EXHIBIT C

NEW CONVERTIBLE NOTES
ELECTION OPTION PROCEDURES

Reference is made to the Second Amended Disclosure Statement With Respect to the Plan of Reorganization of Home Products International, Inc. and Home Products International – North America, Inc. dated January 29, 2007 (as amended, the "**Disclosure Statement**"). To the extent that you do not have a copy of the Disclosure Statement, you may contact the Election Agent (*see* Section 7 below). Capitalized terms used, but not defined herein, shall have the meanings ascribed to them in the Disclosure Statement.

1. INTRODUCTION

On January 30, 2007, Home Products International, Inc. ("**HPI**"), together with its direct subsidiary, Home Products International – North America, Inc. (collectively, the "**Debtors**"), filed the Disclosure Statement and the Second Amended Plan of Reorganization of Home Products International, Inc. and Home Products International – North America, Inc. dated January 29, 2007 (as amended, the "**Plan**"). Pursuant to the Plan, holders of Class 5 Noteholder Claims and holders of Class 6 HPI Interests (the "**Eligible Holders**") have the right to purchase New Convertible Notes to be issued under the New Convertible Notes Facility. Eligible Holders have the right, but not the obligation, to purchase their pro rata share of the New Convertible Notes to be issued in the principal aggregate amount of $25,000,000. The formula for calculating such pro rata share of the New Convertible Notes is set forth in the summary of terms in Section 2 below and in the New Convertible Notes Election Option Form (the "**Election Form**"). Eligible Holders who wish to purchase New Convertible Notes must complete and return the Election Form so that it is received by the Election Agent (as defined below) on or before 4:00 p.m. (prevailing Eastern Time) on _____, 2007 (the "**Facility Election Deadline**").

Before electing to exercise the New Convertible Notes Election Option, Eligible Holders should read the Disclosure Statement, including the sections entitled "III. OVERVIEW OF THE DEBTORS AND THE PLAN – C. Summary of Certain Other Plan Provisions – 2. New Convertible Notes Election Option," "VIII. MEANS FOR IMPLEMENTATION OF THE PLAN – RESTRUCTURING TRANSACTIONS – A. Restructuring Transactions – 2. New Convertible Notes Election Option" and "XXII. TAX CONSEQUENCES". Eligible Holders should also carefully consider the Information Statement for the Option related to the Issuance of 6.00% 2007 Notes Due 2017 and the Common Stock Issuable Upon Conversion of the Notes (together with the Amended and Restated Loan and Security Agreement, the Stockholders Agreement, the Amended and Restated Certificate of Incorporation, the Amended and Restated By-laws and Recent Financial Statements attached as exhibits thereto), including the sections entitled "Risk Factors" and "Recent Financial Information" therein.

Eligible Holders should consult their own attorney, financial advisor and tax advisor for legal, investment and tax advice. None of the Debtors, the Reorganized Debtors, the Creditors' Committee, the Indenture Trustee, the Designated Persons, or any Related Parties of, or advisors to, the foregoing make any recommendation to the Eligible Holders regarding whether they should purchase New Convertible Notes.

2. SUMMARY TERMS OF THE NEW CONVERTIBLE NOTES FACILITY

The following is a summary of the terms of the New Convertible Notes. The following summary does not include all of the terms and conditions of the New Convertible Notes which are contained in the definitive documents attached to the Information Statement as Exhibits.

Securities Being Issued	6% Secured Convertible Notes, due 2017
Issuer:	The Company, pursuant to the terms of the Securities Purchase Agreement (the "**Notes Purchase Agreement**")
Purchasers:	Class 5 Claimholders and Class 6 Interestholders who elect to purchase New Convertible Notes pursuant to the option to do so or the Backstop Lenders (as defined herein) who are required to purchase New Convertible Notes as provided herein.
Agent:	HSBC Bank USA, N.A. is the initial agent who will act under the Notes Purchase Agreement on behalf of the Eligible Holders (in its capacity as both agent and collateral agent, the "**Note Agent**"). Upon a resignation for any reason of the Note Agent, the Notes Purchase Agreement provides for the replacement of such Note Agent.
Principal Amount of New Convertible Notes:	$25,000,000.
Interest:	The New Convertible Notes accrue payable-in-kind ("**PIK**") interest from the date of issuance at the rate of 6% per annum, compounding semiannually. Interest will be posted on April 1 and October 1 of each year, commencing October 1, 2007, to the persons in whose name the New Convertible Notes are registered at the close of business on April 1 or October 1, and if not a business day, the business day immediately preceding the relevant interest payment date. On each posting date, the accrued interest will be added to the principal balance of the New Convertible Notes that remain outstanding. PIK Interest on the notes will be computed on the basis of a 360-day year comprised of twelve 30-day months.
Maturity:	The New Convertible Notes will mature on the date which is expected to be on or around March 30, 2017, unless converted, repurchased or redeemed earlier.

Security:	The New Convertible Notes are to be secured by a second priority security interest in substantially all of the assets of HPI which assets are primarily composed of the stock of Home Products International-North America, Inc. ("**HPI-NA**") subject only to the security interests granted by HPI to secure the obligations owing under that certain Second Amended and Restated Loan and Security Agreement and any refinancing or replacement thereof ("**Exit Facility**") by and among HPI-NA, Bank of America, N.A. as agent and a lender thereunder ("**Senior Agent**"), together with the other lenders also party to the Exit Facility (the "**Senior Lenders**"). The Exit Facility is secured by the same assets that secure the New Convertible Notes but on a first priority basis pursuant to a guarantee made by HPI. In addition, the HPI-NA guarantee of the obligations evidenced by the New Convertible Notes will be supported by a second lien on substantially all of the assets of HPI-NA The second liens granted by Debtors shall be subordinate only to the liens securing the Exit Facility as confirmed by the Intercreditor Agreement (as herein defined), other liens permitted pursuant to the Notes Purchase Agreement and liens which may arise as a consequence of law.
Intercreditor Terms:	The sharing of collateral and other agreements regarding the liens on Debtors' assets and the rights of the Senior Agent and the Note Agent on behalf of the Eligible Holders are governed by an intercreditor agreement (the "**Intercreditor Agreement**") among the Senior Agent, (on behalf of the Senior Lenders) the Debtors and the Note Agent, on behalf of the Eligible Holders. Among other things, the Intercreditor Agreement provides that the Note Agent may be subject to restrictions in favor of the Senior Agent with respect to its right to enforce its liens.
Ranking and Subordination of Liens:	The New Convertible Notes represent senior obligations of HPI and rank *pari passu* in right of payment to the obligations of HPI as a guarantor under the Exit Facility and all other unsubordinated obligations of HPI. The liens which underlie the New Convertible Notes are second in priority to those in favor of the Senior Agent and the Senior Lenders under the Exit Facility as they relate to the assets of HPI and second in priority to those in favor of the Senior Agent and the Senior Lenders under the Exit Facility as they relate to the assets of HPI-NA, in each case as confirmed by the Intercreditor Agreement.

Calculation for Determining Pro Rata Share of New Convertible Notes for Class 5 Eligible Holders that may be purchased under the Election Form:	Each Eligible Class 5 Holder's option provided for in the Election Form allows such holder to purchase a portion of the New Convertible Notes based upon (i) the ratio (expressed as a percentage) of the principal amount of the pre-petition Notes held by such holder as of March __, 2007, to the aggregate outstanding principal amount of the pre-petition Notes (namely $116,050,000) multiplied by (ii) 0.95.
Calculation for Determining Pro Rata Share of New Convertible Notes for Class 6 Eligible Holders that may be purchased under the Election Form:	Each Eligible Class 6 Holder's option provided for in the Election Form allows such holder to purchase a portion of the New Convertible Notes based upon (i) the ratio (expressed as a percentage) of the number of shares of Old HPI Stock held by such holder as of March __, 2007, to the aggregate number of shares of Old HPI Stock (namely 8,154,587 shares) multiplied by (ii) 0.05.
Guaranties:	The New Convertible Notes will be guaranteed by HPI-NA, initially, and, in the future, may be guaranteed by other direct or indirect subsidiaries of HPI pursuant to the terms of the Notes Purchase Agreements and the Intercreditor Agreement. Each additional guarantee shall be *pari passu* in right of payment with any corresponding guarantee given by such entity under the Exit Facility.
Affirmative and Restrictive Covenants:	The Notes Purchase Agreement contains numerous covenants standard for this type of issuance, including (i) restrictive covenants such as restrictions on the payment of dividends, the incurrence of indebtedness, transactions with affiliates, incurrence of liens or the issuance of securities by HPI's subsidiaries, (ii) covenants restricting the business conduct of HPI, and (iii) compliance with the Stockholders Agreement. The Notes Purchase Agreement also contains standard affirmative covenants, including covenants that allow inspections and visits to HPI, and requires the preparation and delivery of timely financial statements and projections and other disclosures about its debt.
Financial Covenants:	At any time when net availability under the Exit Facility is $5,000,000 or less, HPI-NA must maintain a fixed charge ratio of at least 1.01 to 1.00 ratio for (x) the most recently ended twelve month period and (y) the twelve months ended on the last day of each successive fiscal quarter.

Conversion:

The New Convertible Notes may be convertible at a holder's option, into New HPI Stock as further described in the Notes Purchase Agreement, subject to any applicable limitations set forth in HPI's Amended and Restated Certificate of Incorporation. Additionally because HPI has chosen to limit the number of stockholders it has at any time in any class of securities, the New Convertible Notes may not be convertible in the hands of a holder who does not also own New HPI Stock.

Any shares of New HPI Stock issued upon conversion of the New Convertible Notes will be fully paid and non-assessable.

No other payment or adjustment for any cash dividends in respect of New HPI Stock will be made upon conversion. Holders of New HPI Stock issued upon conversion will not be entitled to receive any dividends payable to holders of New HPI Stock as of any record time or date before the close of business on the date such New Convertible Notes are converted into New HPI Stock.

In order for each holder of the New Convertible Notes to be able to exercise the right of conversion in advance of certain events, HPI shall provide notice to the Eligible Holders of:

- any dividend or distribution payments;
- change of control events;
- mergers, reorganizations or other similar events;
- rights offerings; and
- stock issuances.

Conversion Procedure:

Except as otherwise provided, a holder of the New Convertible Notes may convert all or part of any note it holds into New HPI Stock at any time prior to 5:00 p.m. (prevailing Eastern Time) on the business day immediately prior to the Maturity Date.

A holder may convert fewer than all of such holder's New Convertible Notes so long as the amount converted is $1,000 or an integral multiple thereof. If a holder has less than $1,000 principal amount of New Convertible Notes, the holder must convert all of such New Convertible Notes if it elects to exercise this conversion right.

If a Convertible Note is called for redemption, the holder may convert such note at any time before the close of business on the tenth (10th) calendar day immediately preceding the redemption date, or, if such date is not a business day, then the close of business on the next succeeding day which is a business day.

Conversion Price for New HPI Stock: $5.34.

Optional Prepayment: The New Convertible Notes will not be redeemable by HPI until the fifth anniversary after the Effective Date (expected to be on or about March __, 2007, the "Effective Date"). Thereafter, the New Convertible Notes will be redeemable, in whole or in part, at the following premiums to the New Convertible Notes outstanding principal amount together with accrued and unpaid interest to date:

- During year 6 – 5%
- During year 7 – 4%
- During year 8 – 3%
- During year 9 – 2%
- During year 10 – 1%

All or any portion of the New Convertible Notes (in excess of $1,000,000), including the PIK interest thereof, may be redeemed for cash, at once or from time to time, upon at least 30 and not more than 60 days' notice, at a redemption price set forth above.

Change of Control: Upon a change of control, each holder of a New Convertible Note or New Convertible Notes shall have the right to require HPI to repurchase its New Convertible Notes at 101% of the principal amount together with accrued and unpaid interest to date.

Termination of Option to Purchase New Convertible Notes in Election Form:	The Debtors or HPI, as applicable, may cancel the option to purchase the New Convertible Notes contained in the Election Form if, at any time prior to the Effective Date, a judgment, order, decree, injunction, statute, law or regulation is entered, enacted, amended or held to be applicable to the New Convertible Notes offering that in the sole judgment of the Debtors or HPI and the Backstop Lenders may cause the offering to be illegal or that may otherwise restrict or prohibit the offering. If the option to purchase the New Convertible Notes is terminated, such termination will not affect the allocation or distribution of New HPI Stock under the Plan, all rights to purchase the New Convertible Notes will expire without value, and Purchase Price payments made by Eligible Holders will be returned to such holders within ten (10) days, without interest.
Backstop Commitment:	So long as HPI has satisfied all of its conditions under the Notes Purchase Agreement, Third Avenue Special Situations (Master) Fund, L.P., Third Avenue Variable Series Trust, Third Avenue Trust (Third Avenue Trust, with Special Situations and Variable Series Trust, collectively, "Third Avenue"), are obligated to serve as the backstop purchasers for up to 85% of the New Convertible Notes, and Storage Acquisition Company L.L.C. (**"SAC"**) is obligated to serve as the backstop purchaser for up to 15% of the New Convertible Notes (the "**Backstop Commitment**") if all of the New Convertible Notes are not purchased pursuant to the Election Forms. The Backstop Lenders will receive a fee for providing the Backstop Commitment equal to 2% of each of their respective Backstop Commitments as further discussed in Section 3.h. below.

Recapitalizations, Reclassifications and Changes of New HPI Stock:

In the case of any recapitalization, reclassification or change of the common stock of HPI (other than changes resulting from a subdivision or combination), a consolidation, merger or combination involving HPI, a sale or conveyance to a third party of substantially all of HPI's assets, or any statutory share exchange, in each case as a result of which New HPI Stock would be converted into, or exchanged for, stock, other securities, other property or assets (including cash or any combination thereof), then, at the effective time of the transaction, the right to convert a New Convertible Note will be changed into a right to convert it into the kind and amount of shares of stock, other securities or other property or assets (including cash or any combination thereof) that a holder of a share of common stock would have owned or been entitled to receive upon such transaction.

In the event holders of New HPI Stock have the opportunity to elect the form of consideration to be received in such transaction, the type and amount of consideration that holders of New Convertible Notes would have been entitled to receive will be deemed to be the weighted average of the types and amounts of consideration received by the then holders of New HPI Stock. The Company will not become a party to any such transaction unless its terms are consistent with the foregoing.

Events of Default and Remedies:

The following are Events of Default for the New Convertible Notes:

- failure to pay the principal amount, redemption price or repurchase price of any note for five (5) business days after such amount becomes due and payable on the New Convertible Notes;

- failure to deliver when due all shares of New HPI Stock and any cash payable upon conversion with respect to the New Convertible Notes, which default continues for fifteen (15) days;

- certain defaults or events of default under other agreements of HPI or HPI-NA, including in certain circumstances under the Exit Facility; and

- among other things, other occurrences having an effect on the financial condition of HPI such as default under any of the other documents or agreements associated with the New Convertible Notes, the occurrence of certain uninsured losses, or the occurrence of any insolvency of HPI or one of its subsidiaries or the entry of any of them into bankruptcy or bankruptcy-like proceedings.

Governing Law: Illinois

Terms of New HPI Stock 10,000,000 shares of common stock, par value $.01, of HPI are authorized pursuant to the Certificate of Incorporation and By-Laws of HPI.

It is anticipated that approximately 1,000,000 shares of the authorized shares will be issued pursuant to the Plan to the Eligible Holders who so elect.

Additional shares may be issued for management upon vesting and exercise of management options and for holders of the New Convertible Notes upon conversion of their New Convertible Notes into New HPI Stock.

All holders of New HPI Stock, including shares issuable to management and upon conversion of the New Convertible Notes, will be bound by and are subject, to that certain "**Stockholders Agreement**", including without limitation the restrictions on transfer therein contained.

Registration Rights: If HPI completes an initial public offering or otherwise has listed New HPI Stock on a national securities exchange, then HPI shall, as soon as practicable but no later than 90 days after such event, effectuate a shelf registration that will permit the conversion of the New Convertible Notes into New HPI Stock and the subsequent resale of such stock pursuant to such registration (the "**Piggyback Rights**").

Trading: It is not expected that the New Convertible Notes will be registered. A secondary market for them may or may not develop, such that the New Convertible Notes may not ever be traded on any securities exchange or over-the-counter or other electronic clearing house such as the "pink sheets." In any event all transfers would be subject to the restrictions on transfer contained in the Notes Purchase Agreement, the Stockholders Agreement (with respect to the New HPI Stock issued upon conversion thereof) and pursuant to applicable law.

3. PROCEDURES FOR ELECTING TO PURCHASE THE NEW CONVERTIBLE NOTES

a. Election Period.

The New Convertible Notes Election Option shall commence and be available on the day upon which the Election Forms are initially mailed to Eligible Holders on or promptly after the Confirmation Date (the "**Commencement Date**"). The Election Period shall be for a period of twenty-one (21) days. Each Eligible Holder intending to purchase New Convertible Notes must affirmatively elect to purchase New Convertible Notes on or prior to the Facility Election Deadline in accordance with the provisions herein and on the Election Form.

The election by an Eligible Holder pursuant to the New Convertible Notes Election Option Procedures shall be deemed an irrevocable commitment by an Eligible Holder to purchase such Eligible Holder's pro rata share of the New Convertible Notes subject to the occurrence of the Effective Date and the respective conditions precedent in the Securities Purchase Agreement, a copy of which is included herewith.

b. General Election Procedures by Eligible Holders

To exercise the New Convertible Notes Election Option and purchase New Convertible Notes, each Eligible Holder must: (i) deliver a duly completed Election Form to either such holder's Nominee (as described in 3.c. below) OR the Election Agent, so that such Election Form is actually received by the Election Agent on or before the Facility Election Deadline; and (ii) pay to the Election Agent (on behalf of HPI) on or before the Facility Election Deadline, the Purchase Price for such Eligible Holder's New Convertible Notes, in accordance with the wire instructions set forth on the Election Form. If, on or prior to the Facility Election Deadline, the Election Agent for any reason does not receive from an Eligible Holder both a duly completed Election Form and immediately available funds by wire transfer in an amount equal to the Purchase Price for such Eligible Holder's New Convertible Notes, such Eligible Holder shall be deemed to have relinquished and waived its rights to purchase New Convertible Notes.

c. Exercise by Beneficial Owners Holding Through Nominees

For an Eligible Class 5 Holder who holds its Notes, or an Eligible Class 6 Holder who holds its Interests in HPI, through a bank, broker, or other nominee or agent, to exercise the New

Convertible Notes Election Option and purchase New Convertible Notes, such holder must provide its instruction to its bank, broker, or other nominee or to its agent. The bank, broker, or other nominee or agent, in turn, must then convey the instruction to the Election Agent.

To facilitate the exercise of the New Convertible Notes Election Option and the purchase of New Convertible Notes, on the Commencement Date, the Debtors will deliver Election Forms to the record holders of Noteholder Claims or HPI Interests, including, without limitation, brokers, banks, dealers, or other agents or nominees (collectively, the **"Nominees"**). Each Nominee will be entitled to receive sufficient copies of the Election Form, New Convertible Notes Election Option Procedures, Disclosure Statements and Information Statements for distribution to the beneficial owners (the **"Beneficial Owners"**) of the Noteholder Claims or HPI Interests for whom such Nominee holds such Claims or Interests. The Nominees must then distribute the Election Forms to the Beneficial Owners for such Beneficial Owners to timely exercise the New Convertible Notes Election Option. To exercise the New Convertible Notes Election Option and purchase New Convertible Notes, each Beneficial Owner must then (i) deliver a duly completed Election Form to its Nominee in sufficient time for the Nominee to deliver the form to the Election Agent so that such form is actually received by the Election Agent on or before the Facility Election Deadline; and (ii) pay to the Election Agent (on behalf of HPI) on or before the Facility Election Deadline the Purchase Price for such Eligible Holder's New Convertible Notes, in accordance with the wire instructions set forth on the Election Form. If, on or prior to the Facility Election Deadline, the Election Agent for any reason does not receive both a duly completed Election Form for an Eligible Holder and immediately available funds by wire transfer in an amount equal to the Purchase Price for such Eligible Holder's New Convertible Notes, such Eligible Holder shall be deemed to have relinquished and waived its rights to purchase New Convertible Notes.

d. <u>The Purchase Price</u>

The payment of the Purchase Price by each Eligible Holder that exercises its New Convertible Notes Election Option shall be deposited and held by the Election Agent in escrow in an account or accounts which shall be separate and apart from the Election Agent's general operating funds and any other funds subject to any lien or any cash collateral arrangements and which segregated account or accounts will be maintained for the purpose of holding the money for administration of the New Convertible Notes Facility until the Effective Date of the Plan, or such later date, at the option of Reorganized HPI, but in no event later than ten (10) days after the Facility Election Deadline. In the event that the Plan is revoked or withdrawn or the New Convertible Notes Election Option is terminated as provided below, no later than ten (10) days thereafter, the Election Agent shall return to each Eligible Holder such Eligible Holder's Purchase Price payment, without interest. On the Effective Date, which is anticipated to be prior to the Facility Election Deadline, the Reorganized Debtors will issue New Convertible Notes to all Eligible Holders who have duly exercised their New Convertible Notes Election Option and will have full access to and ownership and use of any funds paid by such exercising Eligible Holders that were held in escrow. Thereafter, promptly following the Facility Election Deadline, the Reorganized Debtors will issue additional New Convertible Notes to exercising Eligible Holders who exercise after the Effective Date and prior to the Facility Election Deadline.

The Election Agent shall not use such funds for any other purpose prior to such date and shall not encumber or permit such funds to be encumbered with any lien or similar encumbrance.

In the event that an Eligible Holder has transmitted funds that exceed such Eligible Holder's Purchase Price, such excess funds will be returned to such Eligible Holder as promptly as practicable after the Facility Election Deadline, without interest.

Unless otherwise agreed to or waived by the Debtors or the Reorganized Debtors, as applicable, in the event that an Eligible Holder has transmitted funds to the Election Agent in accordance with these New Convertible Notes Election Option Procedures but fails to deliver or have its Nominee deliver a duly executed Election Form to the Election Agent so that the Election Form is received by the Facility Election Deadline, such Eligible Holder's election to purchase New Convertible Notes shall be void, and the Election Agent shall return the amount that such holder paid as a Purchase Price within ten (10) Business Days by regular mail, without interest.

e. Waiver

Each Eligible Holder that purchases New Convertible Notes shall be deemed by virtue of such purchase, to have waived and released, to the fullest extent permitted under applicable law, all rights, claims or causes of action against the Debtors, the Reorganized Debtors, the Backstop Lenders, the Creditors' Committee, the Ad Hoc Committee, the Settling Noteholders, the Designated Persons, the Indenture Trustee and the Election Agent arising from or related to the election to purchase New Convertible Notes, the distribution of the New Convertible Notes or otherwise with respect to the New Convertible Notes Facility.

f. Notification of Subscription of New Convertible Notes

As promptly as practicable, and in any event no later than two (2) Business Days, following the Facility Election Deadline, the Reorganized Debtors will deliver, or cause to be delivered, to each Eligible Holder or each Eligible Holder's Nominee that has properly and timely exercised its New Convertible Notes Election Option, a written statement specifying the New Convertible Notes that were validly and effectively subscribed for by such Eligible Holder.

g. Termination of New Convertible Notes Election Option

The Debtors or the Reorganized Debtors, as applicable, may terminate the New Convertible Notes Election Option if, at any time prior to the Effective Date, a judgment, order, decree, injunction, statute, law or regulation is entered, enacted, amended or held to be applicable to the New Convertible Notes Election Option that in the sole judgment of the Debtors or the Reorganized Debtors and the Backstop Lenders may cause the New Convertible Notes Election Option or the New Convertible Notes Facility to be illegal or that may otherwise restrict or prohibit the New Convertible Notes Election Option. If the New Convertible Notes Election Option is terminated, such termination will not affect the allocation or distribution of New HPI Stock under the Plan, all rights to purchase New Convertible Notes will expire without value, and Purchase Price payments made by Eligible Holders will be returned to such holders within ten (10) days by regular mail, without interest.

h. Backstop Lenders

To ensure that the aggregate principal amount of the New Convertible Notes issued by Reorganized HPI is not less than $25,000,000, Third Avenue and SAC (the "**Backstop Lenders**") have agreed to "backstop" the New Convertible Notes Facility and acquire any of the New Convertible Notes that are not subscribed for by Eligible Holders pursuant to the New Convertible Notes Election Option before or on the Facility Election Deadline, subject to the satisfaction or waiver of the conditions precedent in the Securities Purchase Agreement. Third Avenue has agreed to "backstop" 85% of the total New Convertible Notes Facility, and SAC has agreed to "backstop" 15% of the total New Convertible Notes Facility. In consideration therefor, the Debtors have agreed to pay each of the Backstop Lenders a fee equal to 2% of their respective Backstop Commitments (as defined in the Disclosure Statement).

4. CONDITIONS PRECEDENT; RESERVATION OF RIGHTS

All elections pursuant to the New Convertible Notes Election Option and the issuance of the New Convertible Notes are subject to and conditioned upon the occurrence of the Effective Date of the Plan and the satisfaction or waiver of the applicable conditions precedent in the Securities Purchase Agreement. Notwithstanding anything contained in these New Convertible Notes Election Option Procedures, the Disclosure Statement or the Plan to the contrary, the Debtors and the Reorganized Debtors reserve the right, in consultation with the Backstop Lenders, to modify these New Convertible Notes Election Option Procedures in order to comply with applicable law. The Debtors or the Reorganized Debtors, as the case may be, with the approval of the Backstop Lenders, may extend the duration of the New Convertible Notes Election Option or adopt additional detailed procedures to more efficiently administer the election to exercise the New Convertible Notes Election Option and the distribution of the New Convertible Notes.

5. QUESTIONS, WAIVERS, EXTENSIONS

All questions concerning the timeliness, viability, form and eligibility of any election to purchase the New Convertible Notes shall be determined by the Debtors or the Reorganized Debtors, as the case may be, in consultation with the Backstop Lenders, whose good faith determinations shall be final and binding. The Debtors or the Reorganized Debtors, as the case may be, in consultation with the Backstop Lenders, may waive any defect or irregularity, or permit a defect or irregularity to be corrected within such times as they may determine in good faith to be appropriate, or reject the purported election to purchase New Convertible Notes. The Debtors or the Reorganized Debtors, as the case may be, reserve the right, but are under no obligation, to give notice to any Eligible Holder regarding any defect or irregularity in connection with any purported election to purchase New Convertible Notes by such Eligible Holder and the Debtors or the Reorganized Debtors, as the case may be, may, but are under no obligation to, permit such defect or irregularity to be cured within such time as they may determine in good faith, in consultation with the Backstop Lenders, to be appropriate; provided, however, that none of the Debtors, the Reorganized Debtors, the Election Agent or the Backstop Lenders shall incur any liability for failure to give such notification.

6. TRANSFER RESTRICTION; REVOCATION

Pursuant to the Plan, the right to elect to purchase New Convertible Notes is not transferable independently of the underlying Noteholder Claim or HPI Interests, provided, however, that the right to elect to purchase the New Convertible Notes may only be exercised by or through the Eligible Holder entitled to exercise such rights on the Distribution Record Date.

To the extent an Eligible Holder properly elects on its Election Form to purchase New Convertible Notes, such election will not be permitted to be revoked by such Eligible Holder.

7. INQUIRIES AND TRANSMITTAL OF DOCUMENTS

The election instructions accompanying the Election Form should be carefully read and strictly followed.

Questions relating to the New Convertible Notes Election Option should be directed to the Election Agent at the following address and phone number:

The BMC Group Attn: HPI, Inc. Balloting Agent P.O. Box 1066 El Segundo, CA 90245-1066 (888) 909-0100	The BMC Group Attn: HPI, Inc. Balloting Agent 1330 East Franklin Avenue El Segundo, CA 90245 (888) 909-0100

The risk of delivery of all documents and payments is on the Eligible Holders and the Nominees, as applicable, electing to purchase New Convertible Notes, not the Debtors, the Reorganized Debtors or the Election Agent. If mail is used, it is recommended that a reputable overnight courier or insured registered mail be used and that a sufficient number of days be allowed to ensure delivery to the Election Agent before the Facility Election Deadline.

8. EXEMPTION FROM REGISTRATION

In connection with consummation of the Plan, Reorganized HPI will rely on § 1145 of the Bankruptcy Code, to the extent it is applicable, to exempt the issuance of the New Convertible Notes issued pursuant to the New Convertible Notes Election Option from the registration requirements of the Securities Act and from any state securities or "blue sky" laws. Among other things, § 1145 of the Bankruptcy Code exempts from registration the offer or sale of a debtor's securities pursuant to a chapter 11 plan if such securities are offered or sold by a debtor or successor of a debtor in exchange for (or principally in exchange for) a claim against, or interest in a case concerning such debtor. In reliance upon this exemption, the Debtors believe the offer and sale of the New Convertible Notes to the Claimholders and Interestholders generally should be exempt from the registration requirements of the Securities Act.

Eligible Holders who elect to purchase the New Convertible Notes in connection with the Plan may be able to resell the New Convertible Notes without registration under the Securities Act and state securities or "blue sky" laws, whether because the transfer is excluded from

registration or is pursuant to an applicable exemption under the Securities Act, unless the recipient is an "underwriter" with respect to such securities, within the meaning of § 1145(b) of the Bankruptcy Code. Section 1145(b) of the Bankruptcy Code defines an "underwriter" as one who:

- purchases a claim or interest with a view to distribution of any security to be received in exchange for the claim or interest; or
- offers to sell securities issued under a plan for the holders of such securities; or
- offers to buy securities issued under a plan from Persons receiving such securities, if the offer to buy is made with a view to distribution; or
- is an "issuer" of the relevant security, as such term is used in Section 2(11) of the Securities Act.

At this time, none of the Debtors or Reorganized HPI intend to list the New Convertible Notes or the HPI Stock on a securities exchange or to prepare or maintain public disclosure on Reorganized HPI. Statutory underwriters and Eligible Holders who otherwise might be able to sell the New HPI Stock and New Convertible Notes without registration, will not be eligible for an exemption under Section 1145 or under Rule 144 under the Securities Act.

Eligible Holders that elect to participate in the New Convertible Notes Facility that believe they may be statutory underwriters as defined in § 1145 of Bankruptcy Code are advised to consult with their own counsel as to the availability of any exemption from registration provided by the Securities Act.

BECAUSE OF THE COMPLEX, SUBJECTIVE NATURE OF THE QUESTION OF WHETHER A PARTICULAR HOLDER MAY BE AN UNDERWRITER, NONE OF THE DEBTORS, THE REORGANIZED DEBTORS, THE CREDITORS' COMMITTEE, THE SETTLING NOTEHOLDERS, THE INDENTURE TRUSTEE, THE BACKSTOP LENDERS OR THE DESIGNATED PERSONS MAKE ANY REPRESENTATION OR PROVIDE ANY GUIDANCE OR INSTRUCTIONS CONCERNING THE ABILITY OF ANY PERSON TO DISPOSE OF THE SECURITIES TO BE DISTRIBUTED PURSUANT TO THE NEW CONVERTIBLE NOTES ELECTION OPTION.