bonds (Shutters, Inc. Project) Series 1989, due November 1, 2002	--	2,000
Illinois Development Finance Authority (IDFA) variable rate demand Industrial Development Revenue Bonds (Selfix, Inc. Project) Series 1990, due September 1, 2005	2,000	2,400
Capital lease obligations	2,085	2,074
	223,085	34,550
Less current maturities	(3,549)	(3,850)
	$219,536	$30,700

In connection with the Tamor Acquisition, (as more fully described in Note 3) the Company entered into a credit agreement dated February 27, 1997 with GECC (the "2/27/97 Facility") which provided (i) a $20,000 revolving credit facility; $3,355 outstanding at December 27, 1997, (ii) $40,000 in term loans; $24,721 outstanding at December 27, 1997, and (iii) a $7,000 subordinated equity bridge note (the "Subordinated Note"); the Subordinated Note was repaid on June 24, 1997 as indicated below. In connection with the Subordinated Note, the Company issued a warrant (the "Warrant") to purchase 79,204 shares of common stock, exercisable at 50% of the Market price ($5.80 per share), as defined in the Warrant. The exercise period commenced on August 1, 1997, and terminates on February 27, 2007. The Warrant was recorded by the Company at its estimated fair value of $400. As of December 26, 1998 the Warrant had not been exercised.

On May 14, 1998, the Company issued $125,000,000 of 9.625% Senior Subordinated Notes due 2008 (the *"Notes"*) in a public offering. Interest on the Notes is payable semi-annually on May 1, and November 1. The Notes are guaranteed by the Company's subsidiaries (see Note 14). The Notes may not be redeemed prior to May 15, 2003. Subsequent to such date, at the option of the Company, the Notes may be redeemed at various amounts as set forth in the Indenture, but not at a price less than 100% of par value. Upon the occurrence of a Change in Control, as defined in the Indenture, the holders of the Notes have the right to require the Company to repurchase their Notes at a price equal to 101% of par value plus accrued interest. The Notes contain certain restrictions that, among other things, will limit the Company's ability to (i) incur additional indebtedness unless certain financial ratios are met, (ii) pay dividends, (iii) make certain asset dispositions, or (iv) merge with another corporation. The Company was following all covenants related to the Notes as of December 26, 1998.

Liquidity (1998)
Cash and cash equivalents at December 26, 1998 were $5.0 million as compared to $0.6 million at December 27, 1997. The increase in cash is partially the result of a change in the mechanics of the Company's primary credit facility. Prior to the May 1998 Refinancing (as defined below) the Company was required to remit collected funds daily to repay borrowings under the Company's revolving line of credit. The daily sweeps of cash were no longer required after the Company's primary credit facility was refinanced with new lenders in May 1998. All available cash is invested in overnight Eurodollar sweeps which earn approximately 5.5% per annum.

The Company's financial structure has significantly changed since 1997. To complete the acquisition of Seymour Housewares in early 1998 the Company increased its borrowings to include a $20.0 million revolving line of credit, and $110.0 million of term loans. In May 1998 the Company refinanced all its debt to provide a more stable platform to implement its consolidation strategy. On May 14, 1998 the Company issued $125.0 million of Senior Subordinated Notes (the *"Notes"*) due in 2008. Proceeds from the offering were used to prepay approximately $122.0 million of indebtedness (primarily from previous acquisitions) and fund certain transaction costs. Concurrently with the offering, the Company entered into a revolving credit agreement in the maximum principal amount of $100.0 million (the *"Revolver"*), which replaced the Company's prior $20.0 million revolving credit facility. The Notes and the Revolver are collectively referred to herein as the *"May 1998 Refinancing"*. Availability under the Revolver as of December 26, 1998 was $51.9 million. The Notes and the Revolver each contain various affirmative, negative and financial covenants. The Company was in compliance with all covenants related to the Notes and the Revolver as of December 26, 1998.

In August 1998 the Company used $16.4 million of available funds from the Revolver to complete the Tenex Asset Acquisition. In September 1998, the Company amended and restated the Revolver to include, among other things, a $50.0 million term loan (the *"Term Loan"*). The Term Loan, along with $28.0 million of available funds from the Revolver were used to complete the Newell Asset Acquisition.

Capital spending of $11.9 million in 1998 was used to acquire molds to support new product introductions, additional injection molding machines and to purchase the Company's Missouri manufacturing/warehouse facility, which was previously leased. The Company's capital spending needs in 1999 are expected to be between $15.0 and $20.0 million. Capital projects anticipated for 1999 include upgrading computer hardware and software, additional injection molding machines, a warehouse expansion and new molds to support product development. Where possible, management will pursue alternative means of financing such as capital leases and purchase money transactions. In addition, operating leases will be pursued to the extent it represents an attractive economic alternative.

The Company believes its existing financing facilities together with its cash flow from operations will provide sufficient capital to fund operations, make the required debt repayments and meet the anticipated capital spending needs. Management intends to continue to pursue its consolidation strategy within the housewares industry. The ability to successfully fund future acquisitions will depend on the financial situation of the target company, the availability of funds under the Revolver, the possibility of obtaining additional financing, and the ability to use company stock in lieu of cash.

Long-term debt obligations 1999

NOTE 10. LONG-TERM OBLIGATIONS

Long-term obligations consist of the following:

<TABLE>
<CAPTION>

	1999	1998
<S>	<C>	<C>
Revolving credit facility, variable rate, due September 8, 2003	$ 48,250	$ 44,000
Term Loan, variable rate, due September 8, 2004	47,000	50,000
Senior Subordinated Notes, 9.625%, due 2008	125,000	125,000
Illinois Development Finance Authority (IDFA) variable rate demand Industrial Development Revenue Bonds (Selfix, Inc. Project) Series 1990, due September 1, 2005	1,600	2,000
Capital lease obligations	5,055	2,085
	226,905	223,085
Less current maturities	(5,571)	(3,549)
	$221,334	$219,536

Liquidity 1999

Cash and cash equivalents on December 25, 1999 were $5.0 million, unchanged from a year ago. The Company's total debt increased from $223.1 million a year ago to $226.9 million on December 25, 1999. The increase in debt is attributable to several factors, including increased working capital, capital spending and the Company's stock buyback program.

The Company's working capital, excluding cash and short-term debt, increased from $26.2 million in 1998 to $33.7 million at year end 1999. The increase was largely due to higher accounts receivable from customers. Customers slowed down payments in the fourth quarter to meet their own purposes. The increase in receivables is not the result of collection issues.

Capital spending of $14.7 million in 1999 primarily consisted of $5.3 million to expand existing facilities in Chicago and Mexico, $3.6 million related to new computer systems (including the cost of installation) and $2.4 million to support new product development. The Company's capital spending needs in 2000 are expected to be $12-18 million. Capital projects expected for 2000 include molds to support new product development and sales growth, outfitting of the El Paso facility and new injection molding machines to improve productivity. As in the past, management will pursue alternative means of financing including leasing. During 1999, off balance sheet financing totaling $6.6 million was obtained through operating leases of machinery and equipment. The Company has entered into a 10-year lease for the El Paso facility. The lease includes a purchase option prior to the end of the lease term.

During 1999, the Company spent $3.9 million to buy back 446,000 shares of its publicly issued stock. The shares were purchased at an average price of $8.71 per share. Management believes its existing financing facilities together with its cash flow from operations will provide sufficient capital to fund operations, make required debt repayments and meet anticipated capital spending needs.

Liquidity (2003)
The Company's primary sources of liquidity and capital resources include cash provided from operations and borrowings under the Company's credit facility. The Company generates cash by the profitable sale of its products. Disbursements of cash for materials and services generally occur during the manufacturing and purchasing process, which is usually 30-90 days prior to sale. Collection of receivables generally occurs approximately 45-60 days after shipment. For certain large promotional items that typically ship in the fourth quarter, we begin building inventory in the second and third quarters. The inventory for these promotional items typically is not turned to cash until the first quarter. The timing of cash flows is further impacted by the semi-annual interest payments on the high-yield bonds. Interest payments of about $6.0 million occur in May and November. As a result of the operational seasonality and the timing of the interest payments, the Company normally has positive cash flow in the first quarter and negative cash flow for the balance of the year. In 2003, cash flow (defined as the change in net debt and cash) was positive $9.4 million in the first quarter and was a negative $13.4 million for the last 9 months. Cash flow in the last nine months of the year benefited from a buyback of high-yield bonds. Bonds with a face value of $9.0 million were purchased at a total cost of $6.5 million, resulting in a $2.5 million overall reduction of debt.

Collection of receivables is highly dependent on the financial strength of the Company's top three customers: Kmart, Wal-Mart, and Target. These three customers accounted for 73% of the Company's net sales in 2003. To the extent that any of them fall into financial distress and fail to timely pay amounts due, it would have an adverse impact on ongoing operations.

In 2004, the Company's expects that its cash usage will be like 2003. Significant sales growth is not expected, there are no current plans for significant expansion, no debt comes due and capital spending is expected to remain at about $6.5 million. There are plans, however, to increase the Company's procurement of inventory manufactured outside the United States. This will likely result in higher inventories and additional risk of obsolescence. It is therefore likely that the Company will again have negative cash flow in 2004. Such negative cash flow would be funded by the Company's asset based $50,000 Loan and Security Agreement (the "Loan Agreement"). Unused availability under the Loan Agreement was $35.1 million as of December 27, 2003, and there is expected to be sufficient financing capability to fund operations throughout 2004. There are no required debt principal repayments until May 2008.

During 2003, the Company's cash and cash equivalents decreased to $0.8 million on December 27, 2003 from $4.0 million at December 28, 2002. The decrease in cash since December 28, 2002, is primarily the result of the Company's loss from operations for the year. In addition, the buyback of high-yield bonds was financed with Loan Agreement borrowings. The Loan Agreement borrowings currently have interest rates that are about 600 basis points less than the high-yield bonds thus the buyback of bonds provided interest expense savings. Borrowings under the Company's Loan Agreement increased $9.8 million during the year to fund the operating losses and the bond buybacks.

Although the Company reported an $11.3 million loss for the year, $18.0 million of the loss relates to non-cash charges for depreciation, amortization and valuation allowances for deferred tax assets. Working capital (excluding cash and short-term debt) at December 27, 2003 was $28.9 million, up $2.1 million from December 28, 2002. Receivables decreased $0.9 million due to lower sales in the fourth quarter of 2003 as compared to the fourth quarter of 2002. Inventories decreased $6.4 million during the year due to reduced factory running rates in the fourth quarter and the pending closure of the Company's Eagan, Minnesota warehouse. Current liabilities declined $10.6 million during the year due to a reduced need for volume rebate accruals and other sales program incentives on the

Company's reduced sales year to year, a reduction in incentive compensation accruals and a reduction in reserves for restructuring.

Capital spending for the year was $6.5 million as compared to $5.1 million in 2002. Capital spending was primarily related to new product tooling and normal replacement of equipment.

During the third quarter of 2003 the Company's Board of Directors authorized the buyback of up to $15 million of the Company's outstanding high-yield bonds. As of December 27, 2003, the Company had repurchased bonds at a cost of $6.5 million.

The Loan Agreement covenants require the Company to maintain excess availability at all times of at least $7.5 million. On December 27, 2003, the eligible asset base was $55.5 million. Thus, we could borrow up to $48 million under the Loan Agreement. On December 27, 2003, our borrowings under the Loan Agreement were $9.8 million and outstanding letters of credit totaled $3.1 million. Accordingly, we still had availability under the Loan Agreement of $35.1 million.

The Company was in compliance with all Loan Agreement covenants as of December 27, 2003.

On July 31, 2003, the Company and Fleet Capital Corporation entered into several amendments to the Company's Loan Agreement. The amendments extend the life of the facility by 29 months to March 31, 2008, and also provide expanded definitions of availability. The amendments added approximately $13 million to net availability under the Loan Agreement.

On September 19, 2003, the Company and Fleet Capital Corporation entered into a fourth amendment to the Company's Loan Agreement. The amendment significantly decreased the Company's one financial covenant, cash interest coverage ratio, to accommodate management's forecast of future operating results. The cash interest coverage ratio was reduced from 1.25 to 0.70 as of September 27, 2003, the end of the Company's third fiscal quarter. The cash interest coverage ratio will remain at 0.70 until June 2004 at which point the ratio begins a quarterly increase until it returns to the 1.25 level in June 2005. The amendment had no impact on the Company's borrowing base, line of credit or interest rates. On December 27, 2003, the Company's cash interest coverage ratio was 1.25. The earnings component of the covenant is the trailing twelve-month earnings before interest, taxes, depreciation and amortization. Certain costs related to factory realignments are also excluded. For the twelve months ended December 27, 2003, the earnings component of the covenant was $16.3 million. For a definition of cash interest coverage ratio as it is used in the Loan Agreement, refer to the Company's Current Report on Form 8-K filed on September 24, 2003.

The Company believes amounts available under the Loan Agreement, together with its existing cash and cash flow from operations, will provide sufficient capital to fund operations, make required interest payments and meet anticipated capital spending needs for the next 12 months.

The following is a table providing the aggregate annual contractual obligations of the Company including debt, capital lease obligations, future minimum rental commitments under operating leases and purchase obligations on December 27, 2003 and the effect such obligations are expected to have on our liquidity and cash flows in the future periods indicated.

Contractual Obligations	Payments Due by Period (in thousands) Total	1 year	2-3 years	4-5 years	After 5 years
Revolving line of credit	$ 9,811	$ 9,811	$ —	$ —	$ —
Long-term debt	116,050	—	—	116,050	—
Capital lease obligations	13,887	944	1,870	1,846	9,227
Minimum rental commitments under operating leases	21,444	5,131	8,516	5,661	2,136
Purchase obligations (estimated) (1)	33,832	33,832	—	—	—
Total contractual cash obligations	$ 195,024	$49,718	$10,386	$ 123,557	$11,363

Statement of Cash Flows as of March 2004 (from 10-Q)

HOME PRODUCTS INTERNATIONAL, INC.

Condensed Consolidated Statements of Cash Flows
(Amounts in thousands)
(Unaudited)

	Thirteen weeks ended March 27, 2004	Thirteen weeks ended March 29, 2003
Operating activities:		
Net loss	$ (203)	$ (3,146)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	2,130	2,346
Amortization of restricted stock compensation	—	57
Other, net	422	350
Changes in current assets and liabilities:		
Decrease in accounts receivable	14,386	24,481
Increase in inventories	(5,185)	(2,597)
Increase in prepaid expenses and other	(381)	(143)
Increase (decrease) in accounts payable	1,713	(4,509)
Increase (decrease) in accrued liabilities	590	(6,224)
Net cash provided by operating activities	13,472	10,615
Investing activities:		
Capital expenditures, net	(924)	(1,236)
Net cash used in investing activities	(924)	(1,236)
Financing activities:		
Net repayments under loan and security agreement	(9,811)	—
Payments of capital lease obligation	(32)	(23)
Exercise of stock options, issuance of common stock under stock purchase plan and other	8	28
Net cash (used in) provided by financing activities	(9,835)	5
Net increase in cash and cash equivalents	2,713	9,384
Cash and cash equivalents at beginning of period	797	3,974
Cash and cash equivalents at end of period	$ 3,510	$13,358

In 1999 investor Sam Zell and Martin J. Whitman were considering taking control of Home Products International, Inc. In late

How?

The company has approximately 8,000,000 shares outstanding and the largest shareholder is Chase Venture Capital Associates, LLC (*"CVCA, LLC"*) which held 1,332,660 shares or about 17% of the shares outstanding. (Form 4 Filed on 2/11/2000, SEC File 0-17237 for the 5/20/1998). The market price range for the common was between $10.0 and $16.0 per share.

Valuation? Going concern? Liquidating?

In a private transaction, Chase Venture Capital asking price was $20.00 per share or between a 25% to 100% premium over market.

The 9.625% senior subordinated notes maturing on 5/15/2008 were selling in the market at a 22% yield to maturity.