A tradition of growth.

HON INDUSTRIES

1997 Annual Report

Since 1947, HON INDUSTRIES

has averaged a 21% compounded annual rate of sales growth.

Some traditions are worth keeping.

Welcome to the 1997 segment of HON INDUSTRIES' growth.

Contents

Our Vision

HON INDUSTRIES and its members are dedicated to achieving excellence through the pursuit of a philosophy, strategies, and day-to-day actions aimed at achieving rapid continuous improvement. We continuously strive to develop a culture where members, customers, suppliers, shareholders, and the public experience fairness and respect in their relations with the Company.

Achieving excellence depends on individual and collective integrity and the relentless pursuit of the following long-standing beliefs:

HON INDUSTRIES shall be profitable.

HON INDUSTRIES shall be economically sound.

HON INDUSTRIES shall pursue sound growth.

HON INDUSTRIES shall be a supplier of quality products and services.

HON INDUSTRIES shall be a good place to work.

HON INDUSTRIES shall be a responsible corporate citizen.

When the Company is appreciated by its members, favored by its customers, supported by its suppliers, respected by the public, and admired by its shareholders, this Vision is fulfilled.

Corporate Profile

Value-Priced Office Furniture and Fireplace Market Leader
HON INDUSTRIES Inc. is the nation's largest manufacturer of value-priced office furniture and fourth largest office furniture manufacturer and marketer in North America. HON INDUSTRIES is also the nation's leading manufacturer and marketer of gas- and wood-burning fireplaces. We provide a broad selection of products in both the office furniture and hearth products industries.

The HON Company is the leading manufacturer of value-priced office furniture in North America and the largest single business unit of HON INDUSTRIES. The company maintains its leadership position by offering compelling value in a broad variety of office furnishings — including workstation panel systems, seating, media storage, ready-to-assemble furniture, desks, tables, and computer furniture — through a broad distribution network.

BPI Inc. provides systems and systems-related products with a range of features, functions, and price points. This operating unit specializes in the sales and service support required for the panel-based systems market segment which represents approximately 35% of the total office furniture industry. BPI provides customers a broad selection of innovative systems products.

The Gunlocke Company celebrated its 95th anniversary in 1997. It is the leader in providing wood furniture solutions focusing on professional services and tailored applications through distinctive product value, personal service, and guaranteed customer satisfaction. Gunlocke provides standard and custom products built to designer specifications, including executive casegoods and a wide range of seating, lounge furniture, and conference tables.

Hearth Technologies Inc. manufactures and markets a full range of wood- and gas-burning fireplaces, stoves, and accessories. Hearth Technologies has the leading brand names, largest market share position, and greatest number of patents in the industry. Products are sold in the new residential construction and home improvement markets.

Holga Inc. manufactures high-density storage, shelving, and mobile filing systems, as well as steel casegoods. Sales are made to end-users through a network of commercial and high-density specialist dealers.

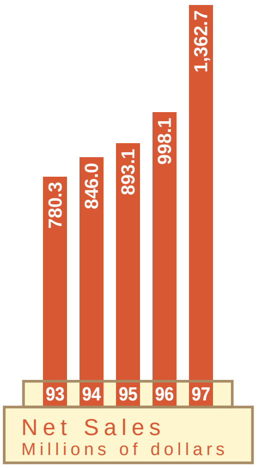
HON Export Limited is responsible for selling our furniture products outside the United States and Canada and developing profitable export markets. Marketing efforts are conducted through a variety of vehicles, including an extensive network of dealers and distributors. HON Export Limited brings compelling value to international markets.

Financial Highlights

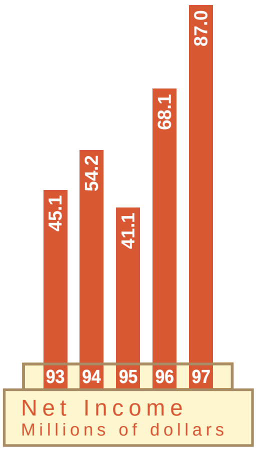
	1997	1996	1997 vs. 1996
Income Statement Data			
Net Sales	**$1,362,713,000**	$998,135,000	36.5%
Gross Profit	**429,556,000**	318,639,000	34.8%
Selling and administrative expenses	**284,397,000**	215,646,000	31.9%
Operating income	**145,159,000**	106,193,000	36.7%
Net income	**86,955,000**	68,094,000	27.7%
Net income as a % of:			
Net sales	**6.4%**	6.8%	
Average shareholders' equity	**27.4%**	29.1%	
Per common share:			
Net income	**$ 1.45**	$ 1.13	28.3%
Book value	**6.19**	4.25	45.6%
Cash dividends	**.28**	.25	12.0%
Balance Sheet Data			
Current assets	**$ 295,150,000**	$205,527,000	43.6%
Total assets	**754,673,000**	513,514,000	47.0%
Current liabilities	**200,759,000**	152,553,000	31.6%
Current ratio	**1.47**	1.35	
Long-term debt and capital lease obligations	**$ 134,511,000**	$ 77,605,000	73.3%
Debt/capitalization ratio	**26.1%**	23.5%	
Shareholders' equity	**381,662,000**	$252,397,000	51.2%
Average shareholders' equity	**317,030,000**	234,316,000	35.3%
Working capital	**94,391,000**	52,974,000	78.2%
Other Data			
Capital expenditures – net	**$ 85,491,000**	$ 44,684,000	91.3%
Cash flow from operations	**141,385,000**	93,309,000	51.5%
Weighted average shares outstanding during year	**59,779,508**	60,228,590	(0.7)%
Price/earnings ratio at year-end	**20**	14	
Number of shareholders at year-end	**5,399**	5,319	1.5%
Members (employees) at year-end	**9,390***	6,502*	

** Includes acquisitions completed during year.*

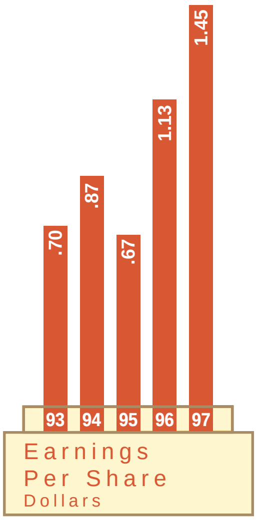
All appropriate common share and per common share amounts above have been retroactively restated to reflect a March 1998, two-for-one stock split in the form of a 100% stock dividend.



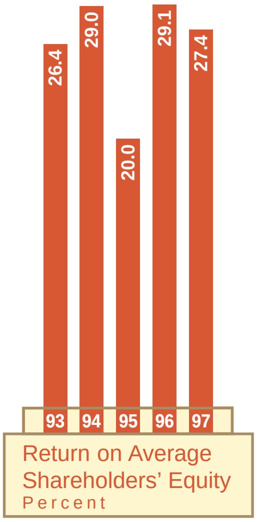
Five-Year CAGR: 14.0%



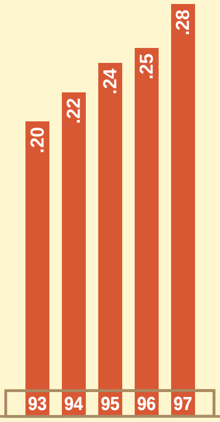
Five-Year CAGR: 17.6%



Five-Year CAGR: 19.7%



Letter to Shareholders



Cash Dividends
Per Common Share
Dollars

Five-Year CAGR: 8.1%

Dear Shareholders:

Over the past half century, HON INDUSTRIES has established itself as a company with a tradition of growth based on strategic and innovative business practices. Since its inception, HON INDUSTRIES has focused on producing products and services that provide compelling value to our customers while streamlining design, production, and administrative processes to reduce operation costs. 1997 was no exception. From completing acquisitions which extended our product offerings, to instituting state-of-the-art manufacturing techniques, to expanding our quality assurance programs, HON INDUSTRIES raised the bar in both of our key market segments: value-priced office furniture and the fireplace markets. This has been due in large part to our member-owners whose dedication to quality and customer satisfaction has driven HON INDUSTRIES' tradition of growth. I want to personally thank them for making 1997 another record-breaking year.

Our sales numbers confirm these leadership positions. In fact, HON INDUSTRIES' financial performance outpaced that of the overall market in both of our key industries. It is important to note that on February 11, 1998, the HON INDUSTRIES Board of Directors approved a two-for-one stock split in the form of a 100% stock dividend to be paid on March 27,1998. The numbers in this report reflect that split.

In 1997 HON INDUSTRIES reported record sales of $1.36 billion with 36.5% revenue growth. This revenue growth compares to a 15% increase in shipments in the office furniture industry and an estimated 10% growth in fireplaces. Net income rose 27.7% to $87 million, or $1.454 per share. That was up from $68.1 million or $1.131 per share last year, which included one-time gains and credits of $0.07 per share. Excluding these one-time items, our earnings per share increased 37.0%.

Since 1992, net sales have increased at a compounded annual growth rate of 14.0% and net income has increased 17.6%, compared to sales growth of office furniture and fireplaces both of which were in the 7-8% range.

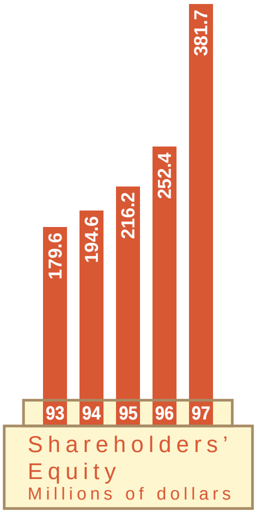
Based on this success we have set aggressive, yet achievable, growth goals for 1998. The Business and Institutional Furniture Manufacturers Association (BIFMA), an independent trade organization, forecasts an 8% increase in office furniture shipments for 1998. Similar rates of growth are projected for the hearth products industry. Our goal is to, once again, outperform both with our commitment to double-digit annual growth.

Market Segmentation: The Value-Priced Furniture Market

We view the office furniture market as being two primary segments: traditional contract furniture which is characterized by high levels of product customization, long consultative sales cycles and high prices; and the value-priced furniture segment which has multiple distribution channels and is extremely feature/price sensitive. The rapid proliferation of small- to medium-sized businesses and home offices, and an increasing demand for substitutes for high-priced traditional contract furniture have created a new breed of cost-sensitive customers that wants the amenities of traditional high-priced offerings in value-priced products and services. The changing face of the business landscape has pushed value-priced offerings to the forefront of the market, making it the fastest-growing segment in the office furniture arena.

HON INDUSTRIES is well positioned in the value-oriented portion of the market. We strive to provide

Jack D. Michaels
Chairman, President
and CEO



Five-Year CAGR: 18.6%

compelling value to our customers. Our goal is to offer a broad selection of high-quality products, at attractive prices, with quick delivery. We are continually refining our product designs and our manufacturing processes to add additional product features, while minimizing the cost to our customer. We offer compelling value in our existing product lines, as well as those which we've added through acquisitions. We understand the balance of making improvements and adding features with lower "to market" costs.

New Products Set the Pace

As a market leader, it is important not to fall into the trap of "resting on our laurels." Year after year, HON INDUSTRIES consistently brings new value-priced office furniture and hearth products to market, as well as offering enhancements to our existing product families. In 1997 we rolled out nearly 300 new models — from innovative work surfaces to ceramic fiber fireplaces. What's more, these new products turned out to be some of our best sellers. In fact, over 45% of our 1997 revenues were from products introduced in the past three years — surpassing our goal that 40% of sales result from new products introduced over the prior three-year period.

Manufacturing Expertise Key

HON INDUSTRIES has spent the past 50 years solidifying its foundation in low-cost manufacturing. The implementation of our Rapid Continuous Improvement (RCI) Program has significantly influenced our productivity, service, and quality. Started in 1992 and still going strong today, RCI dramatically accelerates process improvement and innovation. This is due in large part to our strong member-owner culture which fosters an environment that can respond quickly to changes which then result in performance improvements. RCI allows us to pass the benefits of lower manufacturing costs directly to our customers and, as a result, gain market share.

Distribution and Investments for the Future

Our record growth in 1997 brought with it some challenges. In the third quarter, our orders increased much faster than our growth plan. This impacted delivery times for a number of reasons, limited capacity being the most pressing.

We immediately responded to this challenge and also invested for the future. $85.5 million in capital expenditures was invested in 1997 to increase capacities, respond to technological advancements, implement cost-saving measures, and develop new products. We are in the process of expanding our capacities in most product categories and constructing approximately 650,000 square feet of manufacturing and distribution floor space to accommodate our growth. Using RCI techniques and converting to flow production, we gained almost 330,000 additional square feet in our recently acquired facilities.

Moving into the first quarter of 1998, lead times are again meeting and exceeding our customers' expectations. In addition, we are poised to capitalize on the future growth of our industries and our market share gain. We appreciate the loyalty of our customers during these distribution challenges and are confident that they will reap the benefits of our expansion efforts.

Extending Our Product Offerings Through Strategic Acquisitions

To ensure that we are providing our customers with the breadth of products they require, HON INDUSTRIES will continue to pursue complementary strategic acquisitions. During 1997, we invested a total of approximately $120 million on three such acquisitions — Allsteel Inc., Bevis Custom Furniture, Inc., and Panel Concepts, Inc. We expect that each will strongly contribute to future growth in the office furniture segment.

We are taking the same strategy of enhancing current products and pursuing complementary acquisitions in our Hearth Technologies Inc. business unit. In early 1998, we acquired the assets of Aladdin Steel Products, Inc. to strengthen our position in the steel stove market. We will integrate the Aladdin's Quadra-Fire® brand with our Arrow® and Dovre® brands to create a stove unit under Hearth Technologies called Aladdin Hearth Products.

Leveraging Our Expertise: Hearth Technologies

HON INDUSTRIES is an instantly recognized name in the hearth products industry with the Heat-N-Glo and Heatilator brands. We are the market leader in the gas- and wood-burning fireplace markets under the Hearth Technologies Inc. name. We are extremely pleased with our growth in this industry.

One of the key reasons we have been able to transition into this industry so smoothly is the inherent synergy between the office furniture and fireplace manufacturing processes. Both products are made predominantly of steel — a production commodity and process in which we excel.

Hearth products is an attractive market with comparable margins to office furniture. We expect to capitalize on our leading market positions and on the growth of the residential construction and remodeling industries.

Commitment to Our Shareholders

HON INDUSTRIES has a history of rewarding investors that dates back to the Company's founding in 1947. A share of stock purchased for $100 in 1947 equates to 15,552 shares today. At a fiscal year-end price of $28⅝ per share, that initial investment is worth $445,176. The latest five-year average compounded annual total shareholder return has been 20.5% per year. We are proud to report the total shareholder return for 1997 was 78.2%.

In 1997, HON INDUSTRIES paid total dividends of $0.28 per share on common stock post split. The board also approved a 14.3% increase in the quarterly cash dividend on the Company's common stock from $0.07 per share to $0.08 per share. HON INDUSTRIES has paid 172 consecutive quarterly dividends since its first dividend in 1955.

This past October we had the opportunity to tell our story to many potential shareholders during our public offering of primary and secondary shares. We wish to welcome our new investors and express our gratitude to all of our shareholders and member-owners. We appreciate the commitment you've made to this company, and we take our responsibility to increase the value of your shares very seriously. As an example, the net proceeds of the sale of 2,300,000 shares were invested to assure the growth of the Company through the financing of acquisitions, research and development, and capital expenditures such as capacity expansion and new products.

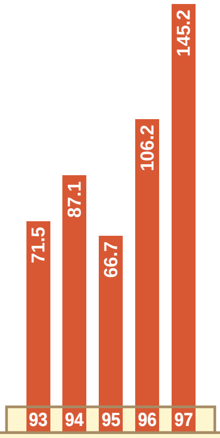
A Tradition of Growth

We honor our 50-year tradition of growth as we look to the future. Our commitment is to strategically grow and add value to our shareholders, customers, and members. Our member-owners deserve the credit for achieving our past growth and must be commended for their dedication to building for our future.

We thank Stanley M. Howe, Chairman Emeritus, for his guiding wisdom and insightful leadership as he retires from our employment after 50 years of service at HON INDUSTRIES. We wish him the best and thank Stan for his devotion to making our company a growth leader. Stan will continue to serve as a director on our board. I also extend my appreciation to our customers, suppliers, shareholders, and the communities in which we operate. We thank you and invite you to join us as we continue to fulfill our tradition of growth.

Sincerely,

Jack D. Michaels
Chairman, President and CEO



Operating Income
Millions of dollars
Five-Year CAGR: 18.4%

HON INDUSTRIES: A Tradition of Growth

HON INDUSTRIES has built its tradition of growth in two key markets: value-priced office furniture and fireplaces. The Company established its leadership in the larger of its core segments —value-priced office furniture — some 50 years ago. Entry into the fireplace market took place in 1981. However, by offering a comprehensive set of quality products, HON INDUSTRIES quickly rose to the forefront of the hearth products market.

HON INDUSTRIES' full line of office furniture offers more than value — *it offers compelling value* — meaning customers receive the selection, features, quality, and service once reserved for premium-priced contract products at affordable prices. This holds true across the Company's entire set of office furniture product categories which includes:

- Panel-based systems furniture
- Steel and wood seating
- Steel and wood desks
- Steel media storage

HON INDUSTRIES is the leading manufacturer and marketer of value-priced office furniture in North America.

On the fireplace side of the business, HON INDUSTRIES has focused its efforts on two product categories:

- Wood- and gas-burning fireplaces and inserts
- Wood and gas stoves for ornamental and home heating use

Today, under the name Hearth Technologies Inc., HON INDUSTRIES has become the leading manufacturer of wood- and gas-burning fireplaces in North America.

6000XLS
Direct Vent
Gas Fireplace

Pagoda™ Seating

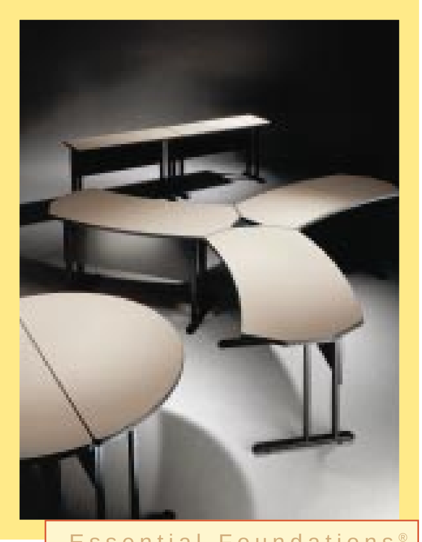
The Office Furniture Market — An Overview

The office furniture industry has enjoyed steady growth over the past 25 years. In fact, the surge in the number of service-oriented or traditional "white collar" jobs has put more people than ever working in office environments. This has helped the office furniture industry grow at a faster rate than the general economy. In fact, growth continues in both of the primary segments of the industry: traditional contract furniture and value-priced furniture.

The traditional contract market is characterized by project-oriented sales of large quantities of office

Mirati™ Seating

5400 Series Lateral Files



Essential Foundations® Folding Tables

furniture to major corporate and professional service industry buyers. Sales are usually made by large independent dealers who focus on consultative selling and maintain close relationships with manufacturers. The furniture in this segment is often customized and the selling cycle is lengthy. Consequently, the cost of doing business in this segment is quite high and this is reflected in higher selling prices.

In contrast to the premium pricing and customization of the contract market, durability, affordable pricing, and quick delivery are key in the value-priced office furniture marketplace. To distribute in the value segment we partner with independent full-service office furniture dealers, office product wholesalers, and large retailers such as office products superstores.

HON INDUSTRIES: The Leader in Value-Priced Office Furniture

From its entry into the office furniture industry in the early 1950s, HON INDUSTRIES has focused on the value segment of the office furniture market. In that time, we have learned a lot about the needs and buying trends of those purchasing products in this market. As a result, HON INDUSTRIES has developed a distribution strategy that includes strong relationships with independent dealers, wholesalers, and retailers. We also have established a tremendous presence in the catalogs which these channels use to serve end-user customers.

Responding to a Changing Business Market

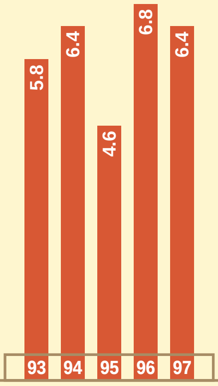
HON INDUSTRIES has maintained its tradition of growth by keeping a close eye on the market forces driving the value-priced office furniture industry and balancing user needs with efficient ways to produce

Miles™ Seating

quality products. Technology, ergonomic concerns, organizational restructuring, productivity, and job migration are among the factors accelerating demand for new and better office furniture today. HON INDUSTRIES also believes the proliferation of small businesses and home offices and a desire for alternative solutions to high-priced office furniture have made the value segment the fastest growing portion of the office furniture market. We are poised to take advantage of these trends.

Continuing a Tradition of Growth

Since our inception 50 years ago, we have averaged a 21% annual compounded sales growth rate. While the office furniture industry is expanding at a rate faster than the overall economy, and the new construction and remodeling industries continue to expand, we are not content to "ride the escalator." To achieve our goal of double-digit growth we must aggressively strive to increase market share.



Net Income as Percentage of Net Sales
Percent

Trooper™ Task Seating

Our strategy for market share growth relies heavily on contributions by our sales, marketing, product development, and manufacturing member-owners and includes the following tactics:

- New value-priced product introductions
- Improved productivity
- Distribution network leverage
- Strategic and complementary acquisitions

Product Development

New products drive sales and increase market share, and HON INDUSTRIES is committed to aggressive product development. In 1997, over 45% of sales were attributable to products introduced in the last three years. Speed to market is critical to the success of new products. Our multi-disciplinary product teams, consisting of designers, product and production engineers, and marketers, utilize a concurrent product development approach. They strive to create products that meet consumer needs, but at the same time are highly manufacturable. They pursue “designed-in quality” — a development principle that reduces the possibility of human error in fabrication and assembly. They explore the use of lower-cost alternative materials and most new products involve the design and build of proprietary manufacturing machines and tooling in our own facilities.

1997 was a year of innovation for HON INDUSTRIES. In fact, nearly 300 new models were introduced. From our Mirati and Miles Seating products to our Terrace Wave Panel and Teaming Table, HON INDUSTRIES continued to set the standard in the value-priced office furniture segment. We also introduced a number of improvements to some of our most popular product lines, adding new features to our media storage systems and providing ergonomic and design modifications to our seating and worksurface offerings. We also explored new technologies, enhanced existing offerings, and introduced new products such as ceramic fiber fireplaces in the hearth products segment.

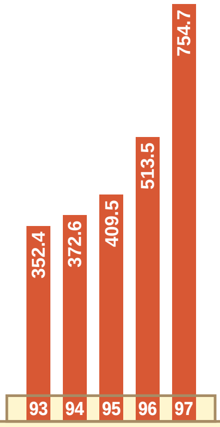
HON INDUSTRIES will continue to respond to changing dynamics in in our markets and will also conduct “voice of the customer” and “best in class” reviews of all key products, using this competitive analysis to drive our next wave of product enhancements.

Operating Productivity — Rapid Continuous Improvement (RCI)

We believe our focus on operational excellence will allow us to continue to be the leader in both of our core segments. Our management determined 50 years ago that the pursuit of operational excellence would be a key strategy for HON INDUSTRIES. We implemented Rapid Continuous Improvement in 1992 to continue this focus on streamlining design, manufacturing, and administrative processes in order to eliminate waste and reduce costs. This not only improves productivity today, but also supports future growth. This process

Concensys® Systems Furniture

Echelon™ Systems Furniture



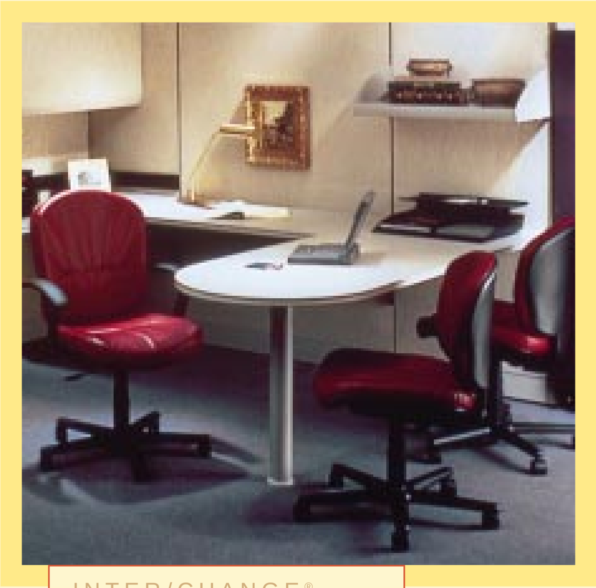
Total Assets
Millions of dollars
Five-Year CAGR: 18.5%

improvement program encourages all HON INDUSTRIES member-owners to evaluate every business process in the organization and make aggressive changes to eliminate waste.

Over 100 member-owners are guiding the workforce in the RCI process on a full-time basis. Today, over 25% of the workforce has been extensively trained to implement the techniques, and virtually all member-owners participate in RCI events. Since the inception of RCI in 1992, revenue per member-owner has increased and lead times and quality defects have been substantially reduced.

Our commitment and success in RCI allows us to pass these benefits on to customers by adding features and quality while minimizing prices. This results in greater market share while maintaining profit margins.

At HON INDUSTRIES safety is a corporate asset. Many companies say that they are committed to the safety of their employees, but at HON INDUSTRIES we go one step further. Safety is integral to our corporate vision of being a "good place to work."



INTER/CHANGE®
Systems and Desking

We believe that a safe workplace is a strategic business advantage. We have reduced the lost workdays incident rate by 85% since 1991. This reduction has significantly enhanced the quality of life for our member-owners and has reduced costs.

Expanded Capacity

In 1997 record growth came with some growing pains. In fact, physical distribution became a challenge at certain HON INDUSTRIES operating companies this past year. Our quick delivery, complete order shipments, and low damage levels have always been our hallmarks. This past year, demand surged well beyond our already-high expectations and placed a strain on our distribution centers. As a result, order-to-delivery times rose in the third and early fourth quarters.

As always, member-owners immediately rose to the challenge and, by the middle of the fourth quarter, lead times were returned to the levels on which HON INDUSTRIES has always prided itself. Once the initial issues had been addressed, we took a number of proactive steps to ensure that we are prepared to handle peaks in demand as well as "normal" production requirements. This includes investing in capacity expansion in our distribution centers and production capabilities in nearly all of our 33 manufacturing facilities coast-to-coast. We are in the process of adding approximately 650,000 square feet of additional floor space.

1997 Strategic Acquisitions

One of our most visible growth strategies is the selected acquisition of new businesses. In 1997, HON INDUSTRIES sought and found acquisition candidates which offered complementary and/or innovative products, increased distribution capabilities, manufacturing

Continued on page 11

TL2™ Systems Furniture

7800 Series Seating

Compelling Value...

The HON INDUSTRIES Difference

HON INDUSTRIES expects to grow its leadership position in the value segment of the office furniture market and in the hearth products industry by offering what we have dubbed “compelling value” to our customers. Compelling value is defined by providing a high level of selection, features, quality, and service at attractive prices.

Compelling Value Means:

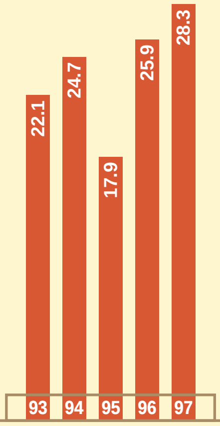
Broad selection: HON INDUSTRIES has the manufacturing diversity required to serve our resellers and end-users. Our extensive offering of panel-based systems, seating, media storage, and desks and tables allows us to ship full truckloads to our resellers’ distribution centers or directly to the end-user’s installation site. This simplifies ordering, invoicing, and payment processes for our customers, lowering their cost of doing business.

Innovative features: We spend a great deal of time in one-on-one dialogue with our end-user customers, to determine trends in the workplace. We then make the necessary investments to ensure that our product lines include the features they require.

Quality and performance: HON INDUSTRIES products deliver a level of quality that far exceeds comparably priced items. We engineer our products to meet and often exceed the standards set forth by the Business and Institutional Furniture Manufacturers Association (ANSI/BIFMA) — the same quality standards applied to premium-priced products. We conduct ongoing tests to ensure the strength, stability, and durability of our products.

Attractive prices: Our focus on operations and Rapid Continuous Improvement allows us to offer attractive prices without compromising product integrity.

Quick delivery: In the value segment, speed of delivery may well be the deciding factor in a purchasing decision. We strive to offer one-to-three week lead times from order entry to shipment of goods. This rapid delivery gives us and our resellers a competitive advantage when vying for orders.



Return on Beginning Assets Employed
Percent

Terrace® Teaming Table

capacities, and expanded geographical presence in North America.

This past year, we were able to complete three acquisitions that met our criteria: Allsteel Inc.; Bevis Custom Furniture, Inc.; and Panel Concepts, Inc. Our investment for these acquisitions was approximately $120 million, bringing us a total of approximately $230 million in sales at the time of purchase.

Allsteel

Allsteel, acquired in June 1997, is a well-respected name in the office furniture industry. Products such as the INTER/CHANGE and 8000 Series panel systems, Tolleson seating, and the widely respected Allsteel family of media storage files enhance our market penetration at the high end of our value-selling equation. Allsteel's large installed base of product creates an opportunity for additional sales to existing customers. Its established distribution provides us with a solid network of dealers. The acquisition of Allsteel also expands The HON Company's production capacity with the addition of five modern, strategically-located manufacturing facilities.

The Adjustable-Height Work-surface

Bevis

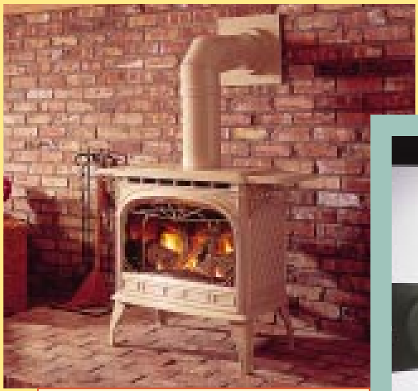
By adding the Bevis product line in November 1997, we increased our position in folding tables, conference tables, panel systems, and computer furniture. These products are essential to fulfill our aim of leveraging our distribution networks, especially in the retail channels. Bevis brings to The HON Company complementary product lines, low-cost manufacturing, and excellent lead times.

Panel Concepts

Panel Concepts, acquired in December 1997, provides a full spectrum of new systems products at a variety of price points. Panel Concepts recently introduced the TL2 office system product, a tiled and stackable panel line featuring an innovative and patented connection system that is well recognized in the industry. Panel-based systems are a fast growing industry segment and Panel Concepts strongly complements our current BPI product offerings.

These acquisitions have greatly enhanced our presence in the panel-based systems furniture market and filled previously unaddressed product niches in the value

Terrace® Systems Furniture



Sapphire™ 50 Direct Vent Gas Stove

Roll•X™ Mobile Aisle

market. More importantly, they have brought us new customers and strengthened our distribution network. We have enhanced operations and increased efficiencies at all three companies by integrating the HON INDUSTRIES RCI Program.

The Hearth Products Industry

In 1981, HON INDUSTRIES expanded into the fireplace industry after examining a number of possible business segments that would generate strong margins and allow the Company to leverage its expertise in manufacturing steel products. In 1996, the Company formed Hearth Technologies Inc. by combining the well-recognized Heatilator and Heat-N-Glo brands that together account for the leading market share of hearth products in North America. Today 15% of our sales and operating income are from the Hearth Technologies operating unit.

Mosaic™ Systems Furniture

Heatilator incorporates lean manufacturing competencies and targets high volume residential builders and builder distributors in the mid- and value-oriented categories. Heat-N-Glo, a superior innovator and marketer, is geared to retail and builder distribution, and is a technology leader, as evidenced by its holding the most patents in the industry. In addition, the Arrow and Dovre brands compete in the stove segment and are marketed directly to dealers.

In early 1998, we strengthened our position in the stove business by acquiring the assets of Aladdin Steel Products, Inc. and the Quadra-Fire brand name. The Quadra-Fire, Arrow, and Dovre brands will be combined into a single, synergistic operating unit called Aladdin Hearth Products which will be managed under Hearth Technologies. The new unit will include high quality gas-, wood-, and pellet-burning stoves and inserts.

A Company of Member-Owners

Our record performance could not be achieved without our strong member-owner culture. From our beginnings, HON INDUSTRIES has believed in the member-owner concept. All member-owners are shareholders, which encourages our people to take ownership of their work responsibilities and participate actively in our collective success.

The Tradition Continues

Over the past 50 years, HON INDUSTRIES has been successful by staying true to its vision of offering high quality, value-priced alternatives in the office furniture market, as well as by expanding into new markets, such as hearth products, that allow the Company to leverage our manufacturing and distribution strengths. 1998 looks to be yet another year of innovation, strategic investment, and sustained growth — once again fulfilling our tradition of growth.

Selected Financial Data – Eleven-Year Summary

HON INDUSTRIES Inc. and Subsidiaries

	1997	1996	1995
Per Common Share Data			
Income from Continuing Operations	$ 1.45	$ 1.13	$ .67
Income from Discontinued Operations	—	—	—
Cumulative Effect of Accounting Changes	—	—	—
Gain on Sale of Discontinued Operations	—	—	—
Net Income	1.45	1.13	.67
Cash Dividends	.28	.25	.24
Book Value	6.19	4.25	3.56
Net Working Capital	1.53	.89	1.07
Operating Results (Thousands of Dollars)			
Net Sales	$1,362,713	$998,135	$893,119
Cost of Products Sold	933,157	679,496	624,700
Gross Profit	429,556	318,639	268,419
Interest Expense	8,179	4,173	3,569
Income from Continuing Operations before Income Taxes	139,128	105,267	65,517
Income before Income Taxes as a % of Net Sales	10.21%	10.55%	7.34%
Federal and State Income Taxes	$ 52,173	$ 37,173	$ 24,419
Effective Tax Rate for Continuing Operations	37.50%	35.31%	37.27%
Income from Continuing Operations	$ 86,955	$ 68,094	$ 41,098
Income from Continuing Operations as a % of Net Sales	6.38%	6.82%	4.60%
Income before Cumulative Effect of Accounting Changes	$ 86,955	$ 68,094	$ 41,098
Income from Discontinued Operations	—	—	—
Net Income	86,955	68,094	41,098
Cash Dividends and Share Purchase Rights Redeemed	16,736	14,970	14,536
Addition to (Reduction of) Retained Earnings	37,838	33,860	18,863
Net Income Applicable to Common Stock	86,955	68,094	41,098
% Return on Average Shareholders' Equity	27.43%	29.06%	20.00%
Depreciation and Amortization	$ 35,610	$ 25,252	$ 21,416
Distribution of Net Income			
% Paid to Shareholders	19.25%	21.98%	35.37%
% Reinvested in Business	80.75%	78.02%	64.63%
Financial Position (Thousands of Dollars)			
Current Assets	$ 295,150	$205,527	$194,183
Current Liabilities	200,759	152,553	128,915
Working Capital	94,391	52,974	65,268
Net Property, Plant, and Equipment	341,030	234,616	210,033
Total Assets of Continuing Operations	754,673	513,514	409,518
Total Assets of Discontinued Operations – Net	—	—	—
Total Assets	754,673	513,514	409,518
% Return on Beginning Assets Employed	28.27%	25.93%	17.91%
Long-Term Debt and Capital Lease Obligations	134,511	77,605	42,581
Shareholders' Equity	381,662	252,397	216,235
Retained Earnings	265,203	227,365	193,505
Current Ratio	1.47	1.35	1.51
Current Share Data			
Number of Shares Outstanding at Year-End	61,659,316	59,426,530	60,788,674
Weighted Average Shares Outstanding During Year	59,779,508	60,228,590	60,991,284
Number of Shareholders of Record at Year-End	5,399	5,319	5,479
Other Operational Data			
Capital Expenditures – Net (Thousands of Dollars)	$ 85,491	$ 44,684	$ 53,879
Members (Employees) at Year-End	9,390*	6,502*	5,933

** Includes acquisitions completed during year.*

1994	1993	1992	1991	1990	1989	1988	1987
$ .87	$ .69	$ .59	$ .51	$ .65	$ .39	$ .34	$ .29
—	—	—	—	—	—	.02	.02
—	.01	—	—	—	—	—	—
—	—	—	—	—	—	.11	—
.87	.70	.59	.51	.65	.39	.47	.31
.22	.20	.19	.18	.15	.12	.10	.10
3.17	2.83	2.52	2.32	2.03	1.88	1.98	1.66
1.27	1.23	1.23	1.07	.82	.83	1.29	.97
$845,998	$780,326	$706,550	$607,710	$663,896	$602,009	$532,456	$516,262
573,392	537,828	479,179	411,168	458,522	409,942	366,599	355,456
272,606	242,498	227,371	196,542	205,374	192,067	165,857	160,806
3,248	3,120	3,441	3,533	3,611	3,944	4,188	3,512
86,338	70,854	61,893	52,653	69,085	44,656	41,919	41,887
10.21%	9.08%	8.76%	8.66%	10.41%	7.42%	7.87%	8.11%
$ 31,945	$ 26,216	$ 23,210	$ 19,745	$ 25,907	$ 17,193	$ 16,139	$ 18,431
37.00%	37.00%	37.50%	37.50%	37.50%	38.50%	38.50%	44.00%
$ 54,393	$ 44,638	$ 38,683	$ 32,908	$ 43,178	$ 27,463	$ 25,780	$ 23,456
6.43%	5.72%	5.47%	5.42%	6.50%	4.56%	4.84%	4.54%
$ 54,393	$ 44,638	$ 38,683	$ 32,908	$ 43,178	$ 27,463	$ 25,780	$ 23,456
—	—	—	—	—	—	9,515	1,310
54,156	45,127	38,683	32,908	43,178	27,463	35,295	24,766
13,601	12,587	12,114	11,656	9,931	8,298	7,956	7,957
13,563	17,338	26,569	18,182	(11,952)	(17,444)	20,986	(18,750)
54,156	45,127	38,683	32,908	43,178	27,463	35,295	24,766
28.95%	26.35%	24.75%	23.41%	33.24%	19.92%	25.77%	18.85%
$ 19,042	$ 16,631	$ 15,478	$ 14,084	$ 13,973	$ 12,866	$ 11,860	$ 10,227
25.11%	27.89%	31.32%	35.42%	23.00%	30.22%	22.54%	32.13%
74.89%	72.11%	68.68%	64.58%	77.00%	69.78%	77.46%	67.87%
$188,810	$188,419	$171,309	$150,901	$146,591	$162,576	$175,367	$139,679
111,093	110,759	91,780	82,275	93,465	106,104	78,787	66,136
77,717	77,660	79,529	68,626	53,126	56,472	96,580	73,543
177,844	157,770	145,849	125,465	124,603	114,116	94,339	95,372
372,568	352,405	322,746	280,893	276,984	284,322	275,928	235,621
—	—	—	—	—	—	—	9,734
372,568	352,405	322,746	280,893	276,984	284,322	275,928	245,355
24.72%	22.14%	22.18%	19.66%	24.00%	16.32%	18.46%	17.71%
45,877	45,916	50,961	32,734	37,250	36,996	37,863	41,467
194,640	179,553	163,009	149,575	131,612	128,203	147,549	126,388
174,642	161,079	143,741	117,172	98,990	110,942	128,386	107,400
1.70	1.70	1.87	1.83	1.57	1.53	2.23	2.11
61,349,206	63,351,692	64,737,912	64,417,370	64,769,794	68,194,176	74,647,164	75,953,272
62,435,450	64,181,088	65,517,990	64,742,976	66,220,810	69,632,100	74,853,672	79,588,124
5,556	4,653	4,534	4,466	4,331	4,124	4,134	3,218
$ 35,005	$ 27,541	$ 26,626	$ 13,907	$ 20,709	$ 12,807	$ 10,299	$ 15,669
6,131	6,257	5,926	5,599	6,073	6,385	5,423	5,840

Management's Discussion and Analysis of Financial Condition and Results of Operations

HON INDUSTRIES Inc. and Subsidiaries

The following discussion of the Company's historical results of operations and of its liquidity and capital resources should be read in conjunction with the consolidated financial statements of the Company and related notes.

Results of Operations

The following table sets forth the percentage of net sales represented by certain items reflected in the Company's statements of income for the periods indicated.

Fiscal	**1997**	1996	1995
Net sales	**100.0%**	100.0%	100.0%
Cost of products sold	**68.5**	68.1	69.9
Gross profit	**31.5**	31.9	30.1
Selling and administrative expenses	**20.9**	21.6	22.6
Gain on sale of subsidiary	**—**	0.3	—
Operating income	**10.6**	10.6	7.5
Interest expense (net)	**.4**	0.1	0.1
Income before income taxes	**10.2**	10.5	7.4
Income taxes	**3.8**	3.7	2.8
Net income	**6.4**	6.8	4.6

As a result of the Company's October 1996 acquisition of Heat-N-Glo, it has two reportable core business segments: office furniture and hearth products.

Fiscal Year Ended January 3, 1998, Compared to Fiscal Year Ended December 28, 1996

Net Sales

Net sales increased by 37% to $1.36 billion in 1997 from $998.1 million in the prior year. The Company increased sales in both core segments by offering compelling value products through a combination of broad selection, features, quality, price, and service. Office furniture products net sales increased 31% in 1997 to $1.16 billion from $887.3 million in 1996 due in part from the Company's acquisitions of Allsteel Inc., and Panel Concepts, Inc., and the assets and business of Bevis Custom Furniture, Inc. Hearth products net sales increased 84% in 1997 to $204.5 million from $110.8 million in 1996 due in part to the Company's October 1996 acquisition of Heat-N-Glo Fireplace Products Inc. Both core industry segments experienced strong growth during 1997. The office products industry reported an annual growth rate of 15% and hearth products an estimated 10%. The Company's most recent five-year compounded annual growth rate is 14% in net sales while industry growth for office furniture and hearth products is estimated to be in the 7-8% range.

Gross Profit

Gross profit increased by 35% to $429.6 million in 1997 from $318.6 million in the prior year. Gross margin decreased to 31.5% for 1997 compared to 31.9% for 1996. This reduced margin is due to the combination of productivity gains and cost control initiatives being more than offset by strategic selling price reductions on select Company products to increase sales volume and the impact of lower operating margins for certain 1997 acquisitions.

Selling and Administrative Expenses

Selling and administrative expenses increased by 32% to $284.4 million from $215.6 million in the prior year. Selling and administrative expenses, as a percentage of net sales, decreased to 20.9% in 1997 from 21.6% in 1996. This decrease was a result of continued commitment to developing more efficient business processes, which has improved member productivity, coupled with stringent control of expenses and increased efficiencies associated with higher net sales. However, these results were partially offset by increased freight costs due to growth of unit volume, increased distribution costs for new warehouse capacity and product handling that facilitate providing higher level of service to customers, and the ongoing commitment to developing and marketing new products.

Selling and administrative expenses, in addition to freight expense to the customer, also includes major costs related to product development and amortization expense of intangible assets. The "Selling and Administrative Expenses" note included with the consolidated financial statements provides further information regarding the comparative expense levels for these major expense items.

Operating Income

Operating income increased by 41% to $145.2 million in 1997 from $103.0 million, excluding a nonrecurring pre-tax gain on the sale of a subsidiary of $3.2 million in 1996. The increase is due to controlling operating costs and leveraging incremental sales.

Net Income

Net income increased by 32% to $87.0 million in 1997 from $66.1 million in 1996, excluding the $2.0 million nonrecurring after-tax gain on the sale of a subsidiary. This increase is a result of the higher operating income being partially offset by an increase in interest expense associated with acquisitions and the resumption of a more normal effective income tax rate. The effective tax rate was 37.5% for 1997 compared to 35.3% for 1996. The rate for 1996 was favorably impacted by nonrecurring income tax credits of $2.1 million, or $0.04 per share, recorded in the third quarter of 1996.

Net income per common share increased by 32% to $1.45 in 1997 from $1.10, excluding a nonrecurring after-tax gain of $0.03 per share in 1996. Average shares outstanding decreased to 59.8 million in 1997 from 60.2 million in 1996.

Fiscal Year Ended December 28, 1996, Compared to Fiscal Year Ended December 30, 1995

Net Sales

Net sales increased by 12% to $998.1 million in 1996 from $893.1 million in the prior year. The increase in net sales for both core business segments was due to continued gains in market share, which management believes resulted from the Company's offering of an ongoing stream of innovative and quality new products and a commitment to manufacturing excellence. Office furniture products net sales increased 8% in 1996 to $887.3 million from $818.9 million in 1995. Hearth products net sales increased 49% in 1996 to $110.8 million from $74.2 million in 1995 due in part to the Company's October 1996 acquisition of Heat-N-Glo Fireplace Products, Inc.

Gross Profit

Gross profit increased by 19% to $318.6 million in 1996 from $268.4 million in the prior year. The increase in gross profit was primarily attributable to the Company's sales growth in both business segments, which has been driven by unit sales growth as opposed to pricing growth. Gross profit margin increased to 31.9% for 1996 compared to 30.1% for 1995. This increase was a result of the elimination of production inefficiencies associated with two operations closed during 1995 and increased production unit volume, productivity improvements, and effective cost control efforts, partially offset by continued price reductions on selected products.

Selling and Administrative Expenses

Selling and administrative expenses increased by 7% to $215.6 million in 1996 from $201.7 million in the prior year. Selling and administrative expenses as a percentage of net sales decreased to 21.6% in 1996 from 22.6% in 1995. This decrease was a result of continued implementation of the Company's RCI process, which led to more efficient business processes and increased efficiencies associated with higher net sales. These decreases were partially offset by more aggressive marketing programs, greater use of cooperative advertising programs, freight costs escalating at a more rapid rate than product price increases, and additional costs of pursuing a proactive acquisition strategy.

Operating Income

Operating income increased by 54% to $103.0 million (excluding a nonrecurring pre-tax gain on the sale of a subsidiary of $3.2 million) in 1996 from $66.7 million in 1995. The increase was a result of the increase in gross profit and lower selling and administrative expenses as a percentage of net sales.

Net Income

Net income, excluding the $2.0 million nonrecurring after-tax gain on the sale of a subsidiary, increased by 61% to $66.1 million in 1996 from $41.1 million in the prior year. This increase was primarily attributable to increased operating income, lower net interest expense, and a lower effective income tax rate. The effective tax rate was 35.3% for 1996 compared to 37.3% for 1995. The rate for 1996 was favorably impacted by non-recurring income tax credits of $2.1 million, or $0.04 per share, recorded in the third quarter of 1996.

Net income per common share increased by 64% to $1.10 (excluding a nonrecurring after-tax gain of $0.03 per share) in 1996 from $0.67 for 1995. The Company's net income per share performance for 1996 benefited from the Company's common stock repurchase program.

The Company closed, consolidated, and sold several operations over the past two years in an effort to concentrate further on its core strengths. In addition, the Company resolved several litigation uncertainties, reduced its work force, addressed several asset realization concerns, and benefited from special tax credits. The net effect of these unusual business events was to reduce annual net income by $3.3 million, or $0.05 per share, in 1996, and $4.8 million, or $0.08 per share, in 1995.

Fiscal Year Ended December 30, 1995, Compared to Fiscal Year Ended December 31, 1994

Net Sales

Net sales increased by 6% to $893.1 million in 1995 from $846.0 million in the prior year. Sales growth in 1995 was impacted by a difficult market environment which resulted in aggressive product pricing and inventory adjustments related to some major customers. Office furniture products net sales increased 6% in 1995 to $818.9 million from $772.3 million in 1994. Hearth products net sales increased by less than 1% in 1995 to $74.2 million from $73.7 million in 1994.

Gross Profit

Gross profit decreased by 2% to $268.4 million in 1995 from $272.6 million in the prior year. The gross profit margin decreased to 30.1% in 1995 from 32.2% in 1994. This decrease in margin was primarily attributable to competitive price decreases, inventory adjustments, and production inefficiencies of two financially marginal operations which were closed or consolidated during the year. These decreases were partially offset by the Company's on-going RCI efforts.

Selling and Administrative Expenses

Selling and administrative expenses increased by 9% to $201.7 million in 1995 from $185.5 million in the prior year. Selling and administrative expenses as a percentage of net sales increased to 22.6% in 1995 from 21.9% in 1994. These expenses were adversely impacted in 1995 by increased sales support and freight costs, acquisition exploration expenses, temporary business disruption costs resulting from increasing warehouse capacity, increased investment in new product development, and nonrecurring expenses of $7.6 million associated with closing marginal operations and severance payments.

Operating Income

Operating income decreased by 23% to $66.7 million in 1995 from $87.1 million for 1994. The decrease was a result of lower gross profit and higher selling and administrative expenses.

Net Income

Net income decreased by 24% to $41.1 million in 1995 from $54.4 million in the prior year (excluding a charge for the cumulative effect of an accounting change). This decrease was primarily attributable to reduced operating income.

Net income per common share decreased by 23% to $0.67 in 1995 from $0.87 for 1994. The Company's net income per share performance for 1994 benefited from the Company's common stock repurchase program.

Liquidity and Capital Resources

During 1997, cash from operations was $141.4 million which provided the funds necessary to meet working capital needs, help finance acquisitions, invest in capital improvements, repay long-term debt, and pay increased dividends.

Cash Management

Cash, cash equivalents, and short-term investments totaled $46.3 million compared to $32.7 million at the end of 1996 and $46.9 million at the end of 1995. These funds, coupled with future cash from operations and additional long-term debt, if needed, are expected to be adequate to finance operations, planned improvements and internal growth.

Another major element in maintaining a strong balance sheet is managing the investment in receivables and inventories. The Company's success in managing receivables is in large part due to maintaining close communications with its customers and utilizing prudent risk assessment techniques. Inventory levels and turns continue to improve as a function of reducing production cycle times. Trade receivables turns have approximated 10 times for the past several years, including 1997, and inventory turns have been in the 14 to 17 range, with 1997 reaching 18 turns.

The Company also had a cash infusion during the fourth quarter of 1997 from its primary offering of 2,300,000 shares of common stock at an offering price of $26 per share. This transaction netted the Company approximately $56.8 million which was used to finance acquisitions and to repay debt associated with acquisitions.

Capital Expenditure Investments

Capital expenditures, net of disposals, were $85.5 million in 1997, $44.7 million in 1996, and $53.9 million in 1995. Expenditures in 1997 were principally for machinery, equipment, process improvements, support for new products, production and warehouse capacity, and information technology. Expenditures in 1996 were principally for machinery, equipment, process improvements, and tooling for new products. Approximately $11.0 million of the expenditures in 1995 were for facility capacity expansion and improvements, with the remainder invested in more productive machinery, equipment, process improvements, and tooling of new products.

Acquisitions

During 1997, the Company completed three office furniture acquisitions: Allsteel Inc. in June, Bevis Custom Furniture, Inc. in November, and Panel Concepts, Inc. in December for a combined purchase price of approximately $119.5 million. These acquisitions added new products, product line extensions, manufacturing and distribution capacity, new customers, and a quality work force. During 1996, the Company acquired Heat-N-Glo Fireplace Products Inc. in October, a leading hearth products manufacturer for a purchase price of approximately $79 million. These acquisitions were accounted for under the purchase method of accounting and financed by a combination of cash and long-term debt.

Long-Term Debt

Long-term debt, including capital lease obligations, was 26% of total capitalization at January 3, 1998 and 24% at December 28, 1996. The Company does not expect future capital resources to be a constraint on planned growth. Significant additional borrowing capacity is available through a revolving bank credit agreement in the event cash generated from operations should be inadequate to meet future capital needs.

Cash Dividends

Cash dividends were $0.28 per common share for 1997, $0.25 for 1996, and $0.24 for 1995. The Board of Directors announced a 14.3% increase in the quarterly dividend, from $0.07 to $0.08 per common share effective with the February 28, 1998, dividend payment. The previous quarterly dividend increase was from $0.06 to $0.07, effective with the December 1, 1996, dividend payment. A cash dividend has been paid every quarter since April 15, 1955, and quarterly dividends are expected to continue. The average dividend payout percentage for the most recent three year period has been 28% of prior year earnings. The Board of Directors also announced a two-for-one stock split in the form of a 100 percent stock dividend to be paid on March 27, 1998, to shareholders of record on March 6, 1998. Shareholders will receive one share of common stock for each share held of record. The Company's last stock split was also a two-for-one 100% stock dividend paid in 1990.

Common Share Repurchases

During 1997, the Company repurchased 183,154 shares at a cost of approximately $4.1 million, or an average price of $22.30. As of January 3, 1998, approximately $4.6 million of the Board's last $20.0 million purchase authorization remained unspent. The Company chose to conserve cash and reduce the amount of its repurchases of common stock during 1997 as it pursued an active acquisition strategy. This same stock repurchase posture is expected to be perpetuated in 1998. During 1996, the Company repurchased 1,507,600 shares at a cost of approximately $21.9 million, or an average price of $14.54. During 1995, 734,634 shares were reacquired at a cost of approximately $9.8 million.

Litigation and Uncertainties

The Company is involved in various legal actions arising in the course of business, including certain environmental matters. These uncertainties are referenced in the "Contingencies" note included in the notes to consolidated financial statements.

Year 2000 Issue

The Company utilizes computer software and related technologies throughout its business that are date sensitive and some will require maintenance, modification, or replacement in order to be Year 2000 compliant. An internal study is currently underway to determine the full scope and related costs of this compliance effort so the Company's business systems continue to meet internal and external needs. Based on the assessment effort to date, the Company believes that any required maintenance or modification costs will be expensed as incurred and will not be material to its business, operations, or financial condition. Any replacement software required will be capitalized and amortized over the software's useful life.

Report of Independent Public Accountants

To the Board of Directors and Shareholders of HON INDUSTRIES Inc.

We have audited the accompanying consolidated balance sheets of HON INDUSTRIES Inc. and subsidiaries as of January 3, 1998, and December 28, 1996, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the two fiscal years then ended. The consolidated financial statements of HON INDUSTRIES Inc. and subsidiaries as of December 30, 1995, and for the fiscal year ended December 30, 1995, were audited by other auditors whose report dated January 30, 1996, expressed an unqualified opinion on those statements. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HON INDUSTRIES Inc. and subsidiaries as of January 3, 1998, and December 28, 1996, and the results of its operations and its cash flows for each of the two fiscal years then ended, in conformity with generally accepted accounting principles.

Chicago, Illinois
February 11, 1998

Arthur Andersen LLP

Management's Responsibility for Financial Statements

Management is responsible for the preparation, integrity, and objectivity of the consolidated financial statements and other financial information presented in this report. The accompanying consolidated financial statements and related notes were prepared in accordance with generally accepted accounting principles, applying certain estimates and judgments as required.

HON INDUSTRIES' internal controls are designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard, verify, and maintain accountability of assets. Such controls are based on established written policies and procedures, are implemented by trained, skilled personnel with an appropriate segregation of duties, and are monitored through a comprehensive internal audit program. These policies and procedures prescribe that the Company and all its members are to maintain the highest ethical standards and that its business practices are to be conducted in a manner which is above reproach.

Arthur Andersen LLP, independent public accountants, are retained to audit HON INDUSTRIES' financial statements. Their accompanying report is based on audits conducted in accordance with generally accepted auditing standards, which includes the consideration of the Company's internal controls to establish a basis for reliance thereon in determining the nature, timing, and extent of audit tests to be applied.

The Board of Directors exercises its responsibility for these financial statements through its Audit Committee, which consists entirely of independent nonmanagement Board members. The Audit Committee meets periodically with the independent public accountants and with the Company's internal auditors, both privately and with management present, to review accounting, auditing, internal controls, and financial reporting matters.

Jack D. Michaels
Chairman, President and
Chief Executive Officer

David C. Stuebe
Vice President and
Chief Financial Officer

Consolidated Statements of Income

HON INDUSTRIES Inc. and Subsidiaries

For the Years	**1997**	1996	1995
Net sales	**$1,362,713,000**	$998,135,000	$893,119,000
Cost of products sold	**933,157,000**	679,496,000	624,700,000
Gross Profit	**429,556,000**	318,639,000	268,419,000
Selling and administrative expenses	**284,397,000**	215,646,000	201,691,000
Gain on sale of subsidiary	**—**	3,200,000	—
Operating Income	**145,159,000**	106,193,000	66,728,000
Interest income	**2,148,000**	3,247,000	2,358,000
Interest expense	**8,179,000**	4,173,000	3,569,000
Income Before Income Taxes	**139,128,000**	105,267,000	65,517,000
Income taxes	**52,173,000**	37,173,000	24,419,000
Net Income	**$ 86,955,000**	$ 68,094,000	$ 41,098,000
Net Income Per Common Share	**$ 1.45**	$ 1.13	$ .67

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

Note to Reader: The U.S. Securities and Exchange Commission requires all related financial data to be retroactively restated to reflect a stock split that occurs subsequent to the closing of the latest fiscal year being reported on but before the report is published to shareholders. Therefore, all appropriate common share and per common share financial data in this report has been retroactively restated for all periods reported to reflect the March 1998, two-for-one stock split in the form of a 100% stock dividend "as if" it had occurred on January 3, 1998, the end of the Company's 1997 fiscal year.

Consolidated Balance Sheets

HON INDUSTRIES Inc. and Subsidiaries

As of Year-End	1997	1996	1995
Assets			
Current Assets			
Cash and cash equivalents	**$ 46,080,000**	$ 31,196,000	$ 32,231,000
Short-term investments	**260,000**	1,502,000	14,694,000
Receivables	**158,408,000**	109,095,000	88,178,000
Inventories	**60,182,000**	43,550,000	36,601,000
Deferred income taxes	**14,391,000**	9,046,000	14,180,000
Prepaid expenses and other current assets	**15,829,000**	11,138,000	8,299,000
Total Current Assets	**295,150,000**	205,527,000	194,183,000
Property, Plant, and Equipment	**341,030,000**	234,616,000	210,033,000
Goodwill	**98,720,000**	51,213,000	908,000
Other Assets	**19,773,000**	22,158,000	4,394,000
Total Assets	**$754,673,000**	$513,514,000	$409,518,000
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts payable and accrued expenses	**$183,738,000**	$127,910,000	$117,273,000
Income taxes	**8,133,000**	2,574,000	5,361,000
Note payable and current maturities of long-term debt	**2,545,000**	16,244,000	3,811,000
Current maturities of other long-term obligations	**6,343,000**	5,825,000	2,470,000
Total Current Liabilities	**$200,759,000**	$152,553,000	$128,915,000
Long-Term Debt	**123,487,000**	71,285,000	34,881,000
Capital Lease Obligations	**11,024,000**	6,320,000	7,700,000
Other Long-Term Liabilities	**18,601,000**	20,183,000	11,030,000
Deferred Income Taxes	**19,140,000**	10,726,000	10,757,000
Minority Interest in Subsidiary	**—**	50,000	—
Commitments and Contingencies			
Shareholders' Equity			
Common stock	**61,659,000**	29,713,000	30,394,000
Paid-in capital	**55,906,000**	360,000	550,000
Retained earnings	**265,203,000**	227,365,000	193,505,000
Receivable from HON Members Company Ownership Plan	**(1,099,000)**	(5,041,000)	(8,214,000)
Equity adjustment from foreign currency translation	**(7,000)**	—	—
Total Shareholders' Equity	**381,662,000**	252,397,000	216,235,000
Total Liabilities and Shareholders' Equity	**$754,673,000**	$513,514,000	$409,518,000

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

Consolidated Statements of Shareholders' Equity

HON INDUSTRIES Inc. and Subsidiaries

For the Years	**1997**	1996	1995
Common Stock			
Balance, beginning of year	**$ 29,713,000**	$ 30,394,000	$ 30,675,000
Stock split effected in the form of a 100% stock dividend	**30,830,000**	—	—
Purchase of shares	**(92,000)**	(754,000)	(367,000)
Shares issued through public stock offering	**1,150,000**	—	—
Shares issued under Members Stock Purchase Plan and stock awards	**58,000**	73,000	86,000
Balance, end of year	**$ 61,659,000**	$ 29,713,000	$ 30,394,000
Paid-In Capital			
Balance, beginning of year	**$ 360,000**	$ 550,000	$ 434,000
Purchase of shares	**(2,441,000)**	(1,896,000)	(1,725,000)
Shares issued through public stock offering	**55,616,000**	—	—
Shares issued under Members Stock Purchase Plan and stock awards	**2,371,000**	1,706,000	1,841,000
Balance, end of year	**$ 55,906,000**	$ 360,000	$ 550,000
Retained Earnings			
Balance, beginning of year	**$227,365,000**	$193,505,000	$174,642,000
Stock split effected in the form of a 100% stock dividend	**(30,830,000)**	—	—
Net income	**86,955,000**	68,094,000	41,098,000
Purchase of shares	**(1,551,000)**	(19,264,000)	(7,699,000)
Dividends paid	**(16,736,000)**	(14,970,000)	(14,536,000)
Balance, end of year	**$265,203,000**	$227,365,000	$193,505,000
Receivable from HON Members Company Ownership Plan			
Balance, beginning of year	**$ (5,041,000)**	$ (8,214,000)	$ (11,111,000)
Principal repaid by HON Members Company Ownership Plan	**3,942,000**	3,173,000	2,897,000
Balance, end of year	**$ (1,099,000)**	$ (5,041,000)	$ (8,214,000)
Equity Adjustment from Foreign Currency Translation			
Balance, beginning of year	**$ —**	$ —	$ —
Translation adjustment	**$ (7,000)**	$ —	$ —
Balance, end of year	**$ (7,000)**	$ —	$ —
Shareholders' Equity			
Balance, end of year	**$381,662,000**	$252,397,000	$216,235,000

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

Consolidated Statements of Cash Flows

HON INDUSTRIES Inc. and Subsidiaries

For the Years	**1997**	1996	1995
Net Cash Flows From (To) Operating Activities:			
Net income	**$ 86,955,000**	$ 68,094,000	$41,098,000
Noncash items included in net income:			
Depreciation and amortization	**35,610,000**	25,252,000	21,416,000
Gain on sale of subsidiary, net of tax	**—**	(2,016,000)	—
Other postretirement and postemployment benefits	**1,397,000**	1,398,000	2,273,000
Deferred income taxes	**7,128,000**	5,103,000	(3,952,000)
Cumulative effect of accounting changes	**—**	—	—
Other – net	**(35,000)**	252,000	1,185,000
Changes in working capital, excluding acquisition and disposition:			
Receivables	**(15,169,000)**	(5,085,000)	6,091,000
Inventories	**3,134,000**	184,000	6,658,000
Prepaid expenses and other current assets	**(1,574,000)**	(2,613,000)	676,000
Accounts payable and accrued expenses	**16,789,000**	998,000	17,009,000
Accrued facilities closing and reorganization expenses	**(256,000)**	(1,147,000)	366,000
Income taxes	**6,881,000**	(3,971,000)	412,000
Increase in other liabilities	**525,000**	6,860,000	(216,000)
Net cash flows from (to) operating activities	**141,385,000**	93,309,000	93,016,000
Net Cash Flows From (To) Investing Activities:			
Capital expenditures – net	**(85,491,000)**	(44,684,000)	(53,879,000)
Acquisition spending, net of cash acquired	**(121,424,000)**	(79,136,000)	—
Net proceeds from sale of subsidiary	**—**	7,336,000	—
Principal repaid by HON Members Company Ownership Plan	**3,942,000**	3,173,000	2,897,000
Short-term investments-net	**442,000**	12,392,000	(11,611,000)
Other – net	**1,792,000**	(976,000)	(205,000)
Net cash flows from (to) investing activities	**(200,739,000)**	(101,895,000)	(62,798,000)
Net Cash Flows From (To) Financing Activities:			
Purchase of HON INDUSTRIES common stock	**(4,085,000)**	(21,912,000)	(9,791,000)
Proceeds from public offering of HON INDUSTRIES common stock	**56,766,000**	—	—
Proceeds from long-term debt	**100,238,000**	51,072,000	104,000
Payments of note and long-term debt	**(64,374,000)**	(8,416,000)	(3,350,000)
Proceeds from sale of HON INDUSTRIES common stock to members	**2,429,000**	1,777,000	1,927,000
Dividends paid	**(16,736,000)**	(14,970,000)	(14,536,000)
Net cash flows from (to) financing activities	**74,238,000**	7,551,000	(25,646,000)
Net increase (decrease) in cash and cash equivalents	**14,884,000**	(1,035,000)	4,572,000
Cash and cash equivalents at beginning of year	**31,196,000**	32,231,000	27,659,000
Cash and cash equivalents at end of year	**$ 46,080,000**	$ 31,196,000	$32,231,000
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the year for:			
Interest	**$ 8,404,000**	$ 3,334,000	$ 3,401,000
Income taxes	**$ 38,246,000**	$ 36,318,000	$27,560,000

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

Notes to Consolidated Financial Statements

HON INDUSTRIES Inc. and Subsidiaries

Nature of Operations

HON INDUSTRIES Inc. and subsidiaries (the Company) are a national manufacturer and marketer of office furniture and hearth products. Both industries are reportable segments; however, the Company's office furniture business is its principal line of business. Refer to the "Business Segment Information" note for further information. Office furniture products are sold through a national system of dealers, wholesalers, mass merchandisers, warehouse clubs, retail superstores, end-user customers, and to federal and state governments. Dealer, wholesaler, and retail superstores are the major channels based on sales. Hearth products include wood- and gas-burning factory-built fireplaces, fireplace inserts, gas logs, and stoves. These products are sold through a national system of dealers, wholesalers, and large regional contractors. The Company's products are marketed predominantly in the United States and Canada. The Company exports select products to a limited number of markets outside North America, principally Latin America and the Caribbean, through its export subsidiary; however, based on sales, it is not significant.

Summary of Significant Accounting Policies

Principles of Consolidation and Fiscal Year-End

The consolidated financial statements include the accounts and transactions of the Company and its subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

The Company follows a 52/53 week fiscal year which ends on the Saturday nearest December 31. Fiscal year 1997 ended on January 3, 1998; 1996 ended on December 28, 1996; and 1995 ended on December 30, 1995. The financial statements for fiscal year 1997 are based on a 53-week period, fiscal years 1996 and 1995 are on a 52-week basis.

Cash and Cash Equivalents

Cash and cash equivalents generally consist of cash and commercial paper. These securities have original maturity dates not exceeding three months from date of purchase.

Short-Term Investments

Short-term investments are classified as available-for-sale and are highly liquid debt and equity securities. These investments are stated at cost which approximates market value.

Receivables

Accounts receivable are presented net of an allowance for doubtful accounts of $3,277,000; $1,830,000; and $1,867,000 for 1997, 1996, and 1995, respectively.

Inventories

Inventories are valued at the lower of cost or market, determined principally by the last-in, first-out (LIFO) method.

Property, Plant, and Equipment

Property, plant, and equipment are carried at cost. Depreciation has been computed by the straight-line method over estimated useful lives: land improvements, 10-20 years; buildings, 10-40 years; and machinery and equipment, 3-12 years. The Company capitalized interest costs of $22,000; $95,000; and $256,000 in 1997, 1996, and 1995, respectively.

Goodwill and Patents

Goodwill represents the excess of cost over the fair value of net identifiable assets of acquired companies. Goodwill is being amortized on a straight-line basis predominantly over 30 years. Patents are being amortized on a straight-line basis over their estimated useful lives which range from 7 to 16 years. Patents are reported by the Company as "Other Assets."

The carrying value of goodwill and patents is reviewed by the Company whenever significant events or changes occur which might impair recovery of recorded costs. Based on its most recent analysis, the Company believes no material impairment of these intangible assets exists at January 3, 1998.

(In thousands)	**1997**	1996	1995
Goodwill	**$100,667**	$52,051	$2,865
Patents	**16,450**	16,060	—
Less accumulated amortization	**3,781**	838	1,957
	$113,336	$67,273	$ 908

Product Development Costs

Product development costs relating to the development of new products and processes, including significant improvements and refinements to existing products, are expensed as incurred. The amounts charged against income were $15,371,000 in 1997, $10,423,000 in 1996, and $11,591,000 in 1995.

Stock-Based Compensation

The Company accounts for its stock option plan using Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," which results in no charge to earnings when options are issued at fair market value. The Company has adopted the disclosure requirements of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation."

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

New Accounting Standards

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share," and SFAS No. 129, "Disclosure of Information about Capital Structure," as of January 3, 1998, year-end 1997, and SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," in the first quarter of 1996. Their adoption had no material effect on financial condition or results of operations.

Reclassifications

Certain prior year information has been reclassified to conform to the current year presentation.

Business Combinations

The Company completed three office furniture business acquisitions during fiscal year 1997: Allsteel Inc. (June 17); Bevis Custom Furniture, Inc. (November 13); and Panel Concepts, Inc. (December 1). Each of the transactions were accounted for under the purchase method of accounting and all were financed by a combination of cash and long-term debt.

Allsteel Inc. was a stock purchase acquired from ACI America Holdings Inc., a subsidiary of BTR plc. It manufactures and markets a line of quality mid-priced office furniture with manufacturing and distribution facilities in Jackson and Milan, Tennessee; Verona, Mississippi; and West Hazelton, Pennsylvania. Bevis was an asset purchase acquired from Hunt Manufacturing Co. It manufactures and markets a line of affordably priced office furniture with a manufacturing operation located in Florence, Alabama. Allsteel and Bevis operate as part of the Company's division, The HON Company. Panel Concepts was a stock purchase acquired from Standard Pacific Corp. It manufactures and markets innovative panel-based office systems with a manufacturing plant located in Santa Ana, California. Panel Concepts operates as part of the Company's subsidiary, BPI Inc.

The purchase price and allocation for each acquisition is shown below. The purchase price of each transaction is not yet finalized and is subject to further asset valuation and liability assessment.

(In thousands)	Allsteel	Bevis	Panel Concepts
Purchase Price	$66,000	$45,100	$8,379
Preliminary Allocation of Purchase Price:			
Working capital, other than cash	$27,819	$ 3,347	$1,516
Property, plant, and equipment	38,378	8,284	625
Goodwill	6,104	33,469	5,518
Other intangible assets	—	—	720
Other liabilities	6,301	—	—

In October 1996, the Company acquired Heat-N-Glo Fireplace Products Inc., located in Savage, Minnesota, for a combination of cash and debt, totaling approximately $79 million. The transaction was accounted for under the purchase method. The Company merged Heat-N-Glo into Heatilator Inc. which changed its name to Hearth Technologies Inc. Both Heatilator and Heat-N-Glo are engaged in the manufacture and marketing of quality hearth products and operate as divisions of Hearth Technologies Inc. Assuming this transaction had occurred as of the beginning of fiscal year 1995, the Company's pro forma consolidated net sales would have been approximately $1.07 billion and $971.6 million in 1996 and 1995, respectively.

Assuming the acquisition of Heat-N-Glo Fireplace Products Inc., Allsteel Inc., Bevis Custom Furniture, Inc., and Panel Concepts, Inc. had occurred on December 31, 1995, the beginning of the Company's 1996 fiscal year, instead of the actual dates reported above, the Company's pro forma consolidated net sales would have been approximately $1.5 billion and $1.3 billion for 1997 and 1996, respectively. Pro forma consolidated net income and net income per share for 1997 and 1996 would not have been materially different than the reported amounts.

Business Disposition

On January 24, 1996, the Company sold the outstanding stock of Ring King Visibles, Inc., a wholly owned subsidiary, for $8.0 million in cash and the forgiveness of intercompany receivables of approximately $2.0 million. The sale resulted in an approximate $3.2 million pretax gain for the Company (an after-tax gain of $2.0 million, or $0.03 per share) which was recorded in the first quarter of fiscal year 1996.

Inventories

(In thousands)	**1997**	1996	1995
Finished products	**$ 26,352**	$ 20,303	$ 15,339
Materials and work in process	**48,186**	36,184	35,188
LIFO allowance	**(14,356)**	(12,937)	(13,926)
	$ 60,182	$ 43,550	$ 36,601

Property, Plant, and Equipment

(In thousands)	**1997**	1996	1995
Land and land improvements	**$ 10,059**	$ 9,114	$ 9,701
Buildings	**111,387**	92,509	95,310
Machinery and equipment	**333,216**	231,780	208,707
Construction and equipment installation in progress	**60,832**	42,507	30,036
	515,494	375,910	343,754
Less allowances for depreciation	**174,464**	141,294	133,721
	$341,030	$234,616	$210,033

Accounts Payable and Accrued Expenses

(In thousands)	**1997**	1996	1995
Trade accounts payable	**$ 76,623**	$ 44,762	$ 47,617
Compensation	**6,339**	6,331	4,855
Profit sharing and retirement expense	**15,013**	11,736	11,490
Vacation pay	**10,879**	8,064	8,492
Marketing expenses	**38,096**	36,550	23,930
Workers' compensation, general, and product liability expenses	**5,201**	3,787	4,032
Other accrued expenses	**31,587**	16,680	16,857
	$183,738	$127,910	$117,273

Long-Term Debt

(In thousands)	**1997**	1996	1995
Industrial development revenue bonds, various issues, payable through 2013 with interest at 4.50-8.50% per annum	**$ 23,549**	$24,063	$24,542
Note payable to bank, term loan payable in 2001 with interest at 7.11% per annum	—	27,200	—
Note payable to bank, revolving credit agreement with interest at a variable rate (5.90-6.09% at year-end 1997)*	**80,000**	—	—
Note payable to bank with interest at a variable rate	—	—	7,750
Convertible debenture payable to individuals, due in 1999 with interest at 7.0% per annum	**12,000**	12,000	—
Other notes and amounts	**7,938**	8,022	2,589
	$123,487	$71,285	$34,881

** The revolving bank credit agreement is payable in the year 2002 with a maximum borrowing limit of $200,000,000.*

Aggregate maturities of long-term debt are as follows (in thousands):

1998	$ 608
1999	12,631
2000	3,315
2001	3,234
2002	719
Thereafter	103,588

The note and convertible debenture payable to individuals are payable to the former owners of a business acquired by the Company in 1996. These individuals continue as officers of a subsidiary of the Company following the merger. The convertible debenture is convertible into shares of common stock of Hearth Technologies Inc., a subsidiary of the Company, representing 10% of the current issued and outstanding stock of Hearth Technologies Inc.

Certain of the above borrowing arrangements include covenants which limit the assumption of additional debt and lease obligations. The fair value of the Company's outstanding long-term debt obligations at year-end 1997 approximates the recorded aggregate amount.

Property, plant, and equipment, with net carrying values of approximately $36,789,000 at the end of 1997, are mortgaged.

Selling and Administrative Expenses

(In thousands)	**1997**	1996	1995
Freight expense to customer	**$ 73,261**	$ 51,662	$ 40,478
Amortization of intangible assets	**2,943**	838	339
Product development costs	**15,371**	10,423	11,591
General selling and administrative expense	**192,822**	152,723	149,283
	$284,397	$215,646	$201,691

Income Taxes

Significant components of the provision for income taxes are as follows:

(In thousands)	**1997**	1996	1995
Current:			
Federal	**$ 38,989**	$ 27,958	$ 25,360
State	**4,695**	3,932	3,011
	43,684	31,890	28,371
Deferred	**8,489**	5,283	(3,952)
	$ 52,173	$ 37,173	$ 24,419

A reconciliation of the statutory federal income tax rate to the Company's effective income tax rate is as follows:

	1997	1996	1995
Federal statutory tax rate	**35.0%**	35.0%	35.0%
State taxes, net of federal tax effect	**2.6**	2.7	2.6
Federal and state tax credits	**(.2)**	(2.2)	—
Other – net	**.1**	(.2)	(.3)
Effective tax rate	**37.5%**	35.3%	37.3%

The Company recognized one-time federal and state research and development and new jobs tax credits totaling $2.1 million, or $0.04 per share, in 1996 related to prior tax years.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets are as follows:

(In thousands)	**1997**	1996	1995
Net long-term deferred tax liabilities:			
Tax over book depreciation	**$(25,743)**	$(17,584)	$(16,358)
OPEB obligations	**3,920**	2,947	2,048
Other – net	**2,683**	3,911	3,553
Total net long-term deferred tax liabilities	**(19,140)**	(10,726)	(10,757)
Net current deferred tax assets:			
Workers' compensation, general, and product liability accruals	**2,054**	1,548	1,670
Vacation accrual	**892**	1,855	3,167
Inventory obsolescence reserve	**2,631**	580	711
Other – net	**8,814**	5,063	8,632
Total net current deferred tax assets	**14,391**	9,046	14,180
Net deferred tax (liabilities) assets	**$ (4,749)**	$ (1,680)	$ 3,423

Shareholders' Equity and Earnings Per Share

	1997	1996	1995
Common Stock, $1 Par Value			
Authorized	**100,000,000**	100,000,000	100,000,000
Issued and outstanding	**61,659,316**	59,426,530	60,788,674
Preferred Stock			
Authorized	**1,000,000**	1,000,000	1,000,000
Issued and outstanding	—	—	—

The Company purchased 183,154; 1,507,600; and 734,634 shares of its common stock during 1997, 1996, and 1995, respectively. The par value method of accounting is used for common stock repurchases. The excess of the cost of shares acquired over their par value is allocated to Paid-In Capital with the excess charged to Retained Earnings.

The Company filed a Registration Statement with the Securities and Exchange Commission in September 1997 for a primary offering of 2,000,000 shares of its common stock which was combined with a secondary offering of 4,790,000 shares of Company stock by Bandag, Incorporated, a major shareholder. The combined public offering was priced at $26.00 per share on October 23, 1997, and closed on October 29, 1997. The Company granted the underwriters an option to purchase 1,018,500 additional shares at the same price to cover over-allotments, if any, of which 300,000 shares were subsequently purchased. The Company's net proceeds from the sale of its 2,300,000 shares were used to finance acquisitions and to repay debt associated with acquisitions.

In May 1997, the Company registered 400,000 shares of its common stock under its 1997 Equity Plan for Non-Employee Directors which was approved by shareholders at the May 1997 Annual Shareholders Meeting. This plan permits the Company to issue to its non-employee directors: options to purchase shares of Company common stock, restricted stock of the Company, and awards of Company stock. The plan also permits non-employee directors to elect to receive all or a portion of their annual retainers and other compensation in the form of shares of Company common stock. During 1997, 5,400 shares of Company common stock were issued under the plan.

Cash dividends declared and paid per share for each year are:

	1997	1996	1995
Common shares	**$.28**	$.25	$.24

Net income per common share is based on the weighted average number of shares of common stock outstanding during each year including allocated and unallocated ESOP shares. The Company adopted Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share," and SFAS No. 129, "Disclosure of Information about Capital Structure," as of January 3, 1998, which is the end of its 1997 fiscal year. The effect of adoption was immaterial.

Pursuant to the 1994 Members' Stock Purchase Plan, 1,000,000 shares of the Company's common stock were registered for issuance to participating members. Members, who have one year of employment eligibility and work a minimum of 20 hours per week, have rights to purchase stock on a quarterly basis. The price of the stock purchased under the plan is 85% of the closing price on the applicable purchase date. No member may purchase stock under the plan in an amount which exceeds the lesser of 20% of his or her gross earnings or 4,000 shares, with a maximum fair market value of $25,000 in any calendar year. An additional 520,568 shares were available for issuance under the plan at January 3, 1998. The effect of the application of adopting Financial Accounting Standards Board Statement No. 123, "Accounting for Stock-Based Compensation," was not material to the Company. Shares of common stock were issued in 1997, 1996, and 1995 pursuant to a members' stock purchase plan as follows:

	1997	1996	1995
Shares issued	**84,552**	122,740	172,098
Average price per share	**$20.77**	$12.45	$11.20

The Company granted restricted stock awards aggregating 151,000 shares of common stock to certain officers as a recruiting incentive to join the Company. The officers were entitled to dividends and had voting rights on all shares awarded. Unearned compensation, representing the fair market value of the shares at the date of grant, was charged to income over the vesting period. Approximately $37,000 was charged to income as a result of the awards for the year 1995. All of the awarded shares were vested as of year-end 1995.

Pursuant to the Company's Shareholder Rights Plan, each share of common stock carries with it one Right. Each Right entitles a shareholder to buy one four-hundredth of a share of a new series of preferred stock at an exercise price of $75.00. Each one four-hundredth of a share of the new preferred stock has terms designed to make it the economic equivalent of one share of common stock. Rights will be exercisable only if a person or group acquires 20% or more of the Company's common stock or announces a tender offer, the consummation of which would result in ownership by a person or group of 20% or more of the common stock. If the Company is acquired in a merger or other business combination transaction, each Right will entitle its holder to purchase, at the then current exercise price of the Right, a number of the acquiring company's common shares having a market value at that time of twice the exercise price of the Right.

The Company has entered into change in control employment agreements with corporate officers and certain other key employees. According to the agreements, a change in control occurs when a third person or entity becomes the beneficial owner of 20% or more of the Company's common stock or when more than one-third of the Company's Board of Directors is composed of persons not recommended by at least three-fourths of the incumbent Board of Directors. Upon a change in control, a key employee is deemed to have a two-year employment with the Company, and all his or her benefits are vested under Company plans. If, at any time within two years of the change in control, his or her position, salary, bonus, place of work, or Company-provided benefits are modified, or employment is terminated by the Company for any reason other than cause or by the key employee for good reason, as such terms are defined in the agreement, then the key employee is entitled to receive a severance payment equal to two times salary and the average of the prior two years' bonuses.

Stock Options

The Company's 1995 Stock-Based Compensation Plan, approved by the shareholders in March 1994, and the Restated Plan, as amended and approved in March 1997, provides for the issuance to key executives shares of Company Common Stock in the form of non-statutory stock options. The Plan is administered by the Human Resources and Compensation Committee of the Board of Directors ("Committee") comprised of outside directors, none of whom are eligible to participate in the Plan. Grant prices are determined by the Committee and are established as the fair market value of the Common Stock at the date of grant. Options are subject to four-year cliff vesting and are exercisable in part or in full by the executive within ten years from date of grant. Shares may be exercised by written notice to the Company and the method of payment may be by cash, delivery of previously owned whole shares of Common Stock held for a period of at least six months, authorization to withhold whole shares of Common Stock equal to the aggregate price due at exercise date, cash payment by a broker-dealer acceptable to the Company, or any combination of the first three methods of payment.

The Company accounts for executive stock options issued under this Plan using Accounting Principles Board Opinion No. 25, which results in no charge to earnings when options are issued at fair market value. The Company has elected the disclosure requirements of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation."

If compensation costs had been determined based on the fair value at the grant dates for awards under this Plan, consistent with SFAS 123, the impact on net earnings and earnings per share would be less than one-cent per share. The fair value of each option grant under the Plan is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of 0.65% for all years; expected Common Stock volatility of 15.47%; risk-free interest rate of 6.69%; and expected life of 10 years for the options.

A summary of the status of the Company's fixed stock option plan as of January 3, 1998, and changes during the year is presented below:

Fixed Options	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	—	—
Granted	156,000	$24.74
Exercised	—	—
Forfeited	—	—
Outstanding at end of year	156,000	
Options exercisable at year-end	—	—
Weighted-average fair value of options granted during the year	$11.85	—

The following table summarizes information about fixed stock options outstanding at January 3, 1998:

Options Outstanding				Options Exercisable
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at January 3, 1998
$24.50 to $28.25	156,000	9.5 years	$24.74	0

Retirement Benefits

The Company has defined contribution profit-sharing plans covering substantially all employees who are not participants in certain defined benefit plans. The Company's annual contribution to the defined contribution plans is based on employee eligible earnings and results of operations and amounted to $14,558,000; $11,118,000; and $10,955,000 in 1997, 1996, and 1995, respectively.

The Company sponsors defined benefit plans which include a limited number of salaried and hourly employees at certain subsidiaries. The Company's funding policy is generally to contribute annually the minimum actuarially computed amount. Net pension costs relating to these plans were $93,000; $146,000; and $256,000 for 1997, 1996, and 1995, respectively. The actuarial present value of benefit obligations, less related plan assets at fair value, is not significant.

In 1992, the Company established a trust to administer a leveraged employee stock ownership plan (ESOP), the HON Members Company Ownership Plan. Company contributions based on employee eligible earnings and dividends on the shares are used to make loan interest and principal payments. As the loan is repaid, shares are distributed to the ESOP trust for allocation to participants. Selected financial data pertaining to the ESOP is as follows:

(In thousands, except share data)	1997	1996	1995
Company contribution to ESOP	**$ 3,735**	$ 3,348	$ 3,302
Dividend income of ESOP	**487**	446	436
Company interest expense on ESOP loan	**—**	555	749
Shares of common stock allocated to ESOP participant accounts	**351,574**	305,466	299,498
Shares held in suspense (unallocated) by ESOP as of year-end	**96,304**	447,878	753,344
Fair value of shares held in suspense by ESOP as of year-end	**$ 2,757**	$ 7,264	$ 8,758
Closing market price of common stock as of year-end	**$ 28.63**	$ 16.22	$ 11.63

Postretirement Health Care

The Company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," as of January 3, 1993, and recorded the cumulative effect of the accounting change on the deferred recognition basis.

The following table sets forth the funded status of the plan, reconciled to the accrued postretirement benefits cost recognized in the Company's balance sheet at:

(In thousands)	1997	1996	1995
Accumulated postretirement benefit obligation (APBO):			
Retirees	**$ 8,381**	$ 6,535	$ 8,138
Fully eligible active plan participants	**3,258**	3,916	5,612
Other active plan participants	**3,770**	4,808	7,809
Unrecognized net (loss)/gain	**6,586**	6,919	(933)
Unrecognized prior service cost	**(2,630)**	(2,776)	(2,922)
Unrecognized transition obligation	**(10,788)**	(11,501)	(12,214)
Accrued postretirement benefit cost	**$ 8,577**	$ 7,901	$ 5,490
Net periodic postretirement benefits costs include:			
Service cost	**$ 480**	$ 810	685
Interest cost	**1,115**	1,629	1,344
Amortization of transition obligation over 20 years	**713**	713	718
Amortization of prior service cost	**146**	146	—
Amortization of (gains) and losses	**(922)**	—	—
Net periodic postretirement benefits cost	**$ 1,532**	$ 3,298	$ 2,747

The discount rates at fiscal year-end 1997, 1996, and 1995 were 7.0%, 7.5%, and 7.75%, respectively. The pre-65 1998 gross trend rates begin at 10% for the medical and prescription drug coverages and grade down to 5% in 2006 and remain at this level for all future years. The post-64 gross trend rates begin at 8% for the medical coverage and decrease until the maximum Company subsidy (cap) is reached in 2003. For the prescription drug coverage, the 1998 gross trend rates begin at 10% and decrease until the cap is reached in 2003. If the health care cost trend rates were increased by 1.0% for each year, the accumulated postretirement benefit obligation as of January 3, 1998, would increase by $948,670; and the sum of the service and interest cost components of the net periodic postretirement benefit cost for fiscal year 1997 would increase by $135,540. The Company's postretirement health care plans are not funded.

Leases

The Company leases certain warehouse and plant facilities and equipment. Commitments for minimum rentals under noncancelable leases at the end of 1997 are as follows:

(In thousands)	Capitalized Leases	Operating Leases
1998	$ 2,871	$10,414
1999	3,757	8,587
2000	3,757	6,308
2001	2,851	4,631
2002	1,511	3,043
Thereafter	1,858	3,011
Total minimum lease payments	16,605	$35,994
Less amount representing interest	3,644	
Present value of net minimum lease payments, including current maturities of $1,937,000	$12,961	

Property, plant, and equipment at year-end include the following amounts for capitalized leases:

(In thousands)	1997	1996	1995
Buildings	**$ 3,299**	$ 3,299	$ 3,299
Machinery and equipment	**15,805**	8,419	8,419
	19,104	11,718	11,718
Less allowances for depreciation	**6,139**	4,854	3,569
	$12,965	$ 6,864	$ 8,149

Rent expense for the years 1997, 1996, and 1995 amounted to approximately $7,555,000; $6,788,000; and $7,439,000, respectively. The Company has operating leases for office and production facilities with annual rentals totaling $578,000 with the former owners of a business acquired in 1996. These individuals continue as officers of a subsidiary of the Company following the merger. Contingent rent expense under both capitalized and operating leases (generally based on mileage of transportation equipment) amounted to $581,000; $353,000; and $608,000 for the years 1997, 1996, and 1995, respectively.

Contingencies

The Company is involved in various legal actions arising in the ordinary course of business. Although management cannot predict the ultimate outcome of these matters with certainty, it believes, after taking into consideration evaluations of such actions by legal counsel, that the outcome of these matters will not have a material effect on the financial position or results of operations of the Company.

The Company and certain subsidiaries are party to three environmental actions which have arisen in the ordinary course of business. These include possible obligations to investigate and mitigate the effects on the environment of the disposal or release of certain chemical substances at various sites, such as Superfund sites and other operating or closed facilities. The effect of these actions on the Company's financial position and operations to date has not been significant. The Company is participating in environmental assessments and monitoring, and liabilities have been accrued reflecting management's best estimate of the eventual future cost of the Company's anticipated share (based upon estimated ranges of remediation costs, the existence of many other larger "potentially responsible parties" who are financially viable to share in such costs, the Company's experience to date in relation to the determination of its allocable share, the volume and type of waste the Company is believed to have contributed to each site, and the anticipated periods of time over which such costs may be paid) of remediation costs. Potential insurance reimbursements are not anticipated. The Company is also reviewing available defenses and claims it may have against third parties. Due to such factors as the wide discretion of regulatory authorities regarding clean-up levels and uncertain allocation of liability at multiple party sites, estimates made prior to the approval of a formal plan of action represent management's best judgment as to estimates of reasonably foreseeable expenses based upon average remediation costs at comparable sites. While the final resolution of these contingencies could result in expenses in excess of current accruals and therefore have an impact on the Company's consolidated financial results in a future reporting period, management believes that the ultimate outcome will not have a material effect on the Company's financial position or results of operations.

Business Segment Information

The Company has two reportable business segments: office furniture and hearth products. However, the manufacture and marketing of office furniture is the Company's principal business segment.

The office furniture segment manufactures and markets a broad line of metal and wood commercial and home office furniture which includes file cabinets, desks, credenzas, chairs, storage cabinets, tables, bookcases, freestanding office partitions and panel systems, and other related products. The hearth products segment manufactures and markets a broad line of manufactured gas- and wood-burning fireplaces and stoves, fireplace inserts, and chimney systems principally for the home.

The Company's October 2, 1996, acquisition of Heat-N-Glo Fireplace Products Inc., resulted in hearth products becoming a reportable segment. Prior to this acquisition, the Company had only one reportable segment, office furniture. Refer to the "Business Combinations" note for additional information regarding this acquisition.

The Company's two business segments are somewhat seasonal with the third (July-September) and fourth (October-December) fiscal quarters historically having higher sales than the prior quarters. In fiscal 1997, 58.2% of the Company's consolidated net sales of office furniture were generated in the third and fourth quarters and 53.5% of consolidated net sales of hearth products (pro forma to reflect the Heat-N-Glo acquisition) were generated in the third and fourth quarters.

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. Identifiable assets by segment are those assets applicable to the respective industry segments. Corporate assets consist principally of cash and cash equivalents, short-term investments, and corporate office real estate and related equipment. The Company will adopt Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," effective January 4, 1998, the beginning of fiscal year 1998.

Reportable segment data reconciled to the consolidated financial statements for the years ended 1997, 1996, and 1995 is as follows:

(In thousands)	**1997**	1996	1995
Net sales:			
Office furniture	**$1,158,228**	$887,299	$818,907
Hearth products	**204,485**	110,836	74,212
	$1,362,713	$998,135	$893,119
Operating profit:			
Office furniture	**$ 139,710**	$106,824	$ 79,085
Hearth products	**24,817**	14,155	6,395
Total operating profit	**164,527**	120,979	85,480
Unallocated corporate expenses	**(25,399)**	(15,712)	(19,963)
Income before income taxes	**$ 139,128**	$105,267	$ 65,517
Identifiable assets:			
Office furniture	**$ 551,120**	$330,575	$308,783
Hearth products	**128,361**	122,037	25,811
General corporate	**75,192**	60,902	74,924
	$ 754,673	$513,514	$409,518
Depreciation and amortization expense:			
Office furniture	**$ 27,633**	$ 21,140	$ 18,328
Hearth products	**6,590**	2,813	1,424
General corporate	**1,387**	1,299	1,664
	$ 35,610	$ 25,252	$ 21,416
Capital expenditures – net:			
Office furniture	**$ 73,659**	$ 41,186	$ 50,816
Hearth products	**13,055**	4,060	2,857
General corporate	**(1,223)**	(562)	206
	$ 85,491	$ 44,684	$ 53,879

One office furniture customer accounted for approximately 12%, 12%, and 13% of consolidated net sales in 1997, 1996, and 1995, respectively.

Investor Information

HON INDUSTRIES Inc. and Subsidiaries

Summary of Unaudited Quarterly Results of Operations

The following table presents certain unaudited quarterly financial information for each of the past twelve quarters. In the opinion of the Company's management, this information has been prepared on the same basis as the consolidated financial statements appearing elsewhere in this report and includes all adjustments (consisting only of normal recurring accruals) necessary to present fairly the financial results set forth herein. Results of operations for any previous quarter are not necessarily indicative of results for any future period.

(In thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year-End 1997: (a)				
Net sales	$282,859	$296,567	$391,348	$391,939
Cost of products sold	194,194	200,969	268,147	269,847
Gross profit	88,665	95,598	123,201	122,092
Selling and administrative expenses	60,453	64,303	80,641	79,000
Operating income	28,212	31,295	42,560	43,092
Interest income (expense) – net	(1,142)	(1,141)	(2,209)	(1,539)
Income before income taxes	27,070	30,154	40,351	41,553
Income taxes	10,152	11,307	15,132	15,582
Net income	16,918	18,847	25,219	25,971
Net income per common share	.28	.32	.43	.42
Weighted average common shares outstanding	59,400	59,384	59,356	61,011
As a Percentage of Net Sales				
Net sales	100.0%	100.0%	100.0%	100.0%
Gross profit	31.3	32.2	31.5	31.2
Selling and administrative expenses	21.4	21.7	20.6	20.2
Operating income	10.0	10.6	10.9	11.0
Income taxes	3.6	3.8	3.9	4.0
Net income	6.0	6.4	6.4	6.6
Year-End 1996: (b)				
Net sales	$233,477	$219,260	$255,254	$290,144
Cost of products sold	160,006	150,227	176,403	192,860
Gross profit	73,471	69,033	78,851	97,284
Selling and administrative expenses	49,846	49,507	53,605	62,688
Gain on sale of subsidiary	3,200	—	—	—
Operating income	26,825	19,526	25,246	34,596
Interest income (expense) – net	(119)	(8)	91	(890)
Income before income taxes	26,706	19,518	25,337	33,706
Income taxes	9,881	7,222	7,430	12,640
Net income	16,825	12,296	17,907	21,066
Net income per common share	.28	.20	.30	.35
Weighted average common shares outstanding	60,690	60,340	60,126	59,758
As a Percentage of Net Sales				
Net sales	100.0%	100.0%	100.0%	100.0%
Gross profit	31.5	31.5	30.9	33.5
Selling and administrative expenses	21.3	22.6	21.0	21.6
Operating income	11.5	8.9	9.9	11.9
Income taxes	4.2	3.3	2.9	4.4
Net income	7.2	5.6	7.0	7.3

(In thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year-End 1995: (c)				
Net sales	$216,498	$206,604	$228,195	$241,822
Cost of products sold	147,556	146,246	160,319	170,579
Gross profit	68,942	60,358	67,876	71,243
Selling and administrative expenses	48,565	47,688	48,084	57,354
Operating income	20,377	12,670	19,792	13,889
Interest income (expense) – net	(258)	(304)	(344)	(305)
Income before income taxes	20,119	12,366	19,448	13,584
Income taxes	7,544	4,638	7,209	5,028
Net income	12,575	7,728	12,239	8,556
Net income per common share	.21	.12	.20	.14
Weighted average common shares outstanding	61,288	61,085	60,833	60,759
As a Percentage of Net Sales				
Net sales	100.0%	100.0%	100.0%	100.0%
Gross profit	31.8	29.2	29.7	29.5
Selling and administrative expenses	22.4	23.1	21.1	23.7
Operating income	9.4	6.1	8.7	5.7
Income taxes	3.5	2.2	3.2	2.1
Net income	5.8	3.7	5.4	3.5

(a) Third quarter 1997 represents 14 weeks of business activity compared to 13 weeks for the same quarter in 1996 and 1995. In addition, the quarter includes the first quarterly results of the Allsteel Inc. acquisition acquired June 17, 1997. Fiscal year 1997 similarly represents 53 weeks compared to 52 weeks in 1996 and 1995. Fourth quarter includes partial quarterly results of operation of two acquisitions: Bevis Custom Furniture, Inc., acquired November 13, 1997, and Panel Concepts, Inc., acquired December 1, 1997.

(b) First quarter 1996 includes $3,200,000 pretax gain on the sale of Ring King Visibles Inc. (aftertax gain of $2,000,000, or $0.03 per share). Third quarter includes one-time federal and state income tax credits of $2,100,000, or $0.04 per share. Fourth quarter includes the results of operation of Heat-N-Glo Fireplace Products Inc., acquired October 2, 1996.

(c) Fourth quarter 1995 includes various pretax charges totaling $5,575,000 (aftertax effect of $3,512,000, or $0.06 per share) for nonrecurring costs primarily associated with closing several leased facilities and severance arrangements from eliminating certain administrative positions.

Subsequent Stock Split

On February 11, 1998, the Company's Board of Directors declared a two-for-one stock split in the form of a 100% stock dividend to be paid on March 27,1998, to shareholders of record on the close of business on March 6, 1998. Shareholders will receive one share of common stock for each share held of record. All appropriate common share and per common share amounts listed in this report have been restated on a retroactive basis to reflect this stock split "as if" it had occurred on January 3,1998, the end of the Company's 1997 fiscal year as required by the Securities and Exchange Commission.

Subsequent Acquisition (Unaudited)

On February 20, 1998, the Company purchased the assets of Aladdin Steel Products, Inc. located in Colville, Washington. Aladdin is a manufacturer of wood-, pellet- and gas-burning stoves and inserts with annual sales of approximately $16 million. The purchase price was approximately $10.0 million and is being financed with existing lines of credit and cash. Aladdin will be operated by Hearth Technologies Inc., the Company's hearth products subsidiary.

Common Stock Market Prices and Dividends (Unaudited) Quarterly 1997 – 1996

1997 by Quarter	High	Low	Dividends per Share
1st	$ 21½	$ 15⅞	$.07
2nd	27⅛	17½	.07
3rd	32⅛	22⅛	.07
4th	31	23¹³⁄₁₆	.07
		Total Dividends Paid	$.28

1996 by Quarter	High	Low	Dividends per Share
1st	$ 12⅛	$ 9¼	$.06
2nd	15¼	11	.06
3rd	20⅜	13⅞	.06
4th	21⅜	15¼	.07
		Total Dividends Paid	$.25

Common Stock Market Price and Price/Earnings Ratio (Unaudited) Fiscal Years 1997 – 1987

	Market Price*		Earnings per Share*	Price/ Earnings Ratio	
Year	High	Low		High	Low
1997	$ 32⅛	$ 15⅞	$ 1.45	22	11
1996	21⅜	9¼	1.13	19	8
1995	15⅝	11½	.67	23	17
1994	17	12	.87	20	14
1993	14⅝	10¾	.70	21	15
1992	11¾	8¼	.59	20	14
1991	10¼	6⅝	.51	20	13
1990	11½	6¾	.65	18	10
1989	9¹⁵⁄₁₆	4⅜	.39	25	11
1988	5⅛	3¹⁵⁄₁₆	.47	11	8
1987	5¾	4¹⁄₁₆	.31	19	13
Eleven-Year Average				20	12

**Adjusted for the effect of stock splits.*

Investor Information

HON INDUSTRIES Inc. and Subsidiaries

Schedule of Quarterly Results

The Company operates on a fiscal year ending on the Saturday nearest December 31. Quarterly results are typically announced within 20 days after the end of each quarter, and audited results are typically announced within 40 days after year-end.

Fiscal 1998	Quarter-End Dates
First Quarter	Saturday, April 4
Second Quarter	Saturday, July 4
Third Quarter	Saturday, October 3
Fourth Quarter	Saturday, January 2, 1999

Annual Meeting

The Company's annual shareholders' meeting will be held at 10:30 a.m. on Tuesday, May 12, 1998, at the Holiday Inn, Highways 61 & 38 North, Muscatine, Iowa. Shareholders and other interested investors are encouraged to attend the meeting.

10-K Report

A copy of the Company's annual report filed with the Securities and Exchange Commission on Form 10-K is available, without charge, upon written request to David C. Stuebe, Vice President and CFO, at the Company's corporate headquarters address.

Corporate Headquarters

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Website: www.honi.com

Independent Public Accountants

Arthur Andersen LLP
33 West Monroe Street
Chicago, IL 60603-5385

In an effort to be a responsible corporate citizen, this report is printed on recycled paper.

Financial Information and Inquiries

Shareholders or other interested investors are welcome to call or write with questions or requests for additional information. Inquiries should be directed to:

David C. Stuebe, Vice President and CFO or
Elizabeth P. Coronelli, Investor Relations Manager
HON INDUSTRIES Inc.
P.O. Box 1109
Muscatine, IA 52761-7109
Telephone: 319-264-7400
Fax: 319-264-7217

Common Stock

HON INDUSTRIES common stock trades on the Nasdaq National Market tier of the Nasdaq Stock Market under the symbol: HONI. Stock price quotations can be found in major daily newspapers and *The Wall Street Journal.*

Transfer Agent

The Company serves as its own transfer agent. Shareholders may report a change of address or make inquiries by writing or calling:

Stock Transfer Department
HON INDUSTRIES Inc.
P.O. Box 1109
Muscatine, IA 52761-7109
Telephone: 319-264-7223

Safe Harbor Statement

Statements in this annual report that are not strictly historical, including statements as to plans, objectives, and future financial performance, are "forward-looking" statements that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve known and unknown risks, which may cause the Company's actual results in the future to differ materially from expected results. These risks include, among others, competition within the office furniture and fireplace industries; the relationship between supply and demand for value-priced office products, as well as direct vent gas and wood fireplaces; the effects of economic conditions; issues associated with the acquisition and integration of acquisitions; operating risks; the ability of the Company's distributors to successfully market and sell the Company's products; and the availability of capital to finance planned growth, as well as the risks, uncertainties, and other factors described from time to time in the Company's filings with the Securities and Exchange Commission.

Board of Directors

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Counsel, Baker & McKenzie

W. James Farrell
Chairman and CEO, Illinois Tool Works Inc.

Stanley M. Howe
Chairman Emeritus, HON INDUSTRIES Inc.

Robert L. Katz
President, Robert L. Katz & Associates

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Chairman and CEO, IES Industries Inc.
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Jack D. Michaels
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Celeste C. Michalski
Adviser/Consultant

Michael S. Plunkett
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Richard H. Stanley
Vice Chairman, HON INDUSTRIES Inc.
President, SC Companies, Inc.
and Chairman, Stanley Consultants, Inc.

Lorne R. Waxlax
Retired Executive Vice President, The Gillette Company

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Lee Liu
Michael S. Plunkett

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Robert L. Katz, Chairperson
Robert W. Cox
Herman J. Schmidt

Human Resources and Compensation
Lorne R. Waxlax, Chairperson
W. James Farrell
Richard H. Stanley

Officers as of Year-End

HON INDUSTRIES Inc. and Subsidiaries

HON INDUSTRIES Inc.

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Chairman, President and CEO

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Vice President, Member and Community Relations

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Vice President, General Counsel and Secretary

Melvin L. McMains
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Vice President, Marketing and International

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Treasurer

David W. Strohl
Vice President, Technical Development

David C. Stuebe
Vice President and CFO

Division

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George J. Koenigsaecker III
President

Subsidiaries

BPI Inc.
Jean M. Reynolds
President

The Gunlocke Company
John M. Stevens
President

Hearth Technologies Inc.
Daniel C. Shimek
President

Holga Inc.
Brian R. Oken
President

HON International
Thomas K. Miller
Vice President, Marketing and International

HON INDUSTRIES

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