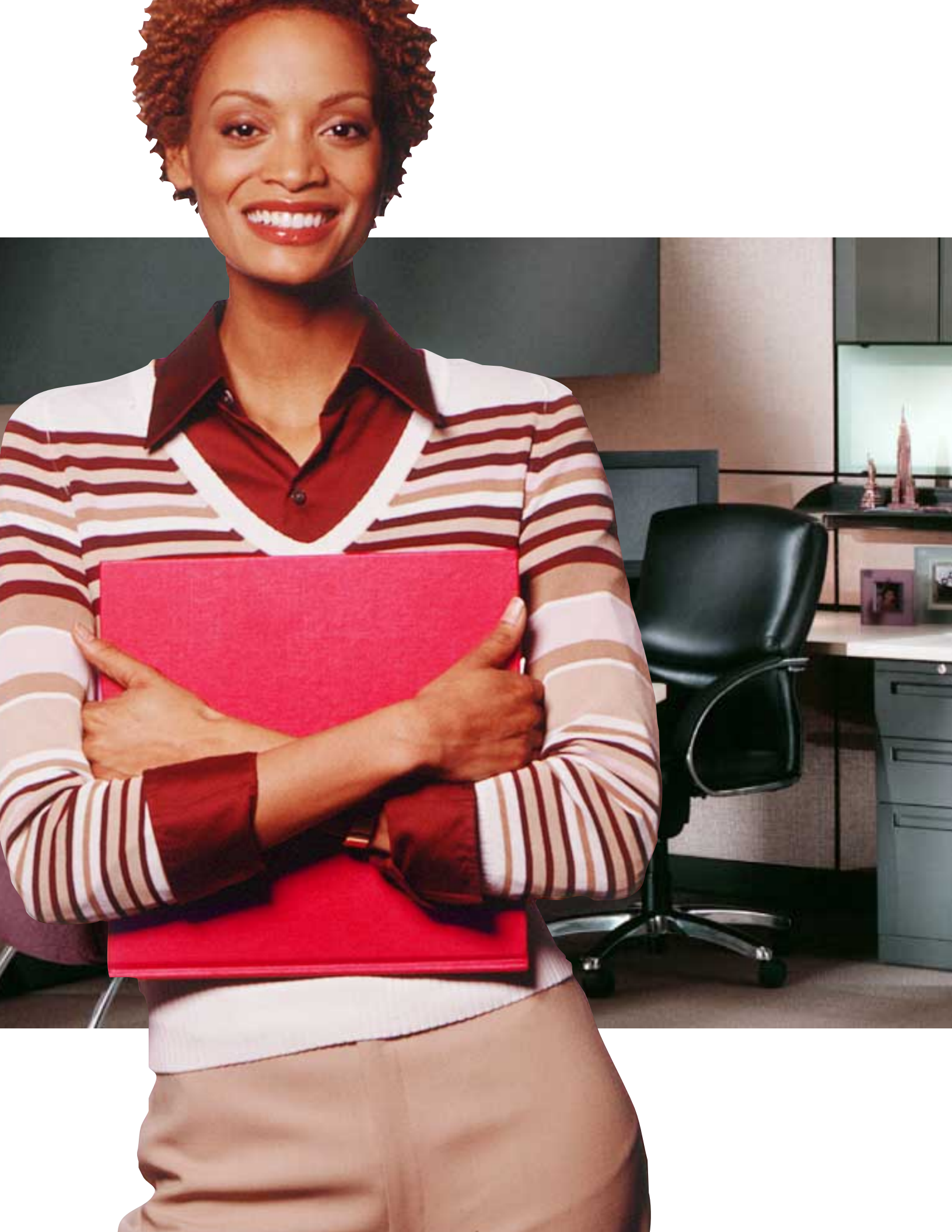




We'll be there.

HON INDUSTRIES



Corporations invest almost  
**\$6.0 billion annually**  
to expand and improve offices.



Small businesses create

60 percent

of all new jobs.








More than  
**1,000,000 new homes**  
install fireplaces each year.



Companies are **starting up** overnight,  
every day. Large companies are entering

**new markets,**  and small businesses

are **expanding** at breakneck speeds. As the

**distinction**  **between where we work**

and where **we live** blurs,  making our

homes into retreats has never been more important.

**Opportunity** is everywhere

**we look; we'll be there to seize it.**



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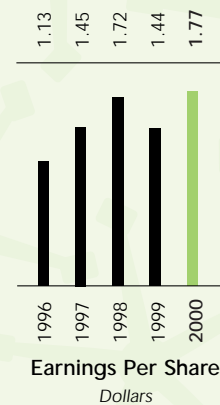
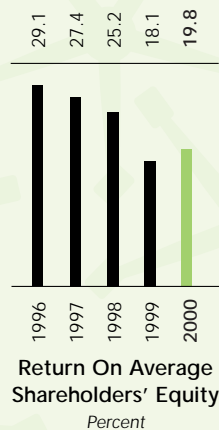
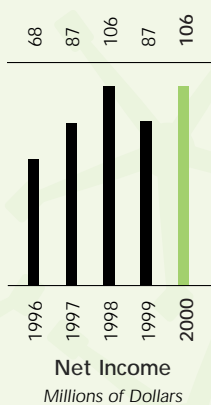
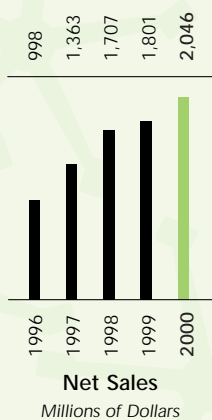


## Financial Highlights

(Amounts in thousands, except for per share data)

	2000	1999	Change
<b>Income Statement Data</b>			
Net sales	\$2,046,286	\$1,800,931	13.6 %
Gross profit	665,882	564,319	18.0 %
Selling and administrative expenses	487,848	398,197	22.5 %
Provision for closing facilities and reorganization expenses	–	19,679	
Operating income	178,034	146,443	21.6 %
Net income	106,217	87,360	21.6 %
Net income as a % of:			
Net sales	5.2%	4.9%	
Average shareholders' equity	19.8%	18.1%	
Per common share:			
Net income	\$ 1.77	\$ 1.44	22.9 %
Book value	9.59	8.33	15.1 %
Cash dividends	.44	.38	15.8 %
<b>Balance Sheet Data</b>			
Current assets	\$ 330,141	\$ 316,556	4.3 %
Total assets	1,022,470	906,723	12.8 %
Current liabilities	264,868	225,123	17.7 %
Current ratio	1.25	1.41	
Long-term debt and capital lease obligations	\$ 128,285	\$ 124,173	3.3 %
Debt/capitalization ratio	18.3%	19.9%	
Shareholders' equity	\$ 573,342	\$ 501,271	14.4 %
Average shareholders' equity	537,307	481,647	11.6 %
Working capital	65,273	91,433	(28.6)%
<b>Other Data</b>			
Capital expenditures – net	\$ 59,840	\$ 71,474	(16.3)%
Cash flow from operations	204,920	156,185	31.2 %
Weighted-average shares outstanding during year	60,140,302	60,854,579	(1.2)%
Price/earnings ratio at year-end	14	15	
Number of shareholders at year-end	6,563	6,737	(2.6)%
Members (employees) at year-end	11,543*	10,095	14.3 %

\*Includes acquisitions completed during year.





It took HON INDUSTRIES nearly 50 years to reach our first billion dollars in sales. Only four years later, we have delivered the second billion dollars – and the third is clearly in our sights.

We posted a record year in 2000. Sales climbed to \$2.05 billion, a 13.6 percent gain over 1999; fourth quarter 2000 was our 20<sup>th</sup> consecutive quarter of growth. Net income increased 6.5 percent to \$106.2 million, and earnings per share grew 7.9 percent to \$1.77 per share, excluding the 1999 one-time restructuring charge. On February 14, 2001, our board of directors increased the annual dividend rate 9 percent to 12 cents per share, beginning our 46<sup>th</sup> consecutive year of dividends.

### We are positioning ourselves for growth.

While we didn't achieve the results we expected for 2000, we still enjoyed a great year. We can and will do better.

Make no mistake: We are very encouraged by our performance in 2000.

Splitting The HON Company and Allsteel Inc. into separate companies with distinct markets was an uncommon idea and an unequivocal success in 2000. The HON Company focuses on the retail and commercial markets, and Allsteel Inc. focuses on the contract market. The strategy made solid contributions to the top and bottom lines and improved inventory turns even as retail and commercial sales slowed in the last quarter of the year.

We also improved shipping performance and complete and on-time deliveries. These gains more than offset rising fuel prices. These improvement programs yielded many positive benefits in 2000, and we are still developing significant opportunities for growth within them. We will continue to reap the rewards this year and beyond.



**JACK D. MICHAELS**  
*Chairman, President and CEO*

In this uncertain economy, we face tough first and second quarters in 2001. But as one of the best, low-cost manufacturing companies in our industry, we are using these challenging times to grow and leverage our ability to realize the profitability and growth promises of our strategies. When opportunity reemerges with a reinvigorated economy – we'll be ready.

## We see unparalleled opportunities ahead.

Our growth strategy can be summarized as follows: Understand the potential. Simplify and focus. Take action on high-potential opportunities. For all its seeming simplicity, it is this powerful strategy that is putting us firmly in place to deliver strong results.

The HON Company and Allsteel Inc. operated as a single unit a little more than a year ago. Today, each focuses on distinct, high-potential markets. The split freed them to refine and develop products responsive to their particular customer base instead of a universal market profile. Because of this, we are starting to attract customers we have never reached before.

During 2000, we drove similar initiatives into other areas of our operation.

There is a high demand for quality wood finishes in office furniture, and we zeroed in on the opportunity. We formed the Wood Products Group in third quarter 2000 to focus exclusively on wood opportunities. This group includes our premium Gunlocke® brand as well as the wood seating, veneer, and laminate products sold under Allsteel® and HON® brands. In less than a year, it has improved profitability and the manufacturing process, significantly reducing time-to-market. We are just beginning to unleash the potential of wood products that will fuel new growth across our brands.

## We are creating a future with unlimited possibilities.

The HON Company, Allsteel Inc., and the Wood Products Group all dedicated significant resources to developing their markets and new products. These investments are critical to developing the brand presence and product innovation that will be the seeds of their long-term success.

Hearth Technologies Inc. also embraced a bold strategy in 2000. It is focusing resources on geographical markets with tremendous growth potential, unrealized by competitors because of fragmented distribution channels. To address that, Hearth Technologies acquired a multistate retail operation that forms the core of our new hearth retail distribution. Hearth Technologies also will soon launch a cooperative, best-practices program that helps independent distributors grow their retail business and our related opportunities.

In 2001, Hearth Technologies will concentrate on developing unique fireplace designs, new outdoor products, and innovative manufacturing processes. These new categories stretch the possibilities for hearth products and will ignite growth.

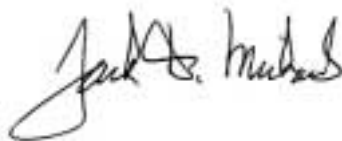
## We'll be wherever we find opportunity.

The process of focusing exclusively on high-potential opportunity permeates every operating company and every level of our organization and forms the nucleus of our growth strategies.

In some ways, our growth strategy simply applies our award-winning Rapid Continuous Improvement model to our marketing and manufacturing operations. HON INDUSTRIES' members have always energetically and successfully embraced change and excellence. Their performance won the Company recognition in *Forbes*, *Fortune*, *CFO*, and *Industry Week* magazines. I appreciate their dedication and have the deepest respect and gratitude for their efforts.


Our directors have also been enthusiastic, engaged partners. Their generous feedback and ideas help us to continually fine-tune our forward-looking strategy. On behalf of all our shareholders, I thank them for their contributions.

We see tremendous potential everywhere we look. That tells me HON INDUSTRIES is on the right road to deliver outstanding, long-term growth. You can be confident of this: Wherever great opportunities can be found, we'll be there.



**Jack D. Michaels**

*Chairman, President and CEO*



# Customers *are* the opportunity. We'll be there.

You may be sitting in an ergonomic Mobius® chair from The HON Company, using your laptop computer on Allsteel's innovative Marbles™ table, enjoying the ambience of a Heat-N-Glo Everest™ fireplace in the corner of your office. You were introduced to these products by distributors, retailers, and designers.

By structuring our companies to be more responsive to the people who sell our products, HON INDUSTRIES is getting closer to the people who use them.

Today, each of our brands – Allsteel, HON, Gunlocke, BPI, Panel Concepts, and Holga in office furniture and Heatilator,

Heat-N-Glo, and Aladdin in hearth products – is mastering the basics for its own distinct market.

Each is tailoring its products, service, and support to create a precise, customer-satisfying fit. In the process, we're discovering a whole new world of opportunities for growth.

## Companies require creative solutions, responsive service. We'll be there.

The desire for fast turnaround and ease of doing business drives a quickly growing, new sector of the contract furniture market. These purchases are made by flatter organizations where people are empowered to make decisions and teamwork flourishes. Their office furniture reflects this energetic, change-driven atmosphere.

Allsteel Inc. is a leader in responding quickly to this emerging market with unmatched service. An innovative company, Allsteel focuses on creative office solutions. Allsteel spent last year refining its brand, developing new marketing materials, designing

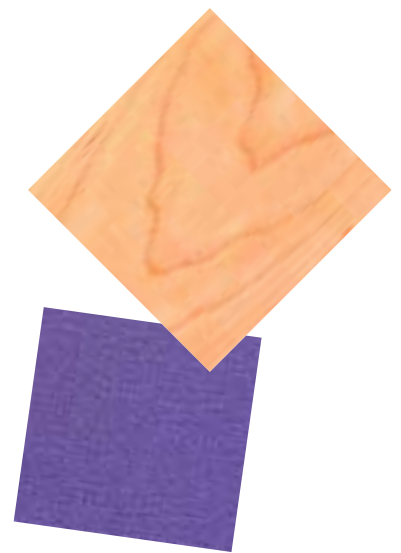


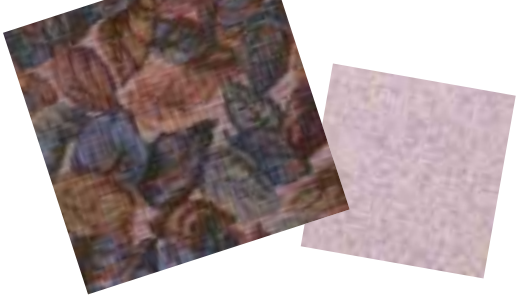
new showrooms, and ensuring its ability to deliver second-to-none customer service and support. It created a new organization that focuses on its market and on driving new growth.

It also honed an aggressive network of dealer-partners and gave them the tools to succeed with the Allsteel brand. These dealer-partners are attending conferences at Allsteel's new headquarters, where they witness its brand promise at work: high-style intersecting with remarkable efficiency, unlimited potential, and great service. These dealer-partners return to their customers with imaginative ideas on how to approach the evolving workplace as well as with the ability to specify, deliver, and install Allsteel solutions at record-breaking rates.

Allsteel is investing resources to develop new products that reflect the workplace philosophies of its forward-looking clientele. In 2000, Allsteel reinvented mobility furniture with Marbles™, a line of contemporary tables and storage units on stylish, go-anywhere wheels to facilitate teamwork. It captured the imagination with modernist Raptor™ seating and brought traditional seating into the 21st century with Virage™.

The Allsteel brand is sparking the imaginations of people who design corporate offices and purchase furniture. Their confidence helped the company to grow at a rate that almost doubled the industry's pace.





## The retail and commercial markets are resilient. We'll be there.

In today's competitive marketplace, small- and medium-sized businesses need office furnishings that deliver durability, comfort, and improved workplace performance. The HON Company leads this market by offering a full line of products through a vast network of wholesalers, independent dealers, and power retailers. In its 53-year history,

HON has earned almost unparalleled brand penetration:

We believe its products are in more U.S. businesses than any other office furniture brand.

This market sector produces more than 60 percent of new American jobs on average, creating a continuous demand for new office furnishings. As the market leader, HON is well positioned to seize this growth opportunity.

In 2000, the company introduced a formidable new dealer training program that speeds the HON brand message to its marketplace: a relentless pursuit of operational excellence to benefit the people who use its products. A new e-commerce initiative also links HON more closely to both its dealers and users and helped the company set a new standard in its quest for superb and responsive customer service.

HON's focus on its brand promise of unsurpassed customer satisfaction also improved complete and on-time deliveries by more than 50 percent last year and lowered warranty costs by 18 percent. Rapid Continuous Improvement programs helped its distributors improve operations, from managing inventories to reducing product damage. HON is also investing heavily in new products that respond to its users' evolving workplace: In 2001, it will launch more products than at any other time in its history.

The HON Company's initiatives will translate directly into satisfied customers, stronger sales, and continued improvements in the brand's bottom line.







## Everybody loves the look of fine wood. We'll be there.

There are tremendous wood furnishings opportunities for the Gunlocke, Allsteel, and HON brands. This wood sector represents a manufacturing and design challenge that we are only now managing effectively.

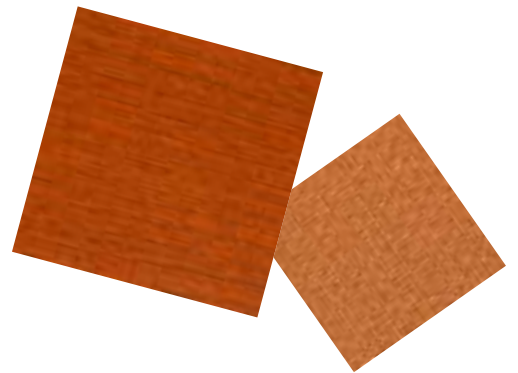
We formed the Wood Products Group in third quarter 2000 to focus exclusively on wood opportunities. This group includes our premium Gunlocke brand produced in Wayland, New York, as well as the facilities that manufacture wood seating, veneer, and laminate products under our Allsteel and HON brand names. While the Wood Products Group is in its infancy, it is already delivering dramatic improvements in customer satisfaction, profitability, and return on assets.

Gunlocke begins shipments of The ACS Collection™ (Advanced Customer Solution) product line this year, first seen in concept at last year's NeoCon. The Wood Products Group's improved performance is also creating new opportunities under the Allsteel and HON brands, where operational excellence is a critical factor in their brand promises.

## Niche opportunities are lucrative. We'll be there.

Three years ago, BPI Inc. reinvented itself to focus on panel systems for value-conscious companies that must hit the ground running, maximize space and flexibility, and protect narrow operating margins. Today it hits its target with remarkable precision and profitability, with 60 percent of its sales generated by new products introduced in the last three years. It turns around built-to-order, cost-effective solutions in only five days – the broadest quick-ship program in the industry. Two of BPI's top five U.S. distributors recognized BPI as Vendor of the Year for growth in the new Parallel™ line, its versatile flagship system.





Panel Concepts, Inc. is recognized for industry-leading innovation. Its panel systems were the first to feature desk-height power, to incorporate patented flat-screen terminals into panel tiles, and to use its patented cam connection system. Panel Concepts' new Empower™ system integrates the cam connection with tremendous wiring capacity and reconfiguration flexibility, innovations usually found only in more expensive systems.

Holga Inc. is the leader in providing high-density shelving, storage, and movable filing systems. To fuel growth, Holga introduced three new products in 90 days: GNS, a cabinet that installs quickly and adapts to a variety of filing requirements;

a redesigned shelf file casing attractive enough for front office use; and Holga Sketch™, an innovative space-planning software that heralds other data-based products for the future. The company also added an electrical-assist option to Roll-X™, its award-winning mobile aisle system.



HON International develops opportunities for Allsteel, BPI, Gunlocke, Holga, HON, and Panel Concepts brands through office furniture dealers in 53 countries in Latin America, Europe, Africa, and the Middle East and Asia Pacific. The company trains these dealers, helps develop their customers, and schedules, ships, and documents related exports. HON International also helps domestic dealers

develop, ship, and install orders in international markets for U.S.-based multinational companies.

## The market for fireplaces is unlimited. We'll be there.

In early 2000, Hearth Technologies Inc. purchased a multistate retail and distribution operation that focuses on selling hearth products and services to consumers, dealers, and builders. Renamed Hearth Services, the division contributes revenues from fireplace installation services and finishing products that help Hearth Technologies optimize product delivery and provide top service to builders and consumers. Hearth Technologies also developed a new program that will roll out in 2001 to help loyal independent distributors strengthen and grow their businesses – and ours.

By focusing closely on its markets, Hearth Technologies identified some stellar opportunities that required more integrated and automated practices. Other



improvements in the pipeline will introduce revolutionary technologies throughout Hearth Technologies' brands and create unlimited versatility in fireplace design and placement.

Hearth Technologies is pursuing these emerging opportunities with new fireplace categories, some of which are already arriving on the market: Crescent™, an arched, kitchen fireplace, has a built in bun-warmer, and Twilight™, a see-through fireplace you can enjoy from your living room or patio, arrives this spring. To address rising energy costs, Hearth Technologies has developed furnace-rated fireplace products using a proprietary new technology that can circulate heat throughout homes with forced-air heating systems.

## Look around, anywhere. We'll be there.

Our passionate strategy for growth involves understanding the potential, simplifying our focus, and taking action on high-potential opportunities. It is a powerful strategy that is putting us firmly in place to deliver strong results. Opportunity is truly all around us, everywhere we look.

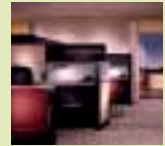
We'll be there!



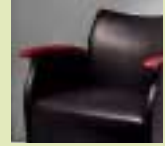
CONTRACT FURNITURE MARKET



**Allsteel Inc.** is one of the best-recognized brands in the office furniture industry. It is a leader in the design, manufacture, and marketing of office panel systems, desks, steel storage products, and office seating for the contract market.



The **Gunlocke Company** hand crafts high-quality, natural wood office furniture that includes executive case goods, a wide range of seating, lounge furniture, conference tables, and custom office products built to designer specifications.



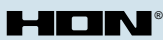
**Panel Concepts, Inc.** is a leader in developing breakthrough technology solutions: It was the first in the industry to provide a powered desk height feature and to add flat-screen monitors in panel tiles.



**Holga, Inc.** manufactures high-density shelving, storage, and mobile filing systems as well as traditional metal office furniture. Its products help companies optimize their workplaces and improve employee efficiency.



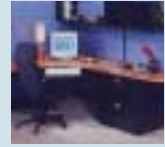
RETAIL/COMMERCIAL FURNITURE



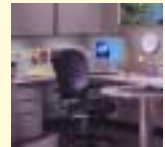
The **HON Company** is America's leader in middle-market office furniture. The company offers a complete line of office furnishings including systems, seating, desks, tables, and files.



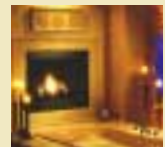
**BPI Inc.** specializes in panel systems that are easy to specify, install, and reconfigure. It offers the industry's broadest quick-ship program: Its entire product line is available in five days or less.



**HON International Inc.** markets HON INDUSTRIES furniture products outside of the United States and Canada.



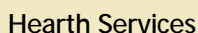
**Heatilator** is the most recognized name in the fireplace industry. It is a state-of-the-art manufacturer of a full line of gas- and wood-burning fireplaces, inserts, and fireplace accessories.



**Heat-N-Glo** invented today's leading fireplace technology (direct-vent gas fireplaces) and is the industry's leading manufacturer of gas fireplace products. It focuses on innovative technology that enhances the hearth experience and broadens the use of fireplaces.



**Aladdin Hearth Products** manufactures and markets the most complete line of high-efficiency gas-, wood-, pellet-, and oil-burning hearth products available. It pursues the innovative "perfect fire" through its premium Quadra-Fire™ and Dovre® brands.



**Hearth Services** is the largest distributor of fireplaces in the hearth industry that sells, installs, and services a broad range of gas- and wood-burning fireplaces and fireplace mantels, surrounds, facings, and other accessories.



**Allsteel® New Products:** In 2000 Raptor™ seating; Marbles™ mobility tables and storage cabinets; enhancements to Virage™ seating and Consensys® panel system. In 2001 enhancements to the Terrace® panel system; new wood veneer desking; and new seating solutions.

**Allsteel Inc.**  
2210 Second Avenue 800.553.8230  
Muscatine, Iowa 52761 allsteeloffice.com

**Gunlocke® New Products:** In 2000 Multi™ side seating; Multi™ stool; meet and greet lounge seating. In 2001 new case goods product line; Multi™ caster version seating; Multi™ lounge and new executive seating.

**The Gunlocke Company**  
One Gunlocke Drive 800.828.6300  
Wayland, New York 14572 gunlocke.com

**Panel Concepts® New Products:** In 2000 Empower™ panel system line; new storage pedestals.

**Panel Concepts, Inc.**  
3001 South Yale Street 800.624.6118  
Santa Ana, California 92704 panelconceptsinc.com

**Holga® New Products:** In 2000 electrical assist feature for Roll-X™; GNS high-capacity storage cabinets; redesigned shelf file casing for front offices; Holga Sketch™ space-planning software; enhanced Roll-X™ mobile aisle system and modular storage group families. Holga will also introduce its revolutionary 5-Day Ready-to-Ship Program in 2001.

**Holga Inc.**  
7901 Woodley Avenue 800.544.4623  
Van Nuys, California 91406 holga.com

**HON® New Products:** In 2000 Invitation™ guest seating; The Director Series™ for technology-heavy offices; Flagship™ lateral and pedestal files; Park Avenue Collection™. In 2001 Provisions™ Mobile Tables; Instinct™ task seating series; Initiate™ panel system; expanded 10500 and 10700 series laminate case goods; Park Avenue wood case goods; Efficiencies™ track filing; Pagoda™ expansion.

**The HON Company**  
200 Oak Street 800.833.3964  
Muscatine, Iowa 52761 hon.com

**BPI® New Products:** In 2000 added power desk-height feature to Parallel®; expanded teaming and tasking product line. In 2001 new desking system solutions; additions to mobile table line; new fabric selections.

**BPI Inc.**  
21606-86th Place South 800.289.1274  
Kent, Washington 98031 honi.com

**HON International Inc. New Products:** In 2001 Allsteel's enhanced Terrace® panel system; HON Company and Allsteel's new case goods and seating products.

**HON International Inc.**  
414 East Third Street 319.262.7900  
Muscatine, Iowa 52761 honi.com

**Heatilator New Products:** In 2000 masonry Icon™ model with the look of a real masonry fireplace; Novus™ 16-inch shallow-depth, gas-burning fireplace. In 2001 Novus™ upgrade for improved flame appearance; new gas log sets.

**Heatilator**  
1915 West Saunders Street 800.843.2848  
Mt. Pleasant, Iowa 52641 heatilator.com

**Heat-N-Glo New Products:** In 2000 Crescent™ arched kitchen fireplaces; Intensity™ energy-efficient, large-flame fireplace; Everest™ vertical opening fireplace. In 2001 Twilight™ indoor-outdoor, see-through fireplace.

**Heat-N-Glo**  
20802 Kensington Boulevard 952.985.6000  
Lakeville, Minnesota 55044 heatnglo.com

**Aladdin New Products:** In 2000 Quadra-Fire™; Columbia Bay™ gas-burning stove with bay window; Contour™ contemporary designed pellet-burning stove; Dovre® Sapphire™ 25 T\R gas-burning stove, top or rear vent; Isle Royale™ large wood-burning stove, top or front loading.

**Aladdin Hearth Products**  
1445 North Highway 509.684.3745  
Colville, Washington 99114 aladdinhearth.com

**Hearth Services New Products:** In 2000 masonry Icon™ model; Crescent™ kitchen fireplaces; Quadra-Fire™; Columbia Bay™. In 2001 Novus™ upgrade and Twilight™ indoor-outdoor, see-through fireplace.

**Hearth Services**  
2700 Fairview Avenue North 651.633.2561  
Roseville, Minnesota 55113 honi.com

## Management's Discussion and Analysis of Financial Condition and Results of Operation

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 consolidated net sales represented by certain items reflected in the Company's statements of income for the periods indicated.

Fiscal	2000	1999	1998
Net sales	100.0%	100.0%	100.0%
Cost of products sold	67.5	68.7	68.7
Gross profit	32.5	31.3	31.3
Selling and administrative expenses	23.8	22.1	20.8
Provision for closing facilities and reorganization expense	—	1.1	—
Operating income	8.7	8.1	10.5
Interest expense (net)	.6	.5	.5
Income before income taxes	8.1	7.6	10.0
Income taxes	2.9	2.8	3.7
Net income	5.2%	4.9%	6.2%

The Company has two reportable core operating segments: office furniture and hearth products. The "Operating Segment Information" note included in the notes to consolidated financial statements provides more detailed financial data with respect to these two segments.

Fiscal Year Ended December 30, 2000,  
Compared to Fiscal Year Ended January 1, 2000

#### Net Sales

Net sales, on a consolidated basis, increased by 14% to \$2.0 billion in 2000 from \$1.8 billion in 1999. Office furniture net sales increased 9% in 2000 to \$1.65 billion from \$1.51 billion in 1999. Net sales of hearth products increased 39% to \$396.3 million in 2000 from \$285.9 million in 1999 due mainly to the Company's acquisition of two leading hearth products distributors, American Fireplace Company (AFC) and the Allied Group (Allied), which were joined to form Hearth Services Inc., a subsidiary of Hearth Technologies Inc. The office furniture industry reported an increase in shipments of 9% in 2000 compared to 1999. The Company's most recent five-year compounded annual growth rate in net sales is 18%.

#### Gross Profit

Gross profit dollars increased 18% to \$665.9 million in 2000 from \$564.3 million in the prior year. Gross margin increased to 32.5% for 2000 from 31.3% in 1999. The improvement reflects the combination of improved price realization and productivity from rapid continuous improvement programs.

#### Selling and Administrative Expenses

Selling and administrative expenses increased by 23% to \$487.8 million in 2000 from \$398.2 million in the prior year. Selling and administrative expenses, as a percent of net sales, increased to 23.8% in 2000 from 22.1% in 1999. The largest contributor to this increase was the acquisition of Hearth Services Inc., which is a retail distributor. Retail distribution is a different business model that has proportionally higher selling and administrative costs than manufacturing. The Company is applying rapid continuous improvement philosophies to reduce these costs.

The Company also continued to experience increased investment in sales and marketing expenses associated with refocusing the Company and developing branding programs in the office furniture segment. The Company was able to reduce freight expense as a percent of net sales despite increased fuel and carrier costs.

Selling and administrative expenses include freight expense to the customer, product development costs, and amortization expenses of intangible assets. The "Selling and Administrative Expenses" note included in the Notes to Consolidated Financial Statements provides further information regarding the comparative expense levels for these major expense items.

#### Operating Income

Operating income increased by 7% to \$178.0 million in 2000 from \$166.1 million (excluding a one-time pre-tax charge for closing facilities and reorganization expense of \$19.7 million) in 1999. The increase is due mainly to increased sales and gross margins.

#### Net Income

Net income increased by 6% to \$106.2 million in 2000 from \$99.9 million, excluding the \$12.5 million nonrecurring after-tax charge for the closing of facilities and reorganization expenses in the prior year. This increase is attributable primarily to increased sales and gross margins. Net income was favorably impacted by a decrease in the Company's effective tax rate from 36.5% in 1999 to 36.0% in 2000 resulting from favorable state income tax initiatives.

Net income per common share increased by 8% to \$1.77 in 2000 from \$1.64 (excluding a nonrecurring after-tax charge of \$0.20 per share) in 1999. The Company's net income per share performance for 2000 also benefited from the Company's common stock repurchase program.

Fiscal Year Ended January 1, 2000,  
Compared to Fiscal Year Ended January 2, 1999

**Net Sales**

Net sales, on a consolidated basis, increased by 6% to \$1.8 billion in 1999 from \$1.7 billion in 1998. The Company increased sales in both core operating segments due to the continued focus on superior customer service and rapid introduction of new innovative and compelling value products. Office furniture net sales increased 4% in 1999 to \$1.51 billion from \$1.46 billion in 1998. Net sales of hearth products increased 16% to \$285.9 million in 1999 from \$246.0 million in 1998. The office furniture industry reported a decline in shipments of 1% in 1999 compared to 1998. The hearth products industry annual growth rate is estimated at 6% to 7%. The Company's most recent five-year compounded annual growth rate in net sales is 16%.

**Gross Profit**

Gross profit dollars increased 6% to \$564.3 million in 1999 from \$533.6 million in the prior year. Gross margin held steady at 31.3% for 1999 and 1998. The Company is continuing to focus on improving gross margins. A tight labor market made it more difficult than anticipated to staff facilities, causing an increase in backlog and additional overtime, training, and expenses associated with moving production to alternate plant locations. The Company was able to fill positions in the fourth quarter and implemented plans to ensure workers are in place to meet order demands. Gross profit also included start-up costs associated with the Monterrey, Mexico, production facility.

**Selling and Administrative Expenses**

Selling and administrative expenses increased by 12% to \$398.2 million in 1999 from \$354.5 million in the prior year. Selling and administrative expenses, as a percentage of net sales, increased to 22.1% in 1999 from 20.8% in 1998. The Company has implemented a number of internal initiatives to better serve customers through providing complete, on-time, and undamaged orders quickly. These initiatives have resulted in increased freight costs. The Company has contracted with distribution experts and is currently implementing a new logistical management system to lower freight costs while still providing excellent service execution to customers.

The Company also launched a strategic initiative during the fourth quarter to strengthen its office furniture market focus. Allsteel Inc, which was purchased in 1997, and The HON Company had been

operating as one business unit. During the fourth quarter, the two operations were split into two separate business units. The HON Company serves the open-line, middle-market segment, and Allsteel Inc. serves the project-oriented contract market. The Company incurred additional costs related to this initiative in the near-term, but these investments will be leveraged as the companies increase sales and grow their market shares. Both business units continue to be reported under the Company's office furniture segment reported in the Operating Segment Information note included in the Notes to Consolidated Financial Statements.

Selling and administrative expenses for 1999 were significantly influenced by increased freight expense to the customer, product development costs, and amortization expenses of intangible assets. The Selling and Administrative Expenses note, included in the Notes to the Consolidated Financial Statements, provides further information regarding the comparative expense levels for these major expense items.

**Operating Income**

Operating income decreased by 7.3% to \$166.1 million (excluding a one-time pre-tax charge for closing facilities and reorganization expense of \$19.7 million) in 1999 from \$179.2 million in 1998. The decrease is due principally to increased selling and administrative expenses.

**Net Income**

Net income, excluding the \$12.5 million nonrecurring after-tax charge for the closing of facilities and reorganization expenses, decreased by 6.1% to \$99.9 million in 1999 from \$106.3 million in the prior year. This decrease is attributable primarily to increased selling and administrative expenses. Net income was favorably impacted by a decrease in the Company's effective tax rate from 37.5% in 1998 to 36.5% in 1999 resulting from favorable state income tax initiatives.

Net income per common share decreased by 4.7% to \$1.64 (excluding a nonrecurring after-tax charge of \$0.20 per share) in 1999 from \$1.72 for 1998. The Company's net income per share performance for 1999 also benefited from the Company's common stock repurchase program.

Fiscal Year Ended January 2, 1999,  
Compared to Fiscal Year Ended January 3, 1998

#### **Net Sales**

Net sales, on a consolidated basis, increased by 25% to \$1.71 billion in 1998 from \$1.36 billion in the prior year even though fiscal year 1998 was a normal 52-week year compared to 1997 being a 53-week year. The Company increased sales in both core operating segments due to the continued focus on superior customer service, rapid introduction of new innovative and compelling value products, and acquisitions. Office furniture net sales increased 26% in 1998 to \$1.5 billion from \$1.16 billion in 1997. Net sales of hearth products increased 20% to \$246.0 million in 1998 from \$204.5 million in 1997. Both core operating segments experienced another year of strong growth during 1998. The office products industry reported an annual growth rate of 7.8%, and hearth products an estimated 10%. The Company's most recent five-year compounded annual growth rate is 17% in net sales.

#### **Gross Profit**

Gross profit increased 24% to \$533.6 million in 1998 from \$429.6 million in the prior year. Gross margin decreased to 31.3% for 1998 compared to 31.5% for 1997. This decrease was due to selling price reductions on select products to increase sales volume, which were only partially offset by productivity gains, and the adverse impact of the Allsteel acquisition not achieving the Company's margin standards as rapidly as projected.

#### **Selling and Administrative Expenses**

Selling and administrative expenses increased by 25% to \$354.5 million from \$284.4 million in the prior year. Selling and administrative expenses, as a percentage of net sales, decreased to 20.8% in 1998 from 20.9% in 1997. Management places major emphasis on controlling and reducing selling and administrative expenses. The Company expects to leverage these costs as sales grow; however, increased costs to meet competitive conditions offset a portion of the efficiency and leveraging gains.

Selling and administrative expenses include freight expense to the customer, product development costs, and amortization expenses of intangible assets. The "Selling and Administrative Expenses" note included in the Notes to Consolidated Financial Statements provides further information regarding the comparative expense levels for these major expense items.

#### **Operating Income**

Operating income increased by 23% to \$179.2 million in 1998 from \$145.2 million in 1997. The increase is due to increased sales and lower selling and administrative expenses as a percent of sales.

#### **Net Income**

Net income increased by 22% to \$106.3 million in 1998 from \$87.0 million in 1997. This increase is a result of the higher operating income being partially offset by an increase in interest expense associated with acquisition and capital expenditures.

Net income per common share increased by 19% to \$1.72 in 1998 from \$1.45 in 1997. Average shares outstanding increased to 61.6 million in 1998 from 59.8 million in 1997 as a result of the weighting of the October 1997 primary stock offering.

#### **Liquidity and Capital Resources**

During 2000, cash from operations was \$204.9 million, which provided the funds necessary to meet working capital needs, help finance acquisitions, invest in capital improvements, repay long-term debt, repurchase common stock, and pay increased dividends.

#### **Cash Management**

Cash, cash equivalents, and short-term investments totaled \$3.2 million compared to \$22.2 million at the end of 1999 and \$17.7 million at the end of 1998. These funds, coupled with cash from future operations and additional long-term debt, if needed, are expected to be adequate to finance operations, planned improvement, and internal growth.

The Company places special emphasis on the management and reduction of its working capital with a particular focus on trade receivables and inventory levels. The success achieved in managing receivables is in large part a result of doing business with quality customers and maintaining close communications with them. Trade receivable days outstanding have averaged about 37 days over the past three years. Inventory levels and turns continue to improve as a function of reducing production cycle times. Inventory turns have been in the 17 to 18 range over the past three years.

#### **Capital Expenditure Investments**

Capital expenditures, net of disposals, were \$59.8 million in 2000, \$71.5 million in 1999, and \$149.7 million in 1998. Expenditures during 2000, 1999, and 1998 have been consistently focused on machinery and equipment and facility expansion needed to support new products, process improvements, cost-savings initiatives, and creating additional and more efficient production and warehousing capacity.

#### **Acquisitions**

On February 29, 2000, the Company completed the acquisition of its Hearth Services Inc. division, which consists of two leading hearth products distributors, American Fireplace Company (AFC) and the Allied Group (Allied), establishing the Company as the leading manufacturer and distributor in the hearth products industry, for a purchase price of approximately \$135 million.



In February 1998, the Company completed the acquisition of Aladdin Steel Products, Inc., a manufacturer of decorative gas- and wood-burning stoves, for a purchase price of approximately \$10.2 million. This acquisition allowed the Company to strengthen its position in the hearth products market.

#### ***Long-Term Debt***

Long-term debt, including capital lease obligations, was 18% of total capitalization at December 30, 2000, 20% at January 1, 2000, and 23% at January 2, 1999. 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 needs.

#### ***Cash Dividends***

Cash dividends were \$0.44 per common share for 2000, \$0.38 for 1999, and \$0.32 for 1998. Further, the Board of Directors announced a 9.1% increase in the quarterly dividend from \$0.11 to \$0.12 per common share effective with the March 1, 2001, dividend payment. The previous quarterly dividend increase was from \$0.095 to \$0.11, effective with the March 1, 2000, 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 25% of prior year earnings.

#### ***Stock Split***

On February 11, 1998, the Board of Directors announced a two-for-one stock split in the form of a 100 percent stock dividend that was paid on March 27, 1998, to shareholders of record on March 6, 1998. Shareholders received one share of common stock for each share held on record date.

#### ***Common Share Repurchases***

During 2000, the Company repurchased 837,552 shares of its common stock at a cost of approximately \$18.0 million, or an average price of \$21.46. As of December 30, 2000, approximately \$13.6 million of the \$70.0 million authorized by the Board of Directors for repurchases remained unspent. On February 14, 2001, the Board authorized an additional \$100 million for the Company's share repurchase program. During 1999, the Company repurchased 1,408,624 shares at a cost of approximately \$30.9 million, or an average price of \$21.91. During 1998, the Company repurchased 529,284 shares at a cost of approximately \$12.2 million, or an average price of \$23.04.

#### ***Litigation and Uncertainties***

The Company is involved in various legal actions arising in the course of business. These uncertainties are referenced in the Contingencies note included in the Notes to Consolidated Financial Statements.

#### ***Looking Ahead***

The Company believes the softness in the economy may have an adverse effect on net sales and operating income in the first half of 2001. However, the Company is cautiously optimistic about the results for the second half of the year based on economic improvement, new product introductions, and improved price realization.

## Consolidated Statements of Income

(Amounts in thousands, except for per share data)

For the Years	2000	1999	1998
Net sales	\$2,046,286	\$1,800,931	\$1,706,628
Cost of products sold	1,380,404	1,236,612	1,172,997
Gross Profit	665,882	564,319	533,631
Selling and administrative expenses	487,848	398,197	354,454
Provision for closing facilities and reorganization expenses	–	19,679	–
Operating Income	178,034	146,443	179,177
Interest income	1,945	844	1,590
Interest expense	14,015	9,712	10,658
Income Before Income Taxes	165,964	137,575	170,109
Income taxes	59,747	50,215	63,796
Net Income	\$ 106,217	\$ 87,360	\$ 106,313
Net Income Per Common Share – Basic and Diluted	\$ 1.77	\$ 1.44	\$ 1.72

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

## Consolidated Balance Sheets

(Amounts in thousands)

As of Year-End	2000	1999	1998
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 3,181	\$ 22,168	\$ 17,500
Short-term investments	–	–	169
Receivables	211,243	196,730	183,576
Inventories	84,360	74,937	67,225
Deferred income taxes	19,516	13,471	12,477
Prepaid expenses and other current assets	11,841	9,250	9,382
<b>Total Current Assets</b>	<b>330,141</b>	<b>316,556</b>	<b>290,329</b>
Property, Plant, and Equipment	454,312	455,591	444,177
Goodwill	216,371	113,116	108,586
Other Assets	21,646	21,460	21,377
<b>Total Assets</b>	<b>\$1,022,470</b>	<b>\$906,723</b>	<b>\$864,469</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued expenses	\$ 240,540	\$217,110	\$198,520
Income taxes	12,067	–	1,921
Note payable and current maturities of long-term debt	10,408	6,106	15,769
Current maturities of other long-term obligations	1,853	1,907	1,228
<b>Total Current Liabilities</b>	<b>\$ 264,868</b>	<b>\$225,123</b>	<b>\$217,438</b>
Long-Term Debt	126,093	119,860	128,069
Capital Lease Obligations	2,192	4,313	7,494
Other Long-Term Liabilities	18,749	18,015	18,067
Deferred Income Taxes	37,226	38,141	31,379
Commitments and Contingencies			
<b>Shareholders' Equity</b>			
Common stock	59,797	60,172	61,290
Paid-in capital	17,339	24,981	48,348
Retained earnings	495,796	416,034	351,786
Accumulated other comprehensive income	410	84	598
<b>Total Shareholders' Equity</b>	<b>573,342</b>	<b>501,271</b>	<b>462,022</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$1,022,470</b>	<b>\$906,723</b>	<b>\$864,469</b>

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

## Consolidated Statements of Shareholders' Equity

(Amounts in thousands)

	Common Stock	Additional Paid-in Capital	Receivable from Co. ESOP	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, January 3, 1998	\$ 61,659	\$ 55,906	\$ (1,099)	\$ 265,203	\$ (7)	\$ 381,662
Comprehensive income:						
Net income				106,313		106,313
Other comprehensive income					605	605
Comprehensive income						106,918
Cash dividends				(19,730)		(19,730)
Common shares – treasury:						
Shares purchased	(529)	(11,672)				(12,201)
Shares issued under Members Stock Purchase Plan and stock awards	160	4,114				4,274
Principal repaid by HON Members Company Ownership			1,099			1,099
Balance, January 2, 1999	61,290	48,348	–	351,786	598	462,022
Comprehensive income:						
Net income				87,360		87,360
Other comprehensive income					(514)	(514)
Comprehensive income						86,846
Cash dividends				(23,112)		(23,112)
Common shares – treasury:						
Shares purchased	(1,409)	(29,457)				(30,866)
Shares issued under Members Stock Purchase Plan and stock awards	291	6,090				6,381
Balance, January 1, 2000	60,172	24,981	–	416,034	84	501,271
Comprehensive income:						
Net income				106,217		106,217
Other comprehensive income					326	326
Comprehensive income						106,543
Cash dividends				(26,455)		(26,455)
Common shares – treasury:						
Shares purchased	(838)	(17,135)				(17,973)
Shares issued under Members Stock Purchase Plan and stock awards	463	9,493				9,956
<b>Balance, December 30, 2000</b>	<b>\$59,797</b>	<b>\$ 17,339</b>	<b>\$ –</b>	<b>\$495,796</b>	<b>\$410</b>	<b>\$573,342</b>

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

## Consolidated Statements of Cash Flows

(Amounts in thousands)

For the Years	2000	1999	1998
<b>Net Cash Flows From (To) Operating Activities:</b>			
Net income	\$ 106,217	\$ 87,360	\$106,313
Noncash items included in net income:			
Depreciation and amortization	79,046	65,453	52,999
Other postretirement and postemployment benefits	1,572	2,329	1,529
Deferred income taxes	(7,213)	6,033	13,816
Other – net	90	(121)	8
Changes in working capital, excluding acquisition and disposition:			
Receivables	3,961	(13,154)	(24,238)
Inventories	6,410	(7,712)	(4,286)
Prepaid expenses and other current assets	(1,616)	391	6,517
Accounts payable and accrued expenses	5,483	19,838	3,959
Income taxes	11,808	(2,178)	(7,419)
Increase in other liabilities	(838)	(2,054)	(2,406)
Net cash flows from (to) operating activities	204,920	156,185	146,792
<b>Net Cash Flows From (To) Investing Activities:</b>			
Capital expenditures – net	(59,840)	(71,474)	(149,717)
Capitalized software	(2,192)	(3,530)	–
Acquisition spending, net of cash acquired	(134,696)	(8,932)	(11,470)
Principal repaid by HON Members Company Ownership Plan	–	–	1,099
Short-term investments – net	–	169	91
Other – net	(3)	(290)	80
Net cash flows from (to) investing activities	(196,731)	(84,057)	(159,917)
<b>Net Cash Flows From (To) Financing Activities:</b>			
Purchase of HON INDUSTRIES common stock	(17,973)	(30,866)	(12,206)
Proceeds from long-term debt	155,181	147,055	73,237
Payments of note and long-term debt	(147,458)	(167,052)	(60,079)
Proceeds from sale of HON INDUSTRIES common stock to members	9,529	6,515	3,323
Dividends paid	(26,455)	(23,112)	(19,730)
Net cash flows from (to) financing activities	(27,176)	(67,460)	(15,455)
Net increase (decrease) in cash and cash equivalents	(18,987)	4,668	(28,580)
Cash and cash equivalents at beginning of year	22,168	17,500	46,080
Cash and cash equivalents at end of year	\$ 3,181	\$ 22,168	\$ 17,500
<b>Supplemental Disclosures of Cash Flow Information:</b>			
Cash paid during the year for:			
Interest	\$ 13,395	\$ 9,803	\$ 10,867
Income taxes	\$ 54,634	\$ 46,822	\$ 56,787

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

## Notes to Consolidated Financial Statements

### Nature of Operations

HON INDUSTRIES Inc., with its subsidiaries (the Company), is 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 "Operating Segment Information" note for further information. Office furniture products are sold through a national system of dealers, wholesalers, warehouse clubs, retail superstores, and to end-user customers, and federal and state governments. Dealer, wholesaler, and retail superstores are the major channels based on sales. Hearth products include wood-, pellet-, and gas-burning factory-built fireplaces, fireplace inserts, stoves, and gas logs. These products are sold through a national system of dealers, wholesalers, large regional contractors, and Company owned retail outlets. 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, these activities are 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's fiscal year ends on the Saturday nearest December 31. Fiscal year 2000 ended on December 30, 2000; 1999 ended on January 1, 2000; and 1998 ended on January 2, 1999.

#### **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.

#### **Receivables**

Accounts receivables are presented net of an allowance for doubtful accounts of \$11,237,000, \$3,568,000, and \$2,816,000 for 2000, 1999, and 1998, 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.

### **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 over 20-40 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 December 30, 2000.

<i>(In thousands)</i>	2000	1999	1998
Goodwill	\$233,348	\$121,846	\$113,812
Patents	16,450	16,450	16,450
Less accumulated amortization	23,342	13,585	8,570
	\$226,456	\$124,711	\$121,692

### **Revenue Recognition**

Revenue is recognized upon shipment of goods to customers.

### **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 \$18,911,000 in 2000, \$17,117,000 in 1999, and \$15,707,000 in 1998.

### **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 (SFAS) 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. The more significant areas requiring the use of management estimates relate to allowance for receivables, accruals for self-insured medical, workers compensation, and general liability insurance, and useful lives for depreciation and amortization. Actual results could differ from those estimates.

### **Generally Accepted Accounting Principles**

In 2000, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs," that all amounts billed to a customer in a sale

transaction related to shipping and handling, if any, represent revenues earned for the goods provided and should be classified as revenue. The Company implemented the above EITF consensus effective with the fourth quarter 2000 and has restated prior periods to reflect the change. The adoption of this consensus did not have a material impact on the Company's financial statements. In 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Company intends to adopt this Statement in January 2001 as required by the Statement. Adoption of this Statement is not expected to have a material impact on the Company's financial statements.

#### **Reclassifications**

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

#### **Provision for Facilities Closing and Reorganization Expenses**

On February 11, 1999, the Company adopted a plan to close three of its office furniture facilities located in Winnsboro, South Carolina; Sulphur Springs, Texas; and Mt. Pleasant, Iowa. A pre-tax charge of \$19.7 million or \$0.20 per diluted share was recorded during the first quarter of 1999. The charge includes \$12.5 million for write-offs of plant and equipment, \$2.6 million for severance arising from the elimination of approximately 360 positions, \$2.1 million for other employee-related costs, and \$2.4 million for certain other expenses associated with the closing of the facilities.

The primary costs not yet incurred relate to costs associated with the closed buildings. Management believes the remaining reserve for facilities closing and reorganization expenses to be adequate to cover these obligations.

#### **Business Combinations**

On February 29, 2000, the Company completed the acquisition of its Hearth Services division, which consists of two leading hearth products distributors, American Fireplace Company (AFC) and the Allied Group (Allied), establishing the Company as the leading manufacturer and distributor in the hearth products industry. The Company acquired AFC and Allied for approximately \$135 million in cash and debt including acquisition costs. The acquisition has been accounted for using the purchase method, and the results of AFC and Allied have been included in the Company's financial statements since the date of acquisition. The excess of the consideration paid over the fair value of the business of \$23 million was recorded as goodwill and is being amortized on a straight-line basis over 20 years.

As a result of the acquisition, the Company is in the process of finalizing its integration plan related to incremental exit costs and consolidation activities. These costs which are not associated with the generation of future revenues and have no future economic benefits will be reflected as assumed liabilities in the allocation of purchase price to the net assets acquired. Management expects these amounts to be finalized in the first quarter of 2001.

The Company acquired Aladdin Steel Products, Inc. on February 20, 1998, for approximately \$10.2 million. Aladdin is a manufacturer of wood-, pellet-, and gas-burning stoves and inserts. Aladdin is being operated by Hearth Technologies Inc., the Company's hearth products subsidiary. The transaction was accounted for under the purchase method.

Assuming the acquisition of American Fireplace Company, Allied Group, and Aladdin Steel Products, Inc. had occurred on January 4, 1998, the beginning of the Company's 1998 fiscal year, instead of the actual dates reported above, the Company's pro forma consolidated net sales would have been approximately \$2.1 billion, \$1.9 billion, and \$1.8 billion for 2000, 1999, and 1998, respectively. Pro forma consolidated net income and net income per share for 2000, 1999, and 1998 would not have been materially different than the reported amounts.

#### **Inventories**

<i>(In thousands)</i>	2000	1999	1998
Finished products	\$ 48,990	\$ 29,663	\$ 24,955
Materials and work in process	46,497	55,737	53,320
LIFO allowance	(11,127)	(10,463)	(11,050)
	\$ 84,360	\$ 74,937	\$ 67,225

#### **Property, Plant, and Equipment**

<i>(In thousands)</i>	2000	1999	1998
Land and land improvements	\$ 18,808	\$ 17,114	\$ 12,156
Buildings	202,189	181,080	144,559
Machinery and equipment	514,293	469,268	411,238
Construction and equipment installation in progress	27,547	37,819	85,782
	762,837	705,281	653,735
Less allowances for depreciation	308,525	249,690	209,558
	\$454,312	\$455,591	\$444,177

#### **Accounts Payable and Accrued Expenses**

<i>(In thousands)</i>	2000	1999	1998
Trade accounts payable	\$ 67,540	\$ 77,907	\$ 75,895
Compensation	15,781	10,820	11,450
Profit sharing and retirement expense	25,041	22,705	20,355
Vacation pay	14,560	12,093	11,751
Marketing expenses	65,931	58,832	45,833
Casualty self-insurance expense	12,216	7,428	6,271
Other accrued expenses	39,471	27,325	26,965
	\$240,540	\$217,110	\$198,520

## Long-Term Debt

(In thousands)	2000	1999	1998
Industrial development revenue bonds, various issues, payable through 2018 with interest at 3.96-8.125% per annum	\$ 23,977	\$ 24,608	\$ 25,293
Note payable to bank, revolving credit agreement with interest at a variable rate (6.6875-6.9625% at year-end 2000)*	46,000	85,000	95,000
Convertible debenture payable to individuals, due in 2003 with interest at 5.5% per annum	53,000	5,074	–
Other notes and amounts	3,116	5,178	7,776
	<b>\$126,093</b>	<b>\$119,860</b>	<b>\$128,069</b>

\*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):

2001	\$ 8,287
2002	46,773
2003	53,866
2004	553
2005	558
Thereafter	24,343

The convertible debenture payable to individuals at the end of 2000 is payable to the former owners of businesses acquired by the Company in 2000. These individuals continue as employees of a subsidiary of the business following the merger. The convertible debenture is convertible into cash.

Certain of the above borrowing arrangements include covenants which limit the assumption of additional debt and lease obligations. The Company has been and currently is in compliance with the covenants related to these debt agreements. The fair value of the Company's outstanding long-term debt obligations at year-end 2000 approximates the recorded aggregate amount.

Property, plant, and equipment, with net carrying values of approximately \$58,940,000 at the end of 2000, are mortgaged.

## Selling and Administrative Expenses

(In thousands)	2000	1999	1998
Freight expense to customer*	\$137,197	\$131,085	\$106,453
Amortization of intangible assets	10,679	5,362	4,789
Product development costs	18,911	17,117	15,707
General selling and administrative expense	321,061	244,633	227,505
	<b>\$487,848</b>	<b>\$398,197</b>	<b>\$354,454</b>

\*Freight expense has been restated per EITF issue no. 00-10.

## Income Taxes

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

(In thousands)	2000	1999	1998
Current:			
Federal	\$62,172	\$ 40,744	\$ 44,525
State	3,931	3,046	5,363
	<b>66,103</b>	<b>43,790</b>	<b>49,888</b>
Deferred	(6,356)	6,425	13,908
	<b>\$59,747</b>	<b>\$ 50,215</b>	<b>\$ 63,796</b>

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

	2000	1999	1998
Federal statutory tax rate	35.0%	35.0%	35.0%
State taxes, net of federal tax effect	1.5	1.7	2.6
Federal and state tax credits	–	–	(.1)
Other – net	(.5)	(.2)	–
Effective tax rate	<b>36.0%</b>	<b>36.5%</b>	<b>37.5%</b>



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:

<i>(In thousands)</i>	2000	1999	1998
Net long-term deferred tax liabilities:			
Tax over			
book depreciation	\$(37,509)	\$(38,133)	\$(33,118)
OPEB obligations	3,157	3,430	3,305
Goodwill	(4,183)	(2,959)	(1,805)
Other – net	1,309	(479)	(239)
<b>Total net long-term deferred tax liabilities</b>	<b>\$(37,226)</b>	<b>\$(38,141)</b>	<b>\$(31,379)</b>
Net current deferred tax assets:			
Workers' compensation, general, and product liability accruals	4,183	2,984	2,315
Vacation accrual	4,632	3,492	2,531
Integration accruals	(3,205)	(3,263)	(2,235)
Inventory obsolescence reserve	2,404	1,287	1,026
Other – net	11,502	8,971	8,840
<b>Total net current deferred tax assets</b>	<b>19,516</b>	<b>13,471</b>	<b>12,477</b>
<b>Net deferred tax (liabilities) assets</b>	<b>\$(17,710)</b>	<b>\$(24,671)</b>	<b>\$(18,902)</b>

#### Shareholders' Equity and Earnings Per Share

	2000	1999	1998
Common Stock, \$1 Par Value			
Authorized	200,000,000	200,000,000	200,000,000
Issued and outstanding	59,796,891	60,171,753	61,289,618
Preferred Stock, \$1 Par Value			
Authorized	1,000,000	1,000,000	1,000,000
Issued and outstanding	–	–	–

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 paid on March 27, 1998, to shareholders of record on the close of business on March 6, 1998. In May 1998, shareholders authorized an increase of capital stock of the Company from 101,000,000 shares to 201,000,000 shares, consisting of 200,000,000 shares of common stock, \$1.00 par value, and 1,000,000 shares of preferred stock, \$1.00 par value.

The Company purchased 837,552, 1,408,624, and 529,284 shares of its common stock during 2000, 1999, and 1998, 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 adopted Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income," as of January 4, 1998, the beginning of its 1998 fiscal year. The Company has changed the format of its consolidated statements of shareholders' equity to present comprehensive income.

Components of other comprehensive income (loss) consist of the following:

<i>(In thousands)</i>	2000	1999	1998
Foreign currency translation adjustments – net of tax	\$118	\$ (79)	\$ 42
Change in unrealized gains on marketable securities – net of tax	208	(435)	563
<b>Other comprehensive income (loss)</b>	<b>\$326</b>	<b>\$(514)</b>	<b>\$605</b>

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 2000, 1999, and 1998, 6,948, 12,758, and 10,664 shares of Company common stock were issued under the plan, respectively.

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

<i>(In thousands)</i>	2000	1999	1998
Common shares	\$ .44	\$ .38	\$ .32

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 214,047 shares were

available for issuance under the plan at December 30, 2000. 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 2000, 1999, and 1998 pursuant to a members stock purchase plan as follows:

	2000	1999	1998
Shares issued	90,059	115,354	101,108
Average price per share	\$ 21.10	\$ 19.16	\$ 23.58

The Company has a shareholders' rights plan which will expire August 20, 2008. The plan becomes operative if certain events occur involving the acquisition of 20% or more of the Company's common stock by any person or group in a transaction not approved by the Company's Board of Directors. Upon the occurrence of such an event, each right entitles its holder to purchase an amount of common stock of the Company with a market value of \$400 for \$200, unless the Board authorizes the rights be redeemed. The rights may be redeemed for \$0.01 per right at any time before the rights become exercisable. In certain instances, the right to purchase applies to the capital stock of the acquirer instead of the common stock of the Company. The Company has reserved preferred shares necessary for issuance should the rights be exercised.

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 annual salary and the average of the prior two years' bonuses.

#### Stock Options

Under the Company's 1995 Stock-Based Compensation Plan, as amended and restated effective November 10, 2000, the Company may award options to purchase shares of the Company's common stock and grant other stock awards to executives, managers, and key personnel. The Plan is administered by the Human Resources and Compensation Committee of the Board of Directors. Stock options

awarded under the Plan must be at exercise prices equal to or exceeding the fair market value of the Company's common stock on the date of grant. Stock options are generally subject to four-year cliff vesting and must be exercised within 10 years from the date of grant.

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 No.123, the impact on net earnings and earnings per share would be less than one cent per share. The weighted-average fair value of options granted during 2000, 1999, and 1998 estimated on the date of grant using the Black-Scholes option-pricing model was \$9.25, \$10.01, and \$15.51, respectively. The fair value of 2000, 1999, and 1998 options granted is estimated on the date of grant using the following assumptions: dividend yield of 0.90% to 1.97%, expected volatility of 31.04% to 35.89%, risk-free interest rate of 4.90% to 6.56%, and an expected life of 10 to 12 years depending on grant date.

The status of the Company's stock option plans is summarized below:

	Number of Shares	Weighted-Average Exercise Price
Outstanding at January 3, 1998	156,000	\$24.74
Granted	20,000	\$32.50
Exercised	-	-
Forfeited	-	-
Outstanding at January 2, 1999	176,000	\$25.62
Granted	328,750	\$23.47
Exercised	-	-
Forfeited	(97,000)	\$23.86
Outstanding at January 1, 2000	407,750	\$24.30
Granted	532,500	\$20.13
Exercised	(22,000)	\$23.80
Forfeited	-	-
<b>Outstanding at December 30, 2000</b>	<b>918,250</b>	<b>\$21.90</b>
<b>Options exercisable at:</b>		
<b>December 30, 2000</b>	-	-
<b>January 1, 2000</b>	-	-
<b>January 2, 1999</b>	-	-

The following table summarizes information about fixed stock options outstanding at December 30, 2000:

Range of Exercise Prices	Number Outstanding	Options Outstanding		Options Exercisable
		Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at December 30, 2000
\$24.50-\$28.25	112,000	6.5 years	\$24.83	0
\$32.50	20,000	7.1 years	\$32.50	0
\$23.31-\$23.47	253,750	8.1 years	\$23.47	0
\$18.31-\$26.69	532,500	9.6 years	\$20.13	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 \$24,400,000, \$21,297,000, and \$20,101,000 in 2000, 1999, and 1998, 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. The Company adopted Statement of Financial Accounting Standards (SFAS) No. 132, "Employer's Disclosures about Pensions and Other Postretirement Benefits," as of January 4, 1998, the beginning of its 1998 fiscal year. Net pension costs relating to these plans were \$-0-, \$-0-, and \$-0- for 2000, 1999, and 1998, respectively. The actuarial present value of obligations, less related plan assets at fair value, is not significant.

The Company also participates in a multiemployer plan, which provides defined benefits to certain of the Company's union employees. Pension expense for this plan amounted to \$308,500, \$329,000, and \$306,000 in 2000, 1999, and 1998, respectively.

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. During 1998, the final shares in the Plan were allocated to participants, and the Plan was subsequently merged into the Company's defined contribution profit-sharing plan. Selected financial data pertaining to the ESOP is as follows:

<i>(In thousands, except share data)</i>	2000	1999	1998
Company contribution to ESOP	–	–	\$ 656
Dividend income of ESOP	–	–	533
Shares of common stock allocated to ESOP participant accounts	–	–	96,304
Closing market price of common stock as of year-end	–	–	\$23.94

## Postretirement Health Care

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," as of January 4, 1998. The Company adopted SFAS 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:

<i>(In thousands)</i>	2000	1999	1998
Reconciliation of benefit obligation:			
Obligation at beginning of year	\$20,237	\$17,341	\$15,409
Service cost	182	529	419
Interest cost	882	1,137	1,045
Benefit payments	(981)	(1,013)	(974)
Actuarial (gains) losses	(5,888)	2,243	(1,442)
Current year prior service cost	(2,203)	—	—
Obligation at end of year	\$12,229	\$20,237	\$17,341
Funded status:			
Funded status at end of year	\$12,229	\$20,237	\$17,341
Unrecognized transition obligation	(7,103)	(9,362)	(10,075)
Unrecognized prior-service cost	(1,813)	(2,338)	(2,484)
Unrecognized gain (loss)	5,457	862	4,031
Net amount recognized	\$ 8,770	\$ 9,399	\$ 8,813
Net periodic postretirement benefit cost include:			
Service cost	\$ 182	\$ 529	\$ 419
Interest cost	882	1,137	1,045
Amortization of transition obligation over 20 years	581	713	713
Amortization of prior service cost	—	146	146
Amortization of (gains) and losses	(539)	(629)	(767)
Net periodic postretirement benefit cost	\$ 1,106	\$ 1,896	\$ 1,556

The discount rates at fiscal year-end 2000, 1999, and 1998 were 8.0%, 7.5%, and 6.75%, respectively. The pre-65 2001 gross trend rates begin at 8.0% for the medical and prescription drug coverages and grade down to 5.0% in six years and remain at this level for all future years. The post-64 gross trend rates begin at 7.25% for the

medical coverage and decrease until the maximum Company subsidy (cap) is reached in 2006. For the prescription drug coverage, the 2001 gross trend rates begin at 8.0% and decrease until the cap is reached in 2006. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A 1% change in assumed health care cost trend rates would have the following effects:

<i>(In thousands)</i>	1% Increase	1% Decrease
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	\$ 54	\$ (22)
Effect on the health care component of the accumulated postretirement benefit obligation	\$ 519	\$ (325)

## Leases

The Company leases certain warehouse and plant facilities and equipment. Commitments for minimum rentals under noncancelable leases at the end of 2000 are as follows:

<i>(In thousands)</i>	Capitalized Leases	Operating Leases
2001	\$ 2,398	\$13,318
2002	1,078	11,316
2003	211	9,509
2004	211	7,818
2005	211	4,893
Thereafter	1,224	10,584
Total minimum lease payments	5,333	\$57,438
Less amount representing interest	1,020	
Present value of net minimum lease payments, including current maturities of \$2,121,000	\$ 4,313	

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

<i>(In thousands)</i>	2000	1999	1998
Buildings	\$ 3,299	\$ 3,299	\$ 3,299
Machinery and equipment	15,805	15,805	15,805
	19,104	19,104	19,104
Less allowances for depreciation	14,655	11,816	8,978
	\$ 4,449	\$ 7,288	\$10,126

Rent expense for the years 2000, 1999, and 1998 amounted to approximately \$15,428,000, \$10,403,000, and \$10,150,000, respectively. The Company has operating leases for office and production facilities with annual rentals totaling \$450,000 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 \$941,000, \$755,000, and \$596,000 for the years 2000, 1999, and 1998, respectively.

#### Contingencies

The Company is involved in various legal actions which have arisen in the course of business. Management believes the outcome of these matters will not have a material effect on the financial condition or results of operations of the Company.

#### Operating Segment Information

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 131, "Disclosures about Segments of an Enterprise and Related Information," effective with its 1998 fiscal year beginning January 4, 1998. This segment disclosure is essentially unchanged from the format used by the Company historically in complying with SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise," and SFAS No. 30, "Disclosures of Information about Major Customers." That is, management views the Company as being in two operating segments: office furniture and hearth products, with the former being the principal 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-, pellet-, and wood-burning fireplaces and stoves, fireplace inserts, gas logs, and chimney systems principally for the home.

The Company's two operating 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 2000, 51% of the Company's consolidated net sales of office furniture were generated in the third and fourth quarters and 54% of consolidated net sales of hearth products 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. These unallocated corporate expenses include the net costs of the Company's corporate operations, interest income, and interest expense. Management views interest income and expense as corporate financing costs and not as an operating segment cost. In addition, management applies an effective income tax rate to its consolidated income before income taxes so income taxes are not reported or viewed internally on a segment basis. 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.

No geographic information for revenues from external customers or for long-lived assets is disclosed since the Company's primary market and capital investments are concentrated in the United States.

Reportable segment data reconciled to the consolidated financial statements for the years ended 2000, 1999, and 1998 is as follows:

<i>(In thousands)</i>	2000	1999	1998
<b>Net sales:</b>			
Office furniture	<b>\$1,649,937</b>	\$1,514,991	\$1,460,668
Hearth products	<b>396,349</b>	285,940	245,960
	<b>\$2,046,286</b>	\$1,800,931	\$1,706,628
<b>Operating profit:</b>			
Office furniture*	<b>\$ 171,647</b>	\$ 131,607	\$ 165,314
Hearth products	<b>30,232</b>	34,588	31,478
Total operating profit	<b>201,879</b>	166,195	196,792
Unallocated corporate expenses	<b>(35,915)</b>	(28,620)	(26,683)
Income before income taxes	<b>\$ 165,964</b>	\$ 137,575	\$ 170,109
<b>Identifiable assets:</b>			
Office furniture	<b>\$ 638,075</b>	\$ 678,503	\$ 660,626
Hearth products	<b>327,528</b>	174,386	154,817
General corporate	<b>56,867</b>	53,834	49,026
	<b>\$1,022,470</b>	\$ 906,723	\$ 864,469
<b>Depreciation and amortization expense:</b>			
Office furniture	<b>\$ 58,926</b>	\$ 52,483	\$ 42,562
Hearth products	<b>18,109</b>	11,065	9,120
General corporate	<b>2,011</b>	1,905	1,317
	<b>\$ 79,046</b>	\$ 65,453	\$ 52,999
<b>Capital expenditures – net:</b>			
Office furniture	<b>\$ 39,361</b>	\$ 48,565	\$ 128,482
Hearth products	<b>17,643</b>	16,489	18,162
General corporate	<b>2,836</b>	6,420	3,073
	<b>\$ 59,840</b>	\$ 71,474	\$ 149,717

\*1999 includes a one-time pre-tax charge of \$19.7 million for the closing of facilities and reorganization expenses.

One office furniture customer accounted for approximately 14%, 13%, and 12% of consolidated net sales in 2000, 1999, and 1998, respectively.

## Summary of Unaudited Quarterly Results of Operations

The following table presents certain unaudited quarterly financial information for each of the past 12 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.

<i>(In thousands, except per share data)</i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>Year-End 2000 (a)(b):</b>				
Net sales	\$481,523	\$509,649	\$535,322	\$519,792
Cost of products sold	329,416	343,842	354,367	352,779
Gross profit	152,107	165,807	180,955	167,013
Selling and administrative expenses	111,214	125,513	124,197	126,924
Operating income	40,893	40,294	56,758	40,089
Interest income (expense) – net	(2,550)	(3,688)	(3,303)	(2,529)
Income before income taxes	38,343	36,606	53,455	37,560
Income taxes	13,803	13,188	19,234	13,522
Net income	\$ 24,540	\$ 23,418	\$ 34,221	\$ 24,038
Net income per common share	\$ .41	\$ .39	\$ .57	\$ .40
Weighted-average common shares outstanding	60,186	60,145	60,162	60,069
<b>As a Percentage of Net Sales</b>				
Net sales	100.0%	100.0%	100.0%	100.0%
Gross profit	31.6	32.5	33.8	32.1
Selling and administrative expenses	23.1	24.6	23.2	24.4
Operating income	8.5	7.9	10.6	7.7
Income taxes	2.9	2.6	3.6	2.6
Net income	5.1	4.6	6.4	4.6
<b>Year-End 1999 (a):</b>				
Net sales	\$427,660	\$422,377	\$478,609	\$472,285
Cost of products sold	295,222	292,077	327,243	322,070
Gross profit	132,438	130,300	151,366	150,215
Selling and administrative expenses	92,465	92,454	104,105	109,173
Provision for closing facilities and reorganization expenses	19,679	–	–	–
Operating income	20,294	37,846	47,261	41,042
Interest income (expense) – net	(2,045)	(2,399)	(2,160)	(2,264)
Income before income taxes	18,249	35,447	45,101	38,778
Income taxes	6,661	12,938	16,462	14,154
Net income	\$ 11,588	\$ 22,509	\$ 28,639	\$ 24,624
Net income per common share	\$ .19	\$ .37	\$ .47	\$ .41
Weighted-average common shares outstanding	61,154	61,169	60,921	60,159
<b>As a Percentage of Net Sales</b>				
Net sales	100.0%	100.0%	100.0%	100.0%
Gross profit	31.0	30.8	31.6	31.8
Selling and administrative expenses	21.6	21.9	21.8	23.1
Provision for closing facilities and reorganization expenses	4.6	–	–	–
Operating income	4.7	9.0	9.9	8.7
Income taxes	1.6	3.1	3.5	3.0
Net income	2.7	5.3	6.0	5.2

(In thousands, except per share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>Year-End 1998 (a)(c):</b>				
Net sales	\$420,791	\$403,809	\$451,320	\$430,708
Cost of products sold	291,571	278,107	309,080	294,239
Gross profit	129,220	125,702	142,240	136,469
Selling and administrative expenses	91,091	85,605	90,803	86,955
Operating income	38,129	40,097	51,437	49,514
Interest income (expense) – net	(2,172)	(2,691)	(2,025)	(2,180)
Income before income taxes	35,957	37,406	49,412	47,334
Income taxes	13,484	14,027	18,530	17,755
Net income	\$ 22,473	\$ 23,379	\$ 30,882	\$ 29,579
Net income per common share	\$ .36	\$ .38	\$ .50	\$ .48
Weighted-average common shares outstanding	61,648	61,663	61,691	61,596
<b>As a Percentage of Net Sales</b>				
Net sales	100.0%	100.0%	100.0%	100.0%
Gross profit	30.7	31.1	31.5	31.7
Selling and administrative expenses	21.6	21.2	20.1	20.2
Operating income	9.1	9.9	11.4	11.5
Income taxes	3.2	3.5	4.1	4.1
Net income	5.4	5.8	6.8	6.9

(a) Data has been restated to include shipping and handling costs billed to customers as revenue per EITF Issue No. 00-10.

(b) First quarter 2000 includes partial quarterly results of operation of American Fireplace Company and the Allied Group acquisitions acquired February 29, 2000.

(c) First quarter 1998 includes partial quarterly results of operation of Aladdin Steel Products, Inc. acquisition acquired February 20, 1998.

#### Common Stock Market Prices and Dividends (Unaudited) Quarterly 2000–1999

2000 by Quarter	High	Low	Dividends per Share
1st	\$25¾	\$15¾	\$.11
2nd	27¾	23	.11
3rd	27¾	23¾	.11
4th	27¾	21	.11
<b>Total Dividends Paid</b>			<b>\$ .44</b>
1999 by Quarter	High	Low	Dividends per Share
1st	\$24½	\$19¾	\$.095
2nd	29¾	21½	.095
3rd	28½	19½	.095
4th	23¾	18¾	.095
<b>Total Dividends Paid</b>			<b>\$ .38</b>

#### Common Stock Market Price and Price/Earnings Ratio (Unaudited) Fiscal Years 2000–1990

Year	Market Price*		Earnings per Share*	Price/Earnings Ratio	
	High	Low		High	Low
<b>2000</b>	<b>27¾</b>	<b>15¾</b>	<b>1.77</b>	<b>16</b>	<b>9</b>
<b>1999</b>	29¾	18¾	1.44	21	13
<b>1998</b>	37¾	20	1.72	22	12
<b>1997</b>	32½	15¾	1.45	22	11
<b>1996</b>	21¾	9¼	1.13	19	8
<b>1995</b>	15¾	11½	.67	23	17
<b>1994</b>	17	12	.87	20	14
<b>1993</b>	14¾	10¾	.70	21	15
<b>1992</b>	11¾	8¼	.59	20	14
<b>1991</b>	10¼	6¾	.51	20	13
<b>1990</b>	11½	6¾	.65	18	10
<b>Eleven-Year Average</b>				<b>20</b>	<b>12</b>

\*Adjusted for the effect of stock splits

## Selected Financial Data – Eleven-Year Summary

	2000 <sup>(a)</sup>	1999 <sup>(a)</sup>	1998 <sup>(a)</sup>	1997
<b>Per Common Share Data</b>				
Income before Cumulative Effect of Accounting Changes	\$ 1.77	\$ 1.44	\$ 1.72	\$ 1.45
Cumulative Effect of Accounting Changes	–	–	–	–
Net Income	1.77	1.44	1.72	1.45
Cash Dividends	.44	.38	.32	.28
Book Value	9.59	8.33	7.54	6.19
Net Working Capital	1.09	1.52	1.19	1.53
<b>Operating Results (Thousands of Dollars)</b>				
Net Sales	\$2,046,286	\$1,800,931	\$1,706,628	\$1,362,713
Cost of Products Sold	1,380,404	1,236,612	1,172,997	933,157
Gross Profit	665,882	564,319	533,631	429,556
Interest Expense	14,015	9,712	10,658	8,179
Income before Income Taxes	165,964	137,575	170,109	139,128
Income before Income Taxes as a % of Net Sales	8.11%	7.64%	9.97%	10.21%
Federal and State Income Taxes	\$ 59,747	\$ 50,215	\$ 63,796	\$ 52,173
Effective Tax Rate	36.0%	36.5%	37.50%	37.50%
Income before Cumulative Effect of Accounting Changes	\$ 106,217	\$ 87,360	\$ 106,313	\$ 86,955
Net Income	106,217	87,360	106,313	86,955
Net Income as a % of Net Sales	5.19%	4.85%	6.23%	6.38%
Cash Dividends and Share Purchase Rights Redeemed	\$ 26,455	\$ 23,112	\$ 19,730	\$ 16,736
Addition to (Reduction of) Retained Earnings	79,762	64,248	86,583	37,838
Net Income Applicable to Common Stock	106,217	87,360	106,313	86,955
% Return on Average Shareholders' Equity	19.77%	18.14%	25.20%	27.43%
Depreciation and Amortization	\$ 79,046	\$ 65,453	\$ 52,999	\$ 35,610
<b>Distribution of Net Income</b>				
% Paid to Shareholders	24.91%	26.46%	18.56%	19.25%
% Reinvested in Business	75.09%	73.54%	81.44%	80.75%
<b>Financial Position (Thousands of Dollars)</b>				
Current Assets	\$ 330,141	\$ 316,556	\$ 290,329	\$ 295,150
Current Liabilities	264,868	225,123	217,438	200,759
Working Capital	65,273	91,433	72,891	94,391
Net Property, Plant, and Equipment	454,312	455,591	444,177	341,030
Total Assets	1,022,470	906,723	864,469	754,673
% Return on Beginning Assets Employed	19.63%	16.94%	23.74%	28.27%
Long-Term Debt and Capital Lease Obligations	\$ 128,285	\$ 124,173	\$ 135,563	\$ 134,511
Shareholders' Equity	573,342	501,271	462,022	381,662
Retained Earnings	495,796	416,034	351,786	265,203
Current Ratio	1.25	1.41	1.34	1.47
<b>Current Share Data</b>				
Number of Shares Outstanding at Year-End	59,796,891	60,171,753	61,289,618	61,659,316
Weighted-Average Shares Outstanding During Year	60,140,302	60,854,579	61,649,531	59,779,508
Number of Shareholders of Record at Year-End	6,563	6,737	5,877	5,399
<b>Other Operational Data</b>				
Capital Expenditures – Net (Thousands of Dollars)	\$ 59,840	\$ 71,474	\$ 149,717	\$ 85,491
Members (Employees) at Year-End	11,543 <sup>(b)</sup>	10,095	9,824 <sup>(b)</sup>	9,390 <sup>(b)</sup>

(a) Data has been restated to include shipping and handling costs billed to customers as revenue per EITF Issue No. 00-10. Restatement of prior years deemed immaterial.

(b) Includes acquisitions completed during year.



	1996	1995	1994	1993	1992	1991	1990
	\$ 1.13	\$ .67	\$ .87	\$ .69	\$ .59	\$ .51	\$ .65
	–	–	–	.01	–	–	–
	1.13	.67	.87	.70	.59	.51	.65
	.25	.24	.22	.20	.19	.18	.15
	4.25	3.56	3.17	2.83	2.52	2.32	2.03
	.89	1.07	1.27	1.23	1.23	1.07	.82
	\$998,135	\$893,119	\$845,998	\$780,326	\$706,550	\$607,710	\$663,896
	679,496	624,700	573,392	537,828	479,179	411,168	458,522
	318,639	268,419	272,606	242,498	227,371	196,542	205,374
	4,173	3,569	3,248	3,120	3,441	3,533	3,611
	105,267	65,517	86,338	70,854	61,893	52,653	69,085
	10.55%	7.34%	10.21%	9.08%	8.76%	8.66%	10.41%
	\$ 37,173	\$ 24,419	\$ 31,945	\$ 26,216	\$ 23,210	\$ 19,745	\$ 25,907
	35.31%	37.27%	37.00%	37.00%	37.50%	37.50%	37.50%
	\$ 68,094	\$ 41,098	\$ 54,393	\$ 44,638	\$ 38,683	\$ 32,908	\$ 43,178
	68,094	41,098	54,156	45,127	38,683	32,908	43,178
	6.82%	4.60%	6.43%	5.78%	5.47%	5.42%	6.50%
	\$ 14,970	\$ 14,536	\$ 13,601	\$ 12,587	\$ 12,114	\$ 11,656	\$ 9,931
	33,860	18,863	13,563	17,338	26,569	18,182	(11,952)
	68,094	41,098	54,156	45,127	38,683	32,908	43,178
	29.06%	20.00%	28.95%	26.35%	24.75%	23.41%	33.24%
	\$ 25,252	\$ 21,416	\$ 19,042	\$ 16,631	\$ 15,478	\$ 14,084	\$ 13,973
	21.98%	35.37%	25.11%	27.89%	31.32%	35.42%	23.00%
	78.02%	64.63%	74.89%	72.11%	68.68%	64.58%	77.00%
	\$205,527	\$194,183	\$188,810	\$188,419	\$171,309	\$150,901	\$146,591
	152,553	128,915	111,093	110,759	91,780	82,275	93,465
	52,974	65,268	77,717	77,660	79,529	68,626	53,126
	234,616	210,033	177,844	157,770	145,849	125,465	124,603
	513,514	409,518	372,568	352,405	322,746	280,893	276,984
	25.93%	17.91%	24.72%	22.14%	22.18%	19.66%	24.00%
	\$ 77,605	\$ 42,581	\$ 45,877	\$ 45,916	\$ 50,961	\$ 32,734	\$ 37,250
	252,397	216,235	194,640	179,553	163,009	149,575	131,612
	227,365	193,505	174,642	161,079	143,741	117,172	98,990
	1.35	1.51	1.70	1.70	1.87	1.83	1.57
	59,426,530	60,788,674	61,349,206	63,351,692	64,737,912	64,417,370	64,769,794
	60,228,590	60,991,284	62,435,450	64,181,088	65,517,990	64,742,976	66,220,810
	5,319	5,479	5,556	4,653	4,534	4,466	4,331
	\$ 44,684	\$ 53,879	\$ 35,005	\$ 27,541	\$ 26,626	\$ 13,907	\$ 20,709
	6,502 <sup>(b)</sup>	5,933	6,131	6,257	5,926	5,599	6,073

## Report of Independent Public Accountants

To the Board of Directors of HON INDUSTRIES Inc.

We have audited the accompanying consolidated balance sheets of HON INDUSTRIES Inc. and subsidiaries as of December 30, 2000, January 1, 2000, and January 2, 1999, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the fiscal years then ended. 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 auditing standards generally accepted in the United States. 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 December 30, 2000, January 1, 2000, and January 2, 1999, and the results of its operations and its cash flows for each of the three fiscal years then ended, in conformity with accounting principles generally accepted in the United States.



Chicago, Illinois  
February 5, 2001

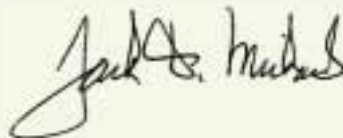
## Management's Responsibility for Financial Statements

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, is 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 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*

A photograph of a man in a dark blue t-shirt and jeans holding a young boy in a striped shirt and a black baseball cap. They are both smiling and looking at each other. The background is a bright blue sky with white clouds.

## Supporting our communities: We'll be there.

HON INDUSTRIES is dedicated to improving the quality of life in communities where our members live, work, and raise their families. Nothing is more important than the active participation of our members in community affairs. Whether coaching youth sports activities, leading a scout troop, or reading to elementary school students, our members make a difference. Through their volunteer efforts, they give back to our communities.

The HON INDUSTRIES Charitable Foundation devotes its efforts to benefit and enhance our communities, education, and families and children. The Foundation recently helped expand day care in one community to serve more than 100 children. Through awards to educational institutions and scholarships for members' children, the Foundation improves educational opportunities. It also helps museums, cultural institutions, and other nonprofit organizations create programs that benefit personal growth for families and children.

Now and in the future, HON INDUSTRIES and its members will be there to invest in our communities, our education system, and families and children to ensure a prosperous future.

## Board of Directors



**Gary M. Christensen**

*President and  
Chief Executive Officer,  
Pella Corporation*

**Robert W. Cox**

*Chairman Emeritus,  
Baker & McKenzie*

**Cheryl A. Francis**

*Former Executive  
Vice President and CFO,  
RR Donnelly & Sons  
Company*

**Gus Hillenbrand**

*Retired President and  
Chief Executive Officer,  
Hillenbrand Industries, Inc.*

**Robert L. Katz**

*President,  
Robert L. Katz  
and Associates*

**Dennis J. Martin**

*Executive Vice President,  
Illinois Tool Works, Inc.  
President,  
ITW Hobart  
President,  
The Miller Group, ITW*

*HON INDUSTRIES directors are seated in the Mirati® chair from Allsteel. The chair's hourglass silhouette reflects European trends while its substance is decidedly American. The influences are skillfully blended to create a striking transatlantic design.*



**Jack D. Michaels**  
*Chairman, President  
and CEO,  
HON INDUSTRIES Inc.*

**Abbie J. Smith**  
*Chaired Professor,  
The University  
of Chicago, Graduate  
School of Business*

**Richard H. Stanley**  
*Vice Chairman of the  
Board of Directors,  
HON INDUSTRIES Inc.  
Chairman,  
SC Companies, Inc.  
Chairman,  
Stanley Consultants, Inc.*

**Brian E. Stern**  
*President, Xerox  
Technology Enterprises  
Xerox Corporation*

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

#### **Committees of the Board**

##### **Audit**

Cheryl A. Francis, *Chairperson*  
Gus Hillenbrand  
Dennis J. Martin  
Abbie J. Smith

##### **Human Resources and Compensation**

Lorne R. Waxlax, *Chairperson*  
Gary M. Christensen  
Robert L. Katz

##### **Public Policy and Corporate Governance**

Richard H. Stanley, *Chairperson*  
Robert W. Cox  
Brian E. Stern

## Officers

**JACK D. MICHAELS**  
*Chairman, President and CEO*

**JERALD K. DITTMER**  
*Vice President, Finance*

**JEFFREY D. FICK**  
*Vice President, Member  
and Community Relations*

**MALCOLM C. FIELDS**  
*Vice President and  
Chief Information Officer*

**ROBERT D. HAYES**  
*Vice President, Internal Audit*

**JAMES I. JOHNSON**  
*Vice President,  
General Counsel and Secretary*

**GORDON R. MARSHALL**  
*Vice President, Marketing*

**JOHN S. MCGLINN**  
*Senior Vice President,  
Operations Improvement*

**PHILLIP M. MARTINEAU**  
*Executive Vice President, Wood*

**MELVIN L. McMAINS**  
*Vice President and Controller*

**THOMAS K. MILLER**  
*Vice President, International*

**WILLIAM F. SNYDACKER**  
*Treasurer*

**DAVID C. STUEBE**  
*Vice President and Chief Financial Officer*

## Subsidiaries

**ALLSTEEL INC.**  
**STANLEY A. ASKREN**  
*President*

**BPI INC.**  
**JEAN M. REYNOLDS**  
*President*

**HEARTH TECHNOLOGIES INC.**  
**DANIEL C. SHIMEK**  
*President*

**HOLGA INC.**  
**BRIAN R. OKEN**  
*President*

**THE HON COMPANY**  
**DAVID C. BURDAKIN**  
*President*

## Investor Information

### 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 2001 Quarter-End Dates

1st Quarter >Saturday, March 31  
2nd Quarter >Saturday, June 30  
3rd Quarter >Saturday, September 29  
4th Quarter >Saturday, December 29

### Annual Meeting

The Company's annual shareholders' meeting will be held at 10:30 a.m. on Monday, May 7, 2001, 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

HON INDUSTRIES Inc.  
414 East Third Street  
P.O. Box 1109  
Muscatine, IA 52761-0071  
Telephone: 319-264-7400  
Fax: 319-264-7217  
Website: [www.honi.com](http://www.honi.com)

### Independent Public Accountants

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

### 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 JAMES P. MCKEONE,  
*Investor Relations Manager*

HON INDUSTRIES Inc.  
P.O. Box 1109  
Muscatine, IA 52761-0071  
Telephone: 319-264-7400  
Fax: 319-264-7655  
[www.honi.com](http://www.honi.com)

### Common Stock

HON INDUSTRIES common stock trades on the New York Stock Exchange under the symbol: HNI. Stock price quotations can be found in major daily newspapers and The Wall Street Journal.

### Transfer Agent

Shareholders may report a change of address or make inquiries by writing or calling:

Computershare Investor Services, LLC  
2 North LaSalle Street  
Chicago, IL 60602  
Telephone: 312-588-4991

### 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 to realize cost savings and productivity improvements; 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.