Our story hasn't changed.

HNI Corporation | 2005 Annual Report

It’s the

same culture.

Our culture hasn't changed. Culture is a major part of what differentiates us from the competition. But besides making us different, why is our culture relevant? Because it drives our behaviors, which in turn drive our results. Virtually everyone who works here owns stock and has a stake in the profits. That creates an ownership mentality across the entire company—a sense of shared risk and shared reward, and a belief among members that they can make a difference in HNI's performance. This culture of ours is a constant. It will continue to be a guiding and unifying force as we expand our capabilities and pursue growth.

The same mindset.

Constructive discontent. That's our mindset, and it hasn't changed. Constructive discontent drives a constant focus on the customer and end user, on how we can provide them more, better, faster and for less—in short, on how we can deliver performance that's always improving. Our mindset is supported and formalized across nearly every aspect of our operations, from manufacturing to marketing, in Rapid Continuous Improvement (RCI) processes. That will continue.

The same business model.

Our split-and-focus business model hasn't changed. HNI's decentralized structure enables operating businesses to stay closely connected to the customer, maintain maximum marketplace awareness and quickly respond to emerging opportunities. At the same time, communication and collaboration between the business units create leverage in core functions like purchasing, IT and logistics. HNI businesses also routinely share best practices, from lean manufacturing to product development and marketing techniques.

Moving continuously forward.

It's the same strategy. It hasn't changed. We're pushing constantly ahead, leveraging our unique culture, mindset and business model toward the overriding goal of aggressive, profitable growth. Key to achieving this goal is building our market power, continuing to hone our best-cost, lean enterprise, and enhancing our culture and capabilities. Our strategy has a dual focus: working continuously to extract new growth from our core markets while we identify and develop new, adjacent potential areas of growth. We call this strategy Core Plus.

Core.

At the core of our approach is HNI's decentralized split-and-focus business model: a group of separate business units, operating in the office furniture and hearth products markets, centered on specific segments of end users.

The HON Company's core emphasis is on the office furniture needs of small businesses and individuals. Allsteel Inc. focuses primarily on larger organizations and designers/architects who serve them. The Gunlocke Company L.L.C. and Paoli Inc. concentrate on those who want the elegance of wood in their private offices. Hearth & Home Technologies Inc. helps builders, designers and homeowners enhance the warmth and beauty of the home. All our other businesses share this sharp focus on specific end-user groups, each of which has unique wants, needs and buying processes.

In the "Core" portion of our Core Plus growth strategy, we are extracting new growth from each existing business by deepening our understanding of end users, using new insights gained to refine branding, selling and marketing and developing new products to serve them better. We're continually improving operations while increasingly applying lean principles to the customer-facing end of our businesses. And we are always alert to potential acquisitions that expand the core customer base.

The “Plus” side of our growth strategy is the application of our split-and-focus model to new buyer segments. That is, we identify an opportunity, then we leverage our strengths and tailor the business to pursue it. The highly agile, flexible nature of our business structure enables us to adjust the moving parts—the selling model, the product/business model or a combination of both—to create winning buying experiences and new sources of growth.

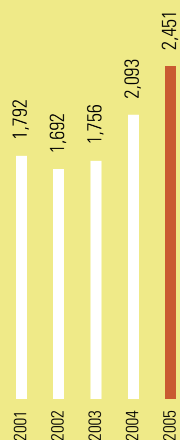
A “Plus” opportunity is defined by any potential growth driver outside but related to our core business. That could be a vertical market like schools, government offices, healthcare providers or entrepreneurs, which are segments being pursued by a number of our business units. Or, it could be a new distribution model, which both Allsteel and our Hearth & Home business are developing. A “Plus” opportunity also can be a new business entirely, such as Omni Workspace Company’s furniture services, or new geographic markets, which HNI International is exploring.

We often support “Plus” strategies with highly specialized “Segment Selling Experts.” These are professionals who intimately know the end users of a given segment—how they talk, how they work, what they need and how they buy—and help us tune the selling process to fit.

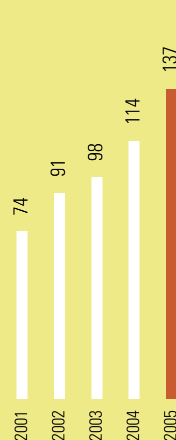
Plus.

Amounts in thousands, except for per share data	**2005**	2004	Change
Income Statement Data			
Net sales	**$2,450,572**	$2,093,447	17.1 %
Gross profit	**887,918**	751,304	18.2 %
Gross profit as a % of:			
Net sales	**36.2%**	35.9%	–
Selling and administrative expenses	**668,910**	572,006	16.9 %
Restructuring related charges	**3,462**	886	290.7 %
Operating income	**215,546**	178,412	20.8 %
Net income	**137,420**	113,582	21.0 %
Net income as a % of:			
Net sales	**5.6%**	5.4%	–
Average shareholders' equity	**21.8%**	16.5%	–
Per common share:			
Net income – basic	**$ 2.51**	$ 1.99	26.1 %
Net income – diluted	**2.50**	1.97	26.9 %
Book value – basic	**11.46**	12.10	(5.3)%
Cash dividends	**0.62**	0.56	10.7 %
Balance Sheet Data			
Current assets	**$ 486,598**	$ 374,579	29.9 %
Total assets	**1,140,271**	1,021,657	11.7 %
Current liabilities	**358,174**	266,250	34.5 %
Current ratio	**1.36**	1.41	–
Long-term debt and capital lease obligations	**$ 103,869**	$ 3,645	2,749.6 %
Debt/capitalization ratio	**19.5%**	0.6%	–
Shareholders' equity	**$ 593,944**	$ 669,163	(11.2)%
Average shareholders' equity	**631,554**	689,526	(8.4)%
Working capital	**128,424**	108,329	18.5 %
Other Data			
Capital expenditures	**$ 38,912**	$ 32,417	20.0 %
Cash flow from operations	**201,009**	194,256	3.5 %
Weighted-average shares outstanding during year – basic	**54,649,199**	57,127,110	(4.3)%
Price/earnings ratio at year-end	**22**	22	–
Number of shareholders at year-end	**6,702**	6,465	3.7 %
Members (employees) at year-end	**12,504**	10,589	18.1 %

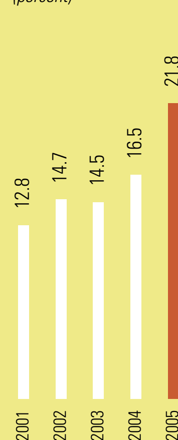
Net Sales
(in millions)



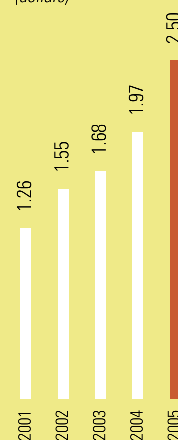
Net Income
(in millions)



Return on Average Shareholders' Equity
(percent)



Diluted Earnings per Share
(dollars)



Dear shareholders:

Our story has not changed. We're still leveraging our unique culture, mindset and business model to grow. We're still committed to the same set of values and beliefs. We're still focused on continuously enhancing our processes and products to improve performance.

The story hasn't changed because we're in the midst of executing our strategy to deliver aggressive, profitable growth. If our 2005 results are any indication, the strategy is working well. But this is no time to rest.

Because, even though we posted excellent results in the year just past, investors rightfully want to know how we plan to sustain our performance going forward.

Our answer is Core Plus.

STAN A. ASKREN
CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER

A POWERFUL PLATFORM: OUR SPLIT-AND-FOCUS BUSINESS MODEL

Along with our culture and our lean operations, our decentralized business model is absolutely key to our growth plans.

As we said in last year's annual report: "We believe strongly that smaller, focused groups of skilled, dedicated people, empowered and energized in the right business models, are very effective competitors to larger, more centralized organizations. We believe this split-and-focus approach, where leaders in each operating company have responsibility for a distinct P&L, a specialist's knowledge of the target market and the ability to operate with minimal corporate interference, is a much more effective way to deliver value to customers and, ultimately, shareholders."

Believers in centralization speak of economies of scale. Scale certainly has its benefits in terms of managing costs—we achieve these without structural centralization though our business units working together on such functions as procurement, IT, logistics and legal—but we believe operating as a large, centralized business can be a disadvantage in a dynamic and highly competitive marketplace. It can be more difficult to tailor processes for market segments, tougher to respond quickly to opportunities and more of a challenge to maintain focus. We call this the "dis-economies of scale."

Split and focus is a very effective model from which to identify and develop new avenues of growth. It's designed to separate a target segment, then tune and tailor a business model to go after it, efficiently and effectively. Allsteel is an excellent example of the power of this approach.

“Along with our culture and our lean operations, the HNI split-and-focus business model is what makes our Core Plus growth strategy so viable.”

Several years ago, we split and focused the Allsteel business, creating a separate management team and business model. Today, Allsteel is a vital and growing part of our core business.

CORE PLUS: CONVERTING OUR MODEL INTO PROFITABLE LONG-TERM GROWTH

Core Plus is about finding ways of growing the existing businesses (the “Core”) while seeking out and developing new frontiers for growth (the “Plus”), which we call domain extensions. If a domain extension thrives, it becomes a part of the core; if it does not meet our expectations, we end it and move on.

At any given time, we have numerous domain extensions in progress. A good example is The HON Company’s development of the K–12 classroom segment. This is a natural extension for HON, already a strong brand among those who buy furniture for school administrative offices. HON for Learning™ represents a whole new product line and selling model designed for the classroom furniture segment, which is different in its needs and processes from purchasers of school office furnishings. The *basyx* brand represents a new brand and product line for The HON Company focused on entrepreneurs and start-ups, a segment reachable largely through its existing selling model.

Allsteel Inc., The HON Company and Paoli Inc. are pursuing domain extensions with the government segment, a strong market for existing product lines that requires a highly tailored selling and fulfillment model. Allsteel Inc. and Hearth & Home Technologies Inc. are developing a unique, more competitive distribution model that includes the strategic acquisition of key dealers. In this promising “Plus” strategy, we invest together with the dealer to more aggressively, efficiently and effectively develop markets. These are just a few of the domain extensions currently in development that we believe will drive profitable growth in both the short and long term for HNI.

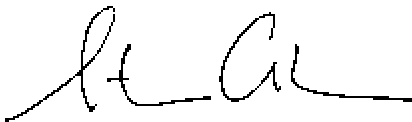
CULTURE: THE POWER BEHIND THE STRATEGY

You've heard us say this many times before: Culture matters because it drives behaviors. And, at all levels of any organization, behaviors drive results. That's why enhancing culture and capabilities is an important element of aggressive, profitable growth. Our model, our culture and our values also are benefiting us by increasingly attracting people to HNI who seek, rather than avoid, accountability; who are motivated rather than intimidated by risk and reward; who are excited to have an opportunity to have an impact on the success of the business. Our culture is the power that really makes split and focus and Core Plus work. It is something we will continue to nurture as we grow.

THANKS

It has been a very gratifying year. We met or exceeded our objectives. We made significant progress in our strategies. We owe a debt of gratitude to all who have contributed to our performance thus far. First and foremost, this group includes our members, whose dedication and performance are a source of collective pride for us all. Thanks also are due our customers and suppliers for the critical part they play in our success.

It's an exciting time to be associated with HNI—with our business model, our strategy and our people, I see powerful potential and possibilities. We intend to stay humble, stay focused and work hard to achieve great things for our company, our customers and our investors.



STAN A. ASKREN

Chairman, President and Chief Executive Officer

HNI at a glance

HNI Corporation is a strong group of performers in the office furniture and hearth products businesses. Our unique business model enables a high degree of focus and agility in distinct markets.

Allsteel® HON® Gunlocke® PAOLI FURNITURE

basyx™

HNI International

heatilator® The first name in fireplaces

HEAT&GLO™ QUADRA-FIRE®

HNI
FIRESID

Allsteel®

Allsteel Inc. delivers the highest level of functionality, durability, service, design and style to large corporate and institutional clients. By focusing on these five elements of quality, Allsteel helps clients achieve more productive facilities, more satisifed workers and unique, inspiring workspaces. Allsteel prides itself on being easy to work with, responsive and responsible. This is Allsteel: Designed to work. Built to last.

The HON Company is North America's brand of choice for small and medium-sized businesses. From file cabinets to executive chairs, desks to panel systems, The HON Company offers a full line of affordable and stylish products that look great for years to come. The HON Company's nationwide distribution network provides industry-leading access to top-selling products. As businesses expand, HON designs allow new products to easily integrate with existing solutions. The HON Company: Smart now. . .smarter later.

Gunlocke®

The Gunlocke Company L.L.C. is recognized as an industry leader in the design, manufacture and marketing of premium wood office furniture: casegoods, seating and tables. As it focuses on developing fresh, responsive new solutions for the private office, the company carries forward a tradition of quality craftsmanship, technical expertise and conscientious customer service. The choice of leading decision makers in a range of industries as well as of eight U.S. Presidents, the Gunlocke name is synonymous with design integrity, manufacturing excellence and enduring value.

PAOLI FURNITURE™

Paoli Inc. is one of the leading providers of high-aesthetic wood desks and seating at moderate prices for small to medium-sized companies and furniture specifiers who serve them. Paoli Inc. is known for its broad line of products and quick-ship program, close relationships and positive reputation with dealers, flexibility and responsiveness to customer needs, and experienced, dedicated management team. Paoli Inc. goes to market through the Paoli® and Whitehall® brands.

Maxon Furniture Inc. provides panel system solutions for small to mid-sized businesses seeking to remodel or expand their offices. Reaching potential end users with Internet-based marketing and interactive online tools, Maxon Furniture Inc. creates uncontested leads for its distribution partners. Its simplified buying process for target customers provides innovative tools that satisfy their unique needs. Maxon Furniture Inc. provides proven products and services at outstanding value and industry-leading speed. In short, MAXON gets customers working fast.

basyx™ answers the small business owner's need to furnish an office by providing professional office furniture at an exceptional price without sacrificing design and quality. The basyx brand has a simple yet complete line of desking, seating, storage and table options that offers clear solutions for open office, private office, reception area, conference room and training room layouts. For easy availability, basyx product is offered through a nationwide network of dealers. Although running a business comes with risks, basyx ensures that purchasing office furniture will not be one of them.
basyx: Simple, clear, easy.

Omni Workspace Company comprises two divisions, Omni Service Group and IntraSpec Solutions, that serve small, medium-sized and large businesses. Omni Service Group executes facility services for Fortune 1000 customers and contract furniture dealerships, simplifying the work order, management and reporting process. IntraSpec Solutions provides high-quality, remanufactured brand-name office furniture systems. IntraSpec Solutions asset management and trade-in programs help customers with standardized systems get the most value from their existing furniture assets.

HNI International

HNI International Inc. markets and distributes HON®, Allsteel®, Gunlocke® and Paoli® brands worldwide, outside of the United States and Canada. It offers one of the largest selections of office furniture and related services in the world, providing a "house of brands" that allows it to tailor solutions to every need, budget and location. HNI International Inc. supports global corporate accounts as well as domestic and international dealers with sales, installation and service for industries all over the globe. With dealers, members and servicing partners in many countries, HNI International Inc. can provide complete project management virtually anywhere in the world.

Fireside Hearth & Home™, the leading brand in providing hearth products and services, helps consumers achieve the feeling they want in their home by supporting the entire buying process – from purchase to installation and after-sale service. The Fireside Hearth & Home business operates through a network of independent and company-owned, stand-alone or gallery design centers, as well as installation centers, catering to both consumers and builders.

Heatilator® has become the most recognized and preferred fireplace brand among home-builders since its first air-circulating fireplace was patented in 1927. As testament to its long-standing reputation for quality, leading builders choose Heatilator because they know that the brand assures their customers continuous comfort and reliability.

HEAT & GLO

Where everything comes together

Heat & Glo™, winner of the most industry awards for technology and innovation, owns the premium position in the marketplace by consistently developing hearth products that push technological and design boundaries. The Heat & Glo brand is focused sharply on consumer desires to create products that promote balance, style, comfort and sophistication in the home. As a result, the Heat & Glo brand represents some of the most distinctive and realistic gas, wood and electric fireplaces, stoves and fireplace inserts, surrounds and accessories in the market.

QUADRA-FIRE®

Quadra-Fire®, the leader in highly efficient, durable and powerful hearth products, offers the widest selection of high-performance fireplaces, stoves and fireplace inserts in the wood, gas and pellet fuel categories. Quadra-Fire products boast high efficiency and a rugged exterior. The products use heavy-gauge steel and cast iron along with details to improve performance and enhance appearance.

The following discussion of the Corporation's historical results of operations and of its liquidity and capital resources should be read in conjunction with the Consolidated Financial Statements of the Corporation and related notes.

Overview

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

During 2005 and 2004, the office furniture industry experienced a rebound from the unprecedented three-year decline it faced from 2000 to 2003 that positively impacted the Corporation's office furniture segment. The housing market remained strong during 2005, which positively impacted the Corporation's hearth segment. During this rebound in the office furniture industry and strong housing market, the Corporation continued its focus on business simplification and cost reduction as well as investing in growth initiatives to provide long-term shareholder value.

In 2005, the Corporation experienced strong growth across its multiple brands and product lines. Sales benefited from price increases that were implemented in 2004 and early 2005 as well as acquisitions completed over the past two years. While steel prices moderated slightly during 2005, they remained at high levels. The Corporation also experienced increases in other material costs as well as increased freight costs as a result of fuel surcharges. The Corporation completed a number of small acquisitions during 2005 to support specific company strategies in both segments of its business. The Corporation began the shutdown of two office furniture facilities in 2005 and recorded charges of $4.1 million for restructuring costs and accelerated depreciation.

Critical Accounting Policies and Estimates

GENERAL

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon the Consolidated Financial Statements, which have been prepared in accordance with Generally Accepted Accounting Principles ("GAAP"). The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Senior management has discussed the development, selection, and disclosure of these estimates with the Audit Committee of our Board of Directors. Actual results may differ from these estimates under different assumptions or conditions.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the financial statements. Management believes the following critical accounting policies reflect its more significant estimates and assumptions used in the preparation of the Consolidated Financial Statements.

Fiscal year end – The Corporation follows a 52/53-week fiscal year which ends on the Saturday nearest December 31. Fiscal year 2005 ended on December 31, 2005; 2004 ended on January 1, 2005; and 2003 ended on January 3, 2004. The financial statements for fiscal year 2003 are based on a 53-week period, and fiscal years 2005 and 2004 are on a 52-week basis. A 53-week year occurs approximately every sixth year.

Revenue recognition – The Corporation normally recognizes revenue upon shipment of goods to customers. In certain circumstances revenue is not recognized until the goods are received by the customer or upon installation and customer acceptance based on the terms of the sale agreement. Revenue includes freight charged to customers; related costs are included in selling and administrative expense. Rebates, discounts, and other marketing program expenses directly related to the sale are recorded as a reduction to net sales. Marketing program accruals require the use of management estimates and the consideration of contractual arrangements subject to interpretation. Customer sales that reach certain award levels can affect the amount of such estimates, and actual results could differ from these estimates. Future market conditions may require increased incentive offerings, possibly resulting in an incremental reduction in net sales at the time the incentive is offered.

Allowance for doubtful accounts receivable – The allowance for doubtful accounts receivable is based on several factors including overall customer credit quality, historical write-off experience, and specific account analysis that projects the ultimate collectibility of the account. As such, these factors may change over time causing the Corporation to adjust the reserve level accordingly.

When the Corporation determines that a customer is unlikely to pay, a charge is recorded to bad debt expense in the income statement and the allowance for doubtful accounts is increased. When the Corporation is certain the customer cannot pay, the receivable is written off by removing the accounts receivable amount and reducing the allowance for doubtful accounts accordingly.

As of December 31, 2005, there was approximately $290 million in outstanding accounts receivable and $12 million recorded in the allowance for doubtful accounts to cover potential future customer non-payments. However, if economic conditions deteriorate significantly or one of the Corporation's large customers declares bankruptcy, a larger allowance for doubtful accounts might be necessary. The allowance for doubtful accounts was approximately $11 million at year end 2004 and 2003.

Inventory valuation – The Corporation valued 90% of its inventory by the last-in, first-out (LIFO) method at December 31, 2005. Additionally, the Corporation evaluates inventory reserves in terms of excess and obsolete exposure. This evaluation includes such factors as anticipated usage, inventory turnover, inventory levels, and ultimate product sales value. As such, these factors may change over time causing the Corporation to adjust the reserve level accordingly. The Corporation's reserves for excess and obsolete inventory were $8 million, $8 million, and $6 million at year-end 2005, 2004, and 2003, respectively.

Long-lived assets – The Corporation reviews long-lived assets for impairment as events or changes in circumstances occur indicating that the amount of the asset reflected in the Corporation's balance sheet may not be recoverable. The Corporation compares an estimate of undiscounted cash flows produced by the asset, or the appropriate group of assets, to the carrying value to determine whether impairment exists. The estimates of future cash flows involve considerable management judgment and are based upon the Corporation's assumptions about future operating performance. The actual cash flows could differ from management's estimates due to changes in business conditions, operating performance, and economic conditions. Asset impairment charges associated with the Corporation's restructuring activities are discussed in the Restructuring Related Charges note to the Consolidated Financial Statements of the Corporation.

The Corporation's continuous focus on improving the manufacturing process tends to increase the likelihood of assets being replaced; therefore, the Corporation is constantly evaluating the expected useful lives of its equipment, which can result in accelerated depreciation.

Goodwill and other intangibles – In accordance with the Statement of Financial Accounting Standards ("SFAS") No. 142, the Corporation evaluates its goodwill for impairment on an annual basis based on values at the end of third quarter or whenever indicators of impairment exist. The Corporation has evaluated its goodwill for impairment and has determined that the fair value of the reporting units exceeded their carrying value, so no impairment of goodwill was recognized for the period ending December 31, 2005. Goodwill of approximately $242 million is shown on the consolidated balance sheet as of the end of fiscal 2005.

Management's assumptions about future cash flows for the reporting units require significant judgment, and actual cash flows in the future may differ significantly from those forecasted today. The Corporation believes that its assumptions used in discounting future cash flows have no impact on the reported carrying amount of goodwill. The estimated future cash flow for any reporting unit could be reduced by 40% without decreasing the fair value to less than the carrying value.

The Corporation also determines the fair value of indefinite lived trademarks on an annual basis or whenever indication of impairment exist. The Corporation has evaluated its trademarks for impairment and recorded an impairment charge of $0.5 million in 2005 related to two trademarks where the carrying value exceeded the current fair market value. The carrying value of the trademarks was approximately $30 million at the end of fiscal 2005.

Self-insured reserves – The Corporation is partially self-insured for general, auto, and product liability, workers' compensation, and certain employee health benefits. The general, auto, product, and workers' compensation liabilities are managed via a wholly-owned insurance captive; the related liabilities are included in the accompanying financial statements. The Corporation's policy is to accrue amounts in accordance with the actuarially determined liabilities. The actuarial valuations are based on historical information along with certain assumptions about future events. Changes in assumptions for such matters as number of claims, medical cost inflation, and magnitude of change in actual experience development could cause these estimates to change in the near term.

Stock-based compensation – The Corporation accounts for its stock option plan using Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," which results in no charge to earnings when options are issued at fair market value. SFAS No. 123, "Accounting for Stock-Based Compensation," issued subsequent to APB No. 25 and amended by SFAS No. 148 "Accounting for Stock Based Compensation – Transition and Disclosure," defines a fair value-based method of accounting for employee stock options but allows companies to continue to measure compensation cost for employee stock options using the intrinsic value-based method described in APB No. 25.

In December 2004, the Financial Accounting Standards Board issued SFAS No. FAS123(R), "Share-Based Payment," effective as of the beginning of the first annual reporting period that begins after June 15, 2005. The Corporation plans to adopt FAS123(R) on January 1, 2006, the beginning of its fiscal year. FAS123(R) eliminates the alternative to use the intrinsic value method of accounting that was provided in FAS123 as originally issued. In accordance with SFAS No. 148, the Corporation has been disclosing in the notes in the Consolidated Financial Statements the impact on net income and earnings per share had the fair value-based method been adopted. If the fair value method had been adopted, the Corporation's net income for 2005, 2004, and 2003 would have been reduced by approximately $2 million, $5 million, and $3 million, respectively, and earnings per share would have been reduced approximately $0.03, $0.08, and $0.06 per diluted share, respectively.

Recent Accounting Pronouncements

See the notes to the Consolidated Financial Statements for a full description of recent accounting pronouncements including the respective expected dates of adoption and effects on results of operations and financial conditions.

Results of Operations

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

Fiscal	**2005**	2004	2003
Net sales	**100.0%**	100.0%	100.0%
Cost of products sold	**63.8**	64.1	63.6
Gross profit	**36.2**	35.9	36.4
Selling and administrative expenses	**27.3**	27.3	27.4
Restructuring related charges	**0.1**	0.1	0.5
Operating income	**8.8**	8.5	8.5
Interest income (expense) net	**0.0**	0.0	0.1
Income before income taxes and minority interest	**8.8**	8.5	8.6
Income taxes	**3.2**	3.1	3.0
Minority interest in earnings of subsidiary	**0.0**	0.0	0.0
Net income	**5.6%**	5.4%	5.6%

NET SALES

Net sales during 2005 were $2.5 billion, an increase of 17.1 percent, compared to net sales of $2.0 billion in 2004. The increase in 2005 was due to $92 million of incremental sales from acquisitions, $112 million from price increases implemented in 2004 and early 2005, and strong volume across all brands in both the office furniture and hearth products segments. Net sales during 2004 were $2.0 billion, an increase of 19.2 percent, compared to net sales of $1.8 billion in 2003. The increase in 2004 was due to $136 million of sales from the Corporation's 2004 acquisitions, $36 million from price increases, and increased volume in both segments.

GROSS PROFIT

Gross profit as a percent of net sales increased 0.3 percentage points in 2005 as compared to fiscal 2004 but is still 0.2 percentage points below 2003 levels due to ongoing cost reduction initiatives in addition to the benefit of price realization partially offsetting the significant steel and other material price increases experienced over the past two years. The Corporation's gross margins decreased 0.5 percentage points in 2004 compared to fiscal 2003 due to increased steel and other material costs.

SELLING AND ADMINISTRATIVE EXPENSES

Selling and administrative expenses, excluding restructuring charges, increased 16.9 percent and 19.0 percent in 2005 and 2004, respectively. The increase in 2005 was due to $26 million of additional costs from acquisitions; increased freight and distribution costs of $34 million due to volume, rate increases and fuel surcharges; investments in selling and marketing initiatives and product launches; and increased profit-sharing and incentive compensation expense due to strong results. The increase in 2004 was due to $39 million of additional costs from acquisitions; $26 million of increased freight and distribution costs due to volume, rate increases, and fuel surcharges; and investments in brand building and selling initiatives.

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

RESTRUCTURING CHARGES

During 2005, the Corporation began the shutdown of two office furniture facilities and is consolidating production into other U.S. manufacturing locations to increase efficiencies, streamline processes, and reduce overhead costs. The two facilities are located in Kent, Washington, and Van Nuys, California. In connection with these closures, the Corporation recorded $4.1 million of pre-tax charges or $0.04 per diluted share. These charges included $0.6 million of accelerated depreciation of machinery and equipment recorded in cost of sales, $1.2 million of severance, $0.4 million of pension related expenses, and $1.9 million of facility exit, production relocation, and other costs which were recorded as restructuring costs. The closures and consolidation will be completed during the first quarter of 2006.

During 2003, the Corporation closed two office furniture facilities and consolidated production into other U.S. manufacturing locations. The two facilities were located in Hazleton, Pennsylvania, and Milan, Tennessee. In connection with these closures, the Corporation recorded $15.7 million of pre-tax charges or $0.17 per diluted share. These charges included $6.7 million of accelerated depreciation of machinery and equipment that was recorded in cost of sales, $3.4 million of severance, and $5.6 million of facility exit, production relocation, and other costs that were recorded as restructuring costs. A total of 316 members were terminated and received severance due to these shutdowns. In connection with the shutdowns, the Corporation incurred $1.2 million of current period charges during 2004. The Corporation also reduced the restructuring charge recorded in 2003 by approximately $0.3 million related to its Milan, Tennessee, facility during 2004. The reduction was due to the fact that the Corporation was able to exit a lease with the lessor on more favorable terms than previously estimated. These closures were completed in 2004.

OPERATING INCOME

Operating income was $216 million in 2005, an increase of 20.8 percent compared to $178 million in 2004. The increase in 2005 was due to increased sales volume in both segments, and price increases, offset by increased material costs, investments in selling and marketing initiatives and product launches, increased freight costs, and restructuring costs due to plant closures and consolidations. Operating income increased 19.0 percent to $178 million in 2004 compared to $150 million in 2003. The increase in 2004 was due to increased sales volume in both segments, price increases, contributions from new acquisitions, and a $15 million restructuring charge in 2003, offset by increased steel and other material costs, increased investment in brand building and selling initiatives, and increased freight costs.

NET INCOME

Net income increased 21.0 percent to $137 million in 2005 compared to $114 million in 2004. Net income in 2005 was favorably impacted by a decrease in the effective tax rate to 36.0 percent in 2005 from 36.5 percent in 2004 due to benefits resulting from the implementation of the American Jobs Creation Act of 2004. Net income in 2005 was negatively impacted by increased interest expense due to a planned increase in debt. Net income increased 15.8 percent to $114 million in 2004 compared to $98 million in 2003. Net income in 2004 was unfavorably impacted by an increase in the effective tax rate to 36.5 percent from 35 percent in 2003 due to increased state taxes and a reduced benefit from federal and state tax credits. Net income per diluted share increased by 26.9 percent to $2.50 in 2005 and by 17.3 percent to $1.97 in 2004. Net income per share was positively impacted $0.11 per share in 2005 and $0.03 per share in 2004 by the Corporation's share repurchase program.

OFFICE FURNITURE

Office furniture comprised 76 percent, 75 percent, and 74 percent of consolidated net sales for 2005, 2004, and 2003, respectively. Net sales for office furniture increased 18 percent in 2005 to $1.9 billion compared to $1.6 billion in 2004. The increase in 2005 was due to approximately $66 million of incremental sales from the Corporation's acquisitions and organic growth of $219 million or 13.9 percent, including increased price realization of $91 million. Net sales increased 20 percent in 2004 to $1.6 billion compared to $1.3 billion in 2003. The increase in 2004 was due to approximately $117 million of sales from the Corporation's 2004 acquisitions, $22 million of price increases, and increased market share gain. The Business and Institutional Furniture Manufacturer's Association ("BIFMA") reported 2005 shipments up 13 percent and 2004 shipments up more than 5 percent. The Corporation believes it was once again able to outperform the market by providing strong brands, innovative products and services, and greater value to end-users.

Operating profit as a percent of sales was 9.5 percent in 2005, 9.9 percent in 2004, and 10.0 percent in 2003. Included in 2005 were $4.1 million of net pre-tax charges related to the closure of two office furniture facilities, which impacted operating margins by 0.2 percentage points. In addition the Corporation continued to make investments in the areas of selling, product launches, and strategic distribution acquisitions that had an expected negative impact on profitability. The decrease in operating margins in 2004 was due to approximately $56 million of higher steel and other material costs, additional investments in brand building and selling initiatives, and increased freight expense partially offset by the benefits of restructuring initiatives, rapid continuous improvement programs, and increased price realization. Included in 2003 were $15.2 million of restructuring charges, which impacted operating margins by 1.1 percentage points.

HEARTH PRODUCTS

Hearth products sales increased 14 percent in 2005 to $594 million compared to $523 million in 2004, and 16 percent in 2004 compared to $452 million in 2003. The growth in 2005 and 2004 was attributable to strong housing starts, focused new product introductions, contributions from new acquisitions as well as price increases. Acquisitions accounted for $26 million, or 5 percentage points, of the increase in 2005, and $18 million, or 4 percentage points, of the increase in 2004.

Operating profit as a percent of sales in 2005 was 12.6 percent compared to 11.9 percent and 12.1 percent in 2004 and 2003, respectively. The increase in operating margins in 2005 was due to volume and increased price realization as well as continued focus on cost improvements. The decrease in operating margins in 2004 was mainly due to increased steel and freight costs.

Liquidity and Capital Resources

During 2005, cash flow from operations was $201.0 million, which along with available cash and short-term investments, funds from stock option exercises under employee stock plans, and proceeds from the Corporation's revolving credit agreement, provided the funds necessary to meet working capital needs, pay for strategic acquisitions, invest in capital improvements, repurchase common stock, and pay increased dividends.

Cash, cash equivalents, and short-term investments totaled $84.7 million at the end of 2005 compared to $36.5 million at the end of 2004 and $204.2 million at the end of 2003. These remaining funds, coupled with cash from future operations and additional long-term debt, if needed, are expected to be adequate to finance operations, planned improvements, and internal growth. The Corporation is not aware of any known trends or demands, commitments, events, or uncertainties that are reasonably likely to result in its liquidity increasing or decreasing in any material way.

The Corporation places special emphasis on the management and control 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 communication with them. Trade receivables at year-end 2005 increased from the prior year due to the Corporation's new acquisitions and increased sales volume.

Trade receivables days outstanding have averaged approximately 36 to 38 days over the past three years. The Corporation's inventory turns were 19, 21, and 23, for 2005, 2004, and 2003, respectively. The Corporation is increasing its foreign sourced raw materials and finished goods, which while reducing inventory turns does have a favorable impact on the overall total cost.

INVESTMENTS

Management classifies investments in marketable securities at the time of purchase and re-evaluates such classification at each balance sheet date. Equity securities are classified as available-for-sale and are stated at current market value with unrealized gains and losses included as a separate component of equity, net of any related tax effect. Debt securities are classified as held-to-maturity and are stated at amortized cost. In 2004 the Corporation made an investment, which was excluded from the scope of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," due to the fact that the investment's per unit value in a Master Fund is not readily available. Therefore, this investment was recorded at cost. The weighted average cost method was used to determine realized gains and losses on the trade date. In 2005 the Corporation liquidated this investment and subsequently invested in an investment fund that is also excluded from the scope of SFAS No. 115; however, the Corporation's ownership in this investment fund is such that the underlying investments are recorded at fair market value. A table of holdings as of year-end 2005, 2004, and 2003 is included in the Cash, Cash Equivalents, and Investments note included in the Consolidated Financial Statements.

CAPITAL EXPENDITURE INVESTMENTS

Capital expenditures were $38.9 million in 2005, $32.4 million in 2004, and $34.8 million in 2003, respectively. These expenditures have consistently focused on machinery and equipment and tooling required to support new products, continuous improvements in our manufacturing processes, and cost savings initiatives. Expenditures in 2003 also included the purchase from a related party of a previously leased hearth products plant for $3.6 million. The Corporation anticipates capital expenditures for 2006 to be approximately 30 to 40 percent higher than previous years due to increased focus on new products and process improvement, and increased investment in distribution.

ACQUISITIONS

During 2005, the Corporation completed the acquisition of four small office furniture services companies, three office furniture dealers, and three small hearth distributors for a total combined purchase price of approximately $35 million. During 2004, the Corporation completed three office furniture business acquisitions and the acquisitions of two hearth products distributors, as well as the acquisitions of a strategic sourcing entity for a combined purchase price of approximately $135 million. Each of the transactions was paid in cash, and the results of the acquired entities have been included in the Consolidated Financial Statements since the date of acquisition.

LONG-TERM DEBT

Long-term debt, including capital lease obligations, was 15% of total capitalization as of December 31, 2005, 1% as of January 1, 2005, and 1% as of January 3, 2004. The increase in long-term debt was due to the Corporation utilizing its revolving credit facility to fund acquisitions and share repurchases in accordance with its strategy of operating with a more efficient capital structure. The reduction in long-term debt during 2004 was due to the payment of convertible debentures related to a previous hearth acquisition. The reduction in 2003 was due to the retirement of Industrial Revenue Bonds. On January 28, 2005, the Corporation replaced a $136 million revolving credit facility entered into on May 10, 2002 with a new revolving credit facility that provided for a maximum borrowing of $150 million subject to increase (to a maximum amount of $300 million) or reduction from time to time according to the terms of the agreement. On December 22, 2005, the Corporation increased the facility to the maximum amount of $300 million. Additional borrowing capacity of $160 million, less amounts used for designated letters of credit, is available through this revolving bank credit agreement in the event cash generated from operations should be inadequate to meet future needs. The Corporation does not expect future capital resources to be a constraint on planned growth. Certain of the Corporation's credit agreements include covenants that limit the assumption of additional debt and lease obligations. The Corporation has been, and currently is, in compliance with the covenants related to the debt agreements.

CONTRACTUAL OBLIGATIONS

The following table discloses the Corporation's obligations and commitments to make future payments under contracts:

	Payments Due by Period				
(In thousands)	Total	Less than 1 year	1–3 years	4–5 years	After 5 years
Long-term debt, including estimated interest (1)	$177,914	$ 6,893	$14,197	$13,411	$143,413
Capital lease obligations	1,300	284	426	422	168
Operating leases	71,479	18,231	25,329	16,480	11,439
Transportation service contract	4,276	4,276	–	–	–
Purchase obligations (2)	51,846	51,846	–	–	–
Other long-term obligations (3)	38,972	7,246	6,576	414	24,736
Total	$345,787	$88,776	$46,528	$30,727	$179,756

(1) The $140 million in borrowings outstanding under the revolving credit facility at December 31, 2005 are due in 2011; however, $40 million is included in current liabilities in the consolidated financial statements based on management's intent to repay the $40 million during fiscal 2006. Assuming the amount is repaid in 2006, interest obligation amounts included in this table would be reduced by approximately $3.8 million in the 1-3 year and 4-5 year categories and $0.1 million in the after 5 year category. Interest has been included for all debt at either the fixed rate or variable rate in effect as of December 31, 2005, as applicable.

(2) Purchase obligations include agreements to purchase goods or services that are enforceable, legally binding, and specify all significant terms, including the quantity to be purchased, the price to be paid, and the timing of the purchase.

(3) Other long-term liabilities represent payments due to members who are participants in the Corporation's salary deferral and long-term incentive plan programs, mandatory purchases of the remaining interest in Omni Workspace Company and two of the 2005 office furniture dealer acquisitions, and contribution and benefit payments expected to be made for our post-retirement benefit plans. It should be noted that our obligations related to post-retirement benefit plans are not contractual and the plans could be amended at the discretion of the Corporation. We limited our disclosure of contributions and benefit payments to 10 years, as information beyond this time period was not available.

CASH DIVIDENDS

Cash dividends were $0.62 per common share for 2005, $0.56 for 2004, and $0.52 for 2003. Further, the Board of Directors announced a 16.1 percent increase in the quarterly dividend from $0.155 to $0.18 per common share effective with the March 1, 2006 dividend payment for shareholders of record at the close of business February 24, 2006. The previous quarterly dividend increase was from $0.14 to $0.155, effective with the March 1, 2005 dividend payment for shareholders of record at the close of business on February 25, 2005. 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 32 percent of prior year earnings.

COMMON SHARE REPURCHASES

During 2005, the Corporation repurchased 4,059,068 shares of its common stock at a cost of approximately $202.2 million, or an average price of $49.82. The Board of Directors authorized $100 million on May 4, 2004, an additional $150 million on November 12, 2004, and an additional $200 million on November 11, 2005 for repurchases of the Corporation's common stock. As of December 31, 2005, approximately $143.5 million of this authorized amount remained unspent. During 2004, the Corporation repurchased 3,641,400 shares of its common stock at a cost of approximately $145.6 million, or an average price of $39.99. During 2003, the Corporation repurchased 762,300 shares of its common stock at a cost of approximately $21.5 million, or an average price of $28.22 per share.

LITIGATION AND UNCERTAINTIES

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

On December 9, 2005, the Corporation settled a lawsuit which sought approximately $7.6 million and arose out of the 2001 bankruptcy of a customer, US Office Products Company. The lawsuit alleged that the Corporation received preferential payments from the customer during the ninety days before the customer filed for bankruptcy protection. The Corporation was named a critical vendor by the bankruptcy court and, accordingly, was paid in full for all outstanding receivables. The lawsuit was brought in February 2003 by USOP Liquidating LLC in the United States Bankruptcy Court for the District of Delaware. The Corporation settled all claims arising out of this lawsuit for a cash payment in the amount of $585,000. As a consequence of the settlement, the lawsuit was dismissed with prejudice on December 14, 2005.

Looking Ahead

Global Insight, BIFMA's forecasting consultant, is estimating U.S. office furniture shipments to increase 7 percent in 2006 compared to 13 percent in 2005. The housing market, a key indicator for the hearth industry, is expected to soften from its record levels but remain at healthy levels.

Management anticipates 2006 will be another good year. The Corporation will continue to execute its strategy for aggressive profitable growth, continuously investing in core markets and strategic acquisitions, which will generate returns to enhance shareholder value. Management expects to continue to outperform the industry.

The Corporation anticipates that its tax rate will increase to 36.5 percent in 2006; however, if the credit for increasing research activities is renewed, the Corporation anticipates that the effective tax rate would remain at 36 percent.

On January 12, 2006, the Corporation signed an agreement to purchase Lamex, a privately held Chinese manufacturer and marketer of office furniture. Lamex operates primarily in China and Hong Kong, where as a market leader, it generates sales in excess of $70 million annually. The acquisition is expected to close in early 2006, subject to satisfactory completion of closing conditions. The Corporation intends to make the purchase with cash and debt. The acquisition is expected to initially have minimal impact on earnings. Lamex' strong brand, significant customer base, and manufacturing capability offers the Corporation the opportunity to drive aggressive growth in China, one of the largest and fastest growing office furniture markets in the world.

The Corporation remains focused on creating long-term shareholder value by growing its business through investment in building brands, product solutions, and selling models, enhancing its strong member-owner culture, and remaining focused on its long-standing rapid continuous improvement programs to build best total cost and a lean enterprise.

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in thousands, except for per share data) For the Years	**2005**	2004	2003
Net sales	**$2,450,572**	$2,093,447	$1,755,728
Cost of products sold	**1,562,654**	1,342,143	1,116,513
Gross profit	**887,918**	751,304	639,215
Selling and administrative expenses	**668,910**	572,006	480,744
Restructuring related charges	**3,462**	886	8,510
Operating income	**215,546**	178,412	149,961
Interest income	**1,518**	1,343	3,940
Interest expense	**2,355**	886	2,970
Earnings before income taxes and minority interest	**214,709**	178,869	150,931
Income taxes	**77,295**	65,287	52,826
Earnings before minority interest	**137,414**	113,582	98,105
Minority interest in earnings of subsidiary	**(6)**	–	–
Net income	**$ 137,420**	$ 113,582	$ 98,105
Net income per common share – basic	**$ 2.51**	$ 1.99	$ 1.69
Weighted average shares outstanding – basic	**54,649,199**	57,127,110	58,178,739
Net income per common share – diluted	**$ 2.50**	$ 1.97	$ 1.68
Weighted average shares outstanding – diluted	**55,033,741**	57,577,630	58,545,353

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

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands of dollars and shares except par value) As of Year-End	**2005**	2004	2003
Assets			
Current Assets			
Cash and cash equivalents	**$ 75,707**	$ 29,676	$ 138,982
Short-term investments	**9,035**	6,836	65,208
Receivables	**278,515**	234,731	181,459
Inventories	**91,110**	77,590	49,830
Deferred income taxes	**15,831**	14,639	14,329
Prepaid expenses and other current assets	**16,400**	11,107	12,314
Total current assets	**486,598**	374,579	462,122
Property, plant, and equipment	**294,660**	311,344	312,368
Goodwill	**242,244**	224,554	192,086
Other assets	**116,769**	111,180	55,250
Total assets	**$1,140,271**	$1,021,657	$1,021,826
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts payable and accrued expenses	**$ 307,952**	$ 253,958	$ 211,236
Income taxes	**1,270**	6,804	5,958
Note payable and current maturities of long-term debt	**40,350**	646	26,658
Current maturities of other long-term obligations	**8,602**	4,842	1,964
Total current liabilities	**358,174**	266,250	245,816
Long-term debt	**103,050**	2,627	2,690
Capital lease obligations	**819**	1,018	1,436
Other long-term liabilities	**48,671**	40,045	24,262
Deferred income taxes	**35,473**	42,554	37,733
Minority interest in subsidiary	**140**	–	–
Commitments and contingencies			
Shareholders' Equity			
Preferred stock – $1 par value			
Authorized: 2,000			
Issued: None			
Common stock – $1 par value	**51,849**	55,303	58,239
Authorized: 200,000			
Issued and outstanding 2005 – 51,849; 2004 – 55,303; 2003 – 58,239			
Additional paid-in capital	**941**	6,879	10,324
Retained earnings	**540,822**	606,632	641,732
Accumulated other comprehensive income	**332**	349	(406)
Total shareholders' equity	**593,944**	669,163	709,889
Total liabilities and shareholders' equity	**$1,140,271**	$1,021,657	$1,021,826

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	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, December 28, 2002	$ 58,374	$ 549	$ 587,731	$ 239	$ 646,893
Comprehensive income:					
Net income			98,105		98,105
Other comprehensive income (loss)				(645)	(645)
Comprehensive income					97,460
Cash dividends			(30,299)		(30,299)
Common shares – treasury:					
Shares purchased	(762)	(6,945)	(13,805)		(21,512)
Shares issued under Members' Stock Purchase Plan and stock awards	627	16,720			17,347
Balance, January 3, 2004	58,239	10,324	641,732	(406)	709,889
Comprehensive income:					
Net income			113,582		113,582
Other comprehensive income (loss)				755	755
Comprehensive income					114,337
Cash dividends			(32,023)		(32,023)
Common shares – treasury:					
Shares purchased	(3,642)	(25,303)	(116,659)		(145,604)
Shares issued under Members' Stock Purchase Plan and stock awards	706	21,858			22,564
Balance, January 1, 2005	**55,303**	**6,879**	**606,632**	**349**	**669,163**
Comprehensive income:					
Net income			**137,420**		**137,420**
Other comprehensive income (loss)				**(17)**	**(17)**
Comprehensive income					**137,403**
Cash dividends			**(33,841)**		**(33,841)**
Common shares – treasury:					
Shares purchased	**(4,059)**	**(28,769)**	**(169,389)**		**(202,217)**
Shares issued under Members' Stock Purchase Plan and stock awards	**605**	**22,831**			**23,436**
Balance, December 31, 2005	**$ 51,849**	**$ 941**	**$ 540,822**	**$ 332**	**$ 593,944**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands) For the Years	**2005**	2004	2003
Net Cash Flows From (To) Operating Activities			
Net income	**$ 137,420**	$ 113,582	$ 98,105
Noncash items included in net income:			
Depreciation and amortization	**65,514**	66,703	72,772
Other postretirement and post-employment benefits	**2,002**	1,874	2,166
Deferred income taxes	**(8,933)**	708	(3,314)
Loss on sales, retirements and impairments of property, plant, and equipment	**1,029**	1,394	5,415
Stock issued to retirement plan	**6,199**	5,990	4,678
Other – net	**1,664**	1,947	391
Changes in working capital, excluding acquisition and disposition:			
Receivables	**(25,654)**	(26,960)	1,006
Inventories	**(10,488)**	(9,409)	(3,004)
Prepaid expenses and other current assets	**(4,207)**	(145)	1,508
Accounts payable and accrued expenses	**36,809**	25,990	(35,288)
Income taxes	**(5,534)**	846	2,218
Increase (decrease) in other liabilities	**5,188**	11,736	(5,379)
Net cash flows from (to) operating activities	**201,009**	194,256	141,274
Net Cash Flows From (To) Investing Activities			
Capital expenditures	**(38,912)**	(32,417)	(34,842)
Proceeds from sale of property, plant, and equipment	**317**	2,968	1,808
Capitalized software	**(2,890)**	(3,383)	(2,666)
Acquisition spending, net of cash acquired	**(33,804)**	(134,848)	–
Additional purchase consideration	**–**	–	(5,710)
Short-term investments – net	**2,400**	60,949	(49,326)
Purchase of long-term investments	**(34,495)**	(24,496)	(5,742)
Sales or maturities of long-term investments	**32,505**	16,858	15,000
Other – net	**(68)**	(350)	–
Net cash flows from (to) investing activities	**(74,947)**	(114,719)	(81,478)
Net Cash Flows From (To) Financing Activities			
Purchase of HNI Corporation common stock	**(202,217)**	(145,604)	(21,512)
Proceeds from long-term debt	**199,000**	–	761
Payments of note and long-term debt and other financing	**(57,970)**	(26,795)	(20,992)
Proceeds from sale of HNI Corporation common stock	**14,997**	15,579	12,063
Dividends paid	**(33,841)**	(32,023)	(30,299)
Net cash flows from (to) financing activities	**(80,031)**	(188,843)	(59,979)
Net increase (decrease) in cash and cash equivalents	**46,031**	(109,306)	(183)
Cash and cash equivalents at beginning of year	**29,676**	138,982	139,165
Cash and cash equivalents at end of year	**$ 75,707**	$ 29,676	$138,982
Supplemental Disclosures of Cash Flow Information			
Cash paid during the year for:			
Interest	**$ 1,961**	$ 883	$ 3,408
Income taxes	**$ 88,133**	$ 59,938	$ 53,855

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

Nature of Operations

HNI Corporation (formerly HON INDUSTRIES Inc.) with its subsidiaries (the "Corporation"), is a provider of office furniture and hearth products. Both industries are reportable segments; however, the Corporation'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, 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- and gas-burning factory-built fireplaces, pellet and electric hearth appliances, fireplace inserts, stoves, gas logs, and accessories. These products are sold through a national system of dealers, wholesalers, large regional contractors, as well as Corporation-owned distribution and retail outlets. The Corporation's products are marketed predominantly in the United States and Canada. The Corporation 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 Corporation and its subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

The Corporation follows a 52/53 week fiscal year which ends on the Saturday nearest December 31. Fiscal year 2005 ended on December 31, 2005; 2004 ended on January 1, 2005; and 2003 ended on January 3, 2004. The financial statements for fiscal year 2003 are based on a 53-week period, and fiscal years 2005 and 2004 are on a 52-week basis.

CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and cash equivalents generally consist of cash, money market accounts, and debt securities. These securities have original maturity dates not exceeding three months from date of purchase. The Corporation has short-term investments with maturities of less than one year and also has investments with maturities greater than one year that are included in Other Assets on the Consolidated Balance Sheet. Management classifies investments in marketable securities at the time of purchase and reevaluates such classification at each balance sheet date. Equity securities are classified as available-for-sale and are stated at current market value with unrealized gains and losses included as a separate component of equity, net of any related tax effect. Debt securities are classified as held-to-maturity and are stated at amortized cost. The specific identification method is used to determine realized gains and losses on the trade date. Short-term investments include municipal bonds, money market preferred stock, and U.S. treasury notes. Long-term investments include U.S. government securities, municipal bonds, certificates of deposit, and asset-and mortgage-backed securities. During 2004, the Corporation sold all of its available-for-sale securities to fund acquisitions and to move its investments to a Master Fund. The Corporation realized losses of approximately $0.8 million. This investment was excluded from the scope of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," due to the fact that the investment's per unit value in a Master Fund was not readily available. Therefore, this investment was recorded at cost. The weighted average cost method was used to determine realized gains and losses on the trade date. During 2005, the Corporation liquidated this Master Fund investment and subsequently invested in an investment fund that is also excluded from the scope of SFAS No. 115; however, the Corporation's ownership in this investment fund is such that the underlying investments are recorded at fair market value.

At December 31, 2005, January 1, 2005, and January 3, 2004, cash, cash equivalents, and investments consisted of the following (cost approximates market value):

Year-End 2005

(In thousands)	Cash and Cash Equivalents	Short-term Investments	Long-term Investments
Held-to-maturity securities			
Certificates of deposit	**$ –**	**$ –**	**$ 400**
Investment in Master Fund	**–**	**9,035**	**19,085**
Cash and money market accounts	**75,707**	**–**	**–**
Total	**$75,707**	**$9,035**	**$19,485**

Year-End 2004

(In thousands)	Cash and Cash Equivalents	Short-term Investments	Long-term Investments
Held-to-maturity securities			
Municipal bonds	$ –	$2,400	$ –
Certificates of deposit	–	–	400
Investment in Master Fund	–	4,436	20,187
Cash and money market accounts	29,676	–	–
Total	$29,676	$6,836	$20,587

Year-End 2003

(In thousands)	Cash and Cash Equivalents	Short-term Investments	Long-term Investments
Held-to-maturity securities			
Municipal bonds	$ 31,000	$ –	$ 2,396
U.S. government securities	–	–	–
Certificates of deposit	–	–	400
Available-for-sale securities			
U.S. treasury notes	–	4,259	–
Asset and mortgage-backed securities	–	60,949	12,835
Cash and money market accounts	107,982	–	–
Total	$138,982	$65,208	$15,631

RECEIVABLES

Accounts receivable are presented net of an allowance for doubtful accounts of $12.0 million, $11.4 million, and $10.9 million, for 2005, 2004, and 2003, respectively. The allowance is developed based on several factors including overall customer credit quality, historical write-off experience and specific account analyses that project the ultimate collectibility of the account. As such, these factors may change over time causing the reserve level to adjust accordingly.

INVENTORIES

The Corporation valued 90%, 80%, and 96% of its inventory by the last-in, first-out (LIFO) method at December 31, 2005, January 1, 2005, and January 3, 2004, respectively. Additionally, the Corporation evaluates its inventory reserves in terms of excess and obsolete exposures. This evaluation includes such factors as anticipated usage, inventory turnover, inventory levels, and ultimate product sales value. As such, these factors may change over time causing the reserve level to adjust accordingly. The reserves for excess and obsolete inventory were $8.2 million, $7.7 million, and $5.7 million, at year-end 2005, 2004, and 2003, respectively.

PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment are carried at cost. Depreciation has been computed using the straight-line method over estimated useful lives: land improvements, 10–20 years; buildings, 10–40 years; and machinery and equipment, 3–12 years.

LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment as events or changes in circumstances occur indicating that the amount of the asset reflected in the Corporation's balance sheet may not be recoverable. An estimate of undiscounted cash flows produced by the asset, or the appropriate group of assets, is compared to the carrying value to determine whether impairment exists. The estimates of future cash flows involve considerable management judgment and are based upon assumptions about expected future operating performance. The actual cash flows could differ from management's estimates due to changes in business conditions, operating performance, and economic conditions. Asset impairment charges recorded in connection with the Corporation's restructuring activities are discussed in the Restructuring Related Charges note. These assets included real estate, manufacturing equipment, and certain other fixed assets. The Corporation's continuous focus on improving the manufacturing process tends to increase the likelihood of assets being replaced; therefore, the Corporation is constantly evaluating the expected lives of its equipment and accelerating depreciation where appropriate.

GOODWILL AND OTHER INTANGIBLE ASSETS

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), the Corporation evaluates its goodwill for impairment on an annual basis based on values at the end of third quarter or whenever indicators of impairment exist. The Corporation has evaluated its goodwill for impairment and has determined that the fair value of reporting units exceeds their carrying value, so no impairment of goodwill was recognized. Management's assumptions about future cash flows for the reporting units requires significant judgment, and actual cash flows in the future may differ significantly from those forecasted today.

The Corporation also determines the fair value of indefinite lived trade names on an annual basis or whenever indications of impairment exist. The Corporation has evaluated its trade names for impairment and recognized an impairment charge of $0.5 million in 2005 related to two trademarks where the carrying value exceeded the fair market value.

PRODUCT WARRANTIES

The Corporation issues certain warranty policies on its furniture and hearth products that provide for repair or replacement of any covered product or component that fails during normal use because of a defect in design, materials, or workmanship. A warranty reserve is determined by recording a specific reserve for known warranty issues and an additional reserve for unknown claims that are expected to be incurred based on historical claims experience. Actual claims incurred could differ from the original estimates, requiring adjustments to the reserve. Activity associated with warranty obligations was as follows:

(In thousands)	**2005**	2004	2003
Balance at the beginning of the period	**$10,794**	$ 8,926	$ 8,405
Accrual assumed from acquisition	**–**	688	–
Accruals for warranties issued during the period	**9,809**	10,486	7,907
Accrual related to pre-existing warranties	**1,449**	1,054	629
Settlements made during the period	**(11,895)**	(10,360)	(8,015)
Balance at the end of the period	**$10,157**	$ 10,794	$ 8,926

REVENUE RECOGNITION

Revenue is normally recognized upon shipment of goods to customers. In certain circumstances revenue is not recognized until the goods are received by the customer or upon installation and customer acceptance based on the terms of the sales agreement. Revenue includes freight charged to customers; related costs are in selling and administrative expense. Rebates, discounts, and other marketing program expenses that are directly related to the sale are recorded as a reduction to net sales. Marketing program accruals require the use of management estimates and the consideration of contractual arrangements that are subject to interpretation. Customer sales that reach certain award levels can affect the amount of such estimates, and actual results could differ from these estimates.

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. These costs include salaries, contractor fees, building costs, utilities, and administrative fees. The amounts charged against income were $27.3 million in 2005, $27.4 million in 2004, and $24.0 million in 2003.

STOCK-BASED COMPENSATION

The Corporation accounts for its stock option plan using Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," whereby stock-based employee compensation is reflected in net income as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of the grant. SFAS No. 123, "Accounting for Stock-Based Compensation," issued subsequent to APB No. 25

and amended by SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," defines a fair value based method of accounting for employees stock options but allows companies to continue to measure compensation cost for employee stock options using the intrinsic value based method described in APB No. 25.

The following table illustrates the effect on net income and earnings per share if the Corporation had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148 "Accounting for Stock-Based Compensation – Transition and Disclosure," to stock-based employee compensation.

(In thousands, except for per share data)	2005	2004	2003
Net income, as reported	**$137.4**	$113.6	$98.1
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards, net of related tax effects	**(1.8)**	(5.0)	(3.0)
Pro forma net income	**$135.6**	$108.6	$95.1
Earnings per share:			
Basic – as reported	**$ 2.51**	$ 1.99	$1.69
Basic – pro forma	**$ 2.48**	$ 1.90	$1.64
Diluted – as reported	**$ 2.50**	$ 1.97	$1.68
Diluted – pro forma	**$ 2.47**	$ 1.89	$1.62

Increase in expense in 2004 and 2003 is due to accelerated vesting upon the retirement of plan participants.

INCOME TAXES

The Corporation accounts for income taxes under SFAS No. 109, "Accounting for Income Taxes." This Statement uses an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Corporation's financial statements or tax returns. Deferred income taxes are provided to reflect the differences between the tax bases of assets and liabilities and their reported amounts in the financial statements.

EARNINGS PER SHARE

Basic earnings per share are based on the weighted-average number of common shares outstanding during the year. Shares potentially issuable under options and deferred restricted stock have been considered outstanding for purposes of the diluted earnings per share calculation.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 doubtful accounts, inventory reserves, marketing program accruals, warranty accruals, accruals for self-insured medical claims, workers' compensation, legal contingencies, general liability and auto insurance claims, and useful lives for depreciation and amortization. Actual results could differ from those estimates.

SELF-INSURANCE

The Corporation is partially self-insured for general, auto, and product liability, workers' compensation, and certain employee health benefits. The general, auto, product, and workers' compensation liabilities are managed using a wholly owned insurance captive; the related liabilities are included in the accompanying consolidated financial statements. The Corporation's policy is to accrue amounts in accordance with the actuarially determined liabilities. The actuarial valuations are based on historical information along with certain assumptions about future events. Changes in assumptions for such matters as legal actions, medical cost inflation, and magnitude of change in actual experience development could cause these estimates to change in the near term.

FOREIGN CURRENCY TRANSLATIONS

Foreign currency financial statements of foreign operations where the local currency is the functional currency are translated using exchange rates in effect at period end for assets and liabilities and average exchange rates during the period for results of operations. Related translation adjustments are reported as a component of Shareholders' Equity. Gains and losses on foreign currency transactions are included in the "Selling and administrative expenses" caption of the Consolidated Statements of Income.

RECLASSIFICATIONS

Certain reclassifications have been made within the footnotes to conform to current year presentation. There have been no reclassifications on the primary financial statements.

RECENT ACCOUNTING PRONOUNCEMENTS

In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations, an Interpretation of FASB Statement No. 142" ("FIN 47"). Under FIN 47, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Any uncertainty about the amount and/or timing of future settlement should be factored into the measurement of the liability when sufficient information exists. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value. The Corporation adopted FIN 47 during the fourth quarter of 2005, and it did not have an impact on the Corporation's financial statements.

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123(R), "Share-Based Payment" ("SFAS No. 123(R)"). SFAS No. 123(R) replaces SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS No. 123(R) requires compensation costs related to share-based payment transactions to be recognized in the financial statements over the period that an employee provides service in exchange for the award. Public companies are required to adopt the new standard using a modified prospective method and may elect to restate prior periods using the modified retrospective method. Under the modified prospective method, companies are required to record compensation cost for new and modified awards over the related vesting period of such awards prospectively and record compensation cost prospectively for the unvested portion, at the date of adoption,

of previously issued and outstanding awards over the remaining vesting period of such awards. No change to prior periods presented is permitted under the modified prospective method. Under the modified retrospective method, companies record compensation costs for prior periods retroactively through restatement of such periods using the exact pro forma amounts disclosed in the companies' footnotes. Also, in the period of adoption and after, companies record compensation based on the modified prospective method. SFAS No. 123(R) is effective beginning with the first annual fiscal period after June 15, 2005. The Corporation plans to adopt SFAS No. 123(R) on January 1, 2006, the beginning of its fiscal year and to use the modified prospective method. Based on adopting SFAS No. 123(R) on January 1, 2006, and using the modified prospective method, the Corporation estimates that total stock-based compensation expense will be approximately $3.5 million for the year-ending December 30, 2006.

In November 2004, the Financial Accounting Standards Board issued SFAS No. 151, "Inventory Costs." SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material. This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for fiscal years beginning after June 15, 2005. The Corporation intends to adopt SFAS No. 151 on January 1, 2006, the beginning of its 2006 fiscal year. The adoption of SFAS No. 151 is not expected to have a material impact on the Corporation's financial statements.

Restructuring Related Charges

As a result of the Corporation's ongoing business simplification and cost reduction strategies the Corporation began the shutdown of two office furniture facilities in third quarter 2005. The Corporation will close plants in Kent, Washington, and Van Nuys, California, and consolidate production into other U.S. manufacturing locations. In connection with the shutdowns, the Corporation recorded $4.1 million of pre-tax charges during 2005. These charges included $0.6 million of accelerated depreciation of machinery and equipment recorded in cost of sales, $1.2 million of severance, $0.4 million of pension related expenses, and $1.9 million of factory exit, production relocation, and other costs which were recorded as restructuring costs. The closures and consolidation will be completed during the first quarter of 2006.

During 2003, the Corporation closed two office furniture facilities located in Milan, Tennessee, and Hazleton, Pennsylvania, and consolidated production into other U.S. manufacturing locations. Charges for the closures during 2003 totaled $15.7 million, which consisted of $6.7 million of accelerated depreciation of machinery and equipment which was recorded in cost of sales, $3.4 million of severance, and $5.6 million of facility exit, production relocation, and other costs which were recorded as restructuring costs. A total of 316 members were terminated and received severance due to these shutdowns. In connection with those shutdowns, the Corporation incurred $1.2 million of current period charges during 2004. The Corporation also reduced the restructuring charge recorded in 2003 by approximately $0.3 million related to its Milan, Tennessee, facility during 2004. The reduction was due to the fact that the Corporation was able to exit a lease with the lessor at more favorable terms than previously estimated. The closures and consolidation are complete.

During 2002, the Corporation recorded a pretax charge of approximately $5.4 million due to the shutdown of an office furniture facility in Jackson, Tennessee. A total of 125 members were terminated and received severance due to this shutdown. During the second quarter of 2003, a restructuring credit of approximately $0.6 million was taken back into income relating to this charge. This was due to the fact that the Corporation was able to exit a lease with the lessor at more favorable terms than previously estimated.

The following table summarizes the restructuring accrual activity since the beginning of fiscal 2003. This summary does not include the effect of the Corporation's employee retirement plans in 2005, as this item was not accounted for through the restructuring accrual on the Consolidated Balance Sheets but is included as a component of "Restructuring Related Charges" in the Consolidated Statements of Operations.

(In thousands)	Severance Costs	Facility Termination and Other Costs	Total
Restructuring reserve at December 28, 2002	$ –	$ 2,187	$ 2,187
Restructuring charges	3,438	5,622	9,060
Restructuring credit	–	(550)	(550)
Cash payments	(3,104)	(6,159)	(9,263)
Restructuring reserve at January 3, 2004	$ 334	$ 1,100	$ 1,434
Restructuring charges	42	1,147	1,189
Restructuring credit	(31)	(272)	(303)
Cash payments	(345)	(1,975)	(2,320)
Restructuring reserve at January 1, 2005	**$ –**	**$ –**	**$ –**
Restructuring charges	**1,142**	**1,876**	**3,018**
Cash payments	**(325)**	**(632)**	**(957)**
Restructuring reserve at December 31, 2005	**$ 817**	**$ 1,244**	**$ 2,061**

Business Combinations

The Corporation completed the acquisition of four small office furniture services companies, three office furniture dealers, and three small hearth distributors during 2005. The combined purchase price of these acquisitions totaled $35.4 million, of which $33.4 million was paid in cash and the remaining is due to the sellers over the next several years. The Corporation acquired controlling interests in the three office furniture dealers and the ability to call the remaining interests on or after fiscal year-end 2008 and 2010. The Corporation

must exercise its calls on or before the end of fiscal 2014 and 2015. SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS No. 150"), requires a mandatorily redeemable financial instrument to be classified as a liability unless the redemption is required to occur only upon the liquidation or termination of the reporting entity. It also requires that mandatorily redeemable financial instruments be measured at fair value. Therefore, the Corporation has recorded a liability for the remaining interest at fair value at the acquisition date.

The Corporation has finalized the allocation of the purchase price for all acquisitions other than those completed in the final quarter of the year. Any modification is not expected to be significant. There are approximately $14.1 million of intangibles associated with these acquisitions. Of these acquired intangible assets, $1.5 million was assigned to indefinite-lived trade names that are not subject to amortization. The remaining $12.6 million have estimated useful lives ranging from two to fifteen years with amortization recorded based on the projected cash flow associated with the respective intangible assets' existing relationships. There is approximately $17.0 million of goodwill associated with these acquisitions, of which $11.8 million was assigned to the furniture segment and $5.2 million was assigned to the hearth products segment. Approximately $1.8 million of the goodwill assigned to the furniture segment is not deductible for tax purposes.

On January 5, 2004, the Corporation acquired certain assets of Paoli Inc., a subsidiary of Klaussner Furniture Industries, Inc. for $81.1 million. Paoli Inc. is a leading provider of wood case goods and seating with well-known brands, broad product offering, and strong independent representatives sales and dealer networks located in Orleans, Indiana.

The Corporation acquired $26.3 million of intangible assets from the Paoli acquisition, of which $18.3 million was assigned to registered trademarks that are not subject to amortization. The remaining $8.0 million of acquired intangible assets have a weighted-average useful life of approximately 15 years with amortization recorded based on the projected cash flow associated with the respective intangible assets existing relationships. The $9.2 million of goodwill was assigned to the office furniture segment and is deductible for income tax purposes.

Assuming the acquisition of Paoli Inc. had occurred on December 29, 2002, the beginning of the Corporation's 2003 fiscal year, instead of the actual date reported above, the Corporation's unaudited pro forma consolidated net sales would have been approximately $1.9 billion. Unaudited pro forma consolidated net income would have been $103.8 million or $1.77 per diluted share. Pro forma results are not shown for the remaining acquisitions as they were deemed immaterial by management.

On July 6, 2004, the Corporation acquired a controlling interest in Omni Workspace Company (formerly Omni Remanufacturing, Inc.). Omni Workspace Company is comprised of two divisions – IntraSpec Solutions, a panel systems re-manufacturer, and Omni Service Group (formerly A&M Business Interior Services), an office furniture services company. The Corporation acquired 80 percent of the common stock of Omni Workspace Company and the ability to call the remaining 20 percent of the shares on or after the fiscal year end 2009. The Corporation must exercise its call on or before the end of fiscal year end 2014. SFAS No. 150 requires a mandatorily redeemable financial instrument to be classified as a liability unless the redemption is required to occur only upon the liquidation or termination of the reporting entity. It also requires that mandatorily redeemable financial instruments be measured at fair value. Therefore, the Corporation has recorded a liability at the acquisition date for the remaining 20 percent of the shares at fair value. The Corporation continues to monitor and adjust the recorded amount to accrete the obligation to the estimated redemption amount in 2014 through a charge to earnings as required.

The Corporation acquired $12.7 million of intangible assets from the Omni acquisition, of which $2.8 million was assigned to registered trademarks that are not subject to amortization. The Corporation did recognize an impairment charge of $0.5 million in 2005 on two of the trademarks due to the carrying value exceeding the current fair market value. The remaining $9.9 million of acquired intangible assets have a weighted-average useful life of approximately 9 years with amortization recorded based on the projected cash flow associated with the respective intangible assets existing relationships. The $12.0 million of goodwill was assigned to the office furniture segment and is not deductible for income tax purposes.

On July 19, 2004, the Corporation acquired Edward George Company, a distributor of fireplaces, stone products, barbecues, and other building materials throughout Illinois, Indiana, and Kentucky, and its affiliate, Wisconsin Fireplace Systems, with locations in Wisconsin for $27.7 million.

The acquired intangible assets from the Edward George acquisition of $9.3 million have a weighted-average useful life of approximately 13 years with amortization recorded based on the projected cash flow associated with the respective intangible assets existing relationships. The $9.6 million of goodwill was assigned to the hearth products segment and is deductible for income tax purposes.

The consideration for each of these transactions was paid in cash. The results of the acquired entities have been included in the Consolidated Financial Statements since the date of acquisition.

The Corporation also completed the acquisition of a small office furniture services company, a small hearth distributor, and a strategic sourcing entity during 2004. The combined purchase price for these acquisitions totaled approximately $8.5 million. There is approximately $5.4 million of intangibles associated with these acquisitions with estimated useful lives ranging from one to ten years. There is approximately $2.2 million of goodwill associated with these acquisitions of which $0.9 million was assigned to the office furniture segment and $1.3 million was assigned to the hearth products segment. All goodwill is deductible for income tax purposes.

Inventories

(In thousands)	2005	2004	2003
Finished products	**$ 61,027**	$ 52,796	$ 31,407
Materials and work in process	**46,398**	40,712	28,287
LIFO reserve	**(16,315)**	(15,918)	(9,864)
	$ 91,110	$ 77,590	$ 49,830

Property, Plant, and Equipment

(In thousands)	2005	2004	2003
Land and land improvements	**$ 26,361**	$ 26,042	$ 23,065
Buildings	**240,174**	234,421	211,005
Machinery and equipment	**523,240**	512,544	495,901
Construction and equipment installation in progress	**23,976**	13,686	9,865
	813,751	786,693	739,836
Less: allowances for depreciation	**519,091**	475,349	427,468
	$294,660	$311,344	$312,368

Goodwill and Other Intangible Assets

Pursuant to Statement of Financial Accounting Standards (SFAS) No. 142, the Corporation evaluates its goodwill for impairment on an annual basis based on values at the end of third quarter or whenever indicators of impairment exist. The Corporation has evaluated its goodwill for impairment and has determined that the fair value of its reporting units exceeds the carrying values and, therefore, no impairment of goodwill was recorded.

The Corporation also owns trademarks having a net value of $30.2 million as of December 31, 2005, $29.2 million as of January 1, 2005, and $8.1 million as of January 3, 2004. The trademarks are deemed to have an indefinite useful life because they are expected to generate cash flow indefinitely. The Corporation recorded an impairment charge of $0.5 million in 2005 related to two office furniture trademarks where the carrying amount exceeded the current fair market value. The charge was included in selling and administrative expenses on the Consolidated Statements of Income.

The table below summarizes amortizable definite-lived intangible assets, which are reflected in Other Assets in the Corporation's consolidated balance sheets:

(In thousands)	2005	2004	2003
Patents	**$18,480**	$18,820	$16,450
Customer lists and other	**67,211**	54,702	26,076
Less: accumulated amortization	**28,758**	21,785	16,671
Net intangible assets	**$56,933**	$51,737	$25,855

Amortization expense for definite-lived intangibles for 2005, 2004, and 2003, was $7.3 million, $5.1 million, and $2.7 million, respectively. Amortization expense is estimated to range between $4.5 and $7.5 million per year over the next five years.

The changes in the carrying amount of goodwill since December 28, 2002 are as follows by reporting segment:

(In thousands)	Office Furniture	Hearth Products	Total
Balance as of December 28, 2002	$43,611	$148,784	$192,395
Adjustment for a prior acquisition	–	(309)	(309)
Balance as of January 3, 2004	$43,611	$148,475	$192,086
Goodwill increase during period	21,920	10,548	32,468
Balance as of January 1, 2005	$65,531	$159,023	$224,554
Goodwill increase during period	12,128	5,562	17,690
Balance as of December 31, 2005	**$77,659**	**$164,585**	**$242,244**

The decrease in goodwill in 2003 is due to an adjustment relating to a prior acquisition. The goodwill increases in 2004 and 2005 relate to acquisitions completed. See Business Combinations note.

Accounts Payable and Accrued Expenses

(In thousands)	2005	2004	2003
Trade accounts payable	**$ 86,945**	$ 64,319	$ 42,048
Compensation	**34,272**	25,722	22,803
Profit sharing and retirement expense	**32,461**	30,516	30,365
Vacation pay	**14,230**	13,095	13,745
Marketing expenses	**54,797**	50,939	44,795
Other accrued expenses	**85,247**	69,367	57,480
	$307,952	$253,958	$211,236

Long-Term Debt

(In thousands)	2005	2004	2003
Note payable to bank, revolving credit agreement with interest at a variable rate	**$140,000**	$ –	$ –
Industrial development revenue bonds, various issues, payable through 2018 with interest at 1.40–3.62% per annum	**2,300**	2,300	2,300
Convertible debentures payable to individuals, with interest at 5.5% per annum	**–**	–	26,130
Other notes and amounts	**900**	560	503
Total debt	**143,200**	2,860	28,933
Less: current portion	**40,150**	233	26,243
Long-term debt	**$103,050**	$2,627	$ 2,690

Aggregate maturities of long-term debt are as follows:

(In thousands)	
2006	$ 40,150
2007	500
2008	250
2009	–
2010	–
Thereafter	$102,300

On January 28, 2005, the Corporation replaced a $136 million revolving credit facility entered into on May 10, 2002 with a new revolving credit facility that provided for a maximum borrowing of $150 million subject to increase (to a maximum amount of $300 million) or reduction from time to time according to the terms of the agreement. On December 22, 2005, the Corporation increased the facility to the maximum amount of $300 million. Amounts borrowed under the Credit Agreement may be borrowed, repaid, and reborrowed from time to time until January 28, 2011.

The convertible debentures were payable to the former owners of businesses that were acquired by the Corporation. Following the acquisition some of these individuals continued as members of the Corporation. The convertible debentures were convertible into cash. The debentures contained certain conversion features that are recorded as earned. During 2003, the Corporation recorded approximately $3 million of appreciation on these debentures.

Certain of the above borrowing arrangements include covenants which limit the assumption of additional debt and lease obligations. The Corporation has been and currently is in compliance with the covenants related to these debt agreements. The fair value of the Corporation's outstanding long-term debt obligations at year-end 2005 approximates the recorded aggregate amount.

Selling and Administrative Expenses

(In thousands)	**2005**	2004	2003
Freight expense for shipments to customers	**$159,189**	$132,866	$105,933
Amortization of intangible and other assets	**10,642**	8,521	4,625
Product development costs	**27,338**	27,401	24,021
Other selling and administrative expenses	**471,741**	403,218	346,165
	$668,910	$572,006	$480,744

Income Taxes

Significant components of the provision for income taxes excluding tax allocated to minority interest are as follows:

(In thousands)	**2005**	2004	2003
Current:			
Federal	**$77,474**	$60,425	$49,721
State	**8,954**	5,976	4,159
Current provision	**86,428**	66,401	53,880
Deferred:			
Federal	**(8,048)**	(1,008)	(973)
State	**(1,081)**	(106)	(81)
Deferred provision	**(9,129)**	(1,114)	(1,054)
	$77,299	$65,287	$52,826

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

	2005	2004	2003
Federal statutory tax rate	**35.0 %**	35.0 %	35.0 %
State taxes, net of federal tax effect	**2.4**	2.2	1.8
Deduction related to domestic production activities	**(0.9)**	–	–
Credit for increasing research activities	**(0.4)**	(0.6)	(2.0)
Extraterritorial income exclusion	**(0.3)**	(0.3)	(0.5)
Other – net	**0.2**	0.2	0.7
Effective tax rate	**36.0 %**	36.5 %	35.0 %

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 Corporation's deferred tax liabilities and assets are as follows:

(In thousands)	**2005**	2004	2003
Net long-term deferred tax liabilities:			
Tax over book depreciation	**$(16,458)**	$(25,549)	$(28,103)
Compensation	**5,907**	5,697	4,912
Goodwill	**(30,499)**	(24,362)	(18,044)
Other – net	**5,577**	(1,660)	3,502
Total net long-term deferred tax liabilities	**(35,473)**	(42,554)	(37,733)
Net current deferred tax assets:			
Allowance for doubtful accounts	**3,858**	3,512	1,913
Vacation accrual	**4,924**	4,588	4,754
Inventory differences	**5,720**	4,304	4,343
Deferred income	**(6,596)**	(6,238)	(5,462)
Warranty accruals	**3,847**	3,504	2,886
Other – net	**4,078**	4,969	5,895
Total net current deferred tax assets	**15,831**	14,639	14,329
Net deferred tax (liabilities) assets	**$(19,642)**	$(27,915)	$(23,404)

Shareholders' Equity and Earnings Per Share

	2005	2004	2003
Common Stock, $1 Par Value			
Authorized	**200,000,000**	200,000,000	200,000,000
Issued and outstanding	**51,848,591**	55,303,323	58,238,519
Preferred Stock, $1 Par Value			
Authorized	**2,000,000**	2,000,000	2,000,000
Issued and outstanding	**–**	–	–

The Corporation purchased 4,059,068; 3,641,400; and 762,300 shares of its common stock during 2005, 2004, and 2003, 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 Additional Paid-In Capital with the excess charged to Retained Earnings.

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

	2005	2004	2003
Numerators:			
Numerators for both basic and diluted EPS net income	**$137,420,000**	$113,582,000	$98,105,000
Denominators:			
Denominator for basic EPS weighted-average common shares outstanding	**54,649,199**	57,127,110	58,178,739
Potentially dilutive shares from stock option plans	**384,542**	450,520	366,614
Denominator for diluted EPS	**55,033,741**	57,577,630	58,545,353
Earnings per share – basic	**$ 2.51**	$ 1.99	$ 1.69
Earnings per share – diluted	**$ 2.50**	$ 1.97	$ 1.68

Certain exercisable and non-exercisable stock options were not included in the computation of diluted EPS for fiscal year 2005, 2004, and 2003, because the option prices were greater that the average market prices for the applicable periods. The number of stock options outstanding, which met this criterion for 2005 was 2,500 with a per share exercise price of $52.91; for 2004 was 25,000 with a range of per share exercise prices of $42.15 to $42.98; and for 2003 was 20,000 with a range of per share exercise prices of $42.49 to $42.98.

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

(In thousands)	2005	2004	2003
Foreign currency translation adjustments – net of tax	**$ 293**	$348	$ 45
Change in unrealized gains (losses) on marketable securities – net of tax	**–**	407	(463)
Change in minimum pension liability – net of tax	**(310)**	–	(227)
Other comprehensive income (loss)	**$ (17)**	$755	$(645)

In May 1997, the Corporation registered 400,000 shares of its common stock under its 1997 Equity Plan for Non-Employee Directors. This plan permits the Corporation to issue to its non-employee directors options to purchase shares of Corporation common stock, restricted stock of the Corporation, and awards of Corporation common 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 Corporation common stock. During 2005, 2004, and 2003, 13,621; 10,738; and 10,922 shares of Corporation common stock were issued under the plan, respectively.

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

(In dollars)	2005	2004	2003
Common shares	**$.62**	$.56	$.52

During 2002, shareholders approved the 2002 Members' Stock Purchase Plan. Under the plan, 800,000 shares of common stock were registered for issuance to participating members. Beginning on June 30, 2002, rights to purchase stock are granted on a quarterly basis to all members who have one year of employment eligibility and work a minimum of 20 hours a week. 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/her gross earnings or a maximum fair value of $25,000 in any calendar year. During 2005, 77,410 shares of common stock were issued under the plan at an average price of $45.48. During 2004, 73,921 shares of common stock were issued under the plan at an average price of $34.96. During 2003, 79,237 shares of common stock were issued under the plan at an average price of $29.25. An additional 522,013 shares were available for issuance under the plan at December 31, 2005.

The Corporation 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 Corporation's common stock by any person or group in a transaction not approved by the Corporation'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 Corporation 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 Corporation. The Corporation has reserved preferred shares necessary for issuance should the rights be exercised.

The Corporation 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 Corporation's common stock or when more than one-third of the Corporation'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 Corporation, and all his or her benefits are vested under the Corporation plans. If, at any time within two years of the change in control, his or her position, salary, bonus, place of work, or Corporation-provided benefits are modified, or employment is terminated by the Corporation 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-Based Compensation

Under the Corporation's 1995 Stock-Based Compensation Plan, as amended and restated effective November 10, 2000, the Corporation may award options to purchase shares of the Corporation'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. Restricted stock awarded under the plan is expensed ratably over the vesting period of the awards. Stock options awarded to employees under the Plan must be at exercise prices equal to or exceeding the fair market value of the Corporation'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 weighted-average fair value of options granted during 2005, 2004, and 2003, estimated on the date of grant using the Black-Scholes option-pricing model, was $15.74, $17.70, and $10.74, respectively. The fair value of 2005, 2004, and 2003, options granted is estimated on the date of grant using the following assumptions: dividend yield of 1.2% to 2.0%, expected volatility of 31.8% to 35.1%, risk-free interest rate of 4.2% to 4.8%, and an expected life of 7 to 10 years.

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

	Number of Shares	Weighted-Average Exercise Price
Outstanding at December 28, 2002	1,403,250	$23.03
Granted	446,500	26.78
Exercised	(362,000)	23.10
Forfeited	(18,500)	23.57
Outstanding at January 3, 2004	1,469,250	$24.15
Granted	340,900	39.59
Exercised	(448,500)	22.33
Forfeited	(53,200)	27.61
Outstanding at January 1, 2005	**1,308,450**	**$28.65**
Granted	**175,800**	**42.81**
Exercised	**(331,500)**	**25.14**
Forfeited	**(24,100)**	**30.95**
Outstanding at December 31, 2005	**1,128,650**	**$31.84**
Options exercisable at:		
December 31, 2005	**433,250**	**$23.00**
January 1, 2005	**604,750**	**27.56**
January 3, 2004	**202,250**	**25.47**

The following table summarizes information about fixed stock options outstanding at December 31, 2005:

	Options Outstanding		Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at December 31, 2005
$24.50	7,000	1.4 years	$24.50	7,000
$32.22	3,000	2.1 years	$32.22	3,000
$23.47	49,750	3.1 years	$23.47	49,750
$18.31–$26.69	132,500	4.6 years	$19.89	132,500
$23.32	69,500	5.1 years	$23.32	69,500
$25.75–$25.77	139,000	6.1 years	$25.77	11,000
$25.50–$42.98	227,500	7.2 years	$27.70	7,000
$37.57–$42.15	328,500	8.2 years	$39.58	153,500
$42.66–$52.91	171,900	9.2 years	$42.81	–

Retirement Benefits

The Corporation has defined contribution profit-sharing plans covering substantially all employees who are not participants in certain defined benefit plans. The Corporation's annual contribution to the defined contribution plans is based on employee eligible earnings and results of operations and amounted to $27.4 million, $27.3 million, and $26.5 million, in 2005, 2004, and 2003, respectively.

The Corporation sponsors defined benefit plans which include a limited number of salaried and hourly employees at certain subsidiaries. The Corporation's funding policy is generally to contribute annually the minimum actuarially computed amount. Net pension costs relating to these plans were $653,000, $0, and $176,000 in 2005, 2004, and 2003, respectively. The increase in 2005 is due to a plan curtailment resulting from the shutdown of an office furniture facility in Van Nuys, California. The actuarial present value of obligations, less related plan assets at fair value, is not significant.

The Corporation also participates in a multi-employer plan, which provides defined benefits to certain of the Corporation's union employees. Pension expense for this plan amounted to $353,000, $322,000, and $309,000, in 2005, 2004, and 2003, respectively.

Postretirement Health Care

In accordance with the guidelines of revised SFAS No.132, "Disclosures about Pensions and other Postretirement Benefits," the following table sets forth the funded status of the plan, reconciled to the accrued postretirement benefits cost recognized in the Corporation's balance sheet at:

(In thousands)	**2005**	2004	2003
Change in benefit obligation			
Benefit obligation at beginning of year	**$ 18,958**	$ 18,331	$17,617
Service cost	**303**	284	249
Interest cost	**1,057**	1,066	1,105
Benefits paid	**(1,503)**	(1,780)	(1,206)
Actuarial (gain) or loss	**923**	1,057	566
Benefit obligation at end of year	**$ 19,738**	$18,958	$18,331
Change in plan assets			
Fair value at beginning of year	**$ 8,777**	$ 10,250	$ –
Actual return on assets	**300**	112	–
Employer contributions	**8**	195	11,456
Benefits paid	**(1,503)**	(1,780)	(1,206)
Fair value at end of year	**$ 7,582**	$ 8,777	$10,250
Reconciliation of funded status			
Funded status	**$(12,156)**	$(10,181)	$ (8,081)
Unrecognized actuarial (gain) or loss	**3,132**	2,340	1,105
Unrecognized transition obligation or (asset)	**4,199**	4,780	5,361
Unrecognized prior service cost	**661**	892	1,122
Net amount recognized at year-end	**$ (4,164)**	$ (2,169)	$ (493)
Amounts recognized in the statement of financial position consist of:			
Accrued benefit liability	**$ (4,164)**	$ (2,169)	$ (493)
Net amount recognized at year-end, included in other liabilities	**$ (4,164)**	$ (2,169)	$ (493)
Estimated future benefit payments (in thousands)			
Fiscal 2006			$ 1,199
Fiscal 2007			1,236
Fiscal 2008			1,278
Fiscal 2009			1,301
Fiscal 2010			1,310
Fiscal 2011–2015			7,077
Expected contributions during fiscal 2006			
Total			$ 0

Plan Assets – Percentage of Fair Value by Category

	2005	2004
Equity	**0%**	0%
Debt	**0%**	0%
Other	**100%**	100%
Total	**100%**	100%

The Corporation invests these funds in high-grade money market instruments. Prior to 2003 the plan was not funded.

The discount rates at fiscal year-end 2005, 2004, and 2003 were 5.5%, 5.75%, and 6.0%, respectively. The Corporation payment for these benefits has reached the maximum amounts per the plan; therefore, healthcare trend rates have no impact on the Corporation's cost.

In December 2003, the United States enacted into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Modernization Act"). The Modernization Act established a prescription drug benefit under Medicare, known as "Medicare Part D," and a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D.

In May 2004, the FASB issued FASB Staff Position No. 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" ("FSP 106-2"). The Corporation adopted FSP 106-2 on July 4, 2004. The Corporation has determined that the benefits provided by the plan are not actuarially equivalent to the Medicare Part D benefit under the Modernization Act based on the percentage of the cost of the plan that the Corporation provides. Therefore, the adoption of FSP 106-2 did not have an impact on the Corporation's financial statements during 2004. The Corporation will continue to monitor the effect as regulations evolve regarding actuarial equivalency.

Leases

The Corporation leases certain warehouse, plant facilities, and equipment. Commitments for minimum rentals under non-cancelable leases at the end of 2005 are as follows:

(In thousands)	Capitalized Leases	Operating Leases
2006	$ 284	$18,231
2007	215	13,957
2008	211	11,372
2009	211	9,235
2010	211	7,245
Thereafter	168	11,439
Total minimum lease payments	$1,300	$71,479
Less: amount representing interest	281	
Present value of net minimum lease payments, including current maturities of $200	$1,019	

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

(In thousands)	**2005**	2004	2003
Buildings	**$3,299**	$3,299	$3,299
Machinery and equipment	**38**	196	196
Office equipment	**761**	761	761
	4,098	4,256	4,256
Less: allowances for depreciation	**3,564**	3,307	2,879
	$ 534	$ 949	$1,377

Rent expense for the years 2005, 2004, and 2003 amounted to approximately $19.5 million, $16.1 million, and $13.6 million, respectively. The Corporation has an operating lease for a production facility with annual rentals totaling approximately $362,000 with a corporation in which the minority owner of one of the Corporation's consolidated subsidiaries is an investor. Contingent rent expense under both capitalized and operating leases (generally based on mileage of transportation equipment) amounted to $169,000, $241,000, and $313,000, for the years 2005, 2004, and 2003, respectively.

Guarantees, Commitments and Contingencies

During the second quarter ended June 28, 2003, the Corporation entered into a one-year financial agreement for the benefit of one of its distribution chain partners which was extended through August 31, 2005. During the third quarter of 2005 the Corporation paid $1.2 million associated with this guarantee. The Corporation expects to recover this amount through liquidations of secured collateral and settlements. As of December 31, 2005, the Corporation has recovered $0.9 million.

The Corporation utilizes letters of credit in the amount of $23 million to back certain financing instruments, insurance policies, and payment obligations. The letters of credit reflect fair value as a condition of their underlying purpose and are subject to fees competitively determined.

The Corporation is contingently liable for future minimum payments totaling $4.3 million under a transportation service contract. The transportation agreement was for a three-year period ending May 1, 2005, with an automatic renewal provision for periods of one year. This contract was renewed. Either party may terminate the agreement upon 90 days' written notice.

The Corporation has contingent liabilities, which have arisen in the course of its business, including pending litigation, preferential payment claims in customer bankruptcies, environmental remediation, taxes, and other claims. On December 9, 2005, the Corporation settled a lawsuit, which sought approximately $7.6 million and arose out of the 2001 bankruptcy of a customer. The lawsuit alleged that the Corporation received preferential payments from the customer during the ninety days before the customer filed for bankruptcy protection. The Corporation was named a critical vendor by the bankruptcy court and, accordingly, was paid in full for all outstanding receivables. The lawsuit was brought in February 2003 in the United States Bankruptcy Court for the District of Delaware. The Corporation settled all claims arising out of this lawsuit for a cash payment in the amount of $585,000. As a consequence of the settlement, the lawsuit was dismissed with prejudice on December 14, 2005.

Significant Customer

One office furniture customer accounted for approximately 12%, 13%, and 13% of consolidated net sales in 2005, 2004, and 2003, respectively.

Operating Segment Information

In accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," management views the Corporation 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 storage products, desks, credenzas, chairs, tables, bookcases, freestanding office partitions and panel systems, and other related products. The hearth products segment manufactures and markets a broad line of manufactured electric, gas-, pellet-, and wood-burning fireplaces and stoves, fireplace inserts, gas logs, and chimney systems principally for the home.

The Corporation's hearth products segment is somewhat seasonal with the third (July–September) and fourth (October–December) fiscal quarters historically having higher sales than the prior quarters. In fiscal 2005, 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 Corporation'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 Corporation'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 2005, 2004, and 2003, is as follows:

(In thousands)	**2005**	2004	2003
Net sales:			
Office furniture	**$1,855,642**	$1,570,777	$1,304,054
Hearth products	**594,930**	522,670	451,674
	$2,450,572	$2,093,447	$1,755,728
Operating profit:			
Office furniture[(a)]	**$ 176,321**	$ 154,896	$ 130,080
Hearth products	**74,822**	62,158	54,433
Total operating profit	**251,143**	217,054	184,513
Unallocated corporate expenses	**(36,424)**	(38,185)	(33,582)
Income before income taxes	**$ 214,719**	$ 178,869	$ 150,931
Depreciation and amortization expense:			
Office furniture	**$ 43,967**	$ 45,737	$ 54,121
Hearth products	**15,275**	15,061	13,599
General corporate	**6,272**	5,905	5,052
	$ 65,514	$ 66,703	$ 72,772
Capital expenditures:			
Office furniture	**$ 27,760**	$ 18,635	$ 17,619
Hearth products	**8,498**	13,878	12,577
General corporate	**5,544**	3,287	7,312
	$ 41,802	$ 35,800	$ 37,508
Identifiable assets:			
Office furniture	**$ 617,591**	$ 570,294	$ 452,350
Hearth products	**361,568**	338,602	303,811
General corporate	**161,112**	112,761	265,665
	$1,140,271	$1,021,657	$1,021,826

(a) Included in operating profit for the office furniture segment are pretax charges of $3.5 million, $0.9 million, and $8.5 million, for closing of facilities and impairment charges in 2005, 2004, and 2003, respectively.

Subsequent Event

On January 13, 2006, the Corporation signed an agreement to purchase Lamex, a privately held Chinese manufacturer and marketer of office furniture. Lamex operates primarily in China and Hong Kong, where as a market leader, it generates sales in excess of $70 million annually. The acquisition is expected to close in early 2006. The Corporation intends to make the purchase with cash and debt. Further details of the transaction will be included in the Corporation's SEC Quarterly Report on Form 10-Q for the first quarter ended April 1, 2006.

Summary of Quarterly Results of Operations (Unaudited)

The following table presents certain unaudited quarterly financial information for each of the past 12 quarters. In the opinion of the Corporation's management, this information has been prepared on the same basis as the consolidated financial statements appearing elsewhere in this report and includes all adjustments (consisting only of normal recurring accruals) necessary to present fairly the financial results set forth herein. Results of operations for any previous quarter are not necessarily indicative of results for any future period.

(In thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year-End 2005				
Net sales	$562,261	$594,168	$632,280	$661,863
Cost of products sold	366,416	379,880	396,042	420,316
Gross profit	195,845	214,288	236,238	241,547
Selling and administrative expenses	155,400	160,146	171,802	181,562
Restructuring related charges	–	–	1,071	2,391
Operating income	40,445	54,142	63,365	57,594
Interest income (expense) – net	55	98	(498)	(492)
Income before income taxes	40,500	54,240	62,867	57,102
Income taxes	14,378	19,255	22,317	21,345
Minority interest in earnings of subsidiary	–	–	(11)	5
Net income	$ 26,122	$ 34,985	$ 40,561	$ 35,752
Net income per common share – basic	$ .47	$ .63	$ .74	$ .67
Weighted-average common shares outstanding – basic	55,176	55,131	55,012	53,278
Net income per common share – diluted	$ .47	$ .63	$ .73	$ .67
Weighted-average common shares outstanding – diluted	55,551	55,513	55,447	53,693
As a Percentage of Net Sales				
Net sales	100.0%	100.0%	100.0%	100.0%
Gross profit	34.8	36.1	37.4	36.5
Selling and administrative expenses	27.6	27.0	27.2	27.4
Restructuring related charges	–	–	0.2	0.4
Operating income	7.2	9.1	10.0	8.7
Income taxes	2.6	3.2	3.5	3.2
Net income	4.6	5.9	6.4	5.4
Year-End 2004				
Net sales	$464,037	$508,605	$573,457	$547,348
Cost of products sold	294,275	324,984	367,835	355,049
Gross profit	169,762	183,621	205,622	192,299
Selling and administrative expenses	134,580	142,579	147,594	147,253
Restructuring related charges (income)	520	215	135	16
Operating income	34,662	40,827	57,893	45,030
Interest income (expense) – net	355	120	(29)	11
Income before income taxes	35,017	40,947	57,864	45,041
Income taxes	12,606	15,121	21,120	16,440
Net income	$ 22,411	$ 25,826	$ 36,744	$ 28,601
Net income per common share – basic	$ .38	$ .45	$ .65	$ .52
Weighted-average common shares outstanding – basic	58,240	57,943	56,192	55,511
Net income per common share – diluted	$ .38	$ .44	$ .65	$ .51
Weighted-average common shares outstanding – diluted	58,690	58,378	56,635	55,897
As a Percentage of Net Sales				
Net sales	100.0%	100.0%	100.0%	100.0%
Gross profit	36.6	36.1	35.9	35.1
Selling and administrative expenses	29.0	28.0	25.7	26.9
Restructuring related charges	0.1	–	–	–
Operating income	7.5	8.0	10.1	8.2
Income taxes	2.7	3.0	3.7	3.0
Net income	4.8	5.1	6.4	5.2

(In thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year-End 2003				
Net sales	$391,971	$406,793	$500,091	$456,873
Cost of products sold	252,841	260,367	316,412	286,893
Gross profit	139,130	146,426	183,679	169,980
Selling and administrative expenses	114,426	112,979	127,472	125,867
Restructuring related charges (income)	–	2,265	3,881	2,364
Operating income	24,704	31,182	52,326	41,749
Interest income (expense) – net	(265)	(149)	617	767
Income before income taxes	24,439	31,033	52,943	42,516
Income taxes	8,554	10,861	18,530	14,881
Net income	$ 15,885	$ 20,172	$ 34,413	$ 27,635
Net income per common share – basic	$ .27	$ .35	$ .59	$ .47
Weighted-average common shares outstanding – basic	58,317	58,143	58,043	58,222
Net income per common share – diluted	$ .27	$ .35	$ .59	$ .47
Weighted-average common shares outstanding – diluted	58,582	58,468	58,448	58,731
As a Percentage of Net Sales				
Net sales	100.0%	100.0%	100.0%	100.0%
Gross profit	35.5	36.0	36.7	37.2
Selling and administrative expenses	29.2	27.8	25.5	27.5
Restructuring related charges	–	0.6	0.8	0.5
Operating income	6.3	7.7	10.5	9.1
Income taxes	2.2	2.7	3.7	3.3
Net income	4.1	5.0	6.9	6.0

Investor Information

COMMON STOCK MARKET PRICES AND DIVIDENDS (UNAUDITED)

QUARTERLY 2005–2004

2005 by Quarter	High	Low	Dividends per Share
1st	**$45.70**	**$38.80**	**$.155**
2nd	**54.23**	**44.65**	**.155**
3rd	**60.23**	**50.92**	**.155**
4th	**62.41**	**46.94**	**.155**
Total Dividends Paid			**$ .62**

2004 by Quarter	High	Low	Dividends per Share
1st	$45.71	$35.25	$.14
2nd	42.42	36.56	.14
3rd	42.13	36.97	.14
4th	43.65	38.52	.14
Total Dividends Paid			$.56

Common Stock Market Price and Price/Earnings Ratio (Unaudited)

FISCAL YEARS 2005–1995

	Market Price*		Diluted Earnings	Price/Earnings Ratio	
Year	High	Low	per Share*	High	Low
2005	**$62.41**	**$38.80**	**$2.50**	**25**	**16**
2004	45.71	35.25	1.97	23	18
2003	44.12	24.65	1.68	26	15
2002	30.85	22.88	1.55	20	15
2001	28.85	19.96	1.26	23	16
2000	27.88	15.56	1.77	16	9
1999	29.88	18.75	1.44	21	13
1998	37.19	20.00	1.72	22	12
1997	32.13	15.88	1.45	22	11
1996	21.38	9.25	1.13	19	8
1995	15.63	11.50	.67	23	17
Eleven-year average				22	13

** Adjusted for the effect of stock splits*

SELECTED FINANCIAL DATA – FIVE-YEAR SUMMARY

	2005	2004	2003	2002[a]	2001
Per Common Share Data (Basic and Dilutive)					
Net income – basic	**$ 2.51**	$ 1.99	$ 1.69	$ 1.55	$ 1.26
Net income – diluted	**2.50**	1.97	1.68	1.55	1.26
Cash dividends	**.62**	.56	.52	.50	.48
Book value – basic	**11.46**	12.10	12.19	11.08	10.10
Net working capital – basic	**2.48**	1.96	3.71	1.82	1.52
Operating Results (Thousands of Dollars)					
Net sales	**$2,450,572**	$2,093,447	$1,755,728	$1,692,622	$1,792,438
Cost of products sold	**1,562,654**	1,342,143	1,116,513	1,092,743	1,181,140
Gross profit	**887,918**	751,304	639,215	599,879	611,298
Interest expense	**2,355**	886	2,970	4,714	8,548
Income before income taxes	**214,709**	178,869	150,931	140,554	116,261
Income before income taxes as a % of net sales	**8.76%**	8.54%	8.60%	8.30%	6.49%
Effective tax rate	**36.0%**	36.5%	35.0%	35.0%	36.0%
Net income	**$ 137,420**	$ 113,582	$ 98,105	$ 91,360	$ 74,407
Net income as a % of net sales	**5.61%**	5.43%	5.59%	5.40%	4.15%
Cash dividends and share purchase rights redeemed	**$ 33,841**	$ 32,023	$ 30,299	$ 29,386	$ 28,373
Addition to (reduction of) retained earnings	**(65,810)**	(35,100)	54,001	55,176	36,759
Net income applicable to common stock	**137,420**	113,582	98,105	91,360	74,407
% return on average shareholders' equity	**21.76%**	16.47%	14.46%	14.74%	12.76%
Depreciation and amortization	**$ 65,514**	$ 66,703	$ 72,772	$ 68,755	$ 82,385
Distribution of Net Income					
% paid to shareholders	**24.63%**	28.19%	30.88%	32.17%	38.13%
% reinvested in business	**75.37%**	71.81%	69.12%	67.84%	61.87%
Financial Position (Thousands of Dollars)					
Current assets	**$ 486,598**	$ 374,579	$ 462,122	$ 405,054	$ 319,657
Current liabilities	**358,174**	266,250	245,816	298,680	230,443
Working capital	**128,424**	108,329	216,306	106,374	89,214
Net property, plant, and equipment	**294,660**	311,344	312,368	353,270	204,971
Total assets	**1,140,271**	1,021,657	1,021,826	1,020,552	961,891
% return on beginning assets employed	**21.10%**	17.46%	14.69%	14.83%	12.04%
Long-term debt and capital lease obligations	**$ 103,869**	$ 3,645	$ 4,126	$ 9,837	$ 80,830
Shareholders' equity	**593,944**	669,163	709,889	646,893	592,680
Retained earnings	**540,822**	606,632	641,732	587,731	532,555
Current ratio	**1.36**	1.41	1.88	1.36	1.39
Current Share Data					
Number of shares outstanding at year-end	**51,848,591**	55,303,323	58,238,519	58,373,607	58,672,933
Weighted-average shares outstanding during year – basic	**54,649,199**	57,127,110	58,178,739	58,789,851	59,087,963
Weighted-average shares outstanding during year – diluted	**55,033,741**	57,577,630	58,545,353	59,021,071	59,210,049
Number of shareholders of record at year-end	**6,702**	6,465	6,416	6,777	6,694
Other Operational Data					
Capital expenditures (thousands of dollars)	**$ 38,912**	$ 32,417	$ 34,842	$ 25,885	$ 36,851
Members (employees) at year-end	**12,504**[b]	10,589[b]	8,926	8,828	9,029[b]

(a) Per SFAS No. 142, "Goodwill and Other Intangible Assets," the Corporation has ceased recording of goodwill and indefinite-lived intangible amortization.
(b) Includes acquisitions completed during the fiscal year.

FORWARD-LOOKING STATEMENTS

Statements in this 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. Words such as "anticipate," "believe," "could," "confident," "estimate," "expect," "forecast," "intend," "likely," "may," "plan," "possible," "potential," "predict," "project," "should," and variations of such words and similar expressions identify forward-looking statements. Forward-looking statements involve known and unknown risks, which may cause the Corporation's actual results in the future to differ materially from expected results.

Because of the following risks, as well as other variables affecting the Corporation's operating results, past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods:

- competition within the office furniture and fireplace industries, including competition from imported products and competitive pricing;
- increases in the cost of raw materials, including steel, which is the Corporation's largest raw material category;
- higher than expected costs for energy and fuel;
- uncertainty related to disruptions of business by terrorism, military action, epidemic, acts of God, or other force majeure events;
- the ability of the Corporation to realize financial benefits through price realization from its price increases;
- increases in the cost of health care benefits provided by the Corporation;
- reduced demand for the Corporation's storage products caused by changes in office technology, including the change from paper record storage to electronic record storage;
- the effects of economic conditions on demand for office furniture, customer insolvencies, and related bad debts and claims against the Corporation that it received preferential payments;
- changes in demand and order patterns from the Corporation's customers, particularly its top 10 customers, which represented approximately 36% of net sales in 2005;
- issues associated with acquisitions and integration of acquisitions;
- the ability of the Corporation to realize cost savings and productivity improvements from its cost containment and business simplification initiatives;
- the ability of the Corporation to realize financial benefits from investments in new products;
- the ability of the Corporation's distributors and dealers to successfully market and sell the Corporation's products;
- currency fluctuations;
- the availability and cost of capital to finance planned growth; and
- other risks, uncertainties, and factors described from time to time in the Corporation's filings with the Securities and Exchange Commission.

The factors identified above are believed to be important factors (but not necessarily all of the important factors) that could cause actual results to differ materially from those expressed in any forward-looking statement. Unpredictable or unknown factors could also have material adverse effects on the Corporation. All forward-looking statements included in this report are expressly qualified in their entirety by the foregoing cautionary statements. The Corporation does not assume any obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by applicable law.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of HNI Corporation:

We have completed integrated audits of HNI Corporation's fiscal year 2005 and fiscal year 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its January 3, 2004 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

CONSOLIDATED FINANCIAL STATEMENTS

In our opinion, the accompanying consolidated balance sheets and related statements of income, shareholders' equity and cash flows, present fairly, in all material respects, the financial position of HNI Corporation and its subsidiaries (the "Corporation") at December 31, 2005, January 1, 2005, and January 3, 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Also, in our opinion, management's assessment, included in the Management Report on Internal Control Over Financial Reporting that the Corporation maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control – Integrated Framework* issued by the COSO. The Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Corporation's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Chicago, Illinois
February 27, 2006

MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of HNI Corporation is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. HNI Corporation's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. The Corporation's internal control over financial reporting includes those written policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of HNI Corporation;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of HNI Corporation are being made only in accordance with authorizations of management and directors of HNI Corporation; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of assets that could have a material effect on the consolidated financial statements.

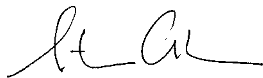
Internal control over financial reporting includes the controls themselves, monitoring (including internal auditing practices), and actions taken to correct deficiencies as identified.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of HNI Corporation's internal control over financial reporting as of December 31, 2005. Management based this assessment on criteria for effective internal control over financial reporting described in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of the design of the Corporation's internal control over financial reporting and testing of the operational effectiveness of the Corporation's internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of our Board of Directors.

Based on this assessment, management determined that, as of December 31, 2005, HNI Corporation maintained effective internal control over financial reporting.

Management's assessment of the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.



Stan A. Askren
Chairman, President and Chief Executive Officer

Jerald K. Dittmer
Vice President and Chief Financial Officer

February 22, 2006

Dear shareholders:

We, the members of the HNI Corporation Board of Directors, believe that integrity is central to good corporate governance. That belief is reflected in the HNI Corporation Vision Statement, which appears on page 58 of this annual report, adopted many years ago. Our Vision Statement represents much more than a traditional "mission," and it goes much deeper than company policy. The beliefs and values represented in that document are the very foundation of our corporate culture and guide the attitude and actions of every member, every day.

From its beginnings, HNI Corporation has sought to implement its vision through sound policies and practices, and by maintaining a strong Board composed predominantly of outside Directors. We are fully committed to executing our responsibilities, and we will continue to maintain the company's long-standing tradition of an independent, well-informed, active and engaged Board of Directors.

Our responsibility on the Board is to fulfill our role in the implementation of the vision through sound policies and practices, through clear and open communication, and through a conservative and straightforward financial management philosophy.

It is an honor to serve as Directors of HNI Corporation. Rest assured that we will continue to work to honor the values and priorities expressed in HNI's Vision Statement.

Sincerely,

The HNI Corporation Board of Directors

Stan A. Askren
Miguel M. Calado
Gary M. Christensen
Cheryl A. Francis
John A. Halbrook
James R. Jenkins
Dennis J. Martin
Larry B. Porcellato
Joseph Scalzo
Abbie J. Smith
Brian E. Stern
Ronald V. Waters, III

Board of Directors

Stan A. Askren
Chairman, President and
Chief Executive Officer,
HNI Corporation

Miguel M. Calado
Former Executive Vice
President and President,
International,
Dean Foods Company

Gary M. Christensen
Lead Director,
HNI Corporation
Advisor, Wind Point Partners
Retired President and
Chief Executive Officer,
Pella Corporation

Cheryl A. Francis
Advisor/Consultant,
Vice Chairman,
Corporate Leadership Center

John A. Halbrook
Chairman,
Woodward Governor
Company

James R. Jenkins
Senior Vice President
and General Counsel,
Deere & Company

Dennis J. Martin
Independent Consultant,
Retired Chairman, President
and Chief Executive Officer,
General Binding Corporation

Larry B. Porcellato
Chief Executive Officer,
ICI Paints North America

Joseph Scalzo
President and
Chief Executive Officer,
WhiteWave Foods Company

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

Brian E. Stern
Senior Vice President,
Xerox,
Fuji Xerox Operations,
Xerox Corporation

Ronald V. Waters, III
Chief Operating Officer,
Wm. Wrigley Jr. Company

Director Emeritus

Richard H. Stanley
Chairman,
SC Companies, Inc.
Chairman,
Stanley Consultants, Inc.

Committees of the Board

Audit
Ronald V. Waters, III,
Chairperson

Miguel M. Calado
James R. Jenkins
Joseph Scalzo

Human Resources and Compensation
Abbie J. Smith,
Chairperson

Gary M. Christensen
John A. Halbrook
Larry B. Porcellato

Public Policy and Corporate Governance
Brian E. Stern,
Chairperson

Cheryl A. Francis
Dennis J. Martin

HNI Corporation Officers

Stan A. Askren
Chairman, President and
Chief Executive Officer

Jerald K. Dittmer
Vice President and
Chief Financial Officer

Robert J. Driessnack
Vice President, Controller

Melinda C. Ellsworth
Vice President, Treasurer
and Investor Relations

Tamara S. Feldman
Vice President,
Financial Reporting

Robert D. Hayes
Vice President,
Business Analysis and
General Auditor

Douglas L. Jones
Vice President and Chief
Information Officer

Jeffrey D. Lorenger
Vice President, General
Counsel and Secretary

Donald T. Mead
Vice President,
Member and Community
Relations

Timothy R. Summers
Vice President,
Lean Enterprise

Operating Companies

Timothy J. Anderson
President,
Omni Workspace Company

David C. Burdakin
Executive Vice President,
HNI Corporation
President,
The HON Company

Bradley D. Determan
Executive Vice President,
HNI Corporation
President,
Hearth & Home Technologies Inc.

Eric K. Jungbluth
Executive Vice President,
HNI Corporation
President,
Allsteel Inc.

Russell S. Minick
President,
The Gunlocke Company L.L.C.

Marco V. Molinari
Executive Vice President,
HNI Corporation
President,
HNI International Inc.

Jean M. Reynolds
President,
Maxon Furniture Inc.

Thomas A. Tolone
President,
Paoli Inc.

We, the members of HNI Corporation, are dedicated to creating long-term value for all of our stakeholders, to exceeding our customers' expectations and to making our company a great place to work. We will always treat each other, as well as customers, suppliers, shareholders and our communities, with fairness and respect. Our success depends upon business simplification, rapid continuous improvement and innovation in everything we do, individual and collective integrity, and the relentless pursuit of the following long-standing beliefs:

We will be profitable.
We pursue mutually profitable relationships with customers and suppliers. Only when our company achieves an adequate profit can the other elements of this Vision be realized.

We will create long-term value for shareholders.
We create long-term value for shareholders by earning financial returns significantly greater than our cost of capital and pursuing profitable growth opportunities. We will safeguard our shareholders' equity by maintaining a strong balance sheet to allow flexibility in responding to a continuously changing market and business environment.

We will pursue profitable growth.
We pursue profitable growth on a global basis in order to provide continued job opportunities for members and financial success for all stakeholders.

We will be a supplier of quality products and services.
We provide reliable products and services of high quality and brand value to our end-users. Our products and services exceed our customers' expectations and enable our distributors and our company to make a fair profit.

We will be a great place to work.
We pursue a participative environment and support a culture that encourages and recognizes excellence, active involvement, ongoing learning and contributions of each member; that seeks out and values diversity; and that attracts and retains the most capable people who work safely, are motivated and are devoted to making our company and our members successful.

We will be a responsible corporate citizen.
We conduct our business in a way that sustains the well-being of society, our environment and the economy in which we live and work. We follow ethical and legal business practices. Our company supports our volunteer efforts and provides charitable contributions so that we can actively participate in the civic, cultural, educational, environmental and governmental affairs of our society.

To our stakeholders:
When our company is appreciated by its members, favored by its customers, supported by its suppliers, respected by the public and admired by its shareholders, this Vision is fulfilled.

Fiscal 2006 Quarter-End Dates
1st Quarter: Saturday, April 1
2nd Quarter: Saturday, July 1
3rd Quarter: Saturday, September 30
4th Quarter: Saturday, December 30

Annual Meeting
The Corporation's annual shareholders' meeting will be held at 10:30 a.m. on Tuesday, May 2, 2006, at the Holiday Inn, Highways 61 & 38 North, Muscatine, Iowa. Shareholders and other interested investors are encouraged to attend the meeting.

Investor Relations
Send inquiries to:
Investor Relations
HNI Corporation
414 East Third Street
Muscatine, IA 52761
Telephone: 563.272.7400
Fax: 563.272.7655
E-mail: *investorrelations@hnicorp.com*

Corporate Headquarters
HNI Corporation
414 East Third Street
P.O. Box 1109
Muscatine, IA 52761-0071
Telephone: 563.272.7400
Fax: 563.272.7217
Website: *www.hnicorp.com*

Independent Registered Public Accounting Firm
PricewaterhouseCoopers LLP
One North Wacker Drive
Chicago, IL 60606

Common Stock
HNI Corporation common stock trades on the New York Stock Exchange (NYSE) 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

Management Certifications
On June 1, 2005, the Corporation submitted to the NYSE, the Annual CEO Certification required by Section 303A.12(a) of the NYSE Listed Company Manual. The Corporation also filed with the Securities and Exchange Commission the CEO/CFO Certification required under Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibits 31.1 and 31.2 to the Corporation's annual report on Form 10-K for the fiscal year ended December 31, 2005.

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HNI Corporation
414 East Third Street
Muscatine, Iowa 52761
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