HOME PRODUCTS INTERNATIONAL INC
Form 10-K
April 01, 2005

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

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended January 1, 2005

Or

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

Commission File Number 0-17237

HOME PRODUCTS INTERNATIONAL, INC.

(Exact name of registrant as specified in its Charter)

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

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: None

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).
Yes o No þ

Aggregate market value of common stock held by non-affiliates (assuming solely for the purpose of this calculation that all directors, officers and 10% beneficial owners of the registrant are affiliates as of June 26, 2004 was $7,429,270. See Business Shareholder Transaction . At March 5, 2005, 8,154,587 shares of common stock, par value $0.01, were outstanding.

Documents Incorporated by Reference: None

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Subsidiary of the Registrant
Consent of Independent Registered Public Accounting Firm
Certification
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PART I

Item 1. Business

(a) General Development of Business

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, bathware products and kitchen storage 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 and Kmart. The Company generated $260.3 million in net sales for 2004, which makes HPI one of the largest companies in the fragmented U.S. consumer housewares industry.

The Company was originally founded as Selfix, 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.

Shareholder Transaction

On October 28, 2004, the Company and Storage Acquisition Company, L.L.C., a Delaware limited liability company (Acquirer), entered into an Acquisition Agreement (the Acquisition Agreement) under which the Acquirer was to make a tender offer for 100% of the Company s common stock for $2.25 per share in cash (the Acquisition). On December 13, 2004, the Acquirer and the Company jointly announced that the Acquirer had completed its tender offer for the outstanding shares of common stock (including the associated preferred stock purchase rights) of the Company for $2.25 per share, net to the seller, in cash without interest. As a result of the tender offer, the Acquirer obtained 93% of the outstanding common shares. Collectively, the process that led to the Acquisition Agreement and the completion of the tender offer is referred to herein as the Shareholder Transaction .

On December 15, 2004 the Company s common stock was delisted from The NASDAQ SmallCap Market. In addition, the Company s common stock was deregistered under the Exchange Act effective on March 15, 2005. This resulted in the suspension under the federal securities laws of the Company s obligation to file certain periodic financial reports with the SEC.

Notwithstanding the suspension of its obligation to file periodic financial reports under the federal securities laws, the terms of the Company s indenture governing its 9-5/8% Senior Subordinated Notes due 2008 requires the Company to voluntarily file the same annual, periodic and current reports that it was previously required to file as an SEC registrant so long as the indenture covenants remain in effect (the notes issued under the indenture have a stated maturity date of May 14, 2008 and are subject to earlier redemption in certain circumstances).

Website Access to Exchange Act Reports

The Company s Internet address is www.homz.biz. On its web site, located at www.homz.biz, the Company posts the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission: its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the

Exchange Act. All such filings on the Company s Investor Relations web site are available free of charge. The information contained on or connected to such website is not incorporated by reference into this Form 10-K and should not be considered part of this or any other report that the Company files or furnishes to the Commission. Interested parties may also find the Company s filings electronically at the SEC s website www.sec.gov.

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(b) Financial information about segments.

Based upon the requirements of Statement of Financial Accounting Standards (SFAS) No. 131, management of the Company has determined that HPI operates within a single segment Housewares. As such, the required information for this section is contained in the Consolidated Financial Statements as included in Part II, Item 8 of this Form 10-K.

(c) Narrative description of business.

General storage products. The Company offers a variety of plastic storage containers, rolling carts and stacking drawer systems. The storage containers range in size from shoe boxes to jumbo (50 gallon) totes, and include specialty containers sold during the winter holiday season. Storage containers contain a variety of product attributes, including removable wheels and dome-top lids, which increase storage capacity. The rolling carts and stacking drawer systems come in a wide range of sizes and number of shelving drawers.

Laundry management products. The Company offers a variety of ironing boards and management believes that the Company has a leading U.S. market share. The Company is also a leading manufacturer of ironing board covers and pads. These include a variety of different types of covers and pads in a multitude of different designs that fit not only its own ironing boards, but all standard size boards. The Company markets proprietary Martha Stewart laundry products at Kmart and Michael Graves branded products at Target. Additionally, the Company is a leading U.S. producer of laundry accessories. Key products within this category include: wood and metal drying racks, laundry bags, hampers and sorters, and clothes pins.

Closet storage products. This category is comprised primarily of plastic clothes hangers. Due to the commodity nature of the hanger category, margins in this category are inherently lower, while unit volumes are substantially higher than in the Company s other product lines. The Company has a broad product offering that the Company believes gives it a competitive advantage over other hanger manufacturers. Also included in this category are other plastic organizers, closet and clothing organization products.

Bathware products. The Company markets a broad line of value-priced plastic bath accessories and organizers. These include shower organizers, plastic towel bars, shelves, soap dishes, portable shower sprays and fog-free shower mirrors. The Company believes it is a leading producer of opening price-point plastic bath accessories.

Kitchen storage products. Food storage products are plastic items of varying size and shape and are approved for use in contact with food by the United States Food and Drug Administration. Food storage products are sold in value packs ranging from two to sixty-four piece sets. The Company introduced a disposable food storage line in 2003 to complement its core food storage products. Also included in this product line are sinkware and wire organization products.

Historical Consolidated Net Sales by Product Category

The following table sets forth the amounts and percentages of the Company s historical consolidated net sales by product categories within the housewares segment for the periods indicated.

	2004		2003		2002	
	Net Sales	%	Net Sales	%	Net Sales	%
General storage	$ 122,705	47%	$ 106,659	46%	$ 102,718	41%
Laundry management	77,827	30%	73,631	31%	86,626	35%
Closet storage	35,787	14%	30,255	13%	29,287	12%
Bathware	13,526	5%	13,843	6%	18,580	7%
Kitchen storage	10,432	4%	9,214	4%	11,981	5%
Total net sales	$ 260,277	100%	$ 233,602	100%	$ 249,192	100%

Customers

The Company is dependent upon a few customers for a large portion of its consolidated net sales. During 2004, Wal-Mart, Kmart and Target accounted for 31.4%, 28.3% and 12.4%, respectively, of the Company s consolidated net sales. During 2003, Wal-Mart, Kmart and Target accounted for 27.6%, 33.2% and 12.5%, respectively, of the Company s consolidated net sales. During 2002, Wal-Mart, Kmart and Target accounted for 27.5%, 29.6% and 16.6%, respectively, of the Company s consolidated net sales. The loss of one of these customers could have a material adverse effect on the Company. No other customer accounted for more than 10% of consolidated net sales in 2004, 2003 or 2002.

One of the Company s largest customers is Kmart. After emerging from bankruptcy in May 2003, Kmart has improved its financial performance. However, Kmart continues to report declines in same store sales and has further reduced its store count during 2004. Kmart has paid all of its current obligations to the Company on time. Given the size of the Company s sales to Kmart, and the uncertainty of factors related to Kmart s business, no assurance can be given as to the Company s future results related to Kmart. In 2004, Kmart announced two transactions involving the sale of up to 74 stores, or approximately 5% of Kmart s store base. In addition Kmart merged with Sears in early 2005. It is not yet possible to determine the potential impact of these transactions on Kmart s purchases from the Company.

Marketing and Distribution

The Company s products are sold through national and regional discounters, hardware/home centers, food/drug stores, juvenile stores and specialty stores. The Company sells directly to major retail customers through its sales management personnel and through manufacturers representatives. Management believes that one of its greatest opportunities is to fully leverage the Company s long-standing relationships with these customers to gain additional market share in its core product lines and to successfully introduce new and enhanced product lines.

The Company s primary marketing strategy is to design innovative products with features and benefits attractive to consumers, and focus on marketing the products to its retail selling partners. Management believes that one of its competitive advantages is prompt and reliable delivery of value-priced, high-volume products, allowing its retail partners to maintain minimal inventories. The Company provides its customers with a variety of retail support services, including customized merchandise planogramming, small shipping packs, point-of-purchase displays, Electronic-Data-Interchange (EDI) order transmission, and just-in-time (JIT) product delivery.

The Company s marketing efforts also include advertising, promotional and differentiated packaging programs. Promotions include cooperative advertising, customer rebates targeted at the Company s value added feature products and point-of-purchase displays.

Product Research and Development

The Company s product research and development effort is enhanced through the use of internal and outsourced product design experts. Although the Company s historical accounting records do not separately present research and development expenses, the Company estimates that for 2004, 2003 and 2002, expenses associated with research and development (which are classified as selling and marketing in the Company s consolidated statements of operations) were $0.7 million, $0.9 million and $0.9 million, respectively.

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Foreign and Export Sales Information

The Company s fiscal year 2004, 2003 and 2002 net sales outside the United States accounted for approximately 3.3%, 3.6% and 4.4% of its total net sales, respectively. The Company s foreign assets were not material as of fiscal year end 2004 and 2003.

Seasonality

Sales of the Company s houseware products are generally higher in the third and fourth quarters of the calendar year. This seasonality is primarily attributable to increased home buying during the summer months, the back-to-school season and storage promotional events in the fourth quarter. The surge in home buying during the spring and summer months increases the demand for new housewares products. The back-to-school season, including college students moving out of the house for the first time, also contributes to an increase in demand for the Company s housewares products. In the fourth quarter, retailers run general storage promotional events that are themed for the fourth quarter holidays, particularly Halloween and Christmas.

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, 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 it is well positioned to continue to meet their needs.

Patents, Trademarks and Licenses

The Company s subsidiary owns a number of trademarks and patents relating to various products and manufacturing processes. The Company believes that in the aggregate its patents enhance its business, in part by

discouraging competitors from adopting patented features of its products. The Company believes, however, that there are no individual patents, trademarks or licenses material to its business.

Raw Materials and Production

The Company manufactures the majority of its products at its various manufacturing facilities in the United States and one facility in Mexico. In certain instances the Company has contracted with 3rd party custom molders to produce various plastic products.

The primary raw material used in the Company s plastic injection molding products is plastic resin, primarily polypropylene. Resin is a spot commodity with pricing parameters tied to supply and demand characteristics beyond the Company s control. The Company purchases a portion of its resin through supply contracts that guarantee discount pricing from industry market indexes. Some resin is purchased through brokers in a secondary market. Plastic resin is utilized by a number of different industries, many of which are quite different from the Company s housewares business. For example, the automobile and housing industries are very large users of plastic resin. As such, demand changes in the automobile industry or the number of new housing starts can have an impact on plastic resin pricing. Changes in market rates for crude oil and natural gas can also impact resin prices.

The primary raw materials used in the Company s laundry management products are cold rolled steel and griege fabric. The Company purchases in excess of 20,000 tons of cold rolled steel annually, typically at spot prices. Griege fabric, purchased from brokers, is a cotton based product with pricing tied to the world cotton markets. The Company s purchases of griege fabric approximate 7 million yards annually.

The Company has entered into a commitment to purchase certain raw materials at formula-based prices. The agreement expires in December 2005. Future related minimum commitments to purchase raw materials, assuming current price levels, are approximately $14.5 million in 2005. In the event there is a major change in economic conditions affecting the Company s overall annual raw material requirements, management expects that the Company and its vendors would seek to mutually agree on how to mitigate the effects on both parties. Examples of potential mitigating actions include deferral of product delivery within the agreement term, agreement term extension and to the terms of the agreement.

The Company s production processes utilize automated machinery and systems where appropriate. Certain laundry management facilities employ the use of an automated manufacturing production line to produce ironing boards. Additionally, automated cutting and layout machines are used to maximize the usage of griege fabric.

Backlog

The dollar amount of backlog orders of the Company is not considered significant in relation to the total annual dollar volume of sales. Because it is the Company s practice to maintain a level of inventory sufficient to cover anticipated shipments and since most of the Company s orders are generally shipped in less than one month from receipt of order, a large backlog would be unusual.

Environmental Matter

An environmental report obtained in connection with the Company s 1998 acquisition of Plastics, Inc. (PI) from Newell Co., indicated that certain remedial work might be required for ground contamination of PI s Coon Rapids, Minnesota facility. Accordingly, the Company obtained an indemnification from Newell Co. (the Newell Indemnification) for the remediation of any ground contamination, subject to certain limitations. In July 2001, the Company sold PI, together with the Coon Rapids facility, to A & E Products Group LP, an affiliate of Tyco

International (A & E). In connection with the sale, the Company provided an environmental indemnification, subject to certain limitations, to A & E. The Company has not been informed as of the date of this Annual Report that any remediation is required nor does the Company have any present reason to believe that the Newell Indemnification would be insufficient to cover any required remediation. Except as described above, the Company believes that compliance with federal, state or local provisions relating to protection of the environment is not expected to have a material effect on the Company s capital expenditures, earnings or competitive position.

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Employees

As of March 5, 2005, the Company employed approximately 865 people in the United States and Mexico. Approximately 205 are hourly employees at its Chicago, Illinois facilities, covered by a collective bargaining agreement which expires in January, 2007; and 138 are hourly employees at its Reynosa, Mexico facility covered by a collective bargaining agreement which expires in December, 2005. Although we believe that our relations with our employees are satisfactory, there can be no assurance that we will not face labor disputes in the future or that such disputes will not be material to us.

In addition, as of March 5, 2005, the Company utilized the services of approximately 177 temporary workers in its injection molding operations and in certain warehouses. The number of these personnel varies seasonally.

Item 2. Properties

The Company maintains facilities with an aggregate of 1,919,600 square feet of space. The Company considers all of its facilities to be in good operating condition.

The following table summarizes the principal physical properties (both owned and leased) used by the Company in its operations:

Facility	Use	Size (Square Feet)	Owned/Leased
Thomasville, GA	Manufacturing	45,000	Owned
Thomasville, GA	Distribution/Storage	31,000	Leased
Chicago, IL	Manufacturing/Distribution/Storage	286,000	Leased
Chicago, IL	Distribution/Storage	157,000	Leased
Chicago, IL	Distribution/Storage	91,000	Leased
Seymour, IN:			
East Plant	Manufacturing	70,000	Owned
West Plant	Manufacturing/Distribution/Storage	150,000	Owned
Logistics Center	Distribution/Storage	115,000	Owned
Logistics Center	Distribution/Storage	100,000	Leased
Storage Warehouse	Storage	20,700	Leased
Louisiana, MO	Manufacturing/Distribution/Storage	340,000	Owned
Mooresville, NC	Manufacturing	72,500	Leased
El Paso, TX	Manufacturing/Distribution/Storage	401,400	Leased
McAllen, TX	Storage	10,000	Leased
Reynosa, Mexico	Manufacturing	30,000	Owned

The Company uses public warehouse space for storage and distribution of certain laundry and bath products. The warehouse is located in California. The amount of square footage used at the public warehouse varies from month to month.

Item 3. Legal Proceedings

The Company is party to various claims, legal actions and complaints including product liability litigation, arising in the ordinary course of business. In the opinion of management, all such matters are adequately covered by insurance or will not have a material adverse effect on the Company s consolidated financial position, results of operations or liquidity.

On June 2, 2004, the Company executed an Agreement and Plan of Merger, by and between the Company and JRT Acquisition, Inc. (JRT), as amended by that certain First Amendment to the Agreement and Plan of Merger, dated October 11, 2004 (the JRT Agreement). Pursuant to the terms of the JRT Agreement, JRT, an entity formed by James R. Tennant, who at the time was the Company s Chairman and Chief Executive Officer, to

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merge with and into the Company, and each outstanding share of the Company s common stock was to be exchanged for the right to receive $1.50 in cash.

On June 3, 2004, a complaint was filed in the Court of Chancery for the State of Delaware against the Company, our board of directors and JRT. The complaint purports to be filed by a stockholder and alleges that in entering into the JRT Agreement, our board of directors breached their fiduciary duties of loyalty, due care and good faith. The complaint, which includes a request for a declaration that the action be maintained as a class action, seeks, among other relief, injunctive relief enjoining the transaction from being consummated. On January 25, 2005, the Delaware plaintiffs dropped their lawsuit in its entirety. Pursuant to Delaware rule, the action was dismissed without prejudice.

On June 4, 2004, a complaint was filed in the Chancery Division of the Circuit Court of Cook County, Illinois against the Company and our directors. The complaint purports to be filed by a stockholder and alleges that in entering into the JRT Agreement, our board of directors breached their fiduciary duties of loyalty, due care, independence, good faith and fair dealing. The complaint, which includes a request for a declaration that the action be maintained as a class action, seeks, among other relief, injunctive relief enjoining the transaction from being consummated. The Company and our board of directors believe the complaint is without merit and intend to vigorously contest this lawsuit. If class certification is granted it is possible that the outcome could have a material adverse effect on the operating results, financial position and cash flows of the Company. There is not sufficient information to estimate the Company s exposure at this time.

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

Not applicable.

PART II

Item 5. Market for Registrant s Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities

On December 15, 2004 the Company and its transfer agent determined that there were fewer than 300 shareholders of record. Accordingly, the Board of Directors approved the delisting of the Company s common stock from the NASDAQ SmallCap Market and the deregistration of its common stock under the Securities Exchange Act of 1934. The deregistration was effective on March 15, 2005. Following the delisting, it is unlikely that the Company s shares will be traded on the over-the-counter bulletin board, or that price quotations will be reported through any other sources.

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] prior to the Company s delisting on December 15, 2004. Such quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

	2004		2003	
	High	**Low**	**High**	**Low**
First Quarter	$ 1.62	$ 1.08	$ 5.03	$ 2.25
Second Quarter	$ 1.49	$ 1.17	$ 3.13	$ 2.00
Third Quarter	$ 2.00	$ 1.23	$ 2.43	$ 1.20
Fourth Quarter (through December 14, 2004)	$ 2.39	$ 1.59	$ 1.91	$ 1.00

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During the fourth quarter of fiscal 2004, the Company did not repurchase (in the open market or otherwise) any of its outstanding common stock. As of January 1, 2005, the Company did not have any plan or program in place with respect to the repurchase of its outstanding common stock.

Item 6. Selected Consolidated Financial Data

The following Selected Consolidated Financial Data should be read in conjunction with the Consolidated Financial Statements of the Company, including the Notes thereto, and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations . See Item 1. Business and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations for a discussion of the Shareholder Transaction, restructuring charges, impairment charges and business combinations and dispositions of business assets that materially affected the comparability of the information set forth below and material uncertainties that could cause future results to differ from such information.

	2004	2003	2002	2001	2000
		(in thousands, except share date)			
Statement of Operations Data:					
Net sales	$ 260,277	$ 233,602	$ 249,192	$ 249,721	$ 297,048
Cost of goods sold	214,854	197,560	190,705	188,299	235,144
Special charges (income), net			(106)	(414)	1,920
Gross profit	45,423	36,042	58,593	61,836	59,984
Selling, general and administrative expenses	26,934	29,801	30,729	36,910	39,382
Shareholder transaction costs	9,071				
Amortization of intangible assets	508	503	505	3,190	5,350
Restructuring and other charges (income), net	(103)	(1,245)	(1,303)	(480)	10,482
Asset impairment charges			567		53,348
Operating profit (loss)	9,013	6,983	28,095	22,216	(48,578)
Interest expense	(13,537)	(13,653)	(13,823)	(18,284)	(22,363)
Other income (expense), net	4	2,204	559	14,023	(467)
Earnings (loss) before income taxes	(4,520)	(4,466)	14,831	17,955	(71,408)
Income tax expense	(33)	(6,871)	(527)	(975)	(103)
Net earnings (loss)	$ (4,553)	$ (11,337)	$ 14,304	$ 16,980	$ (71,511)
Earnings (loss) per common share basic	$ (0.57)	$ (1.42)	$ 1.83	$ 2.24	$ (9.77)
Earnings (loss) per common share diluted	$ (0.57)	$ (1.42)	$ 1.73	$ 2.19	$ (9.77)

	As of Fiscal Year Ended				
	2004	2003	2002	2001	2000
	(in thousands)				
Balance Sheet and Cash Flow Data:					
Working capital	$ 20,434	$ 19,714	$ 30,569	$ 9,010	$ 18,626
Property, plant and equipment, net	31,643	32,812	37,189	42,631	55,881
Goodwill and other intangible assets	73,282	74,360	74,863	76,375	116,833
Total assets	192,488	180,275	203,518	187,343	265,652
Revolving line of credit and other current debt	25,091	9,969	158	158	6,558
Long-term obligations (net of current debt)	120,655	120,578	129,621	130,447	215,051
Stockholders equity (deficit)	2,370	6,341	17,467	2,820	(14,497)
Cash (used for) provided by operating activities	(8,030)	443	8,796	23,326	17,706

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

This commentary should be read in conjunction with the Company s consolidated financial statements and related notes contained herein. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. The Company s actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to those described below under the heading Cautionary Statement Regarding Forward-Looking Statements .

Overview

The Company designs, manufactures and markets a broad range of quality houseware products. The following are key factors in understanding the Company s performance:

- Customer base
- Cost of raw materials
- Product mix
- Molding machine utilization
- Financial liquidity

Customer base

The Company s business is highly concentrated among mass merchandisers, including discount stores, home centers and other category specific retailers. Sales to our top three customers, Wal-Mart, Kmart and Target, were 72% of net sales in fiscal year 2004, 73% of net sales in fiscal year 2003 and 74% of net sales in fiscal year 2002. Our products generally have few unique or patented features and are sold at entry level price points. As such, the Company s financial success is highly dependent on profitably meeting certain price points as demanded by customers. The competitive atmosphere continually pressures our selling prices. After several years of steadily falling selling prices, the Company was able to secure limited selling price increases in 2004.

The size of the mass merchandisers gives them strong bargaining power with suppliers. They encourage high levels of competition among suppliers, demand that manufacturers supply innovative new products, require suppliers to match or beat quoted prices received from other potential suppliers, demand reduced lead times and that product be warehoused until the customer desires delivery. These customers also actively engage in the direct import of generic products from multiple sources.

The high concentration of sales to mass merchandisers also makes the Company s results dependent upon the operating results and financial viability of its key customers. The Company s operating results in recent years have been impacted by developments at Kmart, one of the Company s largest customers. Since emerging from bankruptcy in May 2003, Kmart has improved its financial performance. However, Kmart continues to report declines in same store sales and has announced further reductions in store count in connection with its merger with Sears. Kmart has paid all of its current obligations to the Company on time.

Cost of raw materials

The Company s primary raw materials are plastic resin and steel. Changing prices for such raw materials can cause the Company s results of operations to fluctuate significantly. The cost of raw materials is impacted by several factors outside the control of the Company including supply and demand characteristics, oil and natural gas prices and the

overall state of the economy. As the cost of raw materials rises it results in immediate declines in profitability since we have historically been unable to recover all of the cost increase by passing it through to customers. Conversely, when raw material costs decline, our margins generally are favorably impacted in the short-term though competitive factors may force a decrease in selling prices that erodes some of the improved profitability. During fiscal 2004, the average cost of plastic resin increased approximately 19% and average steel prices increased approximately 69% as compared to the average costs

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in fiscal 2003. The increase in steel and plastic resin costs added approximately $15 million to cost of goods sold. Management expects the average cost of both plastic resin and steel to increase during 2005.

Product mix

The Company sells a variety of household items. For various reasons, some items provide a better return than others. As the mix of items sold changes, profitability and cash flow are affected. In 2004, product mix was favorable. Although we have had some success at getting an increase in selling prices during 2004, there can be no assurance that we will be able to secure additional selling price increases to offset any future rise in raw material costs. To the extent that selling price increases can not be achieved, certain unprofitable products may be discontinued. The costs related to discontinuing a product are relatively minor and relate primarily to the non-cash write-off of related tooling.

Molding machine utilization

The Company has four injection molding facilities with a variety of injection molding machine sizes. Customer ordering patterns and mix of product manufactured impacts utilization of these machines. When demand exceeds our capacity, we must place production at third party facilities that are more costly than our internal manufacturing. In addition, the mix of product sold impacts profitability since low margin items take the same amount of production time as higher margin items. In January 2004, we closed our most expensive molding facility and relocated the machines to lower cost operations. The Company s future profitability is dependent on selling to our optimum capacity and product mix so that constrained capacity is devoted to products with higher margins. We have no plans for expansion or reduction of our molding capacity until we can profitably operate the facilities we currently own.

Financial liquidity

Seasonal working capital needs are provided by the Company s $60 million asset based line of credit. Ability to borrow is a function of our eligible asset base and our outstanding borrowings. During 2004, our cash flow (which the Company defines as net change in cash and debt) was negative and on January 1, 2005 there were $25.0 million of borrowings outstanding under the line of credit. At January 1, 2005, our unused available line of credit was $33.1 million. A significant decline in eligible asset base or cash flow could result in constrained funds for operations. In recent years, the Company has experienced positive cash flow in the first quarter and negative cash flow for the balance of the year. This is due to seasonal cash needs as well as the semi annual payments of interest on subordinated debt. However, management believes it has sufficient borrowing capability for at least the next 12 months. See Capital Resources and Liquidity below for additional discussion of the Company s cash flows and financing situation.

Shareholder Transaction

Throughout 2004, a special committee of the Company s independent directors considered proposals for the acquisition of the Company s outstanding common shares.

On June 2, 2004, the Company executed an Agreement and Plan of Merger, by and between the Company and JRT Acquisition, Inc. (JRT) as amended by that certain First Amendment to the Agreement and Plan of Merger, dated October 11, 2004 (the JRT Agreement). Pursuant to the terms of the JRT Agreement, JRT, an entity formed by James R. Tennant, who at the time was the Company s Chairman and Chief Executive Officer, to merge with and into the Company, and each outstanding share of the Company s common stock was to be exchanged for the right to receive $1.50 in cash.

On October 28, 2004, the Company and Storage Acquisition Company, L.L.C., a Delaware limited liability company (Acquirer), entered into an Acquisition Agreement (the Acquisition Agreement) under which the Acquirer was to make a tender offer for 100% of the Company s common stock for $2.25 per share in cash (the Acquisition). Before entering into the Acquisition Agreement, pursuant to the terms of the JRT Agreement, the Company and JRT terminated the JRT Agreement to enable the Company to enter into the Acquisition Agreement.

As provided in the JRT Agreement, the Company was obligated to reimburse JRT up to a maximum of $550,000 in expenses related to the JRT Agreement.

On December 13, 2004, the Acquirer and the Company jointly announced that the Acquirer had completed its tender offer for the outstanding shares of common stock (including the associated preferred stock purchase rights) of the Company for $2.25 per share, net to the seller, in cash without interest. As a result of the tender offer, the Acquirer obtained 93% of the outstanding common shares. Collectively, the process that led to the offer by JRT, the Acquisition Agreement and the completion of the tender offer is referred to herein as the Shareholder Transaction .

On December 15, 2004 the Company s common stock was delisted and is no longer trading on The NASDAQ SmallCap Market. Following the delisting, it is unlikely that the Company s shares will be traded on the over-the-counter bulletin board, or that price quotations will be reported through any other sources. In addition, the Company has suspended its reporting obligations under the Securities Exchange Act of 1934, effective as of March 15, 2005.

Notwithstanding the suspension of its obligation to file periodic financial reports, by the terms of the Company s indenture governing its 9-5/8% Senior Subordinated Notes due May 14, 2008, the Company is required to voluntarily file the same annual, periodic and current reports that it was previously required to file as an SEC registrant so long as the indenture covenants remain in effect.

In connection with the Shareholder Transaction, the Company incurred costs during 2004 totaling $9.1 million. These costs included legal fees, investment banking fees, and certain payments to prior management that were triggered by the Shareholder Transaction.

Critical Accounting Estimates

The estimates and assumptions involved in the application of generally accepted accounting principles (GAAP) have an impact on the Company s reported financial condition and operating performance. The Company identified the critical accounting estimates as those that involve high levels of subjectivity and judgment to account for uncertain or difficult to predict matters that could have a material impact on financial condition or operating performance.

A summary of the critical accounting estimates is as follows:

Allowances for retailer deductions and trade programs

Allowances for retailer deductions and customer programs are recognized when sales are recorded. Allowances are based on various market data, historical trends and information from customers. Although the best information reasonably available to the Company is used to establish the allowances, such information is often based on estimates of retailer recovery rates and future sales to retailers. Retailer programs are often based on annual sales levels in total and by product category. Different recovery rates apply depending on the annual sales levels achieved. As such, judgments are required on an interim basis of the expected full year sales level by customer and product category. Because of the judgment involved, interim estimates can vary significantly from the full year actual determination of program costs. At year-end a more accurate assessment of the current year s costs can be made. Retailers recover the program costs through deductions against future amounts owed to the Company. It is not unusual for retailers to have a different judgment of the amounts earned than does the Company. Accordingly, the Company maintains allowances for any differences that may arise. Resolution of such differences can sometimes take up to several years depending on the particular program. Allowances are reviewed quarterly and are adjusted based on current estimates of retailer recovery and future sales. Due to changes in estimates, changes in retailer activity and the length of time required for many programs to run their course, it is possible for allowance activity to materially impact operating performance and financial condition in any given period. In 2004, the allowances for retailer deductions and trade programs as a

percentage of gross sales were 4.5% compared to 5.9% in 2003. The change in percentage is a function of the assortment of trade programs, the level of retailer deductions and the sales levels achieved by customers. Due to changes in estimates during the year, interim results can vary from the full year result.

Allowance for doubtful accounts

The Company evaluates the collectibility of its accounts receivable based upon an analysis of historical trends, aging of accounts receivable, write-off experience and credit evaluations of selected high risk customers. In the event of a specific customer bankruptcy or reorganization, specific allowances are established to write down accounts receivable to the level of anticipated recovery. The Company may consult with third-party purchasers of bankruptcy receivables when establishing specific allowances. The determination of specific allowances involves management judgments about the expected financial viability of its customers. Changes in specific allowances for doubtful accounts would only be material to financial condition and operating performance to the extent any change involved one of the Company s 10 largest customers. The 10 largest customers accounted for approximately 83% of net sales in 2004 and 82% of accounts receivable at January 1, 2005. No material changes in allowances for doubtful accounts involving any of our 10 largest customers was recorded in 2004.

Inventory valuation

The Company values inventory at cost (not in excess of market) determined by the first-in, first-out (FIFO) method. Inventory costs are based on standard costs, adjusted for actual manufacturing and raw material purchase price variances. The Company includes material, labor and manufacturing overhead in the cost of inventories. Management regularly reviews inventory for salability and has established allowances to record inventory at the lower of cost or market. The allowances are based on management judgments regarding future selling prices and costs of disposal. Such judgments are impacted by economic conditions, condition of the inventory and age of the inventory. Such judgments involve high degrees of uncertainty and subjectivity. Accordingly, changes in the estimates can have a material impact on reported results or financial condition. During 2004, problem inventories were lower than in 2003. Accordingly, charges to reduce inventory carrying values were $2.0 million lower in 2004 than in 2003.

Valuation of net deferred income tax assets

The Company regularly evaluates its ability to recover the reported amount of its net deferred tax assets. The evaluation considers several factors, including our estimate of the likelihood that we will generate sufficient taxable income in future years in which temporary differences reverse. This evaluation is based primarily on the Company s historical earnings, projected operating results, applicable net operating loss carryforward expiration dates and identified actions under the control of the Company in realizing the associated carryforward benefits.

The Company has $32 million of net deferred tax assets as of January 1, 2005, resulting from net operating loss carryforwards, and other deductible temporary differences, which may reduce taxable income in future periods to the extent the Company generates profits. Because the value of the net deferred tax assets are fully reserved, changes in estimates of future operating performance could result in a reduction of the valuation allowances and a corresponding decrease in income tax expense. The changes in the valuation allowances in any future interim period or fiscal year could be material.

The completion of the Shareholder Transaction on December 13, 2004 constituted an ownership change under Section 382 of the Internal Revenue Code of 1986, as amended, and the use of any of the Company s net operating loss carryforwards generated prior to the ownership change is subject to certain limitations. The utilization of such remaining net operating losses is subject to an annual limitation of approximately $0.7 million. As a result, a certain portion of the net operating losses will expire before they can be utilized.

Restructuring reserves

In 2000 and 2001, the Company recorded restructuring charges for certain costs associated with plant closures and business reorganization activities upon approval by management with the appropriate level of authority in accordance with Emerging Issues Task Force (EITF) Issue No. 94-3, Liability Recognition for

Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring) . Such costs were recorded as a liability and included lease termination costs, employee severance and certain employee termination benefits. These costs were neither associated with nor do they benefit continuing business activities. Inherent in the determination of these costs were assessments related to the most likely expected outcome of the significant actions to accomplish the restructuring. The Company reviews the status of restructuring activities on an ongoing basis and, if appropriate, records changes based on such activities. At January 1, 2005, remaining accruals related to the 2000 and 2001 restructuring charges are about $0.1 million.

Valuation of Long-Lived and Intangible Assets

The Company assesses the recoverability of long-lived assets whenever it determines that events or changes in circumstances indicate that their carrying amount may not be recoverable. In accordance with GAAP, indefinite lived intangible assets are subject to annual impairment tests. The Company s assessments and impairment testing are primarily based upon management s estimates of future cash flows associated with these assets. Should the Company s operating results, or estimated future results, deteriorate, the Company may determine that some portion of the Company s long-lived tangible or intangible assets are impaired. Such determination could result in non-cash charges that could materially affect the Company s consolidated financial position or results of operations for that period. At January 1, 2005, intangible assets were $73.3 million and long-lived assets (property, plant and equipment) were $31.6 million. No impairment charges were incurred in 2004.

Fiscal year 2004 as compared to fiscal year 2003

In the discussion and analysis that follows, all references to 2004 are for the fifty-three week year ended January 1, 2005 and all references to 2003 are for the fifty-two week year ended December 27, 2003.

The following discussion and analysis compares the actual results for 2004 to the actual results for 2003 with reference to the following (in thousands, except loss per share):

	Fifty-three weeks ended January 1, 2005		**Fifty-two weeks ended December 27, 2003**	
Net sales	$ 260,277	100.0%	$ 233,602	100.0%
Cost of goods sold	214,854	82.5	197,560	84.6
Gross profit	45,423	17.5	36,042	15.4
Selling, general and administrative expenses	26,934	10.3	29,801	12.8
Shareholder transaction costs	9,071	3.5		
Amortization of intangible assets	508	0.2	503	0.2
Restructuring and other, net	(103)		(1,245)	(0.5)
Operating profit	9,013	3.5	6,983	2.9
Interest expense	(13,537)	(5.2)	(13,653)	(5.8)
Other income, net	4		2,204	0.9
Loss before income taxes	(4,520)	(1.7)	(4,466)	(2.0)

Income tax expense		(33)			(6,871)	(2.9)
Net loss	$	(4,553)	(1.7)%	$	(11,337)	(4.9)%
Net loss per share:						
Basic	$	(0.57)		$	(1.42)	
Diluted	$	(0.57)		$	(1.42)	

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	Fifty-three weeks ended January 1, 2005	Fifty-two weeks ended December 27, 2003
Weighted average common shares Outstanding:		
Basic	7,936	7,975
Diluted	7,936	7,975

Net sales Net sales of $260.3 million in 2004 were up $26.7 million or 11% compared to 2003 net sales of $233.6 million. Net sales increased between years due primarily to market share gains and selling price increases in response to higher raw material costs.

Selling prices were $6.0 million higher in 2004 than in 2003. Selling prices were increased in response to significant cost increases of plastic resin and steel.

Shelf space was gained as certain competitors exited the marketplace on entry level price point items.

Changes in estimates related to retailer recovery of deductions and customer programs resulted in a reduction of sales allowances between years. Such program and deduction expenses, which are recorded as a reduction of gross sales, were 4.5% of gross sales in 2004 and 5.9% of gross sales in 2003.

Sales to our top three customers were 72% of net sales in 2004 and 73% of net sales in 2003.

Laundry Management Products. Net sales in the laundry management category of $77.9 million in 2004 were up 6% compared to 2003. Laundry sales were up due primarily to market share gains against higher cost competitive products.

General Storage Products. Net sales in the general storage category were $122.7 million, up 15% compared to 2003. The sales growth was the result of unit volume gains together with selling price increases.

Closet Storage Products. Net sales of $35.8 million in 2004 were up 18% compared to 2003. Additional placement of plastic hangers drove the increase.

Bathware Products. Net sales in the category of $13.5 million in 2004 were down 2% from net sales in 2003. Store closings by Kmart were the only significant factor during the year.

Kitchen Storage Products. Net sales in the kitchen storage category of $10.4 million in 2004 increased 13% from 2003. The sales growth was the result of unit volume gains together with selling price increases.

Gross profit. The Company s gross profit in 2004 was $45.4 million as compared to $36.0 million in 2003 and gross profit margins increased to 17.5% of net sales from 15.4% a year ago. Gross profit and gross profit margins were influenced by a number of factors, including:

Steel and plastic resin costs were $15.7 million higher than in 2003.

Higher selling prices and improved mix of product sold improved gross profit by $6.7 million.

Increased sales unit volume resulted in additional gross profit of $3.6 million.

Factories produced more units resulting in additional overhead absorption. The higher running rates, together with reduced spending and higher productivity, improved gross profit by $4.9 million.

The decline in program and deduction expenses improved gross profit by $3.5 million.

Operational savings of $2.2 million resulted from the January 2004 closing of the Eagan manufacturing facility. Closing related costs of $0.8 million in 2004 were $0.9 million less than in 2003.

During 2004, problem inventories were lower than in 2003. Accordingly, charges to reduce inventory carrying values were $2.0 million lower in 2004 than in 2003.

Settlement of insurance claims related to fires in our Mexican and Missouri manufacturing facilities resulted in gains of $1.2 million.

Selling, general and administrative expenses. SG&A expenses decreased to $26.9 million in 2004 from $29.8 million in 2003. As a percentage of net sales, SG&A expenses decreased to 10.3% in 2004 from 12.8% in 2003. SG&A expenses were favorably impacted by a $0.5 million bad debt recovery, the non recurrence of a $0.7 million first quarter 2003 premium associated with accounts receivable insurance, $1.1 million of warehouse savings from the closing of the Eagan facility, $0.2 million from the favorable resolution of prior years

workers compensation claims and general cost cutting measures across all expense departments. Partially offsetting these favorable items was a $2.1 million increase in incentive compensation expense and a $0.2 million charge for severance as a result of management changes subsequent to the Shareholder Transaction.

Shareholder Transaction costs. Throughout 2004, a special committee of the Company s independent directors considered proposals for the acquisition of the Company s outstanding common shares. The culmination of the committee s work was the completion of the December 2004 tender offer for 93% of the Company s outstanding shares. In connection with the Shareholder Transaction, the Company incurred costs during 2004 totaling $9.1 million. These costs included legal fees, investment banking fees, and certain payments to prior management that were triggered by the Shareholder Transaction.

Restructuring and other, net. In 2004, changes in estimates regarding restructuring reserves for excess capacity costs resulted in $0.1 of income. In 2003, changes in estimates regarding restructuring reserves for excess capacity costs resulted in $1.2 million of income.

Interest expense. Interest expense of $13.5 million in 2004 was down $0.1 million from the prior year. A change in the mix of debt to lower cost revolving credit borrowings caused the decrease in interest expense.

Other income. Other income of $2.2 million in 2003 primarily relates to a $2.3 million gain on the purchase of the Company s high yield bonds. The Company used its revolving line of credit in 2003 to buyback bonds at a discount to face value.

Income tax expense. Income tax expense in 2004 was $6.8 million less than in 2003. Income tax expense in 2003 includes a $7.6 million increase in the Company s valuation allowance for net deferred tax assets. Such allowance reflects the uncertain nature of future taxable income and management s determination that it is more likely than not that none of the deferred tax assets will be realized. In addition, decreases in the accrual for income taxes in 2003 generated $0.8 million of income.

There was no federal income tax expense recorded in either period due to the Company s tax loss carryforwards. At January 1, 2005 the Company had tax loss carryforwards of approximately $68 million (expiring in years 2010 through 2024) which may be used to reduce taxes in the future. The completion of the Shareholder Transaction on December 13, 2004 constituted an ownership change under Section 382 of the Internal Revenue Code of 1986, as amended, and the use of any of the Company s net operating loss carryforwards generated prior to the ownership change is subject to certain limitations. Management believes that the annual amount of carryforward available to offset current taxable income will be limited to approximately $0.7 million, however, there is no assurance that future income will be sufficient to utilize these tax loss carryforwards.

Net loss. The net loss in 2004 was $4.6 million. The loss was significantly lower than the $11.3 million loss reported in 2003. 2003 included a $7.6 million increase in the Company s valuation allowance for deferred taxes, $1.7 million of charges related to the closure of the Eagan manufacturing facility, a $2.3 million gain on the purchase of the Company s high yield bonds and $0.8 million of income from reductions of income tax accruals. 2004 operating performance benefited from higher sales, improved factory performance, lower operating expenses and the insurance gains. Partially offsetting these improvements were $9.1 million of costs in 2004 related to the Shareholder Transaction and $0.8 million of charges related to the closing of Eagan.

The loss per diluted share was $(0.57) as compared to $(1.42) in 2003. The diluted weighted average number of shares outstanding in 2004 was 7,936,057, down slightly from 7,975,399 a year ago. Dilutive options and warrants are not included in the computation of diluted weighted average shares outstanding because the assumed exercise of such equivalents would have reduced the loss per share.

Fiscal year 2003 as compared to fiscal year 2002

In the discussion and analysis that follows, all references to 2003 are for the fifty-two week year ended December 27, 2003 and all references to 2002 are for the fifty-two week year ended December 28, 2002.

The following discussion and analysis compares the actual results for 2003 to the actual results for 2002 with reference to the following (in thousands, except earnings (loss) per share):

	Fifty-two weeks ended December 27, 2003		Fifty-two weeks ended December 28, 2002	
Net sales	$ 233,602	100.0%	$ 249,192	100.0%
Cost of goods sold	197,560	84.6	190,705	76.5
Special income, net			(106)	(0.0)
Gross profit	36,042	15.4	58,593	23.5
Selling, general and administrative expenses	29,801	12.8	30,729	12.3
Amortization of intangible assets	503	0.2	505	0.2
Restructuring and other, net	(1,245)	(0.5)	(1,303)	(0.5)
Asset impairment charge			567	0.2
Operating profit	6,983	2.9	28,095	11.3
Interest expense	(13,653)	(5.8)	(13,823)	(5.5)
Other income, net	2,204	0.9	559	0.2
Earnings (loss) before income taxes	(4,466)	(2.0)	14,831	6.0
Income tax expense	(6,871)	(2.9)	(527)	(0.2)
Net earnings (loss)	$ (11,337)	(4.9%)	$ 14,304	5.8%
Net earnings (loss) per share:				
Basic	$ (1.42)		$ 1.83	
Diluted	$ (1.42)		$ 1.73	
Weighted average common shares Outstanding:				
Basic	7,975		7,804	
Diluted	7,975		8,287	

Net sales. Net sales of $233.6 million in 2003 were down $15.6 million or 6.3% compared to 2002 net sales of $249.2 million. Net sales declined between years due primarily to selling price declines in response to competitive pressures and the decision not to renew or pursue sales with unacceptable profit margins.

Selling prices were $6.0 million lower in 2003 than in 2002 due to competitive price challenges.

Shelf space was lost at certain customers as we failed to match low price challenges on low margin items.

Changes in estimates related to retailer recovery of deductions and customer programs resulted in a reduction of sales allowances between years. Such program and deduction expenses, which are recorded as a reduction of gross sales, were 5.9% of gross sales in 2003 and 8.4% of gross sales in 2002.

Laundry Management Products. Net sales in the laundry management category of $73.6 million in 2003 were down 15% compared to 2002. Laundry sales were down due primarily to pricing actions, lost market share related to Far East imports and a reduction in Kmart s store count.

General Storage Products. Net sales in the general storage category were $106.7 million, up 4% compared to 2002. Unit volume was up significantly, however selling price declines offset some of the increase in volume and reduced the profitability of these items. Certain items and customers were exited due to unacceptable profit margins.

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Closet Storage Products. Net sales of $30.3 million in 2003 were up 3% compared to 2002. Additional placement of plastic hangers drove the increase.

Bathware Products. Net sales in this category of $13.8 million in 2003 decreased 25% from net sales in 2002. Approximately half of the decline in sales was at Kmart, where store closings, a switch by Kmart to direct import as well as a reduction in shelf space all contributed to the decline. At other customers, new competitive products took market share.

Kitchen Storage Products. Net sales in the kitchen storage category of $9.2 million in 2003 decreased 23% from 2002. The decrease was due to continuing market share loss to branded disposable product offerings.

Gross profit. The Company s gross profit in 2003 was $36.0 million as compared to $58.6 million in 2002 and gross profit margins decreased to 15.4% of net sales in 2003 from 23.5% of net sales in 2002. The key contributing factors to the decline in margins were as follows:

The cost of plastic resin increased during 2003, resulting in a $10.1 million cost increase.

Selling price decreases of $6 million.

Gross sales decline (net of selling price decreases) of $18 million resulted in a reduction of gross profit of $3.6 million.

Changes in product mix towards lower margin general storage products. General storage products accounted for 46% of total sales, up from 41% a year ago. General storage is our largest sales product line and also has the lowest margins. The continuing mix shift towards general storage and away from laundry and bath had a negative impact on margins.

Costs related to the closure of the Eagan, Minnesota manufacturing facility were $1.7 million. These costs include employee separation charges of $0.6 million, $0.4 million of assorted costs related to the move and abandonment of certain equipment and inventory and $1.4 million of charges associated with the accelerated depreciation of property, plant and equipment that will be sold or abandoned at the time the Company exits the facility. Due to the closure of the plant, retirement accruals of $0.7 million were no longer needed and were reversed to income.

The decline in program and deduction expenses improved margins by 250 basis points.

Special income, net. No such income or charges were recorded in 2003. In 2002, the Company recorded income from Special Charges of $0.1 million. The income resulted from the final closeout of discontinued inventories related to the 2001 closure of the Company s former Leominster, Massachusetts manufacturing facility.

Selling, general and administrative expenses. SG&A expenses decreased to $29.8 million in 2003 from $30.7 million in 2002. As a percentage of net sales, SG&A expenses increased to 12.8% in 2003 from 12.3% in 2002. SG&A expenses were impacted by premiums associated with accounts receivable insurance and legal fees for the pursuit of antidumping relief. Offsetting the expense increases were declines in incentive compensation and bad debt expenses.

Restructuring and other, net. In 2003, changes in estimates regarding restructuring reserves for excess capacity costs resulted in $1.2 million of income. In 2002, changes in management estimates regarding certain restructuring reserves resulted in $1.3 million of income. The main component of the restructuring income related to a $1.0 million reserve reversal for the fourth quarter settlement of threatened litigation on the early termination of a warehouse lease.

Asset impairment charges. Asset impairment charges in 2002 related to molds and tooling for products that were discontinued. Remaining book values were written down to the expected net present value of future cash flows from such products. There were no such charges in 2003.

Interest expense. Interest expense of $13.7 million in 2003 was essentially unchanged from the prior year. Nearly all of the Company s interest expense relates to the Company s outstanding high-yield bonds.

Other income. Other income of $2.2 million in 2003 primarily relates to a $2.3 million gain on the repurchase of the Company s high-yield bonds. The Company used its revolving line of credit to buyback bonds at

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a discount to face value. In 2002, other income was primarily attributable to the final purchase price settlement of the 2001 sale of PI, upon which the Company was able to reverse accruals of $0.7 million to income.

Income tax expense. The income tax provision in 2003 includes a $7.6 million increase in the Company s valuation allowance for deferred tax assets. Such allowance reflects the uncertain nature of future taxable income and management s determination that it is more likely than not that all of the deferred tax assets may not be realized. In addition, the Company recognized a one-time tax benefit of $0.8 million from the reversal of income tax accruals as a result of the closing of certain tax years. The remaining tax provision relates to state and foreign taxes. No federal income tax expense was recorded in either period due to the Company s significant tax loss carryforwards. At December 27, 2003 the Company had tax loss carryforwards of approximately $51 million (which expires in years 2010 through 2023) which may be used to reduce taxes in the future. However, there is no assurance that future income will be sufficient to utilize these tax loss carryforwards.

Net earnings (loss). In 2003, the Company had a net loss of $11.3 million primarily due to increased valuation allowances for deferred tax assets, increased raw material costs and lower selling prices. This resulted in a loss per diluted share of ($1.42). In 2002, the Company had net earnings of $14.3 million, or $1.73 per diluted share.

The diluted weighted average number of shares outstanding decreased to 7,975,399 in 2003 from 8,286,790 in 2002. In 2003, dilutive options, warrants and restricted stock are not included in the computation of diluted weighted average shares outstanding because the assumed exercise of such equivalents would have reduced the loss per share.

Capital Resources and Liquidity

The Company s primary sources of liquidity and capital resources include cash provided from operations and borrowings under the Company s asset based $60 million Amended and Restated Loan and Security Agreement (the Amended Loan Agreement). On December 14, 2004, the Company and Fleet Capital Corporation entered into the Amended Loan Agreement to accommodate operations subsequent to the Shareholder Transaction. The changes within the Amended Loan Agreement included an increase in the line of credit from $50 million to $60 million, an extension of the term of the agreement by nine months to December 13, 2008, a reduction of applicable interest rates by 25 basis points and a reduction of the minimum excess availability requirement from $9.2 million to $5 million. The covenants restricting changes of ownership and changes of control of the Company have been revised to reflect the new ownership structure of the Company following the Shareholder Transaction.

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 of the following year. The timing of cash flows is further impacted by the semi-annual interest payments on the high-yield bonds. Interest payments of about $5.6 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. During 2004, the Company had negative cash flow (which the Company defines as the net change in cash and debt) of $14.9 million. Of the negative cash flow, $7.9 million was due to certain costs and expenses relating to the Shareholder Transaction.

Collection of receivables is highly dependent on the financial strength of the Company s top three customers: Wal-Mart, Kmart and Target. These three customers accounted for 72% of the Company s net sales in 2004. 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 and the Company s financial position.

During 2004, the Company s cash and cash equivalents increased to $1.1 million at January 1, 2005 from $0.8 million at December 27, 2003. Borrowings under the Loan Agreement increased $15.2 million during the year due primarily to certain costs related to the Shareholder Transaction and increases in working capital.

Working capital (excluding cash and short term debt) at January 1, 2005 was $44.4 million, up $15.5 million from December 27, 2003. Receivables increased $3.5 million due to higher sales in the fourth quarter of 2004 as compared to the fourth quarter of 2003. Inventories increased $12.4 million due to higher order positions at year end and due to higher raw material costs. Accounts payable and accrued liabilities increased $0.8 million due primarily to increased inventory purchases.

Capital spending in 2004 was $7.0 million, as compared to $6.5 million in 2003. Capital spending was primarily related to new product tooling and normal replacement of equipment. Budgeted capital expenditures for 2005 is estimated to be $5.0 million.

The Amended Loan Agreement covenants require the Company to maintain excess availability at all times of at least $5.0 million. At January 1, 2005, the eligible asset base was in excess of $65 million. Thus, we could borrow up to $60 million under the Amended Loan Agreement. At January 1, 2005, there were $25.0 million of borrowings under the Amended Loan Agreement and outstanding letters of credit totaled $1.9 million. Accordingly, we still had availability under the Amended Loan Agreement of $33.1 million. There is expected to be sufficient financing capability to fund operations for at least the next twelve months.

The Company s Amended Loan Agreement contains one financial covenant pertaining to a minimum cash interest coverage ratio. The cash interest coverage ratio must be no lower than 1.0 at the end of 2004 at which point the ratio begins a quarterly increase until it reaches 1.25 in June 2005. At January 1, 2005, the Company s cash interest coverage ratio was 2.14. The earnings component of the covenant is the trailing twelve-month earnings before interest, taxes, depreciation and amortization. Certain costs related to factory realignments and the Shareholder Transaction are excluded. For the twelve months ended January 1, 2005, the earnings component of the covenant was $27.7 million. For a definition of cash interest coverage ratio as it is used in the Amended Loan Agreement, refer to the Amended Loan Agreement that is filed as an exhibit to this Form 10-K.

The Company was in compliance with all Amended Loan Agreement covenants as of January 1, 2005.

As of January 1, 2005, there were outstanding $116.1 million of 9.625% Senior Subordinated Notes due 2008. The Company s outstanding high-yield bonds have a stated maturity date of May 14, 2008 and are subject to earlier redemption in certain circumstances.

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 at January 1, 2005 and the effect such obligations are expected to have on our liquidity and cash flows in future periods.

	Payments due by period (in thousands)				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**After 5 years**
Long-term debt	$ 116,050	$	$	$ 116,050	$
Capital lease obligations	4,693	88	179	244	4,182
Minimum rental commitments under operating leases	18,889	4,787	7,763	6,310	29
Purchase obligations (estimated)	14,500(1)	14,500(1)			

Total contractual cash obligations	$ 154,132	$ 19,375	$ 7,942	$ 122,604	$ 4,211

	Financing commitments expiring by period (in thousands)				
	Total	1 year	1-3 years	3-5 years	After 5 years
Standby letters of credit	$ 1,850	$ 1,850	$	$	$

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(1) The Company has entered into commitments to purchase certain core commodities. The agreement expires in December 2005. Future related minimum purchase commitments, assuming February 2005 price levels, are $14.5 million in 2005. The purchase commitment pricing is not tied to fixed rates; therefore, the Company s results of operations or financial position could be affected by significant changes in the market cost of commodities. See Item 7A Quantitative and Qualitative Disclosures About Market Risk Commodity Risk, which is incorporated by reference to this section, for further details.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Related Party Transactions

You should refer to Item 13 below for information regarding certain relationships and related party transactions, which disclosure is incorporated herein by reference.

Business Risks and Management Outlook

One of the Company s largest customers is Kmart. The Company s net sales to Kmart were $73 million in 2004 and $77 million in 2003. After emerging from bankruptcy in May 2003, Kmart has improved its financial performance. However, Kmart continues to report declines in same store sales and has further reduced its store count during 2004. Kmart has paid all of its current obligations to the Company on time. Given the size of the Company s sales to Kmart, and the uncertainty of factors related to Kmart s business, no assurance can be given as to the Company s future results related to Kmart. In 2004, Kmart announced two transactions involving the sale of up to 74 stores, or approximately 5% of Kmart s store base. In addition Kmart merged with Sears in early 2005. It is not yet possible to determine the potential impact of these transactions on Kmart s purchases with the Company.

Historically, plastic resin has represented approximately 20% to 25% of the Company s cost of goods sold. In 2004, the percentage increased to 35% due to higher plastic resin costs and usage. Plastic resin costs are impacted by several factors outside the control of the Company including supply and demand characteristics, oil and natural gas prices and the overall health of the economy. Any of these factors could potentially have a positive or negative impact on plastic resin prices and the Company s profitability. Resin costs have continued to increase in 2005 and we expect that costs in the remainder of 2005 will exceed costs incurred during 2004. While we will make every effort to recover the higher cost of plastic resin, there is no assurance that future resin cost increases can be passed on to customers.

The Company currently manufactures a significant portion of its laundry products in the U.S. Management believes that the Company s 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. Over the past few years, these foreign sourced competitive products were 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. In addition, the Company filed an action with the U.S. International Trade Commission (ITC) and the U.S. Department of Commerce (Department of Commerce) on June 30, 2003 seeking relief from a surge in the importation of unfairly priced Chinese ironing boards. On July 15, 2004, the ITC unanimously determined that the U.S. ironing board industry was facing material injury as a result of the importation of unfairly priced ironing boards from China. The ITC s action resulted in the issuance of an antidumping duty order by the Secretary of Commerce in early August, followed by the collection of antidumping duties on Chinese imports. The ITC s

decision follows a June 16, 2004 determination by the Department of Commerce that ironing boards imported from China are sold in the United States at less than

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fair value. On August 6, 2004, the Department of Commerce assigned revised dumping margins ranging from 9.47 percent to 157.68 percent. As necessary, the Company will vigorously defend or otherwise support the antidumping order, which may require it to devote financial and other resources, including management time and legal expenses.

The Company s three largest customers all have unique aspects that require additional packaging, handling and technical support. Distribution systems are constantly evolving as retailers search for additional costs to remove from the distribution system. A coming technology is radio frequency identification (RFID) which attaches a computer chip to each product. This chip gives off a radio signal that can be tracked by the retailer for inventory and sale purposes. RFID has the potential to replace current bar code technology. Wal-Mart has indicated that vendors should prepare for a conversion to RFID technology over the next one to two years. The cost to transition to RFID is unknown but is expected to be significant.

The Company s Amended Loan Agreement takes into account seasonal fluctuations and changes to the Company s collateral base. Because the financing is asset based, availability of funds to borrow is dependent on the quality of the Company s asset base, primarily its receivables and inventory. Should the lender determine that such assets do not meet the bank s credit tests, availability can be restricted. Given the Company s retail customer base, it is possible that certain customers could be excluded from the asset base thus reducing credit availability.

In an environment where customers largely control selling prices and vendors largely control raw material costs, sustained profitability and cash flow is a challenging goal. We will continue to focus on controlling our costs of production and holding operating expenses to below industry levels. We also intend to continue to develop new products and categories, as management believes that such items have a better opportunity for reasonable profit margins. Given the declining profitability of certain products and the increasing cost of raw materials, we have announced selective price increases. The success of these price increases is predicated on the competitive market place. If such price increases are not successfully implemented, certain products will be discontinued.

Given the Company s line of credit availability, management may from time-to-time look at opportunities to buy its high-yield bonds. A buyback might be done if such transactions are accretive to shareholders through either a reduction of interest expense or a buyback of bonds at a discount.

Cautionary Statement Regarding Forward-Looking Statements

This annual report on Form 10-K, including, but not limited to, General Development of Business, Properties, Legal Proceedings and Management s Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements within the meaning of the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements generally may be identified by the use of terminology such as may, will, could, should, potential, continue, expect, intend, plan, estimate, anticipate, phrases or the negatives of such terms. Such statements are based on management s current expectations and are subject to risks, uncertainties and assumptions, including those identified below and in the foregoing Business Risks and Management Outlook , as well as other matters not yet known to the Company or not currently considered material by the Company, which could cause actual results to differ materially from those described in the forward-looking statements. Such factors and uncertainties include, but are not limited to:

general economic conditions and conditions in the retail environment

the Company s dependence on a few large customers

price fluctuations in the raw materials used by the Company, particularly plastic resin

competitive conditions in the Company s markets

the impact of the level of the Company s indebtedness

restrictive covenants contained in the Company s various debt documents

the seasonal nature of the Company s business

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the extent to which the Company is able to retain and attract key personnel

relationships with retailers

the impact of federal, state and local environmental requirements (including the impact of current or future environmental claims against the Company)

our ability to develop and introduce new products and product modifications necessary to remain competitive

other factors discussed in Business Risks and Management Outlook above

Given these risks and uncertainties, investors are cautioned not to place undue reliance on forward-looking statements. Forward-looking statements do not guarantee future performance. The Company s operating results may fluctuate, especially when measured on a quarterly basis. The Company undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers are also urged to carefully review and consider the various disclosures made by the Company in this report and in the Company s periodic reports on Forms 10-K, 10-Q and 8-K filed with the Securities and Exchange Commission. Such reports attempt to advise interested parties of the factors that affect the Company s business.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

The Company is exposed to market risks from changes in interest rates and commodity based raw materials (primarily resin, steel and fabric).

Interest Rate Risk. The Company s Loan and Security Agreement is LIBOR-based and is subject to interest rate movements. A 10% increase or decrease in the average interest rate on the Company s variable rate debt would result in a change in pretax interest expense of approximately $0.1 million, based upon borrowings outstanding at January 1, 2005.

Commodity Risk. The Company is subject to price fluctuations in commodity based raw materials such as plastic resin, steel and griege fabric. Changes in the cost of these materials may have a significant impact on the Company s operating results. The cost of these items is affected by many factors outside of the Company s control and changes to the current trends are possible. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and Management Outlook and Business Risks above.

The Company has entered into a commitment to purchase certain core commodities. The agreement expires in December 2005. Future related minimum purchase commitments, assuming February 2005 price levels, are $14.5 million in 2005.

Item 8. Financial Statements and Supplementary Data.

The following pages contain the Financial Statements and Supplementary Data as specified by Item 8 of Part II of Form 10-K.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Home Products International, Inc.:

We have audited the accompanying consolidated balance sheets of Home Products International, Inc. and subsidiary (the Company) as of January 1, 2005 and December 27, 2003, and the related consolidated statements of operations, stockholders equity and comprehensive loss, and cash flows for each of the fiscal years in the three-year period ended January 1, 2005. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Home Products International, Inc. and subsidiary as of January 1, 2005 and December 27, 2003, and the results of their operations and their cash flows for each of the fiscal years in the three-year period ended January 1, 2005, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Chicago, Illinois
March 31, 2005

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HOME PRODUCTS INTERNATIONAL, INC.

CONSOLIDATED BALANCE SHEETS

	As of Fiscal Year End 2004	2003
	(in thousands, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,146	$ 797
Accounts receivable, net of allowance for doubtful accounts and deductions of $3,345 at January 1, 2005 and $4,824 at December 27, 2003	51,473	47,963
Inventories	30,292	17,903
Prepaid expenses and other current assets	2,787	2,421
Total current assets	85,698	69,084
Property, plant and equipment at cost	95,361	91,647
Less accumulated depreciation and amortization	(63,718)	(58,835)
Property, plant and equipment, net	31,643	32,812
Patents and non-compete agreements, net	100	608
Goodwill, net	73,182	73,752
Other non-current assets	1,865	4,019
Total assets	$ 192,488	$ 180,275
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Revolving line of credit and other current debt	$ 25,091	$ 9,969
Accounts payable	25,723	21,425
Accrued liabilities	14,450	17,976
Total current liabilities	65,264	49,370
Long-term obligations net of current debt	120,655	120,578
Other long term liabilities	4,199	3,986
Stockholders equity:		
Preferred stock authorized, 500,000 shares, $.01 par value; none issued		
Common stock authorized 15,000,000 shares, $.01 par value; 8,964,781 shares issued at January 1, 2005 and 8,687,828 shares issued at December 27, 2003	90	87
Additional paid-in capital	50,677	50,077
Accumulated deficit	(41,848)	(37,295)

Common stock held in treasury at cost (810,194 shares at January 1, 2005 and 822,394 shares at December 27, 2003)	(6,501)	(6,528)
Accumulated other comprehensive loss	(48)	
Total stockholders equity	2,370	6,341
Total liabilities and stockholders equity	$ 192,488	$ 180,275

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

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HOME PRODUCTS INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Year		
	2004	**2003**	**2002**
	(in thousands, except share and per share amounts)		
Net sales	$ 260,277	$ 233,602	$ 249,192
Cost of goods sold	214,854	197,560	190,705
Special income, net			(106)
Gross profit	45,423	36,042	58,593
Operating expenses:			
Selling and marketing	15,098	17,054	17,233
General and administrative	11,836	12,747	13,496
Shareholder transaction costs	9,071		
Amortization of intangible assets	508	503	505
Restructuring and other, net	(103)	(1,245)	(1,303)
Asset impairment charges			