

HNI CORP  
Form 10-Q  
October 28, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended September 27, 2014.

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-14225

HNI Corporation  
(Exact name of registrant as specified in its charter)

|                                                                   |                                            |
|-------------------------------------------------------------------|--------------------------------------------|
| Iowa                                                              | 42-0617510                                 |
| (State or other jurisdiction of<br>incorporation or organization) | (I.R.S. Employer<br>Identification Number) |

|                                          |            |
|------------------------------------------|------------|
| P. O. Box 1109, 408 East Second Street   | 52761-0071 |
| Muscatine, Iowa 52761-0071               | (Zip Code) |
| (Address of principal executive offices) |            |

Registrant's telephone number, including area code: 563/272-7400

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 ☐ o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES ☒ x NO ☐ o

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

|                         |                                     |                   |                          |
|-------------------------|-------------------------------------|-------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/>            | Smaller reporting |                          |
| company                 | <input type="checkbox"/>            |                   |                          |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

|     |                          |    |                                     |
|-----|--------------------------|----|-------------------------------------|
| YES | <input type="checkbox"/> | NO | <input checked="" type="checkbox"/> |
|-----|--------------------------|----|-------------------------------------|

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

|                              |                                   |
|------------------------------|-----------------------------------|
| Class                        | Outstanding at September 27, 2014 |
| Common Shares, \$1 Par Value | 44,394,795                        |

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HNI Corporation and SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

HNI Corporation and SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Unaudited)

|                                           | September 27,<br>2014 | December 28,<br>2013 |
|-------------------------------------------|-----------------------|----------------------|
|                                           | (In thousands)        |                      |
| <b>ASSETS</b>                             |                       |                      |
| <b>CURRENT ASSETS</b>                     |                       |                      |
| Cash and cash equivalents                 | \$29,678              | \$65,030             |
| Short-term investments                    | 5,652                 | 7,251                |
| Receivables                               | 277,267               | 228,715              |
| Inventories                               | 116,864               | 89,516               |
| Deferred income taxes                     | 16,862                | 16,051               |
| Prepaid expenses and other current assets | 22,234                | 26,665               |
| Total Current Assets                      | 468,557               | 433,228              |
| <br><b>PROPERTY, PLANT, AND EQUIPMENT</b> |                       |                      |
| Land and land improvements                | 27,702                | 27,465               |
| Buildings                                 | 291,118               | 284,484              |
| Machinery and equipment                   | 485,296               | 470,748              |
| Construction in progress                  | 25,572                | 24,209               |
|                                           | 829,688               | 806,906              |
| Less accumulated depreciation             | 544,209               | 539,505              |
| <br>Net Property, Plant, and Equipment    | 285,479               | 267,401              |
| <br><b>GOODWILL</b>                       | 277,858               | 286,655              |
| <br><b>OTHER ASSETS</b>                   | 166,899               | 147,421              |
| <br>Total Assets                          | \$1,198,793           | \$1,134,705          |

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

HNI Corporation and SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Unaudited)

|                                                                                                                                                         | September 27,<br>2014                                    | December 28,<br>2013 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|----------------------|
|                                                                                                                                                         | (In thousands, except share and<br>per share value data) |                      |
| <b>LIABILITIES AND EQUITY</b>                                                                                                                           |                                                          |                      |
| <b>CURRENT LIABILITIES</b>                                                                                                                              |                                                          |                      |
| Accounts payable and accrued expenses                                                                                                                   | \$445,262                                                | \$407,799            |
| Note payable and current maturities of long-term<br>debt and capital lease obligations                                                                  | 1,263                                                    | 484                  |
| Current maturities of other long-term obligations                                                                                                       | 3,358                                                    | 3,301                |
| Total Current Liabilities                                                                                                                               | 449,883                                                  | 411,584              |
| <b>LONG-TERM DEBT</b>                                                                                                                                   | 166,050                                                  | 150,091              |
| <b>CAPITAL LEASE OBLIGATIONS</b>                                                                                                                        | 16                                                       | 106                  |
| <b>OTHER LONG-TERM LIABILITIES</b>                                                                                                                      | 70,738                                                   | 67,543               |
| <b>DEFERRED INCOME TAXES</b>                                                                                                                            | 72,558                                                   | 68,964               |
| <b>COMMITMENTS AND CONTINGENCIES</b>                                                                                                                    |                                                          |                      |
| <b>EQUITY</b>                                                                                                                                           |                                                          |                      |
| HNI Corporation shareholders' equity:                                                                                                                   |                                                          |                      |
| Capital Stock:                                                                                                                                          |                                                          |                      |
| Preferred, \$1 par value, authorized 2,000,000 shares, no shares outstanding                                                                            | —                                                        | —                    |
| Common, \$1 par value, authorized 200,000,000 shares, outstanding -<br>September 27, 2014 – 44,394,795 shares;<br>December 28, 2013 – 44,981,865 shares | 44,395                                                   | 44,982               |
| Additional paid-in capital                                                                                                                              | 797                                                      | 16,729               |
| Retained earnings                                                                                                                                       | 393,800                                                  | 373,652              |
| Accumulated other comprehensive income                                                                                                                  | 538                                                      | 965                  |
| Total HNI Corporation shareholders' equity                                                                                                              | 439,530                                                  | 436,328              |
| Noncontrolling interest                                                                                                                                 | 18                                                       | 89                   |
| Total Equity                                                                                                                                            | 439,548                                                  | 436,417              |
| Total Liabilities and Equity                                                                                                                            | \$1,198,793                                              | \$1,134,705          |

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).



## HNI Corporation and SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

|                                                                       | Three Months Ended                              |                       |
|-----------------------------------------------------------------------|-------------------------------------------------|-----------------------|
|                                                                       | September 27,<br>2014                           | September 28,<br>2013 |
|                                                                       | (In thousands, except share and per share data) |                       |
| Net sales                                                             | \$ 614,690                                      | \$ 565,706            |
| Cost of sales                                                         | 394,758                                         | 365,835               |
| Gross profit                                                          | 219,932                                         | 199,871               |
| Selling and administrative expenses                                   | 166,216                                         | 154,641               |
| Restructuring and impairment                                          | 987                                             | 115                   |
| Operating income                                                      | 52,729                                          | 45,115                |
| Interest income                                                       | 110                                             | 158                   |
| Interest expense                                                      | 1,971                                           | 2,826                 |
| Income before income taxes                                            | 50,868                                          | 42,447                |
| Income taxes                                                          | 17,372                                          | 14,398                |
| Net income                                                            | 33,496                                          | 28,049                |
| Less: Net (loss) attributable to the noncontrolling interest          | (92                                             | ) (45                 |
| Net income attributable to HNI Corporation                            | \$ 33,588                                       | \$ 28,094             |
| Net income attributable to HNI Corporation per common share – basic   | \$ 0.75                                         | \$ 0.62               |
| Average number of common shares outstanding – basic                   | 44,689,819                                      | 45,317,912            |
| Net income attributable to HNI Corporation per common share – diluted | \$ 0.74                                         | \$ 0.61               |
| Average number of common shares outstanding – diluted                 | 45,611,099                                      | 46,089,580            |
| Cash dividends per common share                                       | \$ 0.25                                         | \$ 0.24               |
| Other comprehensive income (loss), net of tax: 2014 \$(197); 2013 \$7 | (825                                            | ) (587                |
| Comprehensive income                                                  | 32,671                                          | 27,462                |
| Less: Comprehensive (loss) attributable to noncontrolling interest    | (92                                             | ) (45                 |
| Comprehensive income attributable to HNI Corporation                  | \$ 32,763                                       | \$ 27,507             |

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

## HNI Corporation and SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

|                                                                        | Nine Months Ended                               |                       |
|------------------------------------------------------------------------|-------------------------------------------------|-----------------------|
|                                                                        | September 27,<br>2014                           | September 28,<br>2013 |
|                                                                        | (In thousands, except share and per share data) |                       |
| Net sales                                                              | \$ 1,576,034                                    | \$ 1,518,701          |
| Cost of sales                                                          | 1,019,797                                       | 996,390               |
| Gross profit                                                           | 556,237                                         | 522,311               |
| Selling and administrative expenses                                    | 466,714                                         | 451,275               |
| (Gain) loss on sale of assets                                          | (9,746                                          | ) 2,460               |
| Restructuring and impairment                                           | 11,241                                          | 236                   |
| Operating income                                                       | 88,028                                          | 68,340                |
| Interest income                                                        | 326                                             | 468                   |
| Interest expense                                                       | 6,360                                           | 8,219                 |
| Income before income taxes                                             | 81,994                                          | 60,589                |
| Income taxes                                                           | 27,817                                          | 19,962                |
| Net income                                                             | 54,177                                          | 40,627                |
| Less: Net (loss) attributable to the noncontrolling interest           | (212                                            | ) (296                |
| Net income attributable to HNI Corporation                             | \$ 54,389                                       | \$ 40,923             |
| Net income attributable to HNI Corporation per common share – basic    | \$ 1.21                                         | \$ 0.90               |
| Average number of common shares outstanding – basic                    | 44,916,038                                      | 45,295,115            |
| Net income attributable to HNI Corporation per common share – diluted  | \$ 1.19                                         | \$ 0.89               |
| Average number of common shares outstanding – diluted                  | 45,758,502                                      | 45,951,775            |
| Cash dividends per common share                                        | \$ 0.74                                         | \$ 0.72               |
| Other comprehensive income (loss), net of tax: 2014 \$(216); 2013 \$48 | (427                                            | ) (2,645              |
| Comprehensive income                                                   | 53,750                                          | 37,982                |
| Less: Comprehensive (loss) attributable to noncontrolling interest     | (212                                            | ) (296                |
| Comprehensive income attributable to HNI Corporation                   | \$ 53,962                                       | \$ 38,278             |

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

HNI Corporation and SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)

|                                                                                          | Nine Months Ended     |                       |
|------------------------------------------------------------------------------------------|-----------------------|-----------------------|
|                                                                                          | September 27,<br>2014 | September 28,<br>2013 |
|                                                                                          | (In thousands)        |                       |
| Net Cash Flows From (To) Operating Activities:                                           |                       |                       |
| Net income                                                                               | \$54,177              | \$40,627              |
| Noncash items included in net income:                                                    |                       |                       |
| Depreciation and amortization                                                            | 41,764                | 34,570                |
| Other postretirement and post employment benefits                                        | 930                   | 1,011                 |
| Stock-based compensation                                                                 | 6,879                 | 5,440                 |
| Excess tax benefits from stock compensation                                              | (198)                 | (2,160)               |
| Deferred income taxes                                                                    | 2,982                 | 16,053                |
| (Gain) loss on sale, retirement and impairment of long-lived assets and intangibles, net | (570)                 | 370                   |
| Loss on sale of business                                                                 | —                     | 2,177                 |
| Stock issued to retirement plan                                                          | 6,005                 | 5,352                 |
| Other – net                                                                              | 1,058                 | 3,333                 |
| Net increase (decrease) in operating assets and liabilities                              | (40,901)              | (29,175)              |
| Increase (decrease) in other liabilities                                                 | 2,681                 | 5,889                 |
| Net cash flows from (to) operating activities                                            | 74,807                | 83,487                |
| Net Cash Flows From (To) Investing Activities:                                           |                       |                       |
| Capital expenditures                                                                     | (51,201)              | (42,793)              |
| Proceeds from sale of property, plant and equipment                                      | 13,629                | 285                   |
| Capitalized software                                                                     | (30,547)              | (12,314)              |
| Purchase of investments                                                                  | (1,298)               | (1,106)               |
| Sales or maturities of investments                                                       | 5,270                 | 2,550                 |
| Other – net                                                                              | (5)                   | (578)                 |
| Net cash flows from (to) investing activities                                            | (64,152)              | (53,956)              |
| Net Cash Flows From (To) Financing Activities:                                           |                       |                       |
| Proceeds from sales of HNI Corporation common stock                                      | 4,270                 | 7,187                 |
| Withholdings related to net share settlements of equity based awards                     | (79)                  | (1,599)               |
| Purchase of HNI Corporation common stock                                                 | (35,329)              | (13,821)              |
| Proceeds from note and long-term debt                                                    | 161,052               | 157,575               |
| Payments of note and long-term debt and other financing                                  | (142,911)             | (153,268)             |
| Excess tax benefits from stock compensation                                              | 198                   | 2,160                 |
| Dividends paid                                                                           | (33,208)              | (32,656)              |
| Net cash flows from (to) financing activities                                            | (46,007)              | (34,422)              |
| Net increase (decrease) in cash and cash equivalents                                     | (35,352)              | (4,891)               |
| Cash and cash equivalents at beginning of period                                         | 65,030                | 41,782                |
| Cash and cash equivalents at end of period                                               | \$29,678              | \$36,891              |

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).



HNI Corporation and SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 27, 2014

Note A. Basis of Presentation

The accompanying unaudited, condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The December 28, 2013 consolidated balance sheet included in this Form 10-Q was derived from audited financial statements but does not include all disclosures required by generally accepted accounting principles. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement have been included. Operating results for the nine-month period ended September 27, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending January 3, 2015. For further information, refer to the consolidated financial statements and accompanying notes included in HNI Corporation's (the "Corporation") Annual Report on Form 10-K for the fiscal year ended December 28, 2013.

During 2014 the Corporation changed its estimate regarding the quarterly accrual of annual incentive plan expense to more accurately match expense with earnings which primarily drives the incentive payout. The impact to the three-month period ended September 27, 2014 was to increase expense by \$2.0 million and decrease net income attributable to HNI Corporation \$(0.03) per diluted share. The impact to the nine-month period ended September 27, 2014 was to reduce expense \$0.9 million and increase net income attributable to HNI Corporation \$0.01 per diluted share. There will be no impact from the accrual change on the Corporation's full year financial statements.

The Corporation has certain non-cash operating and investing activities related to accrued purchases of property and equipment and capitalized software. A revision was made to the Condensed Consolidated Statement of Cash Flow for the nine months ended September 28, 2013 which decreased operating cash flows related to the change in accounts payable and accrued expenses \$4.5 million and increased investing cash flows \$4.0 million and \$0.5 million related to capital expenditures of property and equipment and capitalized software, respectively. The revisions in the Condensed Consolidated Statement of Cash Flows noted above represent errors that are not deemed material, individually or in the aggregate, to the prior period consolidated financial statements.

Note B. Stock-Based Compensation

The Corporation measures stock-based compensation expense at grant date, based on the fair value of the award, and recognizes expense over the employee requisite service period. For the three months ended September 27, 2014, and September 28, 2013, the Corporation recognized \$2.1 million and \$1.6 million, respectively, of stock-based compensation expense for the cost of stock options and time-based restricted stock units issued under the HNI Corporation 2007 Stock-Based Compensation Plan and shares issued under the HNI Corporation 2002 Members' Stock Purchase Plan. For the nine months ended September 27, 2014, and September 28, 2013, the Corporation recognized \$6.9 million and \$5.4 million, respectively, of stock-based compensation expense.

At September 27, 2014, there was \$7.6 million of unrecognized compensation cost related to nonvested stock-based compensation awards, which the Corporation expects to recognize over a weighted-average remaining service period of 1.0 years.



## Note C. Inventories

The Corporation values its inventory at the lower of cost or market with approximately 75% valued by the last-in, first-out ("LIFO") costing method.

| (In thousands)                | September 27,<br>2014 | December 28,<br>2013 |
|-------------------------------|-----------------------|----------------------|
| Finished products             | \$70,871              | \$51,991             |
| Materials and work in process | 73,581                | 65,247               |
| LIFO allowance                | (27,588               | ) (27,722            |
|                               | \$116,864             | \$89,516             |

## Note D. Accumulated Other Comprehensive Income (Loss) and Shareholders' Equity

The following table summarizes the components of accumulated other comprehensive income (loss) and the changes in accumulated other comprehensive income (loss), net of tax, as applicable for the nine months ended September 27, 2014:

| (In thousands)                                                      | Foreign<br>Currency<br>Translation<br>Adjustment | Unrealized<br>Gains<br>(Losses) on<br>Marketable<br>Securities | Pension<br>Postretirement<br>Liability | Derivative<br>Financial<br>Instruments | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |
|---------------------------------------------------------------------|--------------------------------------------------|----------------------------------------------------------------|----------------------------------------|----------------------------------------|--------------------------------------------------------|
| Balance at December 28, 2013                                        | \$2,913                                          | \$81                                                           | \$(2,140                               | ) \$111                                | \$965                                                  |
| Other comprehensive income (loss)<br>before reclassifications       | (49                                              | ) (38                                                          | ) —                                    | (371                                   | ) (458                                                 |
| Amounts reclassified from accumulated<br>other comprehensive income | —                                                | —                                                              | —                                      | 31                                     | 31                                                     |
| Balance at September 27, 2014                                       | \$2,864                                          | \$43                                                           | \$(2,140                               | ) \$(229                               | ) \$538                                                |

All amounts are net-of tax. Amounts in parentheses indicate debits.

The following table details the reclassifications from accumulated other comprehensive income (loss) for the three months and nine months ended September 27, 2014 and September 28, 2013 (in thousands):

| Details about Accumulated<br>Other Comprehensive<br>Income (Loss)<br>Components | Affected Line Item in the<br>Statement Where Net Income<br>Is Presented | Three Months Ended    |                       | Nine Months Ended     |                       |
|---------------------------------------------------------------------------------|-------------------------------------------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                                                                                 |                                                                         | September<br>27, 2014 | September<br>28, 2013 | September 27,<br>2014 | September 28,<br>2013 |
| Pension postretirement<br>liability                                             |                                                                         |                       |                       |                       |                       |
| Transition obligation                                                           | Selling and administrative<br>expenses                                  | \$—                   | \$—                   | \$—                   | \$ (116               |
|                                                                                 | Tax (expense) or benefit                                                | —                     | —                     | —                     | 42                    |
|                                                                                 | Net of tax                                                              | \$—                   | \$—                   | \$—                   | \$ (74                |
| Derivative financial<br>instruments                                             |                                                                         |                       |                       |                       |                       |
| Diesel hedge                                                                    | Selling and administrative<br>expenses                                  | \$(38                 | ) \$33                | \$49                  | \$ 245                |

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|                                        |                          |       |        |       |        |   |
|----------------------------------------|--------------------------|-------|--------|-------|--------|---|
|                                        | Tax (expense) or benefit | 14    | (12    | ) (18 | ) (90  | ) |
|                                        | Net of tax               | \$(24 | ) \$21 | \$31  | \$ 155 |   |
| Total reclassifications for the period | Net of tax               | \$(24 | ) \$21 | \$31  | \$ 81  |   |

Amounts in parentheses indicate reductions to profit.

During the nine months ended September 27, 2014, the Corporation repurchased 962,950 shares of its common stock at a cost of approximately \$35.3 million. As of September 27, 2014, \$52.0 million of the Corporation's Board of Directors' current repurchase authorization remained unspent.

During the nine months ended September 27, 2014, the Corporation paid dividends to shareholders of \$0.74 per share.

## Note E. Earnings Per Share

The following table reconciles the numerators and denominators used in the calculation of basic and diluted earnings per share ("EPS"):

| (In thousands, except per share data)                                               | Three Months Ended |                    | Nine Months Ended  |                    |
|-------------------------------------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                                                                     | September 27, 2014 | September 28, 2013 | September 27, 2014 | September 28, 2013 |
| Numerators:                                                                         |                    |                    |                    |                    |
| Numerator for both basic and diluted EPS attributable to HNI Corporation net income | \$33,588           | \$ 28,094          | \$54,389           | \$ 40,923          |
| Denominators:                                                                       |                    |                    |                    |                    |
| Denominator for basic EPS weighted-average common shares outstanding                | 44,690             | 45,318             | 44,916             | 45,295             |
| Potentially dilutive shares from stock-based compensation plans                     | 921                | 772                | 843                | 657                |
| Denominator for diluted EPS                                                         | 45,611             | 46,090             | 45,759             | 45,952             |
| Earnings per share – basic                                                          | \$0.75             | \$ 0.62            | \$1.21             | \$ 0.90            |
| Earnings per share – diluted                                                        | \$0.74             | \$ 0.61            | \$1.19             | \$ 0.89            |

The weighted average common stock equivalents presented above do not include the effect of 634,757 and 987,251 common stock equivalents for the three and nine months ended September 27, 2014, and 869,586 and 1,762,597 for the three and nine months ended September 28, 2013, respectively, because their inclusion would be anti-dilutive.

## Note F. Restructuring Reserve and Plant Closures

As a result of the Corporation's ongoing business simplification and cost reduction strategies, the Corporation made the decision in the third quarter to close an office furniture manufacturing facility located in Nalagarh, India and consolidate production into an existing office furniture manufacturing facility. Earlier in 2014, the Corporation announced the closure of its Florence, Alabama and Chicago, Illinois office furniture manufacturing facilities. During the three months ended September 27, 2014, in connection with the closures, the Corporation recorded \$4.9 million of pre-tax charges which included \$2.4 million of accelerated depreciation on machinery and equipment and \$1.5 million of transition costs recorded in cost of sales and \$1.0 million of severance and facility exit costs recorded as restructuring charges. The closure and consolidation of these facilities is expected to be substantially completed by the first quarter of 2015. The Corporation anticipates additional restructuring and transition costs of approximately \$5.8 million related to these closures during the remainder of 2014. See Note G. Goodwill and Other Intangible Assets for further impact of these decisions.

The following is a summary of changes in restructuring accruals during the nine months ended September 27, 2014.

| (In thousands)                   | Severance | Facility Exit Costs & Other | Total   |
|----------------------------------|-----------|-----------------------------|---------|
| Balance as of December 28, 2013  | \$49      | \$6                         | \$55    |
| Restructuring charges            | 2,311     | 46                          | 2,357   |
| Cash payments                    | (724)     | (52)                        | (776)   |
| Balance as of September 27, 2014 | \$1,636   | \$—                         | \$1,636 |

During the first quarter of 2014 the Corporation completed the sale of a vacated office furniture manufacturing facility from a prior plant closure. The net sales price was \$12.0 million resulting in a gain of \$5.7 million, net of \$2.7 million

income tax expense for the quarter ended March 29, 2014.

Note G. Goodwill and Other Intangible Assets

The table below summarizes amortizable definite-lived intangible assets as of September 27, 2014 and December 28, 2013, which are reflected in the "Other Assets" line item in the Corporation's Condensed Consolidated Balance Sheets:

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| (In thousands)                 | September 27,<br>2014 | December 28,<br>2013 |
|--------------------------------|-----------------------|----------------------|
| Patents                        | \$18,905              | \$18,905             |
| Less: accumulated amortization | 18,713                | 18,685               |
| Net patents                    | 192                   | 220                  |
| Software                       | 82,685                | 52,778               |
| Less: accumulated amortization | 16,821                | 14,380               |
| Net software                   | 65,864                | 38,398               |
| Customer lists and other       | 110,663               | 110,609              |
| Less: accumulated amortization | 59,649                | 54,592               |
| Net customer lists and other   | 51,014                | 56,017               |
| Net intangible assets          | \$117,070             | \$94,635             |

Aggregate amortization expense for the nine months ended September 27, 2014 and September 28, 2013 was \$7.5 million and \$7.7 million, respectively. Based on the current amount of intangible assets subject to amortization, the estimated amortization expense for each of the following five fiscal years is as follows:

| (In millions)        | 2014   | 2015   | 2016   | 2017   | 2018   |
|----------------------|--------|--------|--------|--------|--------|
| Amortization Expense | \$10.0 | \$11.8 | \$13.8 | \$12.8 | \$12.6 |

As events such as potential acquisitions, dispositions or impairments occur in the future, these amounts may change.

The Corporation also owns trademarks and trade names with a net carrying amount of \$41.0 million as of September 27, 2014 and December 28, 2013. The trademarks and trade names are deemed to have indefinite useful lives because they are expected to generate cash flows indefinitely.

The changes in the carrying amount of goodwill since December 28, 2013 are as follows by reporting segment:

| (In thousands)                           | Office<br>Furniture | Hearth<br>Products | Total     |
|------------------------------------------|---------------------|--------------------|-----------|
| Balance as of December 28, 2013          |                     |                    |           |
| Goodwill                                 | \$149,969           | \$166,188          | \$316,157 |
| Accumulated impairment losses            | (29,359)            | (143)              | (29,502)  |
|                                          | 120,610             | 166,045            | 286,655   |
| Goodwill acquired                        | —                   | —                  | —         |
| Impairment Losses                        | (8,884)             | —                  | (8,884)   |
| Foreign currency translation adjustments | 87                  | —                  | 87        |
| Balance as of September 27, 2014         |                     |                    |           |
| Goodwill                                 | 150,056             | 166,188            | 316,244   |
| Accumulated impairment losses            | (38,243)            | (143)              | (38,386)  |
|                                          | \$111,813           | \$166,045          | \$277,858 |

The Corporation evaluates its goodwill and indefinite-lived intangible assets for impairment on an annual basis during the fourth quarter, or whenever indicators of impairment exist. The Corporation estimates the fair value of its reporting units using various valuation techniques, with the primary technique being a discounted cash flow method. This method employs market participant based assumptions.

Decisions were made during the quarter ended June 28, 2014 to close a facility and exit a product line at one of the recently acquired reporting units within the office furniture segment. These decisions, along with slower than

projected order growth for the reporting unit, were considered a triggering event and, accordingly, the Corporation tested long-lived assets and goodwill at that reporting unit for impairment. The Corporation estimated the fair value of the reporting unit using a discounted cash flow approach along with a market multiple approach. The estimated fair value was below the carrying value indicating a potential

impairment existed. The Corporation performed the second step of the test which requires a fair value assessment of all assets and liabilities of the reporting unit to calculate an implied goodwill amount. This resulted in an \$8.9 million goodwill impairment charge during the quarter ending June 28, 2014.

#### Note H. Product Warranties

The Corporation issues certain warranty policies on its office furniture and hearth products that provide for repair or replacement of any covered product or component that fails during normal use because of a defect in design or workmanship. Reserves have been established for the various costs associated with the Corporation's warranty programs.

A warranty reserve is determined by recording a specific reserve for known warranty issues and an additional reserve for unknown claims that are expected to be incurred based on historical claims experience. Actual claims incurred could differ from the original estimates, requiring adjustments to the reserve. Activity associated with warranty obligations was as follows during the periods noted:

| (In thousands)                                 | Nine Months Ended  |                    |
|------------------------------------------------|--------------------|--------------------|
|                                                | September 27, 2014 | September 28, 2013 |
| Balance at beginning of period                 | \$13,840           | \$13,055           |
| Accruals for warranties issued during period   | 11,577             | 13,983             |
| Adjustments related to pre-existing warranties | (54)               | ) 283              |
| Settlements made during the period             | (10,901)           | ) (14,193)         |
| Balance at end of period                       | \$14,462           | \$13,128           |

During the fourth quarter of 2013, the Corporation corrected a classification error by reclassifying a portion of the reserve for product warranties which was previously all classified as a current liability, including the related deferred tax impacts, to long-term. The portion of the reserve for estimated settlements expected to be paid in the next twelve months was \$7.0 million and \$6.4 million as of September 27, 2014 and September 28, 2013, respectively, and are included in "Accounts payable and accrued expenses" in the Condensed Consolidated Balance Sheets. The portion of the reserve for settlements expected to be paid beyond one year was \$7.4 million and \$6.8 million, as of September 27, 2014 and September 28, 2013, respectively, and are included in "Other Long-Term Liabilities" in the Condensed Consolidated Balance Sheets. The revisions in the Condensed Consolidated Balance Sheets noted above represent errors that are not deemed material, individually or in the aggregate, to the prior period consolidated financial statements.

#### Note I. Postretirement Health Care

The following table sets forth the components of net periodic benefit cost included in the Corporation's Condensed Consolidated Statements of Comprehensive Income for:

| (In thousands)                        | Three Months Ended |                    | Nine Months Ended  |                    |
|---------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                       | September 27, 2014 | September 28, 2013 | September 27, 2014 | September 28, 2013 |
| Service cost                          | \$126              | \$132              | \$378              | \$394              |
| Interest cost                         | 184                | 167                | 552                | 501                |
| Amortization of transition obligation | —                  | —                  | —                  | 116                |
| Amortization of (gain)/loss           | —                  | —                  | —                  | —                  |
| Net periodic benefit cost             | \$310              | \$299              | \$930              | \$1,011            |

Note J. Income Taxes

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The provision for income taxes for the three months ended September 27, 2014 reflects an effective tax rate of 34.2 percent compared to 33.9 percent for the same period last year. The 2014 estimated annual effective tax rate is expected to be 35.0 percent.

#### Note K. Derivative Financial Instruments

The Corporation uses derivative financial instruments to reduce its exposure to adverse fluctuations in diesel fuel prices. On the date a derivative is entered into, the Corporation designates the derivative as (i) a fair value hedge, (ii) a cash flow hedge, (iii) a hedge of a net investment in a foreign operation or (iv) a risk management instrument not designated for hedge accounting. The Corporation recognizes all derivatives on its Condensed Consolidated Balance Sheets at fair value.

##### Diesel Fuel Risk

Independent freight carriers, used by the Corporation to deliver its products, charge the Corporation a basic rate per mile that is subject to a mileage surcharge for diesel fuel price increases. The Corporation enters into variable to fixed rate commodity swap agreements with two financial counterparties to manage fluctuations in fuel costs. The Corporation hedges approximately 50% of its diesel fuel surcharge exposure for the next twelve months. The Corporation uses the hedge agreements to mitigate the volatility of diesel fuel prices and related fuel surcharges, and not to speculate on the future price of diesel fuel. The hedge agreements are designed to add stability to the Corporation's costs, enabling the Corporation to make pricing decisions and lessen the economic impact of abrupt changes in diesel fuel prices over the term of the contract. The hedging instruments consist of a series of financially settled fixed forward contracts with expiration dates ranging up to twelve months. The contracts have been designated as cash flow hedges of future diesel purchases, and as such, the net amount paid or received upon monthly settlements is recorded as an adjustment to freight expense, while the effective change in fair value is recorded as a component of accumulated other comprehensive income in the equity section of the Corporation's Condensed Consolidated Balance Sheets.

As of September 27, 2014, \$0.2 million of deferred net losses, net of tax, included in equity ("Accumulated other comprehensive income" in the Corporation's Condensed Consolidated Balance Sheets) related to the diesel hedge agreements are expected to be reclassified to current earnings ("Selling and administrative expenses" in the Corporation's Condensed Consolidated Statements of Comprehensive Income) over the next twelve months.

The location and fair value of derivative instruments reported in the Corporation's Condensed Consolidated Balance Sheets are as follows (in thousands):

|                  |                                           | Asset (Liability) Fair Value |                      |
|------------------|-------------------------------------------|------------------------------|----------------------|
|                  |                                           | September 27,<br>2014        | December 28,<br>2013 |
|                  | Balance Sheet Location                    |                              |                      |
| Diesel fuel swap | Accounts payable and accrued expenses     | \$(362                       | ) \$—                |
| Diesel fuel swap | Prepaid expenses and other current assets | —                            | 176                  |
|                  |                                           | \$(362                       | ) \$176              |

The effect of derivative instruments on the Corporation's Condensed Consolidated Statements of Comprehensive Income for the three months ended September 27, 2014 was as follows (in thousands):

| Derivatives in Cash Flow Hedge Relationship | Before-tax Gain (Loss) Recognized in AOCI on | Locations of Gain (Loss) Reclassified from AOCI into Income (Effective | Before-Tax Gain (Loss) Reclassified from AOCI | Locations of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion) | Gain (Loss) Recognized in Income on Derivative |
|---------------------------------------------|----------------------------------------------|------------------------------------------------------------------------|-----------------------------------------------|-----------------------------------------------------------------------------------|------------------------------------------------|
|---------------------------------------------|----------------------------------------------|------------------------------------------------------------------------|-----------------------------------------------|-----------------------------------------------------------------------------------|------------------------------------------------|

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|                  | Derivative<br>(Effective<br>Portion) | Portion)                                    | Into Income<br>(Effective<br>Portion) |                                             | (Ineffective<br>Portion) |
|------------------|--------------------------------------|---------------------------------------------|---------------------------------------|---------------------------------------------|--------------------------|
| Diesel fuel swap | \$ (542                              | ) Selling and<br>administrative<br>expenses | \$ (38                                | ) Selling and<br>administrative<br>expenses | \$—                      |
| Total            | \$ (542                              | )                                           | \$ (38                                | )                                           | \$—                      |

The effect of derivative instruments on the Corporation's Condensed Consolidated Statements of Comprehensive Income for the nine months ended September 27, 2014 was as follows (in thousands):

| Derivatives in Cash Flow Hedge Relationship | Before-tax Gain (Loss) Recognized in AOCI on Derivative (Effective Portion) | Locations of Gain (Loss) Reclassified from AOCI into Income (Effective Portion) | Before-Tax Gain (Loss) Reclassified from AOCI Into Income (Effective Portion) | Locations of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion) | Gain (Loss) Recognized in Income on Derivative (Ineffective Portion) |
|---------------------------------------------|-----------------------------------------------------------------------------|---------------------------------------------------------------------------------|-------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|----------------------------------------------------------------------|
| Diesel fuel swap                            | \$ (487 )                                                                   | Selling and administrative expenses                                             | \$ 49                                                                         | Selling and administrative expenses                                               | \$ (4 )                                                              |
| Total                                       | \$ (487 )                                                                   |                                                                                 | \$ 49                                                                         |                                                                                   | \$ (4 )                                                              |

The effect of derivative instruments on the Corporation's Condensed Consolidated Statements of Comprehensive Income for the three months ended September 28, 2013 was as follows (in thousands):

| Derivatives in Cash Flow Hedge Relationship | Before-tax Gain (Loss) Recognized in AOCI on Derivative (Effective Portion) | Locations of Gain (Loss) Reclassified from AOCI into Income (Effective Portion) | Before-Tax Gain (Loss) Reclassified from AOCI Into Income (Effective Portion) | Locations of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion) | Gain (Loss) Recognized in Income on Derivative (Ineffective Portion) |
|---------------------------------------------|-----------------------------------------------------------------------------|---------------------------------------------------------------------------------|-------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|----------------------------------------------------------------------|
| Diesel fuel swap                            | \$ 24                                                                       | Selling and administrative expenses                                             | \$ 33                                                                         | Selling and administrative expenses                                               | \$ 3                                                                 |
| Total                                       | \$ 24                                                                       |                                                                                 | \$ 33                                                                         |                                                                                   | \$ 3                                                                 |

The effect of derivative instruments on the Corporation's Condensed Consolidated Statements of Comprehensive Income for the nine months ended September 28, 2013 was as follows (in thousands):

| Derivatives in Cash Flow Hedge Relationship | Before-tax Gain (Loss) Recognized in AOCI on Derivative (Effective Portion) | Locations of Gain (Loss) Reclassified from AOCI into Income (Effective Portion) | Before-Tax Gain (Loss) Reclassified from AOCI Into Income (Effective Portion) | Locations of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion) | Gain (Loss) Recognized in Income on Derivative (Ineffective Portion) |
|---------------------------------------------|-----------------------------------------------------------------------------|---------------------------------------------------------------------------------|-------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|----------------------------------------------------------------------|
| Diesel fuel swap                            | \$ 414                                                                      | Selling and administrative expenses                                             | \$ 245                                                                        | Selling and administrative expenses                                               | \$ (1 )                                                              |
| Total                                       | \$ 414                                                                      |                                                                                 | \$ 245                                                                        |                                                                                   | \$ (1 )                                                              |

The Corporation entered into master netting agreements with the two financial counterparties where they entered into commodity swap agreements that permit the net settlement of amounts owed under their respective derivative contracts. Under these master netting agreements, net settlement of all outstanding contracts with a counterparty in the case of an event of default or a termination event is allowed. The amounts under the master netting agreement are immaterial and no further disclosure is deemed necessary.

Note L. Fair Value Measurements

For recognition purposes, on a recurring basis the Corporation is required to measure at fair value its marketable securities and derivative instruments. The marketable securities are comprised of government securities, corporate bonds and money market funds. When available the Corporation uses quoted market prices to determine fair value and classifies such measurements within Level 1. Where market prices are not available, the Corporation makes use of observable market-based inputs (prices or quotes from published exchanges/indexes) to calculate fair value using the market approach, in which case the measurements are classified within Level 2.

Assets measured at fair value as of September 27, 2014 were as follows:

| (In thousands)                   | Fair value as of measurement date | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|----------------------------------|-----------------------------------|----------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|
| Government securities            | \$ 10,859                         | \$—                                                            | \$ 10,859                                     | \$—                                       |
| Corporate bonds                  | \$ 1,202                          | \$—                                                            | \$ 1,202                                      | \$—                                       |
| Derivative financial instruments | \$ (362 )                         | \$—                                                            | \$ (362 )                                     | \$—                                       |

Assets measured at fair value as of December 28, 2013 were as follows:

| (In thousands)                   | Fair value as of measurement date | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|----------------------------------|-----------------------------------|----------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|
| Government securities            | \$ 11,254                         | \$—                                                            | \$ 11,254                                     | \$—                                       |
| Corporate bonds                  | \$ 4,859                          | \$—                                                            | \$ 4,859                                      | \$—                                       |
| Derivative financial instruments | \$ 176                            | \$—                                                            | \$ 176                                        | \$—                                       |

In addition to the methods and assumptions the Corporation uses to record the fair value of financial instruments as discussed in the section above, it uses the following methods and assumptions to estimate the fair value of its financial instruments.

#### Cash and cash equivalents - Level 1

The carrying amount approximated fair value and includes money market funds.

#### Long-term debt (including current portion) - Level 2

The carrying value of the Corporation's outstanding variable-rate, long-term debt obligations at September 27, 2014 and December 28, 2013, the end of the Corporation's 2013 fiscal year, approximated the fair value. The fair value of the Corporation's outstanding fixed-rate, long-term debt obligations is estimated based on discounted cash flow method to be \$156 million at September 27, 2014 and \$159 million at December 28, 2013, compared to the carrying value of \$150 million.

#### Note M. Commitments and Contingencies

The Corporation utilizes letters of credit in the amount of \$11 million to back certain insurance policies and payment obligations. The letters of credit reflect fair value as a condition of their underlying purpose and are subject to competitively determined fees.

The Corporation has contingent liabilities which have arisen in the ordinary course of its business, including liabilities relating to pending litigation, environmental remediation, taxes, and other claims. It is the Corporation's opinion that liabilities, if any, resulting from these matters are not expected to have a material adverse effect on the Corporation's financial condition, cash flows or on the Corporation's quarterly or annual operating results when resolved in a future period.

Note N. New Accounting Standards

In January 2013, the FASB issued accounting guidance clarifying the scope of disclosures about offsetting assets and liabilities.

This guidance is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The Corporation adopted the guidance effective December 29, 2013, the beginning of the Corporation's 2014 fiscal year. The guidance did not have a material impact on the Corporation's financial statements.

In July 2013, the FASB issued accounting guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, or similar tax loss, or a tax carryforward exists. The Corporation adopted the guidance effective December 29, 2013, the beginning of the Corporation's 2014 fiscal year. The guidance did not have a material impact on the Corporation's financial statements.

In April 2014, the FASB issued accounting guidance which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. The guidance will be effective for fiscal years beginning on or after December 15, 2014 and interim periods within those annual periods with early adoption allowed. The Corporation does not expect the adoption to have a material impact on its financial statements.

In May 2014, the FASB issued accounting guidance which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The core principle of the revenue model is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is not permitted. The Corporation is currently evaluating the impact of adopting this standard on its financial statements.

#### Note O. Business Segment Information

Management views the Corporation as operating in two business segments: office furniture and hearth products with the former being the principal business segment.

The office furniture segment manufactures and markets a broad line of metal and wood office furniture which includes storage products, desks, credenzas, chairs, tables, bookcases, classroom solutions, freestanding office partitions and panel systems and other related products. The hearth products segment manufactures and markets a broad line of manufactured gas, electric, wood and biomass burning fireplaces, inserts and stoves, facings and accessories, principally for the home.

For purposes of segment reporting, intercompany sales transfers between segments are not material and operating profit is income before income taxes exclusive of certain unallocated corporate expenses. These unallocated corporate expenses include the net cost of the Corporation's corporate operations, interest income and interest expense. Management views interest income and expense as corporate financing costs rather than a business segment cost. In addition, management applies one effective tax rate to its consolidated income before income taxes so income taxes are not reported or viewed internally on a segment basis.

The Corporation's primary market and capital investments are concentrated in the United States.

Reportable segment data reconciled to the Corporation's condensed consolidated financial statements for the three and nine months ended September 27, 2014, and September 28, 2013, is as follows:

| (In thousands)                                         | Three Months Ended |                    | Nine Months Ended              |                               |
|--------------------------------------------------------|--------------------|--------------------|--------------------------------|-------------------------------|
|                                                        | September 27, 2014 | September 28, 2013 | September 27, 2014             | September 28, 2013            |
| Net Sales:                                             |                    |                    |                                |                               |
| Office Furniture                                       | \$488,612          | \$466,213          | \$1,270,404                    | \$1,268,214                   |
| Hearth Products                                        | 126,078            | 99,493             | 305,630                        | 250,487                       |
|                                                        | \$614,690          | \$565,706          | \$1,576,034                    | \$1,518,701                   |
| Operating Profit:                                      |                    |                    |                                |                               |
| Office furniture                                       | 42,753             | 40,696             | 77,488                         | 71,523                        |
| Hearth products                                        | 23,785             | 14,409             | 43,974                         | 23,699                        |
| Total operating profit                                 | 66,538             | 55,105             | 121,462                        | 95,222                        |
| Unallocated corporate expense                          | (15,670)           | (12,658)           | (39,468)                       | (34,633)                      |
| Income before income taxes                             | \$50,868           | \$42,447           | \$81,994                       | \$60,589                      |
| Depreciation & Amortization Expense:                   |                    |                    |                                |                               |
| Office furniture                                       | \$12,427           | \$9,257            | \$34,398                       | \$27,384                      |
| Hearth products                                        | 1,121              | 1,274              | 3,455                          | 4,039                         |
| General corporate                                      | 1,264              | 1,201              | 3,911                          | 3,147                         |
|                                                        | \$14,812           | \$11,732           | \$41,764                       | \$34,570                      |
| Capital Expenditures (including capitalized software): |                    |                    |                                |                               |
| Office furniture                                       | \$13,542           | \$13,689           | \$43,378                       | \$36,638                      |
| Hearth products                                        | 1,691              | 1,133              | 4,389                          | 2,798                         |
| General corporate                                      | 15,394             | 6,666              | 33,981                         | 15,671                        |
|                                                        | \$30,627           | \$21,488           | \$81,748                       | \$55,107                      |
| Identifiable Assets:                                   |                    |                    | As of<br>September 27,<br>2014 | As of<br>December 28,<br>2013 |
| Office furniture                                       |                    |                    | \$771,385                      | \$722,697                     |
| Hearth products                                        |                    |                    | 281,765                        | 255,978                       |
| General corporate                                      |                    |                    | 145,643                        | 156,030                       |
|                                                        |                    |                    | \$1,198,793                    | \$1,134,705                   |

#### Note P. Subsequent Event

In October 2014, the Corporation acquired Vermont Castings Group, a leading manufacturer of free standing hearth stoves and fireplaces. The transaction was completed as an all cash transaction.

As this acquisition closed on October 1, 2014 and due to the limited time since closing, the initial accounting for this transaction has not yet been completed. The Corporation will disclose additional information once the initial accounting is completed in the fourth quarter of 2014. The financial results of Vermont Castings Group will be included in the consolidated financial statements from the date of acquisition forward.



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

## Overview

The Corporation has two reportable segments: office furniture and hearth products. The Corporation is a leading global office furniture manufacturer and the nation's leading manufacturer and marketer of gas- and wood-burning fireplaces. The Corporation utilizes its split and focus, decentralized business model to deliver value to its customers with its various brands and selling models. The Corporation is focused on growing its existing businesses while seeking out and developing new opportunities for growth.

Net sales for the third quarter of fiscal 2014 increased 8.7 percent to \$614.7 million when compared to the third quarter of fiscal 2013. The change was driven by an increase in office furniture sales across both the supplies-driven and contract channels as well as an increase in hearth product sales across both the new construction and remodel-retrofit channels, partially offset by the effect of a divestiture in the office furniture segment. Gross margin for the quarter increased from prior year levels due to higher volume, increased price realization and strong operational performance partially offset by unfavorable mix, operational investments and restructuring and transition charges in the office furniture segment. Total selling and administrative expenses increased due mainly to higher incentive based compensation.

During the third quarter of fiscal 2014, as part of continuing efforts to reduce structural costs, the Corporation made the decision to close an international office furniture manufacturing facility. In connection with this decision and additional closures announced earlier this year, the Corporation recorded \$4.9 million of restructuring and transition costs in the third quarter of fiscal 2014, of which \$3.9 million were included in cost of sales.

## Results of Operations

The following table presents certain key highlights from the results of operations for the periods indicated:

| (In thousands)                       | Three Months Ended |                    |                |    | Nine Months Ended  |                    |                |    |
|--------------------------------------|--------------------|--------------------|----------------|----|--------------------|--------------------|----------------|----|
|                                      | September 27, 2014 | September 28, 2013 | Percent Change |    | September 27, 2014 | September 28, 2013 | Percent Change |    |
| Net sales                            | \$614,690          | \$565,706          | 8.7            | %  | \$1,576,034        | \$1,518,701        | 3.8            | %  |
| Cost of sales                        | 394,758            | 365,835            | 7.9            | %  | 1,019,797          | 996,390            | 2.3            | %  |
| Gross profit                         | 219,932            | 199,871            | 10.0           | %  | 556,237            | 522,311            | 6.5            | %  |
| Selling and administrative expenses  | 166,216            | 154,641            | 7.5            | %  | 466,714            | 451,275            | 3.4            | %  |
| (Gain) loss on sale of assets        | —                  | —                  | NM             |    | (9,746)            | ) 2,460            | NM             |    |
| Restructuring and impairment charges | 987                | 115                | NM             |    | 11,241             | 236                | NM             |    |
| Operating income                     | 52,729             | 45,115             | 16.9           | %  | 88,028             | 68,340             | 28.8           | %  |
| Interest expense, net                | 1,861              | 2,668              | (30.2)         | )% | 6,034              | 7,751              | (22.2)         | )% |
| Income before income taxes           | 50,868             | 42,447             | 19.8           | %  | 81,994             | 60,589             | 35.3           | %  |
| Income taxes                         | 17,372             | 14,398             | 20.7           | %  | 27,817             | 19,962             | 39.3           | %  |
| Net income                           | \$33,496           | \$28,049           | 19.4           | %  | \$54,177           | \$40,627           | 33.4           | %  |

Consolidated net sales for the third quarter of 2014 increased 8.7 percent or \$49.0 million compared to the same quarter last year. The change was driven by an increase in office furniture sales across both the supplies-driven and contract channels as well as an increase in hearth product sales across both the new construction and remodel-retrofit channels, partially offset by the effect of a divestiture in the office furniture segment. Compared to prior year quarter, the divestiture of a small office furniture dealer resulted in a \$2.0 million sales decline.

Gross margin for the third quarter of 2014 increased to 35.8 percent compared to 35.3 percent for the same quarter last year. The increase in gross margin was driven by higher volume, increased price realization and strong operational performance partially

offset by unfavorable mix, operational investments and restructuring and transition charges in the office furniture segment. Third quarter 2014 included \$3.9 million of accelerated depreciation and transition costs related to the closure and consolidation of office furniture manufacturing facilities.

As a result of the Corporation's ongoing business simplification and cost reduction strategies, the Corporation made the decision in the third quarter to close an office furniture manufacturing facility located in Nalagarh, India and consolidate production into an existing office furniture manufacturing facility. Earlier in 2014, the Corporation announced the closure of its Florence, Alabama and Chicago, Illinois office furniture manufacturing facilities. In connection with the closures, the Corporation recorded \$4.9 million of pre-tax charges which included \$2.4 million of accelerated depreciation on machinery and equipment and \$1.5 million of transition costs recorded in cost of sales and \$1.0 million of severance and facility exit costs which were recorded as restructuring charges during the third quarter of 2014. The closure and consolidation of these facilities is expected to be substantially completed by the first quarter of 2015. The Corporation anticipates additional restructuring and transition costs of approximately \$5.8 million related to these closures during the remainder of 2014.

Total selling and administrative expenses as a percentage of net sales decreased to 27.0 percent compared to 27.3 percent for the same quarter last year due mainly to higher volume, partially offset by strategic investments, increased incentive based compensation and timing of expenses.

The provision for income taxes for continuing operations for the three months ended September 27, 2014 reflects an effective tax rate of 34.2 percent compared to 33.9 percent for the same period last year. The 2014 estimated annual effective tax rate is expected to be 35.0 percent.

Net income attributable to the Corporation was \$33.6 million or \$0.74 per diluted share in the third quarter of 2014 compared to \$28.1 million or \$0.61 per diluted share in the third quarter of 2013.

For the first nine months of 2014, consolidated net sales increased \$57.3 million, or 3.8 percent, to \$1.6 billion compared to \$1.5 billion for the first nine months of 2013 driven by a substantial increase in sales in the hearth products segment and an increase in sales in the office furniture segment. Gross margins increased to 35.3 percent compared to 34.4 percent for the same period last year driven by increased price realization, strong operational performance and higher volume in the hearth products segment partially offset by unfavorable mix and restructuring and transition charges in the office furniture segment.

The decision to close a facility and exit a product line, as well as lower growth than projected at one of the Corporation's recently acquired reporting units in the office furniture segment, were identified as a triggering event for purposes of long-lived asset and goodwill impairment testing during the second quarter of 2014. As a result, the Corporation recognized pre-tax goodwill impairment expense of \$8.9 million during the second quarter of 2014.

The Corporation realized \$9.7 million of gains on the sale of a vacated office furniture manufacturing facility and the sale of California air emission credits during the first nine months of 2014. The Corporation realized a \$2.5 million loss on the sale of a non-core office furniture business during the first nine months of 2013.

Net income attributable to the Corporation was \$54.4 million for the first nine months of 2014 compared to \$40.9 million for the first nine months of 2013. Earnings per share increased to \$1.19 per diluted share compared to \$0.89 per diluted share for the same period last year.

#### Office Furniture

Third quarter 2014 sales for the office furniture segment increased 4.8 percent or \$22.4 million to \$488.6 million from \$466.2 million for the same quarter last year. Compared to the prior year quarter, a divestiture resulted in a \$2.0 million sales decline. The change was driven by an increase in the supplies-driven channel and a more substantial increase in the contract channel of the office furniture segment. Third quarter 2014 operating profit prior to unallocated corporate expenses increased 5.1 percent or \$2.1 million to \$42.8 million as a result of higher volume, increased price realization and strong operational performance. These were partially offset by unfavorable mix, operational investments, increased incentive-based compensation and higher restructuring and transition costs. Third quarter 2014 included \$4.9 million of restructuring and transition costs.

Net sales for the first nine months of 2014 increased 0.2 percent or \$2.2 million to \$1.270 billion compared to \$1.268 billion

for the same period in 2013. Compared to the prior year period, divestitures resulted in a \$17.0 million sales decline. Net sales in the contract channel increased due to strength in core commercial markets. This increase was partially offset by a decline in the supplies-driven channel due to harsh weather in the first quarter of 2014. Operating profit for the first nine months of 2014

increased 8.3 percent or \$6.0 million to \$77.5 million compared to \$71.5 million for the same period in 2013 as a result of the same drivers experienced in the current quarter plus an \$8.4 million gain on the sale of a vacated facility during the first quarter of 2014 partially offset by an \$8.9 million goodwill impairment charge in the second quarter of 2014.

#### Hearth Products

Third quarter 2014 net sales for the hearth products segment increased 26.7 percent or \$26.6 million to \$126.1 million from \$99.5 million for the same quarter last year. The change was driven by an increase in both the new construction channel due to housing market recovery and the remodel-retrofit channel due to strong demand for alternative fuel products. Operating profit prior to unallocated corporate expenses increased 65.1 percent or \$9.4 million to \$23.8 million compared to \$14.4 million in the prior year quarter due to higher volume and increased price realization offset partially by investment in growth initiatives, higher incentive-based compensation and timing of expenses.

Net sales for the first nine months of 2014 increased 22.0 percent or \$55.1 million to \$305.6 million compared to \$250.5 million for the same period in 2013. Operating profit for the first nine months of 2014 increased 85.6 percent or \$20.3 million to \$44.0 million compared to \$23.7 million for the same period in 2013. The year-to-date increases in sales and operating profit were a result of the same drivers experienced in the current quarter.

#### Liquidity and Capital Resources

##### Cash Flow – Operating Activities

Operating activities generated \$74.8 million of cash in the first nine months of 2014 compared to \$83.5 million in the first nine months of 2013. Working capital resulted in a \$40.9 million use of cash in the first nine months of the current fiscal year compared to a \$29.2 million use of cash in the same period of the prior year. The change in working capital is due mainly to timing of accounts receivable collections and inventory shipments.

##### Cash Flow – Investing Activities

Capital expenditures, including capitalized software, for the first nine months of fiscal 2014 were \$81.7 million compared to \$55.1 million in the same period of fiscal 2013 and were primarily for tooling, equipment and capacity for new products, continuous improvements in manufacturing processes and the on-going implementation of new integrated information systems to support business process transformation. For the full year 2014, capital expenditures are expected to be approximately \$90 to \$95 million, primarily related to new products, operational process improvements and capabilities and the business process transformation project referred to above.

During the first quarter of 2014 the Corporation completed the sale of a facility located in South Gate, California. The proceeds from the sale of \$12.0 million are reflected in the Condensed Consolidated Statement of Cash Flows as "Proceeds from property, plant and equipment".

##### Cash Flow – Financing Activities

The net borrowings under the revolving credit agreement at the end of third quarter were \$16 million and are classified as long-term as the Corporation does not expect to repay the borrowings within a year.

The Credit Agreement governing the Corporation's revolving credit facility contains a number of covenants, including covenants requiring maintenance of the following financial ratios as of the end of any fiscal quarter:

-

a consolidated interest coverage ratio of not less than 4.0 to 1.0, based upon the ratio of (a) consolidated EBITDA (as defined in the Credit Agreement) for the last four fiscal quarters to (b) the sum of consolidated interest charges; and a consolidated leverage ratio of not greater than 3.0 to 1.0, based upon the ratio of (a) the quarter-end consolidated funded indebtedness (as defined in the Credit Agreement) to (b) consolidated EBITDA for the last four fiscal quarters; or  
a consolidated leverage ratio of not greater than 3.5 to 1.0, based upon the ratio of (a) the quarter-end consolidated funded indebtedness to (b) consolidated EBITDA for the last four fiscal quarters following any qualifying debt financed acquisition.

The note purchase agreement pertaining to the Corporation's Senior Notes also contains a number of covenants, including a covenant requiring maintenance of consolidated debt to consolidated EBITDA (as defined in the note purchase agreement) of not greater than 3.5 to 1.0, based upon the ratio of (a) the quarter-end consolidated funded indebtedness (as defined in the note purchase agreement) to (b) consolidated EBITDA for the last four fiscal quarters.

Additional borrowing capacity of \$234 million is available through the revolving credit facility. The revolving credit facility is the primary source of committed funding from which the Corporation finances its planned capital expenditures and strategic initiatives, such as acquisitions, repurchases of common stock and certain working capital needs. Non-compliance with the various financial covenant ratios in the revolving credit facility or the Senior Notes could prevent the Corporation from being able to access further borrowings under the revolving credit facility, require immediate repayment of all amounts outstanding with respect to the revolving credit facility and Senior Notes and/or increase the cost of borrowing.

The most restrictive of the financial covenants is the consolidated leverage ratio requirement of 3.0 to 1.0 included in the Credit Agreement. Under the Credit Agreement, consolidated EBITDA is defined as consolidated net income before interest expense, income taxes and depreciation and amortization of intangibles, as well as non-cash, nonrecurring charges and all non-cash items increasing net income. At September 27, 2014, the Corporation was well below the maximum allowable ratio and was in compliance with all of the covenants and other restrictions in the Credit Agreement and the note purchase agreement. The Corporation currently expects to remain in compliance over the next twelve months.

The Corporation's Board of Directors (the "Board") declared a regular quarterly cash dividend of \$0.25 per share on the Corporation's common stock on August 5, 2014, to shareholders of record at the close of business on August 15, 2014. The dividend was paid on August 29, 2014.

During the nine months ended September 27, 2014, the Corporation repurchased 962,950 shares of common stock at a cost of approximately \$35.3 million, or an average price of \$36.69 per share. As of September 27, 2014, approximately \$52.0 million of the Board's current repurchase authorization remained unspent.

Cash, cash equivalents and short-term investments, coupled with cash from future operations, borrowing capacity under the existing facility and the ability to access capital markets, are expected to be adequate to fund operations and satisfy cash flow needs for at least the next twelve months.

#### Off-Balance Sheet Arrangements

The Corporation does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on the Corporation's financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

#### Contractual Obligations

Contractual obligations associated with ongoing business and financing activities will result in cash payments in future periods. A table summarizing the amounts and estimated timing of these future cash payments was provided in the Corporation's Annual Report on Form 10-K for the year ended December 28, 2013. During the first nine months of fiscal 2014, there were no material changes outside the ordinary course of business in the Corporation's contractual obligations or the estimated timing of the future cash payments.

#### Commitments and Contingencies

The Corporation is involved in various kinds of disputes and legal proceedings that have arisen in the ordinary course of business, including pending litigation, environmental remediation, taxes and other claims. It is the Corporation's opinion, after consultation with legal counsel, that additional liabilities, if any, resulting from these matters are not expected to have a material adverse effect on the Corporation's financial condition, cash flows or on the Corporation's quarterly or annual operating results when resolved in a future period.

## Critical Accounting Policies

The preparation of the financial statements requires the Corporation to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The Corporation continually evaluates its accounting policies and estimates. The Corporation bases its estimates on historical experience and on a variety of other assumptions believed by management to be reasonable in order to make judgments about the carrying value of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. A summary of the more significant accounting policies that require the use of estimates and judgments in preparing the financial statements is provided in the Corporation's Annual Report on Form 10-K for the year ended December 28, 2013. During 2014 the Corporation changed its estimate regarding the quarterly accrual of annual incentive plan expense to more accurately match expense with earnings

which primarily drives the incentive payout. During the first nine months of fiscal 2014, there were no material changes in the accounting policies and assumptions previously disclosed.

#### New Accounting Standards

For information pertaining to the Corporation's adoption of new accounting standards and any resulting impact to the Corporation's financial statements, please refer to Note N. New Accounting Standards of the Notes to the Condensed Consolidated Financial Statements, in Part 1, Item 1 of this Quarterly Report on Form 10-Q.

#### Looking Ahead

Management remains optimistic about the office furniture and hearth products markets. Management believes the Corporation is well positioned to drive sales and significantly increase profits in 2014.

The Corporation continues to focus on creating long-term shareholder value by growing its businesses through investment in building brands, product solutions and selling models, enhancing its strong member-owner culture and continuing to execute its long-standing continuous improvement discipline to build best total cost and a lean enterprise.

#### Forward-Looking Statements

Statements in this report that are not strictly historical, including statements as to plans, outlook, objectives and future financial performance, are "forward-looking" statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Words, such as "anticipate," "believe," "could," "confident," "estimate," "expect," "forecast," "hope," "intend," "likely," "may," "plan," "possible," "potential," "predict," "project," "should," "will," "would" and variations of such words and similar expressions identify forward-looking statements. Forward-looking statements involve known and unknown risks, which may cause the Corporation's actual results in the future to differ materially from expected results. These risks include, without limitation: the Corporation's ability to realize financial benefits from its (a) price increases, (b) cost containment and business simplification initiatives, including its business system transformation (c) investments in strategic acquisitions, production capacity, new products and brand building, (d) investments in distribution and rapid continuous improvement, (e) ability to maintain its effective tax rate, (f) repurchases of common stock and (g) consolidation and logistical realignment initiatives; uncertainty related to the availability of cash and credit, and the terms and interest rates on which credit would be available, to fund operations and future growth; lower than expected demand for the Corporation's products due to uncertain political and economic conditions, slow or negative growth rates in global and domestic economies or in the domestic housing market; lower industry growth than expected; major disruptions at our key facilities or in the supply of any key raw materials, components or finished goods; competitive pricing pressure from foreign and domestic competitors; higher than expected costs and lower than expected supplies of materials; higher costs for energy and fuel; changes in the mix of products sold and of customers purchasing; relationships with distribution channel partners, including the financial viability of distributors and dealers; restrictions imposed by the terms of the Corporation's revolving credit facility and note purchase agreement; currency fluctuations and other factors described in the Corporation's annual and quarterly reports filed with the Securities and Exchange Commission on Forms 10-K and 10-Q. The Corporation undertakes no obligation to update, amend, or clarify forward-looking statements.

#### Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of September 27, 2014, there were no material changes to the financial market risks that affect the quantitative and qualitative disclosures presented in Item 7A of the Corporation's Annual Report on Form 10-K for the year ended December 28, 2013.

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure information required to be disclosed by the Corporation in the reports it files or submits under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures are also designed to ensure that information is accumulated and communicated to management, including the chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of management, the chief executive officer and chief financial officer of the Corporation carried out an evaluation of the Corporation's disclosure controls and procedures pursuant to Exchange Act Rules

13a – 15(e) and 15d – 15(e). As of September 27, 2014, based on this evaluation, the chief executive officer and chief financial officer have concluded these disclosure controls and procedures are effective.

Furthermore, there have been no changes in the Corporation's internal control over financial reporting during the fiscal quarter covered by this quarterly report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

There are no new legal proceedings or material developments to report other than ordinary routine litigation incidental to the business.

## Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in the "Risk Factors" section of the Corporation's Annual Report on Form 10-K for the year ended December 28, 2013.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## Issuer Purchases of Equity Securities:

The following is a summary of share repurchase activity during the quarter ended September 27, 2014.

| Period              | (a) Total Number of Shares (or Units) Purchased (1) | (b) Average price Paid per Share or Unit | (c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet be Purchased Under the Plans or Programs |
|---------------------|-----------------------------------------------------|------------------------------------------|-------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|
| 06/29/14 – 07/26/14 | 18,150                                              | \$37.47                                  | 18,150                                                                                          | \$73,555,476                                                                                                                |
| 07/27/14 – 08/23/14 | 363,000                                             | \$36.58                                  | 363,000                                                                                         | \$60,275,395                                                                                                                |
| 08/24/14 – 09/27/14 | 217,800                                             | \$38.19                                  | 217,800                                                                                         | \$51,956,653                                                                                                                |
| Total               | 598,950                                             |                                          | 598,950                                                                                         |                                                                                                                             |

(1) No shares were purchased outside of a publicly announced plan or program.

The Corporation repurchases shares under previously announced plans authorized by the Board as follows:

• Plan announced November 9, 2007, providing share repurchase authorization of \$200,000,000 with no specific expiration date.

• No repurchase plans expired or were terminated during the third quarter of fiscal 2014, nor do any plans exist under which the Corporation does not intend to make further purchases.

## Item 6. Exhibits

See Exhibit Index.



SIGNATURES

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

HNI Corporation

Date: October 28, 2014

By: /s/ Kurt A. Tjaden

Kurt A. Tjaden

Vice President and Chief Financial Officer

EXHIBIT INDEX

- (3.1) Amended and Restated By-laws of HNI Corporation, incorporated by reference to Exhibit 3.1 Registrant's Current Report on Form 8-K filed August 8, 2014
- (31.1) Certification of the CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- (31.2) Certification of the CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- (32.1) Certification of CEO and CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 The following materials from HNI Corporation's Quarterly Report on Form 10-Q for the fiscal quarter ended September 27, 2014 formatted in XBRL (eXtensible Business Reporting Language) and furnished electronically herewith: (i) Condensed Consolidated Balance Sheets; (ii) Condensed Consolidated Statements of Comprehensive Income; (iii) Condensed Consolidated Statements of Cash Flows; and (iv) Notes to Condensed Consolidated Financial Statements<sup>(a)</sup>

(a) Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files in Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.