HOME PRODUCTS INTERNATIONAL INC
Form 10-Q
November 12, 2003

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

FORM 10-Q

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

For the Quarterly Period Ended September 27, 2003

or

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

Commission file number 0-17237

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

Delaware	36-4147027
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4501 West 47th Street Chicago, Illinois	60632
(Address of principal executive offices)	(Zip Code)

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

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

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

Common shares, par value $0.01, outstanding as of
November 1, 2003 - 7,865,434

HOME PRODUCTS INTERNATIONAL, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	(Unaudited) September 27, 2003	December 28, 2002
Assets		
Current assets:		
Cash and cash equivalents	$ 2,841	$ 3,974
Accounts receivable, net	34,905	48,937
Inventories	29,418	25,357
Deferred income taxes	-	2,559
Prepaid expenses and other current assets...	3,393	1,879
Total current assets	70,557	82,706
Property, plant and equipment - at cost	94,881	91,917
Less accumulated depreciation	(60,973)	(54,728)
Property, plant and equipment, net	33,908	37,189

Deferred income taxes	-	5,207
Other intangibles, net	733	1,111
Goodwill, net	73,752	73,752
Other non-current assets	4,423	3,553
Total assets	$ 183,373	$ 203,518
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of long-term obligations.	$ 158	$ 158
Accounts payable	26,690	22,986
Accrued liabilities	25,665	28,993
Total current liabilities	52,513	52,137
Long-term obligations - net of current maturities	126,052	129,621
Other liabilities	4,400	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 September 27, 2003 and 8,671,079 shares issued at December 28, 2002	87	87
Additional paid-in capital	50,077	50,036
Accumulated deficit	(43,228)	(25,958)
Common stock held in treasury - at cost; 822,394 shares at September 27, 2003 and December 28, 2002	(6,528)	(6,528)
Unearned employee benefits	-	(170)
Total stockholders' equity	408	17,467
Total liabilities and stockholders' equity	$ 183,373	$ 203,518

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

HOME PRODUCTS INTERNATIONAL, INC.
Condensed Consolidated Statements of Operations
(Unaudited)
(Amounts in thousands, except per share amounts)

	Thirteen weeks ended		Thirty-nine weeks ended	
	September 27, 2003	September 28, 2002	September 27, 2003	September 28, 2002
Net sales	$ 61,432	$ 67,799	$ 164,610	$ 178,429
Cost of goods sold	54,492	51,271	141,376	133,597
Special (income), net	-	(73)	-	(73)
Gross profit	6,940	16,601	23,234	44,905

Operating expenses:				
Selling and marketing	4,372	4,362	12,777	13,182
General and administrative	2,804	3,098	10,013	9,783
Amortization of intangible assets.	126	127	378	380
Operating profit (loss)	(362)	9,014	66	21,560
Non-operating income (expense):				
Interest income	2	7	64	61
Interest expense	(3,384)	(3,432)	(10,312)	(10,370)
Other income, net	735	637	742	440
Net non-operating expense	(2,647)	(2,788)	(9,506)	(9,869)
Earnings (loss) before income taxes	(3,009)	6,226	(9,440)	11,691
Income tax expense	(7,786)	(133)	(7,830)	(433)
Net earnings (loss)	$ (10,795)	$ 6,093	$ (17,270)	$ 11,258
Net earnings (loss) per common share:				
Basic	$ (1.35)	$ 0.78	$ (2.17)	$ 1.45
Diluted	$ (1.35)	$ 0.74	$ (2.17)	$ 1.37
Weighted average common shares outstanding-basic	7,978	7,796	7,973	7,785
Weighted average common shares outstanding-diluted	7,978	8,259	7,973	8,217

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

HOME PRODUCTS INTERNATIONAL, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(Amounts in thousands)

	Thirty-nine weeks ended	
	September 27, 2003	September 28, 2002
Operating activities:		
Net earnings (loss)	$ (17,270)	$ 11,258
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Depreciation and amortization	7,540	7,868
Amortization of restricted stock compensation	170	170
Gain on the sale of servingware product line	-	(663)
(Gain) loss on the disposal of assets	(15)	186
Gain on the repurchase of bonds	(900)	-
Deferred income taxes	7,766	-
Other, net	494	(317)

Changes in current assets and liabilities:		
(Increase) decrease in accounts receivable	13,947	(4,299)
Increase in inventories	(5,104)	(15,719)
(Increase) decrease in prepaid expenses and other	(471)	523
Increase in accounts payable	3,704	8,688
Increase (decrease) in accrued liabilities	(3,328)	869
Net cash provided by operating activities	6,533	8,564
Investing activities:		
Capital expenditures, net	(5,038)	(3,578)
Net cash used in investing activities	(5,038)	(3,578)
Financing activities:		
Net borrowings under loan and security agreement	-	(859)
Repayments of long-term debt	(2,600)	-
Payments of capital lease obligation	(69)	(68)
Exercise of stock options, issuance of common stock under stock purchase plan and other	41	114
Net cash used in financing activities	(2,628)	(813)
Net increase (decrease) in cash and cash equivalents	(1,133)	4,173
Cash and cash equivalents at beginning of period	3,974	1,091
Cash and cash equivalents at end of period	$ 2,841	$ 5,264
Supplemental disclosures		
Cash paid in the period:		
Interest	$ 7,017	$ 6,979
Income taxes, net	$ 54	$ 230
Non-cash financing activities:		
Capital lease obligation	$ -	$ 73

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

HOME PRODUCTS INTERNATIONAL, INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)
(Amounts in thousands, except per share amounts)

Note 1. General Information

Home Products International, Inc. (the "Company"), based in Chicago, is a leading designer, manufacturer and marketer of a broad range of value-priced, quality consumer houseware products. The Company's products are marketed principally through mass-market trade channels in the United States and internationally.

The condensed consolidated financial statements for the thirteen and thirty-nine weeks ended September 27, 2003 and September 28, 2002, include, in the opinion of management, all adjustments (consisting of normal

recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows as of September 27, 2003 and for all periods presented.

Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto incorporated by reference in the Company's Form 10-K for the year ended December 28, 2002. The results of operations for the thirteen and thirty-nine weeks ended September 27, 2003 are not necessarily indicative of the operating results to be expected for the full year.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Stock-Based Compensation Plans

The Company has a stock-based compensation plan under which stock options are granted to key employees and Directors. There were no stock options granted during the first, second and third quarters of 2003. Stock options were granted during the first quarter of 2002 under stock-based compensation plans approved by shareholders in 1999. The stock options granted during the first quarter of 2002 are fully exercisable after four years and have a ten-year life. The Company also issued shares in 2003 and 2002 under the Company's employee stock purchase plan relating to the Company's first purchase period (January through June).

Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation" encourages companies to adopt a fair value approach to valuing stock-based compensation that would require compensation cost to be recognized based upon the fair value of the stock-based instrument issued. The Company has elected, as permitted by SFAS No. 123, to apply the provisions of Accounting Principles Board ("APB") Opinion No. 25 "Accounting for Stock Based Compensation" and the related interpretations in accounting for stock option awards under the stock option plans. Under APB Opinion No. 25, compensation expense is recognized if the market price of stock options on the date of grant exceeds the exercise price. All options granted by the Company have been granted at market price on the date of grant. The following table illustrates the effect on net earnings (loss) and earnings (loss) per share as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

	Thirteen weeks ended		Thirty-nine weeks ended	
	Sept. 27, 2003	Sept. 28, 2002	Sept. 27, 2003	Sept. 28, 2002
Net earnings (loss)	$(10,795)	$ 6,093	$(17,270)	$ 11,258
Deduct: Total stock-based employee compensation expense determined under fair value method for all				

awards, net of related tax effects	(46)	(46)	(141)	(149)
Pro forma net earnings (loss)	$(10,841)	$ 6,047	$(17,411)	$ 11,109
Earnings (loss) per share:				
Basic-as reported	$ (1.35)	$ 0.78	$ (2.17)	$ 1.45
Basic-pro forma	$ (1.36)	$ 0.78	$ (2.18)	$ 1.43
Diluted-as reported	$ (1.35)	$ 0.74	$ (2.17)	$ 1.37
Diluted-pro forma	$ (1.36)	$ 0.73	$ (2.18)	$ 1.35

The assumptions used to calculate the fair value of options granted are evaluated and revised, as necessary, to reflect market conditions and experience.

Note 3. Net Earnings (Loss) Per Share

The following information presents net earnings (loss) per share basic and diluted (in thousands, except share and per share data):

	Thirteen weeks ended		Thirty-nine weeks ended	
	Sept. 27, 2003	Sept. 28, 2002	Sept. 27, 2003	Sept. 28, 2002
Net earnings (loss)	$(10,795)	$ 6,093	$(17,270)	$ 11,258
Weighted average shares outstanding - basic	7,978,326	7,795,873	7,973,434	7,785,076
Impact of stock options, warrants and restricted stock	-	462,643	-	431,707
Weighted average shares outstanding - diluted	7,978,326	8,258,516	7,973,434	8,216,783
Net earnings (loss) per share - basic	$ (1.35)	$ 0.78	$ (2.17)	$ 1.45
Net earnings (loss) per share - diluted	$ (1.35)	$ 0.74	$ (2.17)	$ 1.37
Anti-dilutive stock options, warrants and restricted stock excluded from calculation	7,667	-	307,561	-

Net earnings (loss) per share - basic is computed based on the weighted average number of outstanding common shares. Net earnings (loss) per share - diluted includes the weighted average effect of dilutive stock options, warrants and restricted stock on the weighted average shares outstanding. There were no stock options, warrants and restricted stock included in the computation of diluted earnings per share during the thirteen and thirty-nine weeks ended September 27, 2003 because the assumed exercise of such common stock equivalents would have been anti-dilutive.

Note 4. Goodwill and Other Intangibles

Goodwill and other intangibles principally relate to the excess of the purchase price over the fair value of tangible assets acquired. Goodwill and intangible assets that have indefinite useful lives are no longer amortized, but rather are tested at least annually for impairment. Intangible assets with indefinite lives are evaluated annually to determine whether events and circumstances continue to support an indefinite useful life. Intangible assets that have definite useful lives are amortized over their useful lives, and are evaluated annually to determine whether events and circumstances warrant a revision to the remaining period of amortization.

During the first quarter of 2003 the Company performed its annual impairment test, which indicated that the Company's goodwill was not impaired. As of September 27, 2003 and December 28, 2002, the carrying amount of goodwill was $73,752.

Other intangibles consist of the following:

		September 27, 2003		December 28, 2002	
	Average Life (Yrs.)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:					
Patents	7 to 14	$ 1,008	$ (783)	$ 1,008	$ (710)
Non-compete agreements	10	2,928	(2,420)	2,928	(2,115)
Total		$ 3,936	$ (3,203)	$ 3,936	$ (2,825)

Aggregate amortization expense in the third quarter of 2003 and 2002 was $126 and $127, respectively. Aggregate amortization expense for the thirty-nine weeks ended September 27, 2003 and September 28, 2002 was $378 and $380, respectively.

Estimated amortization expense for the remaining three months of fiscal 2003 and the next two fiscal years based on intangible assets at September 27, 2003 is as follows:

Fiscal Year	Estimated Amortization Expense
2003	$127
2004	$505
2005	$101

Note 5. Recent Accounting Pronouncements

In April 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 rescinds

SFAS No. 4, which required that all gains and losses from extinguishment of debt be reported as an extraordinary item. The provisions of SFAS No. 145 related to the rescission of SFAS No. 4 must be applied in fiscal years beginning after May 15, 2002. Previously recorded losses on the early extinguishment of debt that were classified as an extraordinary item in prior periods will be reclassified to other income (expense), net. The adoption of SFAS No. 145 had no effect on the Company's financial position, results of operations, or liquidity but will result in a reclassification on the Company's consolidated statement of operations for 2001.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 replaces previous accounting guidance provided by Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)," and was effective for the Company for exit or disposal activities initiated after December 28, 2002. The Company adopted this statement effective December 29, 2002 and has accounted for the Eagan facility shutdown in accordance with SFAS No. 146.

In November 2002, the FASB issued FASB Interpretation No. ("FIN") 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". This Interpretation clarifies that a guarantor is required to recognize a liability for the fair value of the obligation undertaken in issuing a guarantee and requires certain related disclosures after December 31, 2002. The Company has not guaranteed the indebtedness or obligations of others and therefore the adoption of FIN 45 has had no impact on the Company's financial position, results of operations, or liquidity.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure". This Statement amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. The statement permits two transition methods for companies that adopt the fair value method of accounting for stock-based compensation, which include the modified prospective and retroactive restatement methods. The modified prospective method recognizes stock-based employee compensation cost from the beginning of the fiscal year in which the provisions are first applied, as if the fair value method had been used to account for all employee awards granted, modified, or settled in fiscal years beginning after December 15, 1994. Under the retroactive restatement method, all periods presented are restated to reflect stock-based employee compensation cost under the fair value method for all employee awards granted, modified, or settled in fiscal years beginning after December 15, 1994. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results with a prescribed specific tabular format and disclosure in the "Summary of Significant Accounting Policies" or its equivalent. The Company adopted the new disclosure requirements in 2002 and the effects of adoption are disclosed in Note 2 of the Company's condensed consolidated financial statements.

In April 2003, the FASB issued SFAS No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". This statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. SFAS No. 149 is effective for derivative

contracts entered into or modified after June 30, 2003. As the Company does not currently have any derivative instruments the adoption of the statement had no impact on its financial position, results of operations, or liquidity.

In May 2003, the FASB issued SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". This statement changes the accounting for mandatorily redeemable shares, put options, forward purchase contracts and obligations that can be settled with shares. As the Company does not currently have any interests in such types of instruments the adoption of this statement had no impact on its financial position, results of operations, or liquidity.

Note 6. Inventories

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

	September 27, 2003	December 28, 2002
Finished goods....................	$ 24,155	$ 17,611
Work-in-process...................	1,670	1,891
Raw materials.....................	3,593	5,855
	$ 29,418	$ 25,357

Note 7. 2001 and 2000 Special, Restructuring and Other Charges Update

During 2000 and 2001 the Company implemented a restructuring plan to reduce fixed costs and better position the Company for sustained profitability. The restructuring plan entailed the closure of the Leominster, Massachusetts manufacturing and warehouse facilities, reconfiguration of remaining manufacturing facilities, a reduction in headcount and a realignment of the selling process. The restructuring charges were accounted for under EITF No. 94-3. The Company identified a total of 124 hourly and salaried Leominster employees to be terminated in accordance with the 2001 restructuring initiatives. All planned restructuring initiatives were completed in 2001.

Restructuring reserves were determined based on estimates prepared at the time the restructuring actions were approved by management and also reflect any subsequent changes in management estimates. Restructuring reserves of $1,616, as of September 27, 2003, are considered adequate. Total net cash outlays were $546 in the thirty-nine week period ended September 27, 2003. Restructuring reserve balances as of December 28, 2002, activity during the current period and restructuring reserve balances as of September 27, 2003, were as follows:

	Reserve balance at Dec. 28, 2002	Amounts utilized in 2003	Reserve balance at Sept. 27, 2003
Inventory	$ 27	$ (27)	$ -
Leased plant and facilities	1,821	(487)	1,334
Obsolete and duplicate leased assets	289	(57)	232
Employee related costs	52	(2)	50

	$ 2,189	$ (573)	$ 1,616

As of September 27, 2003, leased plant and facilities reserves of $1,334 are primarily related to future minimum lease payments on a partially vacated facility; obsolete and duplicate leased assets reserves of $232 are related to future minimum lease payments on machinery and equipment no longer used in the Company's manufacturing process and employee related reserves of $50 are primarily related to employee severance and benefits.

Note 8. Eagan Shutdown

On July 29, 2003, the Company announced its intention to close its Eagan, Minnesota manufacturing and warehouse facility as of January 31, 2004 ("Eagan Shutdown"). This closure is being done to reduce operating costs and utilize capacity in the Company's other injection molding plants. The Company identified a total of approximately 130 hourly and salaried employees to be terminated as part of the Eagan Shutdown. The total cost of the Eagan Shutdown is expected to be about $3.8 million of which $1.8 million is associated with the accelerated depreciation of property, plant and equipment that will be sold or abandoned at the time the Company exits the Eagan facility. Remaining expenditures relate primarily to employee severance and the relocation of equipment and inventory. Eagan Shutdown charges for the thirteen and thirty-nine weeks ended September 27, 2003 are included in cost of goods sold.

	Thirteen weeks ended Sept. 27, 2003 Charge	Thirty-nine weeks ended Sept. 27, 2003 Charge	Reserve balance at Sept. 27, 2003
Employee separations	$ 552	$ 552	$ 552
Other	16	16	12
Total costs	$ 568	$ 568	$ 564
Accelerated depreciation	729	969	-
Total Eagan Shutdown charges	$ 1,297	$ 1,537	$ 564

The components of the charge for the thirty-nine weeks ended September 27, 2003 included:

* Employee separation charges associated with approximately 130 salaried and hourly employees. The majority of the separations are expected to be completed during the fourth quarter of 2003;
* Other costs primarily relate to minor costs associated with the Eagan plant closure and costs associated with the relocation of equipment and inventory that have been incurred; and
* Charges associated with the accelerated depreciation of property, plant and equipment that will be sold or abandoned at the time the Company exits the Eagan facility.

Eagan Shutdown reserves will be re-evaluated as plans are being executed. As a result, there may be changes in estimates.

Note 9. Income Taxes

The Company uses the asset and liability method of SFAS No. 109 in accounting for income taxes. Under this method deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, tax credits and operating loss carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

SFAS No. 109 requires that a valuation allowance be established when it is more likely than not that all or a portion of deferred tax assets will not be realized. A review of all available positive and negative evidence needs to be considered, including historical earnings and 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. It further states that forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence such as cumulative losses in recent years and current operating losses. Therefore, cumulative and current operating losses weigh heavily in the overall assessment. The Company identified several significant developments which it considered in determining the need for a full valuation allowance recorded in the third quarter of 2003. As a result of the review undertaken at September 27, 2003, the Company concluded that it was appropriate to establish a full valuation allowance for its net deferred tax assets. Accordingly, the valuation allowance for deferred tax assets increased from $22.6 million at December 28, 2002, to approximately $30.4 million at September 27, 2003. In addition, the Company expects to provide a full valuation allowance on future tax benefits until it can sustain a level of profitability that demonstrates its ability to utilize the deferred tax assets.

Note 10. Segment of an Enterprise

The Company consists of a single operating segment that designs, manufactures and markets quality consumer housewares products. This segmentation is based on the financial information presented to the chief operating decision maker. The following table sets forth the net sales by product category within the Company's single operating segment.

Product Category Information - Net Sales

	Thirteen weeks ended		Thirty-nine weeks ended	
	Sept. 27, 2003	Sept. 28, 2002	Sept. 27, 2003	Sept. 28, 2002
General storage	$ 25,786	$ 27,077	$ 67,399	$ 61,289
Laundry management	20,847	24,866	57,298	69,977
Closet storage	9,023	8,490	22,463	23,643
Bathware	3,336	5,122	10,643	15,501
Kitchen storage	2,440	2,244	6,807	8,019
Total net sales	$ 61,432	$ 67,799	$ 164,610	$ 178,429

Major Customers

The Company is dependent upon a few customers for a large portion of its net sales. In the third quarter of 2003, three customers each accounted for more than 10% of consolidated net sales. The Company's top three customers, Walmart, Kmart and Target accounted for 30.6%, 30.5% and 11.4% of consolidated net sales, respectively, in the third quarter of 2003. These same three customers accounted for 30.2%, 30.4% and 11.2% of consolidated net sales, respectively, during the thirty-nine weeks ended September 27, 2003. In the third quarter of 2002 three customers each accounted for more than 10% of consolidated net sales. Walmart, Kmart, and Target accounted for 32.4%, 28.2% and 14.7% of the Company's consolidated net sales, respectively, in the third quarter of 2002. These same three customers accounted for 32.0%, 25.5% and 14.2% of consolidated net sales, respectively, during the thirty-nine weeks ended September 28, 2002. 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 either 2003 or 2002.

Note 11. Insurance Claim

On September 23, 2003 the Company's Reynosa, Mexico facility sustained damage due to a fire. At September 27, 2003 prepaid expenses and other current assets include $1,043 and other non-current assets include $1,172 of receivables related to expected insurance recoveries.

Note 12. Long-Term Debt

On November 5, 2003 the Company entered into a contract to repurchase a portion of its high yield bonds. Bonds with a face value of $5.5 million were purchased at a total cost of $4.0 million on November 10, 2003.

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

This commentary should be read in conjunction with the Company's consolidated financial statements and related notes and management's discussion and analysis of financial condition and results of operations contained in the Company's Form 10-K for the year ended December 28, 2002.

Critical Accounting Policies

The Company has identified the most critical accounting policies upon which its financial status depends. The Company determined the critical policies by considering accounting policies that involve the most complex or subjective decisions or assessments. The Company states these accounting policies in the notes to the annual consolidated financial statements and at relevant sections in this discussion and analysis. This discussion and analysis should be read in conjunction with the Company's condensed consolidated financial statements and related notes included elsewhere in this report and in the Form 10-K.

The Company's most critical accounting policies are those relating to revenue recognition, allowance for doubtful accounts, inventory valuation, restructuring reserves, valuation of deferred income tax assets and valuation of long-lived and intangible assets. A summary of the critical accounting policies is as follows:

* Revenue recognition. The Company recognizes revenues and freight billed to customers upon shipment and after the transfer of all substantial

risks of ownership. Allowances for estimated returns, discounts and retailer programs are recognized when sales are recorded and are based on various market data, historical trends and information from customers. Although the best available information is used to establish the allowances, such information is often based on estimates of retailer recovery rates. Retailer recovery 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. 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 impact earnings in either a positive or negative manner in any given period.

* 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. Delinquent accounts are written off to selling, general and administrative expense when circumstances make further collection unlikely. 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.

* 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 materials, labor and manufacturing overhead in the cost of inventories. Management regularly reviews inventory for salability and has established obsolescence allowances to absorb expected losses. The Company also maintains allowances for inventory shrinkage. At a minimum, the Company takes an annual physical inventory verifying the items on hand and adjusting its inventory to physical counts. Periodic cycle counting procedures are used to verify inventory accuracy between physical inventories. In the interim periods, an allowance for shrinkage is established based upon historical experience and recent physical inventory results. Inventory obsolescence and shrinkage are charged to cost of sales.

* Restructuring reserves. The Company's historical policy has been to record 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 include 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. In July 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". This standard requires costs associated with exit or disposal activities to be recognized when they are incurred. The requirements of SFAS No. 146 apply prospectively to activities that were initiated after December 31, 2002. The Company adopted this standard in fiscal year 2003 and has accounted for the Eagan facility shutdown in

accordance with SFAS No. 146.

* Valuation of Deferred Income Tax Assets. The Company regularly evaluates its ability to recover the reported amount of our 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 our historical earnings and 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 currently has significant deferred tax assets resulting from net operating loss carryforwards, anticipated net operating losses and other deductible temporary differences, which may reduce taxable income in future periods to the extent the Company generates profits. Because the realization of the deferred tax assets was not considered more likely than not, the Company established a full valuation allowance for its remaining deferred tax assets and recognized a $7.8 million charge during the third quarter of 2003.

* 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 generally accepted accounting principles, indefinite lived intangible assets are subject to annual impairment tests. The Company's assessments and impairment testing are primarily based upon management estimates of future cash flows associated with these assets. Based on the Company's assessments, we have determined that there has not been a material impairment of any of our long-lived assets or intangible assets. However, should the Company's operating results deteriorate, we may determine that some portion of our 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.

Thirteen weeks ended September 27, 2003 compared to the thirteen weeks ended September 28, 2002

In the discussion and analysis that follows, all references to 2003 are for the thirteen week period ended September 27, 2003 and all references to 2002 are for the thirteen week period ended September 28, 2002.

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

	Thirteen weeks ended			
	September 27, 2003		September 28, 2002	
Net sales	$ 61,432	100.0%	$ 67,799	100.0%
Cost of goods sold	54,492	88.7	51,271	75.6
Special (income), net	-	-	(73)	(0.1)
Gross profit	6,940	11.3	16,601	24.5
Selling, general and administrative expenses...........	7,176	11.7	7,460	11.0
Amortization of intangible assets....	126	0.2	127	0.2

Restructuring and other charges, net.	-	-	-	-
Operating profit (loss)	(362)	(0.6)	9,014	10.3
Interest expense	(3,384)	(5.5)	(3,432)	(5.1)
Other income, net	737	1.2	644	0.9
Earnings (loss) before income taxes	(3,009)	(4.9)	6,226	9.1
Income tax expense	(7,786)	(12.7)	(133)	(0.2)
Net earnings (loss)	$(10,795)	(17.6%)	$ 6,093	8.9%
Net earnings (loss) per share:				
Basic	$(1.35)		$0.78	
Diluted	$(1.35)		$0.74	
Weighted average common shares outstanding:				
Basic	7,978		7,796	
Diluted	7,978		8,259	

Net sales. Net sales of $61.4 million in 2003 were down 9.4% as compared to net sales in 2002 of $67.8 million. Net sales declined between periods due primarily to Kmart store closures, selling price declines in response to competitive pressures and a decline in shelf space at other customers. In January 2003, Kmart announced the closure of 326 stores, approximately 18% of their total store count. Most of the stores had been closed by the end of April. This resulted in a reduction in net sales between periods of about $2.7 million. Selling prices were $2.0 million lower than in the third quarter of 2002 due to competitive price challenges. In addition, shelf space was lost at certain customers as we failed to meet price challenges on low margin items. Laundry sales in the third quarter of 2003 were down 16% compared to a year ago due in part to lost market share and pricing actions related to far east imports. Changes in estimates related to retailer recovery of deductions and customer programs resulted in a reduction of sales allowances between periods. Such program and deduction expenses, which are recorded as a reduction of gross sales, were 5.7% of gross sales in 2003 and 8.4% of gross sales in 2002. The Company's customer concentration improved slightly from a year ago. Sales to the top three customers were 72.5% of net sales in 2003 as compared to 75.3% in the prior period.

Gross profit. The Company's gross profit in the third quarter was $6.9 million in 2003 as compared to $16.6 million in 2002 and gross profit margins decreased to 11.3% of net sales from 24.5% a year ago. Contributing factors to the decline in margins were as follows:

* The increased cost of plastic resin. Plastic resin increased $0.06 per pound in the third quarter as compared to the third quarter of 2002, resulting in a $3.1 million cost increase (500 basis point decline in margins).
* Selling price decreases of $2.0 million.
* Changes in product mix towards lower margin general storage products. General storage products accounted for 42% of total sales, up from 40% 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.
* Lower sales levels in the period meant reduced production volume over which to absorb fixed manufacturing costs.
* Costs related to the closure of the Eagan, Minnesota manufacturing

facility were $1.3 million. These costs include employee separation charges of $0.6 million, and $0.7 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.

Special (income), net. No such income was recorded in the third quarter of 2003. In the third quarter of 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 manufacturing facility.

Selling, general, administrative expenses and amortization of intangible assets. Selling, general, administrative expenses and amortization of intangible assets decreased to $7.3 million in 2003 from $7.6 million in 2002. As a percentage of net sales, selling, general, administrative expenses and amortization of intangible assets increased to 11.9% in 2003 from 11.2% in 2002. Selling, general and administrative expenses decreased primarily due to reduced incentive compensation. Amortization of intangible assets in 2003 was unchanged from a year ago.

Restructuring and other charges, net. There were no such charges recorded in the third quarter of 2003. In connection with the Company's 2000 restructuring plan, which was announced during the fourth quarter of 2000, changes in management estimates were recorded in the third quarter of 2002. Charges of $0.3 million and $0.1 million were recorded related to litigation on the early termination of a lease and employee benefit related costs respectively. Other costs of $0.4 million were reversed to income due to the favorable resolution of customer accruals.

Interest expense. Interest expense of $3.4 million in 2003 was flat to the prior year period. There were no variable rate borrowings outstanding during the third quarter.

Other income. Other income of $0.7 million in 2003 primarily relates to a $0.9 million gain on the purchase of the Company's high yield bonds. The Company used its revolving line of credit to buyback bonds at a discount to face value. In 2002, other income relates to the final purchase price settlement of the 2001 sale of the Company's servingware product line ($0.7 million).

Income tax expense. The income tax provision in 2003 includes a $7.8 million increase in the Company's valuation allowance for deferred tax assets. The increase in the valuation allowance means that the Company's deferred tax assets are now completely reserved. 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 2002, the 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 28, 2002 the Company had tax loss carryforwards of $35 million, which expire in years 2010 through 2020, 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 the third quarter of 2003, the Company had a net loss of $10.8 million primarily due to increased valuation allowances for deferred tax assets, increased raw material costs and lower net sales. This resulted in a loss per diluted share of ($1.35). In the third quarter of 2002, the Company had net earnings of $6.1 million, or $0.74 per diluted share.

The diluted weighted average number of shares outstanding decreased to

7,978,326 in 2003 from 8,258,516 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.

Thirty-nine weeks ended September 27, 2003 compared to the thirty-nine weeks ended September 28, 2002

In the discussion and analysis that follows, all references to 2003 are for the thirty-nine week period ended September 27, 2003 and all references to 2002 are for the thirty-nine week period ended September 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; unaudited):

	Thirty-nine weeks ended			
	September 27, 2003		September 28, 2002	
Net sales	$164,600	100.0%	$178,429	100.0%
Cost of goods sold	141,376	85.9	133,597	74.9
Special (income), net	-	-	(73)	(0.0)
Gross profit	23,234	14.1	44,905	25.1
Selling, general and administrative expenses	22,790	13.8	22,965	12.9
Amortization of intangible assets	378	0.2	380	0.2
Restructuring and other charges, net.	-	-	-	-
Operating profit	66	0.1	21,560	12.0
Interest expense	(10,312)	(6.3)	(10,370)	(5.7)
Other income, net	806	0.5	501	0.3
Earnings (loss) before income taxes	(9,440)	(5.7)	11,691	6.5
Income tax expense	(7,830)	(4.8)	(433)	(0.2)
Net earnings (loss)	$(17,270)	(10.5%)	$ 11,258	6.3%
Net earnings (loss) per share:				
Basic	$(2.17)		$1.45	
Diluted	$(2.17)		$1.37	
Weighted average common shares outstanding:				
Basic	7,973		7,785	
Diluted	7,973		8,217	

Net sales. Net sales of $164.6 million in 2003 were down 7.7% as compared to net sales in 2002 of $178.4 million. Net sales declined between periods due primarily to Kmart store closures, selling price declines in response to competitive pressures, a decline in shelf space at other customers, and a weak retailer environment in the first quarter of 2003. In January 2003, Kmart announced the closure of 326 stores, approximately 18% of their total store count. Most of the stores had been closed by the end of April. This resulted in a reduction in net sales between periods of

about $8.0 million. Selling prices were $4.0 million lower than in the year ago period due to competitive price challenges. In addition, shelf space was lost at certain customers as we failed to match low price challenges on low margin items. Laundry sales in the first nine months were down 18% compared to a year ago due in part to lost market share and pricing actions related to far east imports. Changes in estimates related to retailer recovery of deductions and customer programs resulted in a reduction of sales allowances between periods. Such program and deduction expenses, which are recorded as a reduction of gross sales, were 6.6% of gross sales in 2003 and 8.8% of gross sales in 2002. The Company's customer concentration was unchanged from a year ago. Sales to the top three customers were 72% of net sales in both periods.

Gross profit. The Company's gross profit in the thirty-nine week period was $23.2 million in 2003 as compared to $44.8 million in 2002 and gross profit margins decreased to 14.1% of net sales from 25.1% a year ago. Contributing factors to the decline in margins were as follows:

* The increased cost of plastic resin. Plastic resin increased $0.07 per pound in the nine-month period as compared to the same period a year ago, resulting in a $9.6 million cost increase (580 basis point decline in margins).
* Selling price decreases of $4.0 million.
* Changes in product mix towards lower margin general storage products. General storage products accounted for 41% of total sales, up from 34% 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.
* Lower sales levels in the period also meant reduced production volume over which to absorb fixed manufacturing costs.
* Costs related to the closure of the Eagan, Minnesota manufacturing facility were $1.5 million. These costs include employee separation charges of $0.6 million, and $0.9 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.

Special (income), net. No such income was 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 manufacturing facility.

Selling, general, administrative expenses and amortization of intangible assets. Selling, general, administrative expenses and amortization of intangible assets decreased to $23.2 million in 2003 from $23.3 million in 2002. As a percentage of net sales, selling, general, administrative expenses and amortization of intangible assets increased to 14.0% in 2003 from 13.1% in 2002. Selling, general and administrative expenses were impacted by premiums associated with accounts receivable insurance as well as professional fees related to corporate governance, Sarbanes-Oxley matters and the pursuit of antidumping relief. Offsetting these expense increases were declines in incentive compensation expense, warehousing costs and bad debt expense. Amortization of intangible assets in 2003 was unchanged from a year ago.

Restructuring and other charges, net. There were no such charges recorded in 2003. In connection with the Company's 2000 restructuring plan, which was announced during the fourth quarter of 2000, changes in management estimates were recorded in the third quarter of 2002. Charges of $0.3 million and $0.1 million were recorded related to litigation on the early termination of a lease and employee benefit related costs respectively.

Other costs of $0.4 million were reversed to income due to the favorable resolution of customer accruals.

Interest expense. Interest expense of $10.3 million in the thirty-nine week period was essentially unchanged from the prior year period. There were no variable rate borrowings outstanding during the first thirty-nine weeks of 2003.

Other income. Other income of $0.8 million in 2003 primarily relates to a $0.9 million gain on the repurchase of the Company's high yield bonds. The Company used its revolving line of credit to buyback bonds at a discount to face value. In 2002, other income relates to the final purchase price settlement of the 2001 sale of the Company's servingware product line ($0.7 million).

Income tax expense. The income tax provision in 2003 includes a $7.8 million increase in the Company's valuation allowance for deferred tax assets. The increase in the valuation allowance means that the Company's deferred tax assets are now completely reserved. 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 2002, the 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 28, 2002 the Company had tax loss carryforwards of $35 million, which expire in years 2010 through 2020, 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 the first thirty-nine weeks of 2003 the Company had a net loss of $17.3 million primarily due to increased valuation allowances for deferred tax assets, increased raw material costs and lower net sales. This resulted in a loss per diluted share of ($2.17). In the comparable period of 2002, the Company had net earnings of $11.3 million, or $1.37 per diluted share.

The diluted weighted average number of shares outstanding decreased to 7,973,434 in 2003 from 8,216,783 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 credit facility.

The Company's cash and cash equivalents decreased to $2.8 million at September 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 buy back of high yield bonds and the Company's year-to-date operating loss. Bonds with a face value of $3.5 million have been purchased at a total cost of $2.6 million. Although the Company reported a $17.3 million loss for the first thirty-nine weeks, $15.3 million of the loss relates to non-cash charges for depreciation, amortization and valuation allowances for deferred tax assets. Most of the cash reduction caused by the decline in earnings was offset by reductions in working capital. Working capital (excluding cash and short term debt) at September 27, 2003 was down $11.4 million from December 28, 2002. Receivables decreased $14.0 million due to lower sales in the third quarter of 2003 as compared to the fourth quarter of 2002

primarily attributable to a seasonal reduction in the Company's sales. Inventories increased $5.1 million in the thirty-nine week period due to seasonal builds for the higher fourth quarter shipping period. Accounts payable increased $3.7 million in line with inventory increases and higher raw material costs. Accrual balances declined $3.3 million during the thirty-nine week period due to the payment of various annual volume rebates and other sales program incentives.

Capital spending in the thirty-nine week period was $5.0 million as compared to $3.6 million in the comparable period of 2002. Capital spending was primarily related to new product tooling and normal replacement of equipment.

The Company believes its $50 million line of credit, 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. No line of credit borrowings were outstanding at September 27, 2003, but there were approximately $3 million in issued letters of credit. Total borrowing availability under the line of credit was $47 million. There are no required debt principal repayments until May 2008.

The Company was in compliance with all loan covenants as of September 27, 2003.

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 September 27, 2003 the Company had repurchased bonds at a cost of $2.6 million.

On July 31, 2003, the Company and Fleet Capital Corporation entered into several amendments to the Company's existing $50 million asset based senior loan facility. 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 senior loan facility.

On September 19, 2003, the Company and Fleet Capital Corporation entered into a fourth amendment to the Company's existing $50 million asset based senior loan facility. 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. For a definition of cash interest coverage ratio as it is used in the senior loan facility refer, to the Company's Current Report on Form 8-K filed on September 24, 2003.

The following is a table providing the aggregate annual contractual obligations of the Company including debt, capital lease obligations and future minimum rental commitments under operating leases at September 27, 2003 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	1 year	2-3 years	4-5 years	After 5 years

Long-term debt	$121,500	$ -	$ -	$121,500	$ -
Capital lease obligations	14,127	949	1,873	1,847	9,458
Minimum rental commitments under operating leases	21,070	5,742	8,677	4,730	1,921
Total contractual cash obligations	$156,697	$6,691	$10,550	$128,077	$11,379

	Financing commitments expiring by period (in thousands)				
	Total	1 year	2-3 years	4-5 years	After 5 years
Standby letters of credit	$3,000	$3,000	$ -	$ -	$ -

The Company has entered into commitments to purchase certain minimum annual volumes of plastic resin at formula-based prices. The agreements expire in December 2003 and December 2004. Future related minimum commitments to purchase plastic resin, assuming current price levels, are $13 million in 2003 and $35 million in 2004. The purchase commitment pricing is not tied to fixed rates; therefore, the Company's results of operations or financial position could be affected by significant changes in the market cost of plastic resin. See "Item 3 Quantitative and Qualitative Disclosures About Market Risk" - Commodity Risk, which is incorporated by reference to this section, for further details.

Management Outlook and Business Risks

* The Company's largest customer in 2002 and during the first thirty-nine weeks of 2003 was Kmart. The Company's net sales to Kmart were $74 million in fiscal year 2002 and $50.1 million in the first thirty-nine weeks of 2003. In January 2003, Kmart announced the closure of 326 stores, approximately 18% of their total store count. The store closings have resulted and will likely continue to result in a reduction in net sales to Kmart in 2003 as compared to 2002. In May 2003, Kmart emerged from bankruptcy with secured financing of $2 billion. As in 2002, opportunities exist to further expand our business with Kmart. These will be considered in light of Kmart's financial situation, our manufacturing capacity levels and other factors deemed appropriate by management. Given the dynamic nature and the size of the Company's sales to Kmart, future results may be either favorably or unfavorably impacted by any number of factors related to the retailer.

* Historically, plastic resin has represented approximately 20% to 25% of the Company's cost of goods sold. In the first thirty-nine weeks of 2003, the percentage increased to 31% 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 in the first thirty-nine weeks of 2003 were approximately $0.07 per pound higher than our 5 year historic averages and $0.08 per pound over last year's comparable period. Resin costs are expected to increase slightly during the remainder of 2003 and into 2004. We expect that fourth quarter costs

could be $0.07-$0.09 per pound over historic averages and $0.03-$0.04 per pound over last year's fourth quarter. We expect that fourth quarter results in 2003 as compared to the fourth quarter of 2002 will be negatively affected. 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

* On July 29, 2003, the Company announced its intention to close its Eagan, Minnesota manufacturing and warehouse facility as of January 31, 2004. This closure is being done to reduce operating costs and utilize capacity in the Company's other injection molding plants. The total cost of the closing is expected to be about $3.8 million of which $1.8 million will relate to non-cash net asset writedowns. Remaining expenditures relate primarily to employee severance and the relocation of equipment and inventory. The Company expects to realize annual cash savings as a result of the plant closing and currently estimates that the cash savings in the first year will be approximately $2 million (excluding plant closing costs). However, the process of closing facilities, moving equipment and reallocating production and sourcing capabilities often involves unforeseen difficulties and may require a disproportionate amount of the Company's financial and other resources, including management time. Accordingly, there can be no assurance that the Company will not incur unanticipated plant closing costs or experience unanticipated difficulties and costs associated with the relocation of equipment or the manufacture or sourcing of products, any of which could have a material adverse effect on the Company's anticipated cash savings.

* The Company currently manufacturers the majority 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 laundry competitors rely heavily on foreign sourced products. Such products are sourced from 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 and have begun to aggressively explore and increase the importation of certain laundry products. We will continue to analyze the competitiveness of our North American based laundry manufacturing operations. In addition to continuing cost cutting measures, the Company filed an action with the U.S. International Trade Commission and the U.S. Department of Commerce on June 30, 2003 seeking relief from a surge in the importation of illegally priced Chinese ironing boards. The Company's petition demands the imposition of antidumping duties on the imported Chinese ironing boards. The Company intends to vigorously pursue this matter, which may require it to devote financial and other resources, including management time and increased legal expense. There can be no assurance as to the timing or outcome of this proceeding.

* During 2002, Congress enacted legislation designed to provide higher standards of corporate governance. While the legislation provides many good measures to protect shareholders, it also will add to our cost of operations and the cost of retaining competent Board members. We estimate that the cost of compliance with the new legislation and the increased costs associated with our Board of Directors will add approximately $0.5 million to our operating expenses in 2003.

* As a result of operating losses and restructuring write-offs in prior years, the Company has significant tax loss carryforwards. These carryforwards may be used to reduce taxable income in future periods. The Company had tax loss carryforwards of $35 million (amount includes carryforwards of $9 million subject to annual limitation) as of December

28, 2002. The tax loss carryforwards are expected to increase in 2003.

* The Company is highly leveraged with total debt representing over two times our net tangible assets. Although all of the Company's outstanding debt at September 27, 2003 is at fixed rates, any deterioration in our business could lead to additional borrowings at adjustable rates. Thus a deterioration of our business combined with a significant change in interest rates could materially impact earnings and cash flow. Furthermore, the financial and operating covenants related to the Company's debt agreements place some restrictions on operations. During all of 2002 and during the first thirty-nine weeks of 2003, the Company operated within its financial and operating covenants, which were amended during the third quarter of 2003, and expects to continue to operate within the covenants during the fourth quarter of 2003 and fiscal year 2004.

* The Company's financing arrangements and financial covenants with Fleet Capital take 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 Fleet Capital 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.

* 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.

* Management believes that acquisitions provide an opportunity to meaningfully grow the Company's sales and profits. We expect to consider acquisition opportunities that are synergistic to existing operations.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk. The Company's revolving credit agreement is LIBOR-based and is subject to interest rate movements. During the thirteen and thirty-nine weeks ended September 27, 2003, the Company did not experience any material changes in interest rate risk that would affect the disclosures presented in the Company's Annual Report on Form 10-K for the fifty-two week period ended December 28, 2002.

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 "Management Outlook and Business Risks" above.

The Company has entered into commitments to purchase certain minimum annual volumes of plastic resin at formula-based prices. The agreements expire in December 2003 and December 2004. Future related minimum commitments to purchase plastic resin, assuming current price levels, are $13 million in 2003 and $35 million in 2004. The purchase commitment pricing is not tied to fixed rates; therefore, the Company's results of operations

or financial position could be affected by significant changes in the market cost of plastic resin. In the event there is a major change in economic conditions affecting the Company's overall annual plastic resin volume requirements, the Company and the vendor will mutually agree on how to mitigate the effects on both parties. Mitigating actions include deferral of product delivery within the agreement term, agreement term extension and/or elimination of excess quantities without liability.

Item 4. Controls and Procedures

Maintenance of Disclosure Controls and Procedures. The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to Company management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Limitations of Disclosure Controls and Procedures. In designing and evaluating the disclosure controls and procedures, the Company's management, including its principal executive officer and principal financial officer, recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Because of the inherent limitations in all control systems, no controls and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in designing, implementing and evaluating controls can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

Quarterly Review. Under the supervision and with the participation of the Company's management, including the Company's principal executive officer and principal financial officer, the Company conducted an evaluation of its disclosure controls and procedures, as such term is defined under Rule 12a-14 promulgated under the Securities Exchange Act of 1934, as amended, as of September 27, 2003. Based on that evaluation, the Company's principal executive officer and principal financial officer concluded that, as of the date of such evaluation, the Company's disclosure controls and procedures were adequate and designed to ensure that material information relating to the Company and its consolidated subsidiary would be made known to them by others within those entities, particularly during the periods when periodic reports under the Exchange Act are being prepared.

Changes in internal control over financial reporting. There were no changes in the Company's internal control over financial reporting, identified in connection with the evaluation of such control, that occurred during the fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Forward Looking Statements

This quarterly report on Form 10-Q, including the "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Management Outlook and Business Risks" and "Quantitative and Qualitative Disclosures about Market Risk" sections, contain forward-looking statements within the meaning of the "safe-harbor" provisions of the Private Securities Litigation Reform Act of 1995. 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," "believe," or similar 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," 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:

* the Company's dependence on a few large customers
* price fluctuations in the raw materials used by the Company, particularly plastic resin
* unanticipated plant closing costs
* unanticipated difficulties and costs associated with the relocation of equipment and the manufacture or sourcing of products
* competitive conditions in the Company's markets
* general economic conditions and conditions in the retail environment
* 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
* fluctuations in the stock market
* the extent to which the Company is able to retain and attract key personnel
* relationships with retailers
* the impact of federal, state and local environmental requirements (including the impact of current or future environmental claims against the Company)
* our ability to develop and introduce new products and product modifications necessary to remain competitive
* other factors discussed in "Management Outlook and Business Risks" above

Given these risks and uncertainties, investors are cautioned not to place undue reliance on such 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.

PART II. OTHER INFORMATION

Items 1, 2, 3, 4 and 5 of this Part II are either inapplicable or are answered in the negative and are omitted pursuant to the instructions to

Part II.

Item 5. Other Information

On November 7, 2003, Jeffrey C. Rubenstein resigned from his position as a director serving on the Company's Board of Directors. Mr. Rubenstein did not resign because of a disagreement on any matter relating to the Company's operations, policies or practices.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.1 Fourth Amendment to Loan and Security Agreement made as of September 19, 2003 by and among Home Products International - North America, Inc. and Fleet Capital Corporation. Incorporated by reference from Exhibit 10.1 to Form 8-K filed on September 24, 2003.

31.1 Certification of James R. Tennant, Chief Executive Officer and Chairman of the Board, dated November 11, 2003 pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.

31.2 Certification of James E. Winslow, Executive Vice President and Chief Financial Officer, dated November 11, 2003 pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.

32.1 Certification of James R. Tennant, Chief Executive Officer and Chairman of the Board, dated November 11, 2003 pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.

32.2 Certification of James E. Winslow, Executive Vice President and Chief Financial Officer, dated November 11, 2003 pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.

(b) Current reports on Form 8-K.

Registrant filed a Current Report on Form 8-K dated June 30, 2003 to disclose that the Registrant issued a press release disclosing that it filed an action with the U.S. International Trade Commission and the U.S. Department of Commerce.

Registrant filed a Current Report on Form 8-K dated July 29, 2003 to disclose that the Registrant issued a press release disclosing its financial results for its second quarter 2003.

Registrant filed a Current Report on Form 8-K dated September 24, 2003 to disclose that on September 19, 2003 the Registrant reached an agreement with Fleet Capital Corporation, to amend the registrant's loan and security agreement.

SIGNATURE

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

Home Products International, Inc.

By: /s/ James E. Winslow

James E. Winslow
Executive Vice President and
Chief Financial Officer

Dated: November 11, 2003