

HNI Corporation 2007 Annual Report





HNI

HNI Corporation provides products and solutions for the home and workplace environments. We are 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's stock trades on the NYSE under the symbol HNI.

DEAR SHAREHOLDERS:

We were challenged by the business cycle in 2007.

Housing starts declined 56 percent from the peak in 2006, and we experienced softness in the office supplies channel, where we enjoy our strongest office furniture position.

In the face of these challenges, we did what we have always done well at HNI: We adapted to the marketplace and aggressively pursued improvement across the corporation.

We continued to pursue our core strategies, leveraging our unique structure to get closer to our customers and create value. We strengthened our businesses and positioned them for long-term growth.

The actions we took resulted in record revenue and operating profit in our office furniture business and record operating cash flow for the corporation during 2007. We also improved consolidated gross profit margin during the year despite the market decline our hearth business faced.

POSITIONING FOR VALUE CREATION AND GROWTH

Every year, in good times and bad, we strive to position ourselves for profitable growth by focusing on our markets and continuously strengthening and streamlining our business. That's what we did in 2007.

We aggressively retooled our hearth business to better align with dramatically lower market demand, implementing more than \$50 million in fixed and non-fixed cost reductions. As a result, our hearth business continued to manage profitably through the negative effects of the housing market. Even though its sales were down 23 percent compared with 2006, the hearth business generated a 7.9 percent operating profit margin in 2007.

We also sharpened our focus by streamlining our office furniture businesses and product lines during the year. We continued to increase our cost leverage of HNI's scale across the corporation, driving toward sharing more services and best practices. As a result of these and many other actions, our office furniture business's 2007 operating profit grew more than four times faster than revenue.

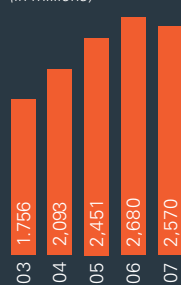
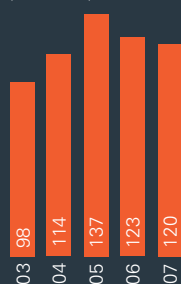
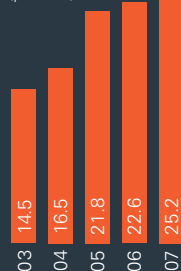
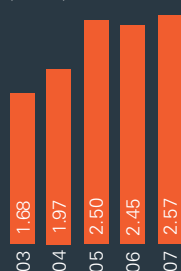
At the same time, we worked to strengthen our market position, getting closer to our customers to better understand their needs and tailoring our product offerings and selling models accordingly. The result will be the launch of a record number of new product solutions in 2008 and continued investment in our brands and selling models.

To enhance the fulfillment process for customers, we're transforming our manufacturing and transportation network model. We're realigning our manufacturing capacity as part of that effort, closing some facilities while improving and expanding others to support growth.



STAN A. ASKREN

*Chairman, President
and Chief Executive Officer*

Net Sales
(in millions)**Net Income**
(in millions)**Return on Average Shareholders' Equity**
(percent)**Diluted Earnings per Share**
(dollars)

(Amounts in thousands, except for per share data)

| | 2007 | 2006 | Change |
|---|-------------|--------------|--------|
| Income Statement Data | | | |
| Net sales | \$2,570,472 | \$ 2,679,803 | -4.1% |
| Gross profit | 905,775 | 926,921 | -2.3% |
| Selling and administrative expenses | 702,329 | 717,676 | -2.1% |
| Restructuring related and impairment charges | 9,788 | 2,829 | 246.0% |
| Operating income | 193,658 | 206,416 | -6.2% |
| Income from continuing operations | 119,864 | 129,672 | -7.6% |
| Net income | 120,378 | 123,375 | -2.4% |
| Net income as a % of: | | | |
| Net sales | 4.7% | 4.6% | — |
| Average shareholders' equity | 25.2% | 22.6% | — |
| Per common share: | | | |
| Net income from continuing operations – basic | \$ 2.57 | \$ 2.59 | -0.8% |
| Net income – basic | 2.58 | 2.46 | 4.9% |
| Net income from continuing operations – diluted | 2.55 | 2.57 | -0.8% |
| Net income – diluted | 2.57 | 2.45 | 4.9% |
| Cash dividends | 0.78 | 0.72 | 8.3% |
| Balance Sheet Data | | | |
| Total assets | \$1,206,976 | \$ 1,226,359 | -1.6% |
| Long-term debt and capital lease obligations | 281,091 | 285,974 | -1.7% |
| Debt/capitalization ratio | 39.2% | 38.6% | — |
| Shareholders' equity | \$ 458,908 | \$ 495,919 | -7.5% |
| Working capital | 104,611 | 145,632 | -28.2% |
| Other Data | | | |
| Capital expenditures | \$ 58,568 | \$ 58,921 | -0.6% |
| Cash flow from operations | 291,187 | 159,602 | 82.4% |
| Weighted-average shares outstanding during year – basic | 46,684,774 | 50,059,443 | -6.7% |
| Weighted-average shares outstanding during year – diluted | 46,925,161 | 50,374,758 | -6.8% |
| Share repurchases | \$ 147,675 | \$ 203,646 | -27.5% |
| Price/earnings ratio at year-end | 14 | 18 | — |
| Number of shareholders at year-end | 7,625 | 7,475 | 2.0% |
| Members (employees) at year-end | 13,271 | 14,170 | -6.3% |

We shut down our Monterrey, Mexico, facility earlier in the year. We announced plans to close our Richmond, Virginia, plant in the first half of 2008 and consolidate production into our Cedartown, Georgia, and Muscatine, Iowa, facilities. The Richmond closure alone will eliminate approximately \$10 million in annual costs when fully implemented in 2009. We also outsourced a large part of our logistics management to a third-party provider, which will result in a \$7 million reduction in annual transportation costs when completed in mid-2008.

We effectively responded to the business cycle in 2007, but we believe there is room for more improvement. Rapid Continuous Improvement is at the heart of our culture and touches everything we do. We're managing better today than we did a year ago; we'll manage even more effectively a year from now.

HNI'S UNIQUE MODEL AND GROWTH STRATEGY CONTINUE

Our decentralized split-and-focus business model succeeded in a year that presented an unusually wide range of challenges and opportunities. Because our companies are independent and focused on unique market segments, each was able to nimbly tailor its response to its own environment without compromising HNI's high standards of quality and service.

Our contract-oriented office furniture businesses continued to expand and gain market share while our supplies-oriented office furniture businesses dealt with softer market demand. At the same time, our hearth business was able to resize significantly without compromising its long-term competitive capability.

Each HNI company follows a "Core Plus" strategy, which focuses on growing the existing businesses (the "Core") while seeking out and developing new frontiers for growth (the "Plus"). We grow the core profitably in two ways. First, by continually improving operations through lean principles. Second, by focusing on end users and letting that guide new branding, product development, marketing and selling strategies.

"Plus" growth opportunities include adjacent vertical markets like education or health care; new distribution models, which have been a continued focus for our hearth and contract-oriented office furniture businesses; and new geographies such as China, where Lamex delivered strong performance in its first full year as an HNI company.

The Core Plus strategy is intended to renew our businesses continuously, enhancing their competitiveness and producing growth faster than the industry. While Core Plus did not fully offset major declines in our industry or in segments where we're especially strong during 2007, it has enabled us to gain market share over time in both the hearth and office furniture industries and strengthened our prospects for the longer term.

GOING FORWARD: MEETING THE CHALLENGE

The business cycle and U.S. economy will continue to present challenges, at least in the near term. We're planning for the current market weakness to continue through 2008—conditions in the hearth industry will continue to deteriorate with the general housing market, and we expect the supplies-driven channel in office furniture to remain soft into 2009. We're projecting overall office furniture industry growth to soften during the same period.

With the initiatives we've completed to resize our hearth business, we expect even a modest recovery in new homebuilding to produce significant increases in profits. In our hearth business and in all our office furniture businesses, we'll continue to be aggressive in pursuing opportunities to further streamline operations and generate cash while investing to drive growth, both organically and through acquisitions.

We remain excited about the long-term prospects of this corporation. Our strong fundamentals remain unchanged: motivated and engaged members; well-managed, strong business positions in industries with attractive long-term potential; strong profitability and solid cash flow generation; and a track record of growing faster than our industries.

HNI members are working hard every day, driving change in our business in ways that both improve performance now and strengthen our ability to perform even better in the future. We all share a growing confidence that HNI will come out of this cycle stronger than ever.

We thank you for your support.

Sincerely,

A handwritten signature in black ink, appearing to read "Stan A. Askren". The signature is fluid and cursive, with the first name "Stan" and last name "Askren" clearly distinguishable.

STAN A. ASKREN

*Chairman, President and Chief Executive Officer
HNI Corporation*

HNI Fundamentals:

OUR CULTURE REMAINS OUR GREATEST STRENGTH,
FUELED BY PERSONAL ACCOUNTABILITY
AND A DRIVE FOR CONTINUOUS IMPROVEMENT.

HNI members are an aggressive, highly engaged group who come to work every day with an attitude of constructive discontent—performers and problem solvers who drive continuous improvement across our business. Because virtually everyone who works here owns stock and participates in our profit sharing plan, the HNI culture is about shared risk and shared reward. Culture is important because it drives behaviors. Behaviors drive results.

OUR BUSINESS MODEL PRESERVES ENTREPRENEURIAL
AGILITY WHILE REAPING THE FULL BENEFIT OF
SHARED FUNCTIONS AND SCALE.

Our split-and-focus business model keeps us close to our customers and maintains maximum agility to serve them. Each independent HNI business unit has a dedicated management team, strategic plan and tailored operating approach focused on a specific market. At the same time, business units communicate and share best practices while leveraging our collective scale in non-customer-facing functions such as purchasing, logistics and IT.

OUR BUSINESS MIX PUTS US IN A BROAD,
BALANCED RANGE OF MARKETS AND CHANNELS.

HNI's business units focus on distinct end-user groups covering a wide spectrum within office furniture and hearth products, from small businesses to large corporations, individual business people to designers and architects, large builders to individual homeowners. With category-leading brands and product lines, each HNI business unit shares a commitment to grow by delivering a winning buying experience to each customer.

OUR GROWTH STRATEGY, CORE PLUS, FOCUSES ON
STRENGTHENING OUR CORE WHILE EXTENDING OUR REACH.

Our Core Plus growth strategy positions us to grow in the right areas with controlled risk. We drive growth in our established businesses (the “Core”) with an intense end-user focus that guides new product development, branding, marketing and selling. In the “Plus” side of the strategy, we develop new growth drivers adjacent to our core, whether it's new businesses, vertical markets, distribution models or geographic regions.

Allsteel®

HON®

Gunlocke®

PAOLI™

maxon®

Omni™
WORKSPACE
COMPANY

LAMEX®



basyx™


FIRESIDE
HEARTH&HOME®

HEAT&GLO®

QUADRA-FIRE®

heatilator®

HARMAN™

HNI comprises some of the strongest
and best-known brands in the marketplace.

2007 Financials

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. Statements that are not historical are forward-looking and involve risks and uncertainties, including those discussed under the caption "Risk Factors" in Item 1A of the Corporation's annual report on Form 10-K and elsewhere in this report.

Overview

The Corporation has two reportable 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 various brands and selling models. The Corporation is focused on growing its existing businesses while seeking out and developing new opportunities for growth.

During 2007, the office furniture industry experienced solid growth. The Corporation experienced softness in the supplies driven channel and solid demand in its contract businesses in the office furniture segment. Sales benefited from price increases as well as acquisitions completed over the past two years. The housing market continued to decline sharply, which negatively impacted the Corporation's hearth products segment.

To support specific company strategies in both segments of its business, the Corporation completed the acquisition of Harman Stove Company, a privately held domestic manufacturer of free-standing stoves and fireplace inserts, as well as two small office furniture dealer acquisitions. The Corporation made the decision to shut down one office furniture facility and completed the shutdown of another office furniture facility which had begun in 2006. The Corporation also made the decision to sell several small non-core components of its office furniture services business.

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 2007 ended on December 29, 2007; fiscal 2006 ended on December 30, 2006; and fiscal 2005 ended on December 31, 2005. The financial statements for fiscal years 2007, 2006, and 2005 are all 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, the Corporation does not recognize revenue until the goods are received by the customer or upon installation or 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 sales. Marketing program accruals require the use of management estimates and the consideration of contractual arrangements subject to interpretation. Customer sales that achieve or do not achieve 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, the length of time a receivable has been outstanding, 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 reasonably 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 29, 2007, there was approximately \$300 million in outstanding accounts receivable and \$11 million recorded in the allowance for doubtful accounts to cover potential future customer non-payments. However, if economic conditions were to 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 \$13 million at year end 2006 and \$12 million at year end 2005.

Inventory valuation – The Corporation valued 87% of its inventory by the last-in, first-out ("LIFO") method at December 29, 2007. 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 approximately \$9 million at year-end 2007 and \$8 million at year-end 2006 and 2005.

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 Restructuring Related and Impairment Charges in the Notes to Consolidated Financial Statements.

The Corporation's continuous focus on improving the manufacturing process tends to increase the likelihood of assets being replaced; therefore, the Corporation is regularly 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 during the fourth 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 included in continuing operations exceeded their carrying value, so no impairment of goodwill was recognized in continuing operations for the period ending December 29, 2007. Goodwill of approximately \$257 million is shown on the consolidated balance sheet as of the end of fiscal 2007.

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 also determines the fair value of indefinite lived trademarks on an annual basis or whenever indication of impairment exists. The Corporation has evaluated its trademarks for impairment and has determined that the fair market value of the trademarks exceeds carrying value, so no impairment was recognized. The carrying value of the trademarks was approximately \$43.5 million at the end of fiscal 2007.

The Corporation has definite lived intangibles that are amortized over their estimated useful lives. Impairment losses are recognized if the carrying amount of an intangible, subject to amortization, is not recoverable from expected future cash flows and its carrying amount exceeds its fair value. Intangibles, net of amortization, of approximately \$74 million are included on the consolidated balance sheet as of the end of fiscal 2007.

Self-insured reserves – The Corporation is partially self-insured or carries high deductibles 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 the number or severity 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 adopted the provisions of Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" ("SFAS 123(R)"), beginning January 1, 2006, using the modified prospective transition method. This statement requires the Corporation to measure the cost of employee services in exchange for an award of equity instruments based on the grant date fair value of the award and to recognize cost over the requisite service period. This resulted in a cost of approximately \$3.6 million in 2007 and \$3.2 million in 2006. In 2005 the Corporation accounted for its stock option plan using Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," which resulted in no charge to earnings when options are issued at fair market value. If the fair value method had been adopted previously, the Corporation's net income for 2005 would have been reduced by approximately \$2 million.

Income taxes – Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Corporation's assets and liabilities. The Corporation provides for taxes that may be payable if undistributed earnings of overseas subsidiaries were to be remitted to the United States, except for those earnings that it considers to be permanently reinvested.

Recent Accounting Pronouncements

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This Interpretation is effective for fiscal years beginning after December 15, 2006. The Corporation adopted the provision of FIN 48 on December 31, 2006, the beginning of fiscal 2007. See "Income Taxes" footnote for additional information.

In September 2006, the FASB issued SFAS No. 157 "Fair Value Measurements" which provides enhanced guidance for using fair value to measure assets and liabilities. The standard also expands the amount of disclosure regarding the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Corporation does not anticipate any material impact to its financial statements from the adoption of this standard.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"), which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective of SFAS 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement is effective as of the beginning of any fiscal year beginning after November 15, 2007. The Corporation does not anticipate any material impact to its financial statements from the adoption of this standard.

In December 2007, the FASB issued SFAS No. 141 (Revised), "Business Combinations" ("SFAS No. 141(R)"), replacing SFAS No. 141, "Business Combinations" ("SFAS No. 141"), and SFAS No. 160, "Noncontrolling Interests in Consolidation Financial Statements – An Amendment of ARB No. 51" ("SFAS No. 160"). SFAS No. 141(R) retains the fundamental requirements of SFAS No. 141, broadens its scope by applying the acquisition method to all transactions and other events in which one entity obtains control over one or more other businesses, and requires, among other things, that assets acquired and liabilities assumed be measured at fair value as of the acquisition date, that liabilities related to contingent considerations be recognized at the acquisition date and remeasured at fair value in each subsequent reporting period, that acquisition-related costs be expensed as incurred, and that income be recognized if the fair value of the net assets acquired exceeds the fair value of the consideration transferred. SFAS No. 160 establishes accounting and reporting standards for noncontrolling interests (i.e., minority interests) in a subsidiary, including changes in a parent's ownership interest in a subsidiary and requires, among other things, that noncontrolling interests in subsidiaries be classified as a separate component of equity. Except for the presentation and disclosure requirements of SFAS No. 160, which are to be applied retrospectively for all periods presented, SFAS No. 141 (R) and SFAS No. 160 are to be applied prospectively in financial statements issued for fiscal years beginning after December 15, 2008. The Corporation does not anticipate any material impact to its financial statements from the adoption of SFAS No. 160.

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.

| <i>Fiscal</i> | 2007 | 2006 | 2005 |
|---|---------------|--------|--------|
| Net Sales | 100.0% | 100.0% | 100.0% |
| Cost of products sold | 64.8 | 65.4 | 63.7 |
| Gross profit | 35.2 | 34.6 | 36.3 |
| Selling and administrative expenses | 27.3 | 26.8 | 27.3 |
| Restructuring related charges | 0.4 | 0.1 | 0.1 |
| Operating income | 7.5 | 7.7 | 8.9 |
| Interest income (expense) net | (0.7) | (0.5) | 0.0 |
| Earnings from continuing operations before income taxes and minority interest | 6.9 | 7.2 | 8.9 |
| Income taxes | 2.2 | 2.4 | 3.2 |
| Minority interest in earnings of subsidiary | 0.0 | 0.0 | 0.0 |
| <i>Income from continuing operations</i> | 4.7% | 4.8% | 5.7% |

NET SALES

Net sales during 2007 were \$2.6 billion, a decrease of 4.1 percent, compared to net sales of \$2.7 billion in 2006. Acquisitions contributed \$46 million or 1.7 percentage points of sales. Higher price realization of \$84 million was offset by softer demand in the supplies driven channel of the office furniture segment and lower volume in the hearth products segment. Net sales during 2006 were \$2.7 billion, an increase of 10.1 percent, compared to net sales of \$2.4 billion in 2005. The increase in 2006 was due to \$113 million of incremental sales from acquisitions, \$43 million in price increases implemented in 2005 and 2006, and solid growth across all brands in the office furniture segment offset by lower volume in the hearth products segment.

GROSS PROFIT

Gross profit as a percent of net sales increased 0.6 percentage points in 2007 as compared to 2006 due to better price realization and increased cost control offset partially by lower volume. Gross profit as a percent of net sales decreased 1.7 percentage points in 2006 as compared to 2005 due to broad-based material price increases in both segments and lower volume in the hearth products segment.

SELLING AND ADMINISTRATIVE EXPENSES

Selling and administrative expenses decreased 2.1 percent in 2007 and increased 8.1 percent in 2006. The decrease in 2007 was due to lower volume related expenses and cost containment measures offset partially by additional costs from acquisitions, increased costs related to brand building, new product and growth initiatives and higher incentive based compensation. The increase in 2006 was due to additional costs from acquisitions; increased freight and distribution costs due to volume, rate increases and fuel surcharges; stock based compensation expense due to the adoption of SFAS 123(R), and costs to resize the hearth business. These increases were partially offset by a gain on the sale of a vacated facility, lower incentive compensation expense, and cost containment measures.

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

RESTRUCTURING AND IMPAIRMENT CHARGES

As a result of the Corporation's ongoing business simplification and cost reduction initiatives, management made the decision in 2007 to close an office furniture facility in Richmond, Virginia and consolidate production into other locations. In connection with the shutdown of the Richmond facility, the Corporation recorded \$4.4 million of pre-tax charges which included \$0.6 million of accelerated depreciation of machinery and equipment recorded in cost of sales and \$3.8 million of severance recorded as restructuring costs. The closure and consolidation will be completed during the first half of 2008. The Corporation will incur additional restructuring charges and transition costs of approximately \$9 to \$11 million in connection with the closure.

The Corporation made the decision in 2007 to sell several small non-core components of its office furniture services business and recorded \$2.7 million of impairment charges, included in the restructuring related and impairment charges line item on the statement of income, to reflect the fair market value of the assets being held for sale.

The Corporation's hearth products segment consolidated some of its service and distribution locations during 2007. In connection with those consolidations, the Corporation recorded \$1.1 million of severance and facility exit costs, which were recorded as restructuring costs.

During 2007, the Corporation completed the shutdown of an office furniture facility, which began in the fourth quarter of 2006. The facility was located in Monterrey, Mexico, and production from this facility was consolidated into other locations. In connection with this shutdown, the Corporation recorded \$0.8 million of severance costs in 2006. The Corporation incurred \$2.1 million of current period charges during 2007.

During 2006, the Corporation completed the shutdown of two office furniture facilities, which began in the third quarter of 2005. The facilities were located in Kent, Washington and Van Nuys, California, and production from these facilities was consolidated into other locations. Charges for these closures in 2005 totaled \$4.1 million, which consisted of \$0.6 million of accelerated depreciation of machinery and equipment recorded as 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. In connection with those shutdowns, the Corporation incurred \$2.0 million of current period charges during 2006.

OPERATING INCOME

Operating income was \$194 million in 2007, a decrease of 6.2 percent compared to \$206 million in 2006. The decrease in 2007 is due to lower volume in the hearth products segment, increased costs related to brand building, new product and growth initiatives, higher incentive-based compensation and restructuring charges offset partially by improved price realization and cost containment measures. Operating income was \$206 million in 2006, a decrease of 4.8 percent compared to \$217 million in 2005. The decrease in 2006 is due to lower volume in the hearth products segment, broad-based material cost increases, increased freight costs, and stock compensation expense due to the adoption of SFAS 123(R) offset by higher volume and price increases in the office furniture segment.

INCOME FROM CONTINUING OPERATIONS

Income from continuing operations in 2007, which excludes the Corporation's discontinued business (see Discontinued Operations in the Notes to Consolidated Financial Statements), was \$120 million compared with \$130 million in 2006, a 7.6 percent decrease. Income from continuing operations was negatively impacted by increased interest expense of \$4 million on moderate debt levels, consistent with the Corporation's strategy of maintaining a more efficient capital structure. Income from continuing operations in 2006 was \$130 million compared with \$138 million in 2005, a 6.1 percent decrease. Income from continuing operations was negatively impacted by increased interest expense of approximately \$12 million on moderate debt levels. The Corporation completed a detailed analysis of all deferred tax accounts in 2006, and determined that net deferred income tax liabilities were overstated. The overstatement primarily related to a deferred tax liability associated with property, plant and equipment, partially offset by an overstated deferred tax asset associated with inventory. In analyzing the difference, the Corporation determined that the items originated primarily in fiscal years prior to 2002. To correct this difference, the Corporation reduced income tax expense in the fourth quarter of 2006 by \$4.1 million. The effect of this adjustment was to reduce the effective income tax rate related to continuing operations by 2.1 percentage points for the year and increase earnings per share from continuing operations by \$0.08. Income from continuing operations per diluted share decreased by 0.8 percent to \$2.55 in 2007 and increased by 2.4 percent to \$2.57 in 2006 including a positive tax adjustment of \$0.08 per share.

DISCONTINUED OPERATIONS

During December 2006, the Corporation committed to a plan to sell a small non-core component of its office furniture segment. The Corporation reduced the assets to the fair market value and classified them as held for sale. The sale was completed during the second quarter of 2007. Revenues and expenses associated with this component are presented as discontinued operations for all periods presented. This operation was formerly reported within the Office Furniture segment. Refer to Discontinued Operations in the Notes to Consolidated Financial Statements for further information.

NET INCOME

Net income decreased 2.4 percent to \$120 million in 2007 compared to \$123 million in 2006 which was a decrease of 10.2 percent compared to 2005. Net income per diluted share increased by 4.9 percent to \$2.57 in 2007 and decreased 2.0 percent to \$2.45 in 2006. Net income per diluted share was positively impacted \$0.18 per share in 2007 and \$0.21 per share in 2006 by the Corporation's share repurchase program.

OFFICE FURNITURE

Office furniture comprised 82 percent, 78 percent, and 76 percent of consolidated net sales for 2007, 2006, and 2005, respectively. Net sales for office furniture increased 2 percent in 2007 to \$2.11 billion compared to \$2.08 billion in 2006. The increase in 2007 was due to approximately \$37 million from the Corporation's acquisitions. Organic sales were virtually flat, including increased price realization of \$78 million, due to softness in the supplies driven channel of the business. Net sales for office furniture increased 13 percent in 2006 to \$2.1 billion compared to \$1.8 billion in 2005. The increase in 2006 was due to approximately \$95 million from the Corporation's acquisitions and organic growth of approximately \$144 million or 7.8 percent, including increased price realization of \$41 million. The Business and Institutional Furniture Manufacturer's Association ("BIFMA") reported 2007 shipments up 6 percent and 2006 shipments up 7 percent.

Operating profit as a percent of net sales was 9.2 percent in 2007, 8.8 percent in 2006, and 9.7 percent in 2005. The increase in operating margins in 2007 was due to better price realization and benefits of cost reduction initiatives partially offset by increased costs related to brand building, new product and growth initiatives, higher incentive based compensation and higher restructuring costs. The decrease in operating margins in 2006 was due to higher material, transportation and other input costs offset partially by price realization, lower restructuring charges, and a gain on the sale of a vacant facility. Acquisitions also negatively impacted profitability as anticipated.

HEARTH PRODUCTS

Hearth products sales decreased 23 percent in 2007 to \$462 million compared to \$603 million in 2006. New acquisitions contributed \$9 million of sales. The decrease in organic sales was a result of a severe and rapid two year decline in new home construction that created one of the worst housing markets on record. Hearth products sales increased 1 percent in 2006 to \$603 million compared to \$595 million in 2005 due to the contribution from new acquisitions of \$18 million. The decrease in organic sales was due to a dramatic decline, which began in the second half of 2006 as a result of the decline in the housing market.

Operating profit as a percent of sales in 2007 was 7.9 percent compared to 9.7 percent in 2006, and 12.6 percent in 2005, respectively. The decrease in operating margins in 2007 was due to lower overall volume offset partially by cost reduction initiatives. The decrease in operating margins in 2006 was due to lower overall volume, higher mix of lower margin remodel/retrofit business and increased material and transportation costs.

Liquidity and Capital Resources

During 2007, cash flow from operations was \$291.2 million driven by broad-based improvements in working capital. Cash flow from operations along with available cash and short-term investments and funds from stock option exercises under employee stock plans, 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 \$43.8 million at the end of 2007 compared to \$37.3 million at the end of 2006 and \$84.7 million at the end of 2005. These funds, coupled with cash from future operations and additional debt, if needed, are expected to be adequate to finance operations, planned improvements, and internal growth. The Corporation is not presently 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. The Corporation's inventory turns were 16, 18, and 18, for 2007, 2006, and 2005, 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 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. In 2005, the Corporation invested in an investment fund, which was excluded from the scope of Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities" ("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 2007, 2006, and 2005 is included in the Cash, Cash Equivalents, and Investments note included in the Consolidated Financial Statements.

CAPITAL EXPENDITURE INVESTMENTS

Capital expenditures were \$58.6 million in 2007, \$58.9 million in 2006, and \$38.9 million in 2005. 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. The Corporation anticipates capital expenditures for 2008 to be \$70 to \$75 million due to increased focus on new products and operational process improvement.

ACQUISITIONS

During 2007, the Corporation completed the acquisition of Harman Stove Company, a privately held domestic manufacturer of free-standing stoves and fireplace inserts and two small office furniture dealers for a total combined purchase price of approximately \$41 million. During 2006, the Corporation completed the acquisition of Lamex, a privately held Chinese manufacturer and marketer of office furniture, as well as a small office furniture services company, a small office furniture dealer and a small manufacturer of fireplace facings for a total combined purchase price of approximately \$78 million. 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. 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 38% of total capitalization as of December 29, 2007, 37% as of December 30, 2006, and 15% as of December 31, 2005. The increase in long-term debt during 2006 and 2005 was due to the Corporation issuing \$150 million of senior unsecured notes through the private placement debt market and utilizing its revolving credit facility to fund acquisitions and share repurchases in accordance with its strategy of operating with a more efficient capital structure. 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. On April 6, 2006, the Corporation refinanced \$150 million of borrowings outstanding under its revolving credit facility with 5.54 percent ten-year unsecured Senior Notes due in 2016 issued through the private placement debt market. Additional borrowing capacity of \$172 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:

| (In thousands) | Payments Due by Period | | | | |
|---|------------------------|---------------------|-----------------|------------------|----------------------|
| | Total | Less Than 1 Year | 1-3 Years | 3-5 Years | More Than 5 Years |
| Long-term debt obligations, including estimated interest ⁽¹⁾ | \$385,507 | \$ 29,673 | \$30,777 | \$145,321 | \$179,736 |
| Capital lease obligations | 1,409 | 552 | 689 | 168 | — |
| Operating lease obligations | 145,412 | 35,858 | 57,728 | 33,019 | 18,807 |
| Purchase obligations ⁽²⁾ | 77,911 | 77,911 | — | — | — |
| Other long-term obligations ⁽³⁾ | 34,225 | 2,426 | 4,558 | 1,111 | 26,130 |
| Total | \$644,464 | \$146,420 | \$93,752 | \$179,619 | \$224,673 |

(1) Interest has been included for all debt at either the fixed rate or variable rate in effect as of December 29, 2007, 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 compensation programs, mandatory purchases of the remaining unowned interest in four acquisitions, liability for unrecognized tax liabilities in accordance with FIN 48, and contribution and benefit payments expected to be made for our post-retirement benefit plans. It should be noted that the obligations related to post-retirement benefit plans are not contractual and the plans could be amended at the discretion of the Corporation. The disclosure of contributions and benefit payments has been limited to 10 years, as information beyond this time period was not available.

CASH DIVIDENDS

Cash dividends were \$0.78 per common share for 2007, \$0.72 for 2006, and \$0.62 for 2005. Further, the Board of Directors announced a 10.3 percent increase in the quarterly dividend from \$0.195 to \$0.215 per common share effective with the February 29, 2008, dividend payment for shareholders of record at the close of business February 22, 2008. The previous quarterly dividend increase was from \$0.18 to \$0.195, effective with the March 1, 2007 dividend payment for shareholders of record at the close of business on February 23, 2007. 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 29 percent of prior year earnings.

COMMON SHARE REPURCHASES

During 2007, the Corporation repurchased 3,581,707 shares of its common stock at a cost of approximately \$147.7 million, or an average price of \$41.23. The Board of Directors authorized \$200 million on November 11, 2005, an additional \$200 million on August 8, 2006, and an additional \$200 million on November 9, 2007, for repurchases of the Corporation's common stock.

As of December 29, 2007, approximately \$192.2 million of this authorized amount remained unspent. During 2006, the Corporation repurchased 4,336,987 shares of its common stock at a cost of approximately \$203.6 million, or an average price of \$46.96. 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.

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, 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.

Looking Ahead

Management believes that macroeconomic indicators point to continued slowing in the office furniture business during 2008. The Corporation expects to increase its investment in growth opportunities and position for the market recovery by enhancing its selling capabilities and launching a significant number of new products. The Corporation will work to offset the market softness and increased investment by eliminating waste, attacking structural cost and streamlining its businesses.

The housing market is expected to decline during 2008 and continue to significantly pressure both revenue and profit in the Corporation's hearth products segment. The Corporation intends to continue to profitably manage through these conditions by streamlining its operations; however, it will continue to position the business for long-term growth once conditions stabilize.

The Corporation anticipates that its tax rate on average will be 35.5 percent in 2008 due to the expiration of the research tax credit. In the event this credit is renewed in its most recent form, it would lower the effective rate approximately 0.8 percentage points.

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

| <i>(Amounts in thousands, except for per share data)</i> | For the Years | 2007 | 2006 | 2005 |
|--|---------------|--------------------|-------------|-------------|
| Net sales | | \$2,570,472 | \$2,679,803 | \$2,433,316 |
| Cost of products sold | | 1,664,697 | 1,752,882 | 1,549,475 |
| Gross profit | | 905,775 | 926,921 | 883,841 |
| Selling and administrative expenses | | 702,329 | 717,676 | 663,667 |
| Restructuring related and impairment charges | | 9,788 | 2,829 | 3,462 |
| <i>Operating income</i> | | 193,658 | 206,416 | 216,712 |
| Interest income | | 1,229 | 1,139 | 1,518 |
| Interest expense | | 18,161 | 14,323 | 2,355 |
| <i>Earnings from continuing operations before income taxes and minority interest</i> | | 176,726 | 193,232 | 215,875 |
| Income taxes | | 57,141 | 63,670 | 77,715 |
| <i>Earnings from continuing operations before minority interest</i> | | 119,585 | 129,562 | 138,160 |
| Minority interest in earnings of subsidiary | | (279) | (110) | (6) |
| <i>Income from continuing operations</i> | | 119,864 | 129,672 | 138,166 |
| Discontinued operations, less applicable income taxes | | 514 | (6,297) | (746) |
| <i>Net income</i> | | \$ 120,378 | \$ 123,375 | \$ 137,420 |
| <i>Net income from continuing operations – basic</i> | | \$ 2.57 | \$ 2.59 | \$ 2.53 |
| Net income from discontinued operations – basic | | 0.01 | (0.13) | (0.02) |
| <i>Net income per common share – basic</i> | | \$ 2.58 | \$ 2.46 | \$ 2.51 |
| Weighted average shares outstanding – basic | | 46,684,774 | 50,059,443 | 54,649,199 |
| <i>Net income from continuing operations – diluted</i> | | \$ 2.55 | \$ 2.57 | \$ 2.51 |
| Net income from discontinued operations – diluted | | 0.02 | (0.12) | (0.01) |
| <i>Net income per common share – diluted</i> | | \$ 2.57 | \$ 2.45 | \$ 2.50 |
| Weighted average shares outstanding – diluted | | 46,925,161 | 50,374,758 | 55,033,741 |

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

2007

2006

2005

Assets

Current Assets

| | | | |
|---|-----------|-----------|-----------|
| Cash and cash equivalents | \$ 33,881 | \$ 28,077 | \$ 75,707 |
| Short-term investments | 9,900 | 9,174 | 9,035 |
| Receivables net | 288,777 | 316,568 | 278,515 |
| Inventories | 108,541 | 105,765 | 91,110 |
| Deferred income taxes | 17,828 | 15,440 | 15,831 |
| Prepaid expenses and other current assets | 30,145 | 29,150 | 16,400 |

Total Current Assets 489,072 504,174 486,598

Property, Plant, and Equipment 305,431 309,952 294,660

Goodwill 256,834 251,761 242,244

Other Assets 155,639 160,472 116,769

Total Assets \$1,206,976 \$1,226,359 \$1,140,271

Liabilities and Shareholders' Equity

Current Liabilities

| | | | |
|---|------------|------------|------------|
| Accounts payable and accrued expenses | \$ 367,320 | \$ 328,882 | \$ 309,222 |
| Note payable and current maturities of long-term debt and capital lease obligations | 14,715 | 26,135 | 40,350 |
| Current maturities of other long-term obligations | 2,426 | 3,525 | 8,602 |

Total Current Liabilities 384,461 358,542 358,174

Long-Term Debt 280,315 285,300 103,050

Capital Lease Obligations 776 674 819

Other Long-Term Liabilities 55,843 56,103 48,671

Deferred Income Taxes 26,672 29,321 35,473

Minority Interest in Subsidiaries 1 500 140

Commitments and Contingencies

Shareholders' Equity

Preferred stock – \$1 par value – – –

Authorized: 2,000

Issued: None

Common stock – \$1 par value 44,835 47,906 51,849

Authorized: 200,000

Issued and outstanding: 2007 – 44,835; 2006 – 47,906; 2005 – 51,849

Additional paid-in capital 3,152 2,807 941

Retained earnings 410,075 448,268 540,822

Accumulated other comprehensive (loss) income 846 (3,062) 332

Total Shareholders' Equity 458,908 495,919 593,944

Total Liabilities and Shareholders' Equity \$1,206,976 \$1,226,359 \$1,140,271

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| <i>(Amounts in thousands)</i> | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive (Loss) Income | Total Shareholders' Equity |
|--|-----------------|-------------------------------|----------------------|--|----------------------------------|
| <i>Balance, January 1, 2005</i> | \$55,303 | \$ 6,879 | \$ 606,632 | \$ 349 | \$ 669,163 |
| Comprehensive income: | | | | | |
| Net income | | | 137,420 | | 137,420 |
| Other comprehensive 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 |
| <i>Balance, December 31, 2005</i> | 51,849 | 941 | 540,822 | 332 | 593,944 |
| Comprehensive income: | | | | | |
| Net income | | | 123,375 | | 123,375 |
| Other comprehensive income | | | | 1,168 | 1,168 |
| Comprehensive income | | | | | 124,543 |
| Adoption of FAS 158 impact | | | | (4,562) | (4,562) |
| Cash dividends | | | (36,028) | | (36,028) |
| Common shares – treasury: | | | | | |
| Shares purchased | (4,337) | (19,408) | (179,901) | | (203,646) |
| Shares issued under Member's Stock Purchase Plan and stock awards | 394 | 21,274 | | | 21,668 |
| <i>Balance, December 30, 2006</i> | 47,906 | 2,807 | 448,268 | (3,062) | 495,919 |
| Comprehensive income: | | | | | |
| Net income | | | 120,378 | | 120,378 |
| Other comprehensive income | | | | 3,908 | 3,908 |
| Comprehensive income | | | | | 124,286 |
| Adoption of FIN 48 impact | | | (509) | | (509) |
| Cash dividends | | | (36,408) | | (36,408) |
| Common shares – treasury: | | | | | |
| Shares purchased | (3,582) | (22,439) | (121,654) | | (147,675) |
| Shares issued under Member's Stock Purchase Plan and stock awards | 511 | 22,784 | | | 23,295 |
| <i>Balance, December 29, 2007</i> | \$44,835 | \$ 3,152 | \$ 410,075 | \$ 846 | \$ 458,908 |

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

| <i>(Amounts in thousands)</i> | For the Years | 2007 | 2006 | 2005 |
|---|---------------|-------------------|------------|------------|
| Net Cash Flows From (To) Operating Activities: | | | | |
| Net income | | \$ 120,378 | \$ 123,375 | \$ 137,420 |
| Noncash items included in net income: | | | | |
| Depreciation and amortization | | 68,173 | 69,503 | 65,514 |
| Other postretirement and post-employment benefits | | 2,132 | 2,109 | 2,002 |
| Stock-based compensation | | 3,603 | 3,219 | – |
| Excess tax benefits from stock compensation | | (808) | (865) | – |
| Deferred income taxes | | (4,935) | (3,712) | (8,933) |
| Net loss on sales, retirements and impairments of long-lived assets and intangibles | | 1,662 | 4,639 | 1,529 |
| Stock issued to retirement plan | | 6,611 | 7,948 | 6,199 |
| Other – net | | (1,162) | 1,733 | 1,164 |
| Changes in working capital, excluding acquisition and disposition: | | | | |
| Receivables | | 39,941 | (24,059) | (25,654) |
| Inventories | | 20,380 | (7,123) | (10,488) |
| Prepaid expenses and other current assets | | 2,264 | (9,541) | (4,207) |
| Accounts payable and accrued expenses | | 30,944 | (2,794) | 36,809 |
| Income taxes | | 1,169 | (2,088) | (5,534) |
| Increase (decrease) in other liabilities | | 835 | (2,742) | 5,188 |
| <i>Net cash flows from (to) operating activities</i> | | 291,187 | 159,602 | 201,009 |
| Net Cash Flows From (To) Investing Activities: | | | | |
| Capital expenditures | | (58,568) | (58,921) | (38,912) |
| Proceeds from sale of property, plant and equipment | | 12,145 | 5,952 | 317 |
| Capitalized software | | (346) | (1,003) | (2,890) |
| Acquisition spending, net of cash acquired | | (41,696) | (78,569) | (33,804) |
| Short-term investments – net | | – | 926 | 2,400 |
| Purchase of long-term investments | | (24,427) | (13,600) | (34,495) |
| Sales or maturities of long-term investments | | 20,576 | 8,250 | 32,505 |
| Other – net | | 294 | – | (68) |
| <i>Net cash flows from (to) investing activities</i> | | (92,022) | (136,965) | (74,947) |
| Net Cash Flows From (To) Financing Activities: | | | | |
| Purchase of HNI Corporation common stock | | (147,675) | (203,646) | (202,217) |
| Proceeds from long-term debt | | 289,503 | 515,157 | 199,000 |
| Payments of note and long-term debt and other financing | | (309,297) | (352,401) | (57,970) |
| Proceeds from sale of HNI Corporation common stock | | 9,708 | 5,786 | 14,997 |
| Excess tax benefits from stock compensation | | 808 | 865 | – |
| Dividends paid | | (36,408) | (36,028) | (33,841) |
| <i>Net cash flows from (to) financing activities</i> | | (193,361) | (70,267) | (80,031) |
| <i>Net increase (decrease) in cash and cash equivalents</i> | | 5,804 | (47,630) | 46,031 |
| <i>Cash and cash equivalents at beginning of year</i> | | 28,077 | 75,707 | 29,676 |
| <i>Cash and cash equivalents at end of year</i> | | \$ 33,881 | \$ 28,077 | \$ 75,707 |
| Supplemental Disclosures of Cash Flow Information: | | | | |
| Cash paid during the year for: | | | | |
| Interest | | \$ 18,213 | \$ 12,002 | \$ 1,961 |
| Income taxes | | \$ 57,128 | \$ 75,266 | \$ 88,133 |

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

Nature of Operations

HNI Corporation 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 Operating Segment Information 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 a full array of gas, electric, and wood-burning fireplaces, inserts, stoves, facings, and accessories. These products are sold through a national system of dealers and distributors, 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 and manufactures and markets office furniture in Asia; 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 2007 ended on December 29, 2007; 2006 ended on December 30, 2006; and 2005 ended on December 31, 2005. The financial statements for fiscal years 2007, 2006, and 2005 are on a 52-week basis. A fifty-three week year occurs approximately every sixth year.

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. The Corporation has invested in an investment fund that is excluded

from the scope of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities"; however, the Corporation's ownership in this investment fund is such that the underlying investments are recorded at fair market value.

At December 29, 2007, December 30, 2006, and December 31, 2005, cash, cash equivalents, and investments consisted of the following (cost approximates market value):

Year-End 2007

| <i>(In thousands)</i> | Cash and Cash Equivalents | Short-term Investments | Long-term Investments |
|--------------------------------------|------------------------------|---------------------------|--------------------------|
| <i>Available for sale securities</i> | | | |
| Debt and equity securities | \$ - | \$ - | \$ 4,996 |
| Investment in master fund | - | 9,900 | 25,705 |
| Cash and money market accounts | 33,881 | - | - |
| Total | \$33,881 | \$9,900 | \$30,701 |

Year-End 2006

| <i>(In thousands)</i> | Cash and Cash Equivalents | Short-term Investments | Long-term Investments |
|------------------------------------|------------------------------|---------------------------|--------------------------|
| <i>Held-to-maturity securities</i> | | | |
| Certificates of deposit | \$ - | \$ - | \$ 400 |
| Investment in master fund | - | 9,174 | 25,589 |
| Cash and money market accounts | 28,077 | - | - |
| Total | \$28,077 | \$9,174 | \$25,989 |

Year-End 2005

| <i>(In thousands)</i> | Cash and Cash Equivalents | Short-term Investments | Long-term Investments |
|------------------------------------|------------------------------|---------------------------|--------------------------|
| <i>Held-to-maturity securities</i> | | | |
| 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 |

RECEIVABLES

Accounts receivable are presented net of an allowance for doubtful accounts of \$11.5 million, \$12.8 million, and \$12.0 million, for 2007, 2006, and 2005, 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 87%, 86%, and 89% of its inventory by the last-in, first-out ("LIFO") method at December 29, 2007, December 30, 2006, and December 31, 2005, 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 \$9.1 million, \$7.7 million, and \$8.2 million, at year-end 2007, 2006, and 2005, 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 Restructuring Related Charges. 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 regularly 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 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 in continuing operations exceeds their carrying value so no impairment of goodwill was recognized in continuing operations. 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 goodwill associated with the reporting unit held for sale was impaired in 2006 and were included as part of the loss from discontinued operations.

The Corporation also determines the fair value of indefinite lived trademarks on an annual basis or whenever indications of impairment exist. The Corporation has evaluated its trademarks for impairment and recognized an impairment charge of \$1.0 million in 2006 related to two trademarks where the carrying value exceeded the fair market value. These trademarks were associated with the reporting unit classified as held for sale and were included as part of the loss from discontinued operations.

The Corporation has definite lived intangibles that are amortized over their estimated useful lives. Impairment losses are recognized if the carrying amount of an intangible, subject to amortization, is not recoverable from expected future cash flows and its carrying amount exceeds its fair value. Intangibles, net of amortization, of approximately \$74 million are included on the consolidated balance sheet as of the end of fiscal 2007.

PRODUCT WARRANTIES

The Corporation issues certain warranty policies on its furniture and hearth products that provides 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:

| <i>(In thousands)</i> | 2007 | 2006 | 2005 |
|--|------------------|-----------|-----------|
| Balance at the beginning of the period | \$ 10,624 | \$ 10,157 | \$ 10,794 |
| Accrual assumed from acquisition | 703 | 125 | — |
| Accruals for warranties issued during the period | 14,831 | 12,273 | 9,809 |
| Accrual related to pre-existing warranties | 600 | 810 | 1,449 |
| Settlements made during the period | (14,635) | (12,741) | (11,895) |
| <i>Balance at the end of the period</i> | \$ 12,123 | \$ 10,624 | \$ 10,157 |

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; the related costs are recorded 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 achieve or do not achieve 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 \$24.0 million in 2007, \$27.6 million in 2006, and \$27.3 million in 2005.

STOCK-BASED COMPENSATION

The Corporation adopted the provisions of Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" ("SFAS 123(R)"), beginning January 1, 2006, using the modified prospective transition method. This statement requires the Corporation to measure the cost of employee services in exchange for an award of equity instruments based on the grant-date fair value of the award and to recognize cost over the requisite service period. Under the modified prospective transition method, financial statements for periods prior to the date of adoption are not adjusted for the change in accounting. See "Stock-Based Compensation" footnote for further information.

INCOME TAXES

The Corporation accounts for income taxes under SFAS No. 109, "Accounting for Income Taxes," and in accordance with Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). 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. The Corporation provides for taxes that may be payable if undistributed earnings of overseas subsidiaries were to be remitted to the United States, except for those earnings that it considers to be permanently reinvested. There were approximately \$7.7 million of accumulated earnings considered to be permanently reinvested as of December 29, 2007.

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.

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

| <i>(In thousands, except per share data)</i> | 2007 | 2006 | 2005 |
|--|-----------|-----------|-----------|
| Numerators: | | | |
| Numerators for both basic and diluted EPS net income | \$120,378 | \$123,375 | \$137,420 |
| Denominators: | | | |
| Denominator for basic EPS weighted-average common shares outstanding | 46,685 | 50,059 | 54,649 |
| Potentially dilutive shares from stock option plans | 240 | 316 | 385 |
| Denominator for diluted EPS | 46,925 | 50,375 | 55,034 |
| Earnings per share – basic | \$2.58 | \$2.46 | \$2.51 |
| Earnings per share – diluted | \$2.57 | \$2.45 | \$2.50 |

Certain exercisable and non-exercisable stock options were not included in the computation of diluted EPS for fiscal year 2007, 2006, and 2005, because their inclusion would have been anti-dilutive. The number of stock options outstanding, which met this criterion for 2007 was 412,916; for 2006 was 290,366; and for 2005 was 176,900.

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 future.

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 Stockholders' Equity. Gains and losses on foreign currency transactions are included in the "Selling and administrative expenses" caption of the Consolidated Statements of Income.

RECLASSIFICATIONS

Prior periods Statements of Income have been restated for discontinued operations. Certain reclassifications have been made within the footnotes to conform to the current year presentation.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition

threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This Interpretation is effective for fiscal years beginning after December 15, 2006. The Corporation adopted the provision of FIN 48 on December 31, 2006, the beginning of fiscal 2007. See "Income Taxes" footnote for additional information.

In September 2006, the FASB issued SFAS No. 157 "Fair Value Measurements" which provides enhanced guidance for using fair value to measure assets and liabilities. The standard also expands the amount of disclosure regarding the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Corporation does not anticipate any material impact to its financial statements from the adoption of this standard.

In February, 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159") which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective of SFAS 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement is effective as of the beginning of any fiscal year beginning after November 15, 2007. The Corporation does not anticipate any material impact to its financial statements from the adoption of this standard.

In December 2007, the FASB issued SFAS No. 141 (Revised), "Business Combinations" ("SFAS No. 141(R)"), replacing SFAS No. 141, "Business Combinations" ("SFAS No. 141"), and SFAS No. 160, "Noncontrolling Interests in Consolidation Financial Statements – An Amendment of ARB No. 51" ("SFAS No. 160"). SFAS No. 141(R) retains the fundamental requirements of SFAS No. 141, broadens its scope by applying the acquisition method to all transactions and other events in which one entity obtains control over one or more other businesses, and requires, among other things, that assets acquired and liabilities assumed be measured at fair value as of the acquisition date, that liabilities related to contingent considerations be recognized at the acquisition date and remeasured at fair value in each subsequent reporting period, that acquisition-related costs be expensed as incurred, and that income be recognized if the fair value of the net assets acquired exceeds the fair value of the consideration transferred. SFAS No. 160

establishes accounting and reporting standards for noncontrolling interests (i.e., minority interests) in a subsidiary, including changes in a parent's ownership interest in a subsidiary and requires, among other things, that noncontrolling interests in subsidiaries be classified as a separate component of equity. Except for the presentation and disclosure requirements of SFAS No. 160, which are to be applied retrospectively for all periods presented, SFAS No. 141 (R) and SFAS No. 160 are to be applied prospectively in financial statements issued for fiscal years beginning after December 15, 2008. The Corporation does not anticipate any material impact to its financial statements from the adoption of SFAS No. 160.

Restructuring Related and Impairment Charges

As a result of the Corporation's ongoing business simplification and cost reduction initiatives, management made the decision in 2007 to close an office furniture facility in Richmond, Virginia and consolidate production into other locations. In connection with the shutdown of the Richmond facility, the Corporation recorded \$4.4 million of pre-tax charges which included \$0.6 million of accelerated depreciation of machinery and equipment recorded in cost of sales and \$3.8 million of severance which was recorded as restructuring costs. The closure and consolidation will be completed during the first half of 2008. The Corporation will incur additional restructuring charges and transition costs of approximately \$9 to \$11 million in connection with the closure.

The Corporation's hearth products segment consolidated some of its service and distribution locations during 2007. In connection with those consolidations, the Corporation recorded \$1.1 million of severance and facility exit costs, which were recorded as restructuring costs.

During 2007, the Corporation completed the shutdown of an office furniture facility, which began in the fourth quarter of 2006. The facility was located in Monterrey, Mexico, and production from this facility was consolidated into other locations. In connection with this shutdown, the Corporation recorded \$0.8 million of severance costs in 2006. The Corporation incurred \$2.1 million of current period charges during 2007.

During 2006, the Corporation completed the shutdown of two office furniture facilities, which began in the third quarter of 2005. The facilities were located in Kent, Washington and Van Nuys, California, and production from those facilities was consolidated into other locations. Charges for these closures in 2005 totaled \$4.1 million, which consisted of \$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. In connection with those shutdowns, the Corporation incurred \$1.9 million of current period charges during 2006.

The following table summarizes the restructuring accrual activity since the beginning of fiscal 2005. 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 and Impairment Charges" in the Consolidated Statements of Income.

| <i>(In thousands)</i> | Severance Costs | Facility Termination and Other Costs | Total |
|---|--------------------|--|-----------------|
| <i>Restructuring reserve at January 1, 2005</i> | \$ — | \$ — | \$ — |
| Restructuring charges | 1,142 | 1,876 | 3,018 |
| Cash payments | (325) | (632) | (957) |
| <i>Restructuring reserve at December 31, 2005</i> | \$ 817 | \$ 1,244 | \$ 2,061 |
| Restructuring charges | 865 | 1,964 | 2,829 |
| Cash payments | (841) | (3,208) | (4,049) |
| <i>Restructuring reserve at December 30, 2006</i> | \$ 841 | \$ — | \$ 841 |
| Restructuring charges | 3,539 | 3,523 | 7,062 |
| Cash payments | (522) | (2,533) | (3,055) |
| <i>Restructuring reserve at December 29, 2007</i> | \$3,858 | \$ 990 | \$ 4,848 |

The Corporation made the decision in 2007 to sell several small non-core components of its office furniture services business and recorded \$2.7 million of impairment charges, included in the "Restructuring Related and Impairment Charges" line item on the Consolidated Statements of Income, to reduce the assets being held for sale to fair market value.

Business Combinations

The Corporation completed the acquisition of Harman Stove Company, a privately held domestic manufacturer of free-standing stoves and fireplace inserts, as well as two small office furniture dealers during 2007. The combined purchase price of these acquisitions, less cash acquired, totaled \$40.9 million.

The Corporation has finalized the allocation of the purchase price for all acquisitions other than the Harman Stove Company acquisition, which occurred in the final quarter of the year. Any modification is not expected to be significant. A reclassification between goodwill and other intangible assets will occur based on the final valuation report for the Harman Stove Company acquisition. There are approximately \$1.6 million of intangibles associated with these acquisitions. Of these acquired intangibles, \$0.4 million was assigned to trade names that are not subject to amortization. The remaining \$1.2 million have estimated useful lives ranging from one to fifteen years with amortization recorded based on the projected cash flow associated with the respective intangible assets' existing relationships. There is approximately \$8.6 million of goodwill associated with these acquisitions of which \$3.6 million was assigned to the office furniture segment and \$5.0 million was assigned to the hearth products segment. All goodwill is deductible for income tax purposes.

The Corporation completed the acquisition of Lamex, a privately held Chinese manufacturer and marketer of office furniture, as well as a small office furniture services company, a small office furniture dealer, and a small manufacturer of fireplace facings during 2006. The combined purchase price of these acquisitions, less cash acquired, totaled \$78.2 million. The Corporation increased its borrowings under the revolving credit facility to fund the acquisitions. The Corporation acquired controlling interest in the office furniture dealer and the ability to call the remaining interest on or after fiscal year-end 2011. The Corporation must exercise its call on or before the end of fiscal 2016. 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. The Corporation continues to monitor and adjust the recorded amount to accrete the obligation to the estimated redemption amount through a charge to earnings as required.

There are approximately \$53.7 million of intangibles associated with these acquisitions. Of these acquired intangible assets, \$14 million was assigned to a trade name that is not subject to amortization. The remaining \$39.7 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 \$11.7 million of goodwill associated with these acquisitions, of which \$8.9 million was assigned to the office furniture segment and \$2.8 million was assigned to the hearth products segment. Approximately \$6.9 million of the goodwill is not deductible for income tax purposes.

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 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. The Corporation continues to monitor and adjust the recorded amount to accrete the obligation to the estimated redemption amount through a charge to earnings as required. 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 trademarks

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 \$18.9 million of goodwill associated with these acquisitions, of which \$13.7 million was assigned to the office furniture segment and \$5.2 million was assigned to the hearth products segment. Approximately \$2.1 million of the goodwill assigned to the office furniture segment is not deductible for tax purposes.

The results of the acquired entities have been included in the Consolidated Financial Statements since the date of acquisition.

Discontinued Operations

During December 2006, the Corporation committed to a plan to sell a small non-core component of its office furniture segment. The sale was completed during the second quarter of 2007. Revenues and expenses associated with this component are presented as discontinued operations for all periods presented. During the fourth quarter 2006, the Corporation recorded a pre-tax charge of approximately \$7.1 million to reduce the assets to the fair market value. The charge was mainly due to the writedown of goodwill and other intangibles not deductible for tax purposes.

Summarized financial information for discontinued operations is as follows:

| <i>(In thousands)</i> | 2007 | 2006 | 2005 |
|---|-------|-----------|---------|
| Discontinued operations: | | | |
| Operating income (loss) before tax | \$796 | \$ (818) | \$(666) |
| Income tax | 282 | (294) | (240) |
| Net income (loss) from discontinued operations | 514 | (524) | (426) |
| Impairment loss on discontinued operations: | | | |
| Impairment loss on discontinued operations before tax | — | (7,125) | (500) |
| Benefit for income tax | — | (1,352) | (180) |
| Net impairment loss on discontinued operations | — | (5,773) | (320) |
| Discontinued operations, net of income tax | \$514 | \$(6,297) | \$(746) |

Inventories

| <i>(In thousands)</i> | 2007 | 2006 | 2005 |
|-------------------------------|-----------|-----------|-----------|
| Finished products | \$ 76,804 | \$ 66,238 | \$ 61,027 |
| Materials and work in process | 52,641 | 58,789 | 46,398 |
| LIFO reserve | (20,904) | (19,262) | (16,315) |
| | \$108,541 | \$105,765 | \$ 91,110 |

Property, Plant, and Equipment

| <i>(In thousands)</i> | 2007 | 2006 | 2005 |
|---|-----------|-----------|-----------|
| Land and land improvements | \$ 23,805 | \$ 27,700 | \$ 26,361 |
| Buildings | 268,650 | 266,801 | 240,174 |
| Machinery and equipment | 501,950 | 550,979 | 523,240 |
| Construction and equipment installation in progress | 25,858 | 12,936 | 23,976 |
| | 820,263 | 858,416 | 813,751 |
| Less: accumulated depreciation | 514,832 | 548,464 | 519,091 |
| | \$305,431 | \$309,952 | \$294,660 |

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 included as continuing operations exceeds the carrying values and, therefore, no impairment of goodwill was recorded in continuing operations. The Corporation did record an impairment charge of \$5.7 million in 2006, which was included in discontinued operations on the Consolidated Statements of Income.

The Corporation also owns trademarks having a net value of \$43.5 million as of December 29, 2007, \$43.2 million as of December 30, 2006, and \$30.2 million as of December 31, 2005. 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 \$1.0 million in 2006 and \$0.5 million in 2005 related to two office furniture trademarks associated with the discontinued operation where the carrying amount exceeded the current fair market value. The charge was included in discontinued operations 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:

| <i>(In thousands)</i> | 2007 | 2006 | 2005 |
|--------------------------------|-----------|-----------|----------|
| Patents | \$ 18,780 | \$ 18,780 | \$18,480 |
| Customer lists and other | 101,320 | 103,492 | 67,211 |
| Less: accumulated amortization | 45,833 | 39,796 | 28,758 |
| Net intangible assets | \$ 74,267 | \$ 82,476 | \$56,933 |

Amortization expense for definite-lived intangibles for 2007, 2006, and 2005, was \$9.2 million, \$10.4 million, and \$7.3 million, respectively. Based on the current amount of intangible assets subject to amortization, the estimated amortization expense for each of the following five fiscal years is as follows:

| <i>(In thousands)</i> | 2008 | 2009 | 2010 | 2011 | 2012 |
|-----------------------|-------|-------|-------|-------|-------|
| Amortization expense | \$6.8 | \$6.5 | \$5.6 | \$4.9 | \$4.8 |

The occurrence of events such as acquisitions, dispositions, or impairments in the future may result in changes to amounts.

The changes in the carrying amount of goodwill since January 1, 2005, are as follows by reporting segment:

| <i>(In thousands)</i> | Office Furniture | Hearth Products | Total |
|--|------------------|------------------|------------------|
| <i>Balance as of January 1, 2005</i> | \$65,531 | \$159,023 | \$224,554 |
| Goodwill increase during period | 12,128 | 5,562 | 17,690 |
| <i>Balance as of December 31, 2005</i> | \$77,659 | \$164,585 | \$242,244 |
| Goodwill increase during period | 12,810 | 2,790 | 15,600 |
| Goodwill decrease during period | (5,654) | (429) | (6,083) |
| <i>Balance as of December 30, 2006</i> | \$84,815 | \$166,946 | \$251,761 |
| Goodwill increase during period | 3,577 | 5,001 | 8,578 |
| Goodwill decrease during period | (3,118) | (387) | (3,505) |
| <i>Balance as of December 29, 2007</i> | \$85,274 | \$171,560 | \$256,834 |

The goodwill increases relate to acquisitions completed. See Business Combinations note. The decrease in goodwill in the office furniture segment in 2007 is due to goodwill associated with office services business units held for sale and final purchase price allocations for previous acquisitions. The decrease in goodwill in the office furniture segment in 2006 is due to the impairment of the goodwill associated with discontinued operations. The decreases in the hearth products segment relates to the sale of a few small service and distribution locations.

Accounts Payable and Accrued Expenses

| <i>(In thousands)</i> | 2007 | 2006 | 2005 |
|---------------------------------------|------------------|-----------|-----------|
| Trade accounts payable | \$133,293 | \$102,436 | \$ 86,945 |
| Compensation | 30,544 | 27,835 | 34,272 |
| Profit sharing and retirement expense | 30,441 | 29,545 | 32,461 |
| Marketing expenses | 57,361 | 60,676 | 54,797 |
| Other accrued expenses | 115,681 | 108,390 | 100,747 |
| | \$367,320 | \$328,882 | \$309,222 |

Long-Term Debt

| <i>(In thousands)</i> | 2007 | 2006 | 2005 |
|--|------------------|-----------|-----------|
| Note payable to bank, revolving credit agreement with interest at a variable rate (2007 – 5.46%; 2006 – 5.70%; 2005 – 4.69%) | \$128,000 | \$144,000 | \$140,000 |
| Note payable to bank, with interest at a fixed rate (2007 – 5.03%; 2006 – 6.11%) | 14,205 | 14,200 | – |
| Senior notes due in 2016 with interest at a fixed rate of 5.54% per annum. | 150,000 | 150,000 | – |
| Industrial development revenue bonds, payable 2018 with interest at 3.55% per annum | 2,300 | 2,300 | 2,300 |
| Other notes and amounts | 63 | 794 | 900 |
| <i>Total debt</i> | 294,568 | 311,294 | 143,200 |
| Less: current portion | 14,253 | 25,994 | 40,150 |
| <i>Long-term debt</i> | \$280,315 | \$285,300 | \$103,050 |

Aggregate maturities of long-term debt are as follows:

| <i>(in thousands)</i> | |
|-----------------------|-----------|
| 2007 | \$ 14,253 |
| 2008 | 15 |
| 2009 | – |
| 2010 | 128,000 |
| 2011 | – |
| Thereafter | \$152,300 |

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. As of December 29, 2007, none of the borrowings outstanding was classified as short-term as the Corporation does not expect to repay any of the borrowings within a year.

On April 6, 2006, the Corporation refinanced \$150 million of borrowings outstanding under the revolving credit facility with 5.54 percent ten-year unsecured Senior Notes due in 2016 issued through the private placement debt market. Interest payments are due semi-annually on April 1 and October 1 of each year and the principal is due in a lump sum in 2016. The Corporation maintained the revolving credit facility with a maximum borrowing of \$300 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 2007 approximates the recorded aggregate amount.

Selling and Administrative Expenses

| <i>(In thousands)</i> | 2007 | 2006 | 2005 |
|---|------------------|------------------|------------------|
| Freight expense for shipments to customers | \$164,062 | \$182,814 | \$158,329 |
| Amortization of intangible and other assets | 11,702 | 12,456 | 10,155 |
| Product development costs | 23,967 | 27,567 | 27,338 |
| Other selling and administrative expenses | 502,598 | 494,839 | 467,845 |
| | \$702,329 | \$717,676 | \$663,667 |

Income Taxes

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

| <i>(In thousands)</i> | 2007 | 2006 | 2005 |
|-----------------------|-----------------|-----------------|-----------------|
| Current: | | | |
| Federal | \$53,965 | \$61,399 | \$77,343 |
| State | 6,588 | 8,671 | 8,954 |
| Foreign | 811 | 678 | 131 |
| Current provision | 61,364 | 70,748 | 86,428 |
| Deferred: | | | |
| Federal | (3,031) | (7,528) | (8,048) |
| State | (353) | (651) | (1,081) |
| Foreign | (418) | (483) | — |
| Deferred provision | (3,802) | (8,662) | (9,129) |
| | \$57,562 | \$62,086 | \$77,299 |

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

| <i>(In thousands)</i> | 2007 | 2006 | 2005 |
|---|--------------|--------------|--------------|
| Federal statutory tax rate | 35.0% | 35.0% | 35.0% |
| State taxes, net of federal tax effect | 2.3 | 2.8 | 2.4 |
| Credit for increasing research activities | (0.9) | (0.7) | (0.4) |
| Deduction related to domestic production activities | (1.4) | (0.8) | (0.9) |
| Extraterritorial income exclusion | — | (0.4) | (0.3) |
| Excludable foreign income | (2.0) | (0.7) | — |
| True-up of deferred tax items | — | (2.1) | — |
| Other – net | (0.7) | (0.1) | 0.2 |
| Effective tax rate | 32.3% | 33.0% | 36.0% |

In the fourth quarter of 2006, the Corporation completed a detailed analysis of all deferred tax accounts, and determined that net deferred income tax liabilities were overstated by \$4.1 million. This overstatement primarily relates to a deferred tax liability associated with property, plant, and equipment, partially offset by an overstated deferred tax asset associated with inventory. In analyzing the difference, the Corporation determined that the items originated in fiscal years prior to 2002. To correct this difference, the Corporation reduced income tax expense in the fourth quarter of 2006 by \$4.1 million. The effect of this adjustment is to reduce the effective income tax rate related to continuing operations by 2.1 percentage points for the year and increase earnings per share from continuing operations by \$0.08.

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:

| <i>(In thousands)</i> | 2007 | 2006 | 2005 |
|--|-------------------|-------------------|-------------------|
| Net long-term deferred tax liabilities: | | | |
| Tax over book depreciation | \$ 1,614 | \$ (1,052) | \$(16,458) |
| Compensation | 4,624 | 4,899 | 5,907 |
| Goodwill | (38,559) | (33,826) | (30,499) |
| Other – net | 5,649 | 658 | 5,577 |
| Total net long-term deferred tax liabilities | (26,672) | (29,321) | (35,473) |
| Net current deferred tax assets: | | | |
| Allowance for doubtful accounts | 3,491 | 3,563 | 3,858 |
| Vacation accrual | 5,302 | 5,323 | 4,924 |
| Inventory differences | 2,572 | 3,096 | 5,720 |
| Deferred income | (4,484) | (5,880) | (6,596) |
| Warranty accruals | 4,234 | 3,906 | 3,847 |
| Other – net | 6,713 | 5,432 | 4,078 |
| Total net current deferred tax assets | 17,828 | 15,440 | 15,831 |
| Net deferred tax (liabilities) assets | \$ (8,844) | \$(13,881) | \$(19,642) |

In June 2006, the Financial Accounting Standards Board (the "FASB") issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, the Corporation may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on derecognition, classification, interest and penalties on income taxes, and accounting in interim periods and requires increased disclosures.

The Corporation adopted the provisions of FIN 48 on December 31, 2006, the beginning of fiscal 2007. As a result of the implementation of FIN 48, the Corporation recognized a \$1.7 million increase in the liability for unrecognized benefits. This increase in liability resulted in a decrease to the December 31, 2006 retained earnings balance in the amount of \$0.5 million and a reduction in deferred tax liabilities of \$1.2 million.

(in thousands)

| | |
|---|-----------------|
| Unrecognized tax benefits, December 31, 2006 | \$ 3,895 |
| Increases in positions taken in a prior period | 49 |
| Decreases in positions taken in a prior period | (6) |
| Increases in positions taken in a current period | 1,018 |
| Decreases due to settlements | (2,117) |
| Unrecognized tax benefits, December 29, 2007 | \$ 2,839 |

The amount of unrecognized tax benefits which would impact the Corporation's effective tax rate, if recognized, was \$2.7 million at December 31, 2006 and \$2.3 million at December 29, 2007.

The Corporation recognized interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses, which is consistent with the recognition of these items in prior reporting. Interest and penalties recognized in the Income Statement amounted to a benefit of \$0.5 million. As of December 31, 2006, the Corporation had recorded a liability for interest and penalties related to unrecognized tax benefits of \$0.9 million. As of December 29, 2007, the Corporation had a recorded liability for interest and penalties related to unrecognized tax benefits of \$0.4 million.

The Internal Revenue Service (the "IRS") has completed the examination of all federal income tax returns through 2003 with no issues pending or unresolved. The years 2004 through 2007 remain open for examination by the IRS. The years 2002 through 2007 are currently under examination or remain open to examination by several states.

As of December 29, 2007 it is reasonably possible that the amount of unrecognized tax benefits may increase or decrease within the twelve months following the reporting date. These increases or decreases in the unrecognized tax benefits would be due to new positions that may be taken on income tax returns, settlement of tax positions and the closing of statutes of limitation. It is not expected that any of the changes will be significant individually or in total to the results or financial position of the Corporation.

Shareholders' Equity

| | 2007 | 2006 | 2005 |
|--------------------------------|-------------|-------------|-------------|
| Common Stock, \$1 Par Value | | | |
| Authorized | 200,000,000 | 200,000,000 | 200,000,000 |
| Issued and outstanding | 44,834,519 | 47,905,351 | 51,848,591 |
| Preferred Stock, \$1 Par Value | | | |
| Authorized | 2,000,000 | 2,000,000 | 2,000,000 |
| Issued and outstanding | — | — | — |

The Corporation purchased 3,581,707; 4,336,987; and 4,059,068 shares of its common stock during 2007, 2006, and 2005, 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.

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

| (in thousands) | 2007 | 2006 | 2005 |
|---|---------------|------------------|---------------|
| Balance at beginning of period | \$(3,062) | \$ 332 | \$ 349 |
| Foreign currency translation adjustments – net of tax | 765 | 631 | 293 |
| Change in unrealized gains (losses) on marketable securities – net of tax | (147) | — | — |
| Change in pension and postretirement liability – net of tax | 3,290 | 537 | (310) |
| Adjustment to initially apply SFAS 158, net of tax | — | (4,562) | — |
| Balance at end of period | \$ 846 | \$(3,062) | \$ 332 |

In May 2007, the Corporation registered 300,000 shares of its common stock under its 2007 Equity Plan for Non-Employee Directors of HNI Corporation. This plan permits the Corporation to issue to its non-employee directors options to purchase shares of the Corporation's common stock, restricted stock of the Corporation, and awards of the Corporation's 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 the Corporation's common stock. Upon approval of this plan in May 2007, no awards are granted under the 1997 Equity Plan for Non-Employee Directors of HNI Corporation, but all outstanding awards previously granted under that plan shall remain outstanding in accordance with their terms. During 2007, 2006, and 2005, 16,194; 13,947; and 13,621 shares of the Corporation's common stock were issued under these plans, respectively.

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

| (in dollars) | 2007 | 2006 | 2005 |
|---------------|-------|-------|-------|
| Common shares | \$.78 | \$.72 | \$.62 |

During 2002, shareholders approved the 2002 Members' Stock Purchase Plan, as amended January 1, 2007. 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 customarily work 20 hours or more per week and who customarily work for five months or more in any calendar year. The price of the stock purchased under the plan is 85% of the closing price on the exercise date. No member may purchase stock under the plan in an amount which exceeds a maximum fair value of \$25,000 in any calendar year. During 2007, 127,436 shares of common stock were issued under the plan at an average price of \$33.43. During 2006, 114,397 shares of common stock were issued under the plan at an average price of \$40.03. During 2005, 77,410 shares of common stock were issued under the plan at an average price of \$44.87. An additional 280,180 shares were available for issuance under the plan at December 29, 2007.

The Corporation has granted rights to purchase shares of the Corporation's common stock pursuant to a shareholders' rights plan. The rights become exercisable in connection with certain acquisitions 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. Each right entitles its holder to purchase shares of common stock of the Corporation with a market value of \$400 at a price of \$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 rights are scheduled to expire on August 20, 2008.

The Corporation has entered into change-in-control employment agreements with some 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 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 certain business combinations involving the Corporation, or upon approval by the Corporation's shareholders of a complete liquidation or dissolution. Upon a change in control, a key employee is deemed to have a two-year employment agreement with the Corporation, and all of his or her benefits vest under the Corporation's compensation plans. If, at any time within two years of the change in control, his or her employment is terminated by the Corporation for any reason other than cause or disability, or by the key employee for good reason, as such terms are defined in the agreement, then the key employee is entitled to receive, among other benefits, a severance payment equal to two times (three times for the Corporation's Chairman, President and CEO) his or her annual salary and the average of the prior two years' bonuses.

Stock-Based Compensation

Under the Corporation's 2007 Stock-Based Compensation Plan (the "Plan"), as amended effective May 8, 2007, 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. Upon approval of this plan in May 2007, no future awards are granted under the Corporation's 1995 Stock-Based Compensation Plan, as amended, but all outstanding awards previously granted under that plan shall remain outstanding in accordance with their terms. As of December 29, 2007 there were approximately 5.0 million shares available for future issuance under the 2007 Plan. 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 members 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 Corporation also has a shareholder-approved Members' Stock Purchase Plan (the "MSP Plan"). The price of the stock purchased under the MSP Plan is 85% of the closing price on the applicable purchase date. During 2007, 127,436 shares of the Corporation's common stock were issued under the MSP Plan at an average price of \$33.43.

The Corporation adopted the provisions of Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" ("SFAS 123(R)"), beginning January 1, 2006, using the modified prospective transition method. This statement requires the Corporation to measure the cost of employee services in exchange for an award of equity instruments based on the grant date fair value of the award and to recognize cost over the requisite service period. Under the modified prospective transition method, financial statements for periods prior to the date of adoption are not adjusted for the change in accounting.

Prior to January 1, 2006, the Corporation used the intrinsic value method to account for stock-based employee compensation under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and therefore did not recognize compensation expense in association with options granted at or above the market price of common stock at the date of grant.

As a result of adopting the new standard, earnings before income taxes for the year ended December 29, 2007 decreased by \$3.6 million, and net earnings decreased by \$2.4 million, or \$.05 per basic share and \$.05 per diluted share. These results reflect stock compensation expense of \$3.6 million and tax benefits of \$1.2 million for the period. For the year ended December 30, 2006, earnings before income taxes decreased by \$3.2 million and net earnings decreased by \$2.1 million, or \$.04 per basic share and \$.04 per diluted share.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Adoption of the new standard also affected the presentation of cash flows. The change is related to tax benefits associated with tax deductions that exceed the amount of compensation expense recognized in the financial statements. For the years ended December 29, 2007, and December 30, 2006, cash flow from operating activities was reduced by \$0.8 million and \$0.9 million and cash flow from financing activities was increased by \$0.8 million and \$0.9 million, respectively, as a result of the new standard.

Concurrent with the adoption of the new statement, the Corporation began to use the non-substantive vesting period approach for attributing stock compensation to individual periods. The nominal vesting period approach was used in determining the stock compensation expense for the Corporation's pro forma net earnings disclosure for the year ended December 31, 2005, as presented in the table below. The change in the attribution method will not affect the ultimate amount of stock compensation expense recognized, but it has accelerated the recognition of such expense for non-substantive vesting conditions, such as retirement eligibility provisions. Under both approaches, the Corporation elected to recognize stock compensation on a straight-line basis.

The following table presents a reconciliation of reported net earnings and per share information to pro forma net earnings and per share information that would have been reported if the fair value method had been used to account for stock-based employee compensation in 2005:

| <i>(In millions, except per share data)</i> | 2005 |
|---|---------|
| <i>Net income, as reported</i> | \$137.4 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | 1.8 |
| <i>Pro forma net income</i> | \$135.6 |
| Earnings per share: | |
| Basic – as reported | \$ 2.51 |
| Basic – pro forma | \$ 2.48 |
| Diluted – as reported | \$ 2.50 |
| Diluted – pro forma | \$ 2.47 |

The stock compensation expense for the years ended December 29, 2007 and December 30, 2006, and the stock compensation expense used in the preceding disclosure of pro forma earnings for the year ended December 31, 2005, was estimated on the date of grant using the Black-Scholes option-pricing model that used the following assumptions by grant year:

| | Year Ended Dec. 29, 2007 | Year Ended Dec. 30, 2006 | Year Ended Dec. 31, 2005 |
|--------------------------|-----------------------------|-----------------------------|-----------------------------|
| Expected term | 7 years | 7 years | 7 years |
| Expected volatility: | | | |
| Range used | 26.97% | 29.75%–31.23% | 31.77%–33.49% |
| Weighted-average | 26.97% | 31.21% | 33.47% |
| Expected dividend yield: | | | |
| Range used | 1.60% | 1.24%–1.43% | 1.17%–1.45% |
| Weighted-average | 1.60% | 1.24% | 1.45% |
| Risk-free interest rate: | | | |
| Range used | 4.71% | 4.62%–5.09% | 4.21%–4.57% |

Expected volatilities are based on historical volatility as the Corporation does not feel that future volatility over the expected term of the options is likely to differ from the past. The Corporation used a simple-average calculation method based on monthly frequency points for the prior seven years. The Corporation used the current dividend yield as there are no plans to substantially increase or decrease its dividends. The Corporation elected to use the simplified method as allowed by Staff Accounting Bulletin No. 107 "Share Based Payment" ("SAB No. 107") to determine the expected term since the awards qualified as "plain vanilla" options as defined in SAB No. 107. The risk-free interest rate was selected based on yields from U.S. Treasury zero-coupon issues with a remaining term equal to the expected term of the options being valued.

The following table summarizes the changes in outstanding stock options since the beginning of fiscal 2005.

| | Number of Shares | Weighted-Average Exercise Price |
|---|------------------|------------------------------------|
| <i>Outstanding at January 1, 2005</i> | 1,308,450 | \$28.65 |
| Granted | 175,800 | 42.81 |
| Exercised | (331,500) | 25.14 |
| Forfeited | (24,100) | 30.95 |
| <i>Outstanding at December 31, 2005</i> | 1,128,650 | \$31.84 |
| Granted | 135,946 | 58.06 |
| Exercised | (68,500) | 22.51 |
| Forfeited | (22,480) | 39.91 |
| <i>Outstanding at December 30, 2006</i> | 1,173,616 | \$35.27 |
| Granted | 185,823 | 48.66 |
| Exercised | (214,000) | 24.86 |
| Forfeited | (102,373) | 46.14 |
| <i>Outstanding at December 29, 2007</i> | 1,043,066 | \$38.72 |

A summary of the Corporation's nonvested shares as of December 29, 2007 and changes during the year are presented below:

| Nonvested Shares | Shares | Weighted-Average Grant-Date Fair Value |
|---------------------------------------|------------------|--|
| Nonvested at December 30, 2006 | 665,966 | \$15.97 |
| Granted | 185,823 | 15.67 |
| Vested | (202,500) | 11.17 |
| Forfeited | (102,373) | 17.64 |
| <i>Nonvested at December 29, 2007</i> | 546,916 | \$17.34 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At December 29, 2007, there was \$4.2 million of unrecognized compensation cost related to nonvested awards, which the Corporation expects to recognize over a weighted-average period of 1.3 years. Information about stock options that are vested or expected to vest and that are exercisable at December 29, 2007, follows:

| Options | Number | Weighted-Average Exercise Price | Weighted-Average Remaining Life in Years | Aggregate Intrinsic Value (\$000s) |
|----------------------------|---------|---------------------------------|--|------------------------------------|
| Vested or expected to vest | 998,626 | \$38.32 | 6.1 | — |
| Exercisable | 496,150 | \$29.73 | 4.5 | \$2.893 |

The weighted-average grant-date fair value of options granted was \$15.67, \$21.39, and \$15.74 for 2007, 2006, and 2005, respectively.

Other information for the year follows:

| (In thousands) | Year Ended | | |
|---|---------------|---------------|---------------|
| | Dec. 29, 2007 | Dec. 30, 2006 | Dec. 31, 2005 |
| Total fair value of shares vested | \$2,261 | \$1,702 | \$ 875 |
| Total intrinsic value of options exercised | 4,673 | 1,987 | 8,447 |
| Cash received from exercise of stock options | 5,321 | 1,542 | 8,334 |
| Tax benefit realized from exercise of stock options | 1,551 | 725 | 2,999 |

Retirement Benefits

The Corporation has defined contribution profit-sharing plans covering substantially all members who are not participants in certain defined benefit plans. The Corporation's annual contribution to the defined contribution plans is based on member eligible earnings and results of operations and amounted to \$28.1 million, \$28.2 million, and \$27.4 million, in 2007, 2006, and 2005, respectively.

The Corporation sponsors defined benefit plans which include a limited number of salaried and hourly members 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 \$0, \$0, and \$653,000, in 2007, 2006, and 2005, 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 members. Pension expense for this plan amounted to \$376,000, \$352,000, and \$353,000, in 2007, 2006, and 2005, respectively.

Postretirement Health Care

The Corporation adopted SFAS No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)" for its 2006 year-end financial statement and recognized on the 2006 balance sheet the funded status of other postretirement benefit

plans. The following table provides the information required by SFAS No. 158. The table also provides the funded status of the plan, reconciled to the accrued postretirement benefit costs recognized in the Corporation's balance sheets for the years prior to the adoption of the new standard.

| (In thousands) | 2007 | 2006 | 2005 |
|--|-------------------|-------------|-------------|
| <i>Change in benefit obligation</i> | | | |
| Benefit obligation at beginning of year | \$19,082 | \$ 19,738 | \$ 18,958 |
| Service cost | 480 | 326 | 303 |
| Interest cost | 1,067 | 1,053 | 1,057 |
| Plan changes | (584) | 0 | 0 |
| Benefits paid | (1,361) | (1,218) | (1,503) |
| Actuarial (gain) or loss | (3,081) | (817) | 923 |
| <i>Benefit obligation at end of year</i> | \$15,603 | \$ 19,082 | \$ 19,738 |
| <i>Change in plan assets</i> | | | |
| Fair value at beginning of year | \$ 6,693 | \$ 7,582 | \$ 8,777 |
| Actual return on assets | 487 | 326 | 300 |
| Employer contributions | 0 | 3 | 8 |
| Benefits paid | (1,361) | (1,218) | (1,503) |
| <i>Fair value at end of year</i> | \$ 5,819 | \$ 6,693 | \$ 7,582 |
| <i>Funded status of plan</i> | \$ (9,784) | \$ (12,388) | \$ (12,156) |
| <i>Amounts recognized in the Statement of Financial Position consist of:</i> | | | |
| Current liabilities | \$ 0 | \$ 0 | — |
| Noncurrent liabilities | \$ 9,784 | \$ 12,388 | — |
| <i>Amounts recognized in Accumulated Other Comprehensive Income (before tax) consist of:</i> | | | |
| Unrecognized actuarial (gain)/loss | \$ (1,273) | \$ 2,069 | — |
| Unrecognized transition (asset)/obligation | 2,654 | 3,618 | — |
| Unrecognized prior service cost | 0 | 431 | — |
| | \$ 1,381 | \$ 6,118 | — |
| <i>Change in Accumulated Other Comprehensive Income (before tax):</i> | | | |
| Amount disclosed at beginning of year | \$ 6,118 | \$ 0 | — |
| Change during year prior to SFAS 158 adoption | — | 0 | — |
| Change due to the adoption of SFAS 158 | — | 6,118 | — |
| Change due to unrecognized actuarial (gain)/loss | (3,342) | 0 | — |
| Change due to unrecognized transition (asset)/obligation | (964) | 0 | — |
| Change due to unrecognized prior service cost | (431) | 0 | — |
| <i>Amount disclosed at end of year</i> | \$ 1,381 | \$ 6,118 | — |
| <i>Reconciliation of funded status</i> | | | |
| Funded status | N/A | N/A | \$(12,156) |
| Unrecognized actuarial (gain) or loss | N/A | N/A | 3,132 |
| Unrecognized transition obligation or (asset) | N/A | N/A | 4,199 |
| Unrecognized prior service cost | N/A | N/A | 661 |
| <i>Net amount recognized at year-end</i> | N/A | N/A | \$ (4,164) |

Estimated future benefit payments (In thousands)

| | |
|------------------|---------|
| Fiscal 2008 | \$1,120 |
| Fiscal 2009 | 1,116 |
| Fiscal 2010 | 1,126 |
| Fiscal 2011 | 1,127 |
| Fiscal 2012 | 1,149 |
| Fiscal 2013-2017 | 6,296 |

Expected contributions during fiscal 2008

| | |
|--------------|------|
| <i>Total</i> | \$ 0 |
|--------------|------|

Plan Assets – Percentage of Fair Value by Category

| | 2007 | 2006 | 2005 |
|------------------|-------------|------|------|
| Cash equivalents | 0% | 1% | 0% |
| Equity | 25% | 25% | 0% |
| Debt | 75% | 74% | 0% |
| Other | 0% | 0% | 100% |
| <i>Total</i> | 100% | 100% | 100% |

The Corporation invested these funds in high-grade money market instruments in 2005 and 2004.

The discount rates at fiscal year-end 2007, 2006, and 2005, were 6.4%, 5.8%, and 5.5% respectively. The Corporation's payment for these benefits has reached the maximum amounts per the plan; therefore, healthcare trend rates have no impact on the Corporation's cost.

Components of Net Periodic Postretirement Benefit Cost

| <i>(In thousands)</i> | 2008 |
|--|---------|
| Service cost | \$ 396 |
| Interest cost | 963 |
| Expected return on assets | (358) |
| Amortization of unrecognized net (gain)/loss | 508 |
| <i>Net periodic postretirement benefit cost/(income)</i> | \$1,509 |

A discount rate of 6.4% and an expected long-term return on plan assets of 6.8% were used to determine net periodic benefit cost for 2008. The discount rate is set at the measurement date to reflect the yield of a portfolio of high quality, fixed income debt instruments. The expected return on plan assets is based on the specific allocation of assets and an analysis of current market conditions.

Leases

The Corporation leases certain warehouses, plant facilities, and equipment. Commitments for minimum rentals under non-cancelable leases at the end of 2007 are as follows:

| <i>(In thousands)</i> | Capitalized Leases | Operating Leases |
|---|--------------------|------------------|
| 2008 | \$ 552 | \$ 35,858 |
| 2009 | 431 | 30,871 |
| 2010 | 258 | 26,857 |
| 2011 | 168 | 22,795 |
| 2012 | – | 10,224 |
| Thereafter | – | 18,807 |
| Total minimum lease payments | 1,409 | \$145,412 |
| Less: amount representing interest | 171 | |
| <i>Present value of net minimum lease payments, including current maturities of \$462</i> | \$1,238 | |

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

| <i>(In thousands)</i> | 2007 | 2006 | 2005 |
|-----------------------------------|----------------|---------|---------|
| Buildings | \$3,299 | \$3,299 | \$3,299 |
| Machinery and equipment | 906 | – | 38 |
| Office equipment | – | – | 761 |
| | 4,205 | 3,299 | 4,098 |
| Less: allowances for depreciation | 3,084 | 2,954 | 3,564 |
| | \$1,121 | \$ 345 | \$ 534 |

Rent expense for the years 2007, 2006, and 2005, amounted to approximately \$35.6 million, \$32.1 million, and \$19.5 million, respectively. The Corporation has an operating lease for a production facility with annual rentals totaling approximately \$380,000 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 \$0, \$165,000, and \$169,000, for the years 2007, 2006, and 2005, respectively.

Guarantees, Commitments and Contingencies

The Corporation utilizes letters of credit in the amount of \$25 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 involved in various kinds of disputes and legal proceedings that have arisen in the course of its business, including pending litigation, environmental remediation, taxes, and other claims. It is the Corporation's opinion, after consultation with legal counsel, that additional liabilities, if any, resulting from these matters are not expected to have a material adverse effect on the Corporation's quarterly or annual operating results and cash flows when resolved in a future period.

Significant Customer

One office furniture customer accounted for approximately 11%, 12%, and 12% of consolidated net sales in 2007, 2006, and 2005, 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 gas, electric, and wood-burning fireplaces, inserts, stoves, facings, and accessories, principally for the home.

For purposes of segment reporting, intercompany sales transfers between segments are not material, and operating profit is income before income taxes exclusive of certain unallocated corporate expenses. These unallocated corporate expenses include the net 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 2007, 2006, and 2005, is as follows for continuing operations:

| <i>(In thousands)</i> | 2007 | 2006 | 2005 |
|--|--------------------|-------------|-------------|
| Net sales: | | | |
| Office furniture | \$2,108,439 | \$2,077,040 | \$1,838,386 |
| Hearth products | 462,033 | 602,763 | 594,930 |
| | \$2,570,472 | \$2,679,803 | \$2,433,316 |
| Operating profit: | | | |
| Office furniture ^{(a)(b)} | \$ 194,692 | \$ 181,811 | \$ 177,487 |
| Hearth products ^(c) | 36,444 | 58,699 | 74,822 |
| <i>Total operating profit</i> | 231,136 | 240,510 | 252,309 |
| Unallocated corporate expenses | (53,992) | (47,105) | (36,424) |
| <i>Income before income taxes</i> | \$ 177,144 | \$ 193,405 | \$ 215,885 |
| Depreciation and amortization expense: | | | |
| Office furniture | \$ 49,294 | \$ 48,753 | \$ 43,967 |
| Hearth products | 14,453 | 16,559 | 15,275 |
| General corporate | 4,426 | 4,191 | 6,272 |
| | \$ 68,173 | \$ 69,503 | \$ 65,514 |
| Capital expenditures: | | | |
| Office furniture | \$ 47,408 | \$ 42,126 | \$ 27,760 |
| Hearth products | 8,736 | 11,093 | 8,498 |
| General corporate | 2,770 | 6,705 | 5,544 |
| | \$ 58,914 | \$ 59,924 | \$ 41,802 |
| Identifiable assets: | | | |
| Office furniture | \$ 724,447 | \$ 748,285 | \$ 617,591 |
| Hearth products | 356,273 | 359,646 | 361,568 |
| General corporate | 126,256 | 118,428 | 161,112 |
| | \$1,206,976 | \$1,226,359 | \$1,140,271 |

(a) Included in operating profit for the office furniture segment are pretax charges of \$8.7 million, \$2.8 million, and \$3.5 million, for closing of facilities and impairment charges in 2007, 2006, and 2005, respectively.

(b) Includes minority interest.

(c) Included in operating profit for the hearth products segment are pretax charges of \$1.1 million for closing facilities in 2007.

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.

| <i>(In thousands, except per share data)</i> | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|--|------------------|-------------------|------------------|-------------------|
| Year-End 2007 | | | | |
| Net sales | \$609,200 | \$618,160 | \$674,628 | \$668,484 |
| Cost of products sold | 402,500 | 402,523 | 434,385 | 425,289 |
| Gross profit | 206,700 | 215,637 | 240,243 | 243,195 |
| Selling and administrative expenses | 170,814 | 169,559 | 176,904 | 185,052 |
| Restructuring related charges (income) | (136) | 728 | 4,264 | 4,932 |
| <i>Operating income</i> | 36,022 | 45,350 | 59,075 | 53,211 |
| Interest income (expense) – net | (4,036) | (4,578) | (4,489) | (3,829) |
| <i>Earnings from continuing operations before income taxes and minority interest</i> | 31,986 | 40,772 | 54,586 | 49,382 |
| Income taxes | 11,363 | 14,404 | 19,342 | 12,032 |
| Minority interest in earnings of a subsidiary | (28) | (25) | (63) | (163) |
| <i>Income from continuing operations</i> | 20,651 | 26,393 | 35,307 | 37,513 |
| Discontinued operations, less applicable taxes | 30 | 484 | – | – |
| <i>Net income</i> | \$ 20,681 | \$ 26,877 | \$ 35,307 | \$ 37,513 |
| <i>Net income from continuing operations – basic</i> | \$.43 | \$.56 | \$.76 | \$.82 |
| Net income from discontinued operations – basic | .00 | .01 | – | – |
| <i>Net income per common share – basic</i> | \$.43 | \$.57 | \$.76 | \$.82 |
| Weighted-average common shares outstanding – basic | 47,996 | 46,937 | 46,256 | 45,550 |
| <i>Net income from continuing operations – diluted</i> | \$.43 | \$.56 | \$.76 | \$.82 |
| Net income from discontinued operations – diluted | .00 | .01 | – | – |
| <i>Net income per common share – diluted</i> | \$.43 | \$.57 | \$.76 | \$.82 |
| Weighted-average common shares outstanding – diluted | 48,278 | 47,199 | 46,487 | 45,775 |
| As a Percentage of Net Sales | | | | |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Gross profit | 33.9 | 34.9 | 35.6 | 36.4 |
| Selling and administrative expenses | 28.0 | 27.4 | 26.2 | 27.7 |
| Restructuring related charges | (0.0) | 0.1 | 0.6 | 0.7 |
| Operating income | 5.9 | 7.3 | 8.8 | 8.0 |
| Income taxes | 1.9 | 2.3 | 2.9 | 1.8 |
| Income from continuing operations | 3.4 | 4.3 | 5.2 | 5.6 |
| Discontinued operations, less applicable taxes | 0.0 | 0.1 | – | – |
| Net income | 3.4 | 4.3 | 5.2 | 5.6 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

| <i>(In thousands, except per share data)</i> | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|--|------------------|-------------------|------------------|-------------------|
| Year-End 2006 | | | | |
| Net sales | \$645,565 | \$667,706 | \$684,317 | \$682,215 |
| Cost of products sold | 416,610 | 434,060 | 447,587 | 454,625 |
| Gross profit | 228,955 | 233,646 | 236,730 | 227,590 |
| Selling and administrative expenses | 181,188 | 184,806 | 176,134 | 175,548 |
| Restructuring related charges (income) | 1,719 | 228 | (27) | 909 |
| <i>Operating income</i> | 46,408 | 48,612 | 60,623 | 51,133 |
| Interest income (expense) – net | (1,108) | (3,425) | (4,111) | (4,540) |
| <i>Earnings from continuing operations before income taxes and minority interest</i> | 44,940 | 45,187 | 56,512 | 46,593 |
| Income taxes ⁽¹⁾ | 16,403 | 16,493 | 20,627 | 10,147 |
| Minority interest in earnings of a subsidiary | (39) | (22) | (24) | (25) |
| <i>Income from continuing operations</i> | 28,576 | 28,716 | 35,909 | 36,471 |
| Discontinued operations, less applicable taxes | (106) | (64) | (147) | (5,980) |
| <i>Net income</i> | \$ 28,470 | \$ 28,652 | \$ 35,762 | \$ 30,491 |
| <i>Net income from continuing operations – basic</i> | \$.55 | \$.56 | \$.73 | \$.76 |
| Net income from discontinued operations – basic | (.00) | (.00) | (.00) | (.13) |
| <i>Net income per common share – basic</i> | \$.55 | \$.56 | \$.73 | \$.63 |
| Weighted-average common shares outstanding – basic | 51,836 | 51,009 | 49,324 | 48,069 |
| <i>Net income from continuing operations – diluted</i> | \$.55 | \$.56 | \$.72 | \$.75 |
| Net income from discontinued operations – diluted | (.00) | (.00) | (.00) | (.12) |
| <i>Net income per common share – diluted</i> | \$.55 | \$.56 | \$.72 | \$.63 |
| Weighted-average common shares outstanding – diluted | 52,229 | 51,339 | 49,592 | 48,363 |
| As a Percentage of Net Sales | | | | |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Gross profit | 35.5 | 35.0 | 34.6 | 33.4 |
| Selling and administrative expenses | 28.1 | 27.7 | 25.7 | 25.7 |
| Restructuring related charges | 0.3 | 0.0 | (0.0) | 0.1 |
| Operating income | 7.2 | 7.3 | 8.9 | 7.5 |
| Income taxes | 2.5 | 2.5 | 3.0 | 1.5 |
| Income from continuing operations | 4.4 | 4.3 | 5.2 | 5.3 |
| Discontinued operations, less applicable taxes | (0.0) | (0.0) | (0.0) | (0.9) |
| Net income | 4.4 | 4.3 | 5.2 | 4.5 |

(1) The Corporation recorded a \$4.1 million tax benefit in the 4th quarter of 2006 as discussed in the "Income Taxes" footnote to the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

| <i>(In thousands, except per share data)</i> | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|--|------------------|-------------------|------------------|-------------------|
| Year-End 2005 | | | | |
| Net sales | \$558,168 | \$589,620 | \$628,291 | \$657,237 |
| Cost of products sold | 363,139 | 376,169 | 393,200 | 416,967 |
| Gross profit | 195,029 | 213,451 | 235,091 | 240,270 |
| Selling and administrative expenses | 154,244 | 158,936 | 170,837 | 179,650 |
| Restructuring related charges | – | – | 1,071 | 2,391 |
| <i>Operating income</i> | 40,785 | 54,515 | 63,183 | 58,229 |
| Interest income (expense) – net | 55 | 98 | (498) | (492) |
| <i>Earnings from continuing operations before income taxes and minority interest</i> | 40,840 | 54,613 | 62,685 | 57,737 |
| Income taxes | 14,498 | 19,386 | 22,251 | 21,580 |
| Minority interest in earnings of a subsidiary | – | – | (11) | 5 |
| <i>Income from continuing operations</i> | 26,342 | 35,227 | 40,445 | 36,152 |
| Discontinued operations, less applicable taxes | (220) | (242) | 116 | (400) |
| <i>Net income</i> | \$ 26,122 | \$ 34,985 | \$ 40,561 | \$ 35,752 |
| <i>Net income from continuing operations – basic</i> | \$.48 | \$.64 | \$.74 | \$.68 |
| Net income from discontinued operations – basic | (.01) | (.01) | .00 | (.01) |
| <i>Net income per common share – basic</i> | \$.47 | \$.63 | \$.74 | \$.67 |
| Weighted-average common shares outstanding – basic | 55,176 | 55,131 | 55,012 | 53,278 |
| <i>Net income from continuing operations – diluted</i> | \$.47 | \$.63 | \$.73 | \$.67 |
| Net income from discontinued operations – diluted | (.00) | (.00) | .00 | (.00) |
| <i>Net income per common share – diluted</i> | \$.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 | 34.9 | 36.2 | 37.4 | 36.6 |
| Selling and administrative expenses | 27.6 | 27.0 | 27.2 | 27.3 |
| Restructuring related charges | – | – | 0.2 | 0.4 |
| Operating income | 7.3 | 9.2 | 10.1 | 8.9 |
| Income taxes | 2.6 | 3.3 | 3.5 | 3.3 |
| Income from continuing operations | 4.7 | 6.0 | 6.4 | 5.5 |
| Discontinued operations, less applicable taxes | (0.0) | (0.0) | 0.0 | (0.1) |
| Net income | 4.7 | 5.9 | 6.5 | 5.4 |

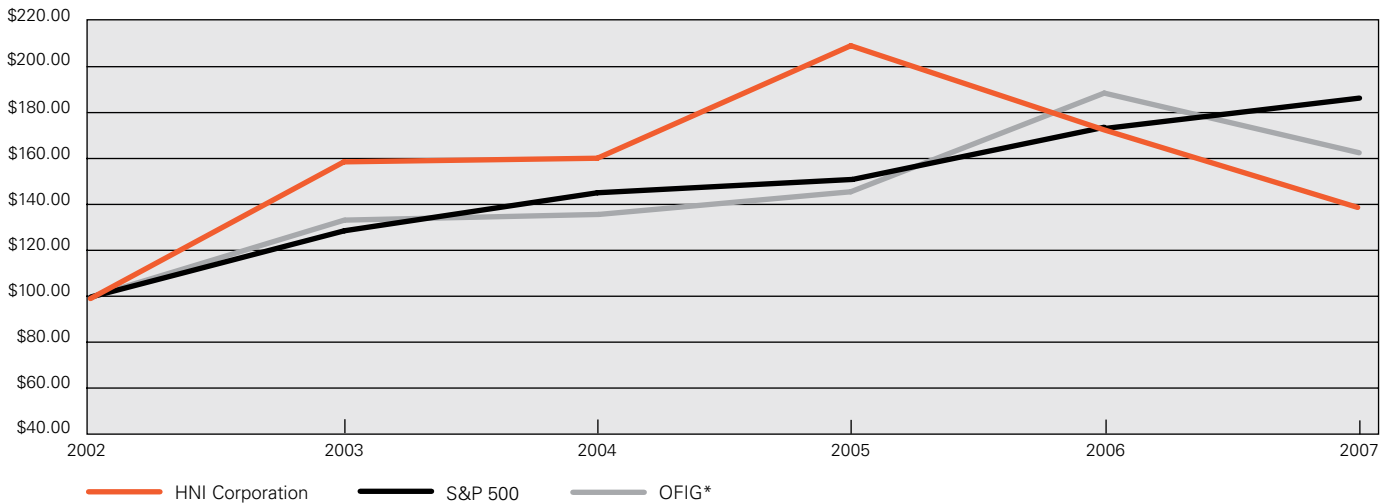
SELECTED FINANCIAL DATA – FIVE-YEAR SUMMARY

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-------------|
| Per Common Share Data (Basic and Dilutive) | | | | | |
| Income from continuing operations – basic | \$ 2.57 | \$ 2.59 | \$ 2.53 | \$ 1.99 | \$ 1.69 |
| Income from continuing operations – diluted | 2.55 | 2.57 | 2.51 | 1.97 | 1.68 |
| Net income – basic | 2.58 | 2.46 | 2.51 | 1.99 | 1.69 |
| Net income – diluted | 2.57 | 2.45 | 2.50 | 1.97 | 1.68 |
| Cash dividends | .78 | .72 | .62 | .56 | .52 |
| Book value – year-end | 10.24 | 10.35 | 11.46 | 12.10 | 12.19 |
| Net working capital – year-end | 2.33 | 3.04 | 2.48 | 1.96 | 3.71 |
| Operating Results (Thousands of Dollars) | | | | | |
| Net sales | \$2,570,472 | \$2,679,803 | \$2,433,316 | \$2,084,435 | \$1,755,728 |
| Gross profit as a % of net sales | 35.2% | 34.6% | 36.3% | 36.0% | 36.4% |
| Interest expense | \$ 18,161 | \$ 14,323 | \$ 2,355 | \$ 886 | \$ 2,970 |
| Income from continuing operations | 119,864 | 129,672 | 138,166 | 113,660 | 98,105 |
| Income from continuing operations as a % of net sales | 4.7% | 4.8% | 5.7% | 5.5% | 5.6% |
| Discontinued operations ^(a) | \$ 514 | \$ (6,297) | \$ (746) | \$ (78) | – |
| Net income | 120,378 | 123,375 | 137,420 | 113,582 | 98,105 |
| Net income as a % of net sales | 4.7% | 4.6% | 5.6% | 5.4% | 5.6% |
| Cash dividends | \$ 36,408 | \$ 36,028 | \$ 33,841 | \$ 32,023 | \$ 30,299 |
| % return on average shareholders' equity | 25.2% | 22.6% | 21.8% | 16.5% | 14.5% |
| Depreciation and amortization | \$ 68,173 | \$ 69,503 | \$ 65,514 | \$ 66,703 | \$ 72,772 |
| Distribution of Net Income | | | | | |
| % paid to shareholders | 30.2% | 29.2% | 24.6% | 28.2% | 30.9% |
| % reinvested in business | 69.8% | 70.8% | 75.4% | 71.8% | 69.1% |
| Financial Position (Thousands of Dollars) | | | | | |
| Current assets | \$ 489,072 | \$ 504,174 | \$ 486,598 | \$ 374,579 | \$ 462,122 |
| Current liabilities | 384,461 | 358,542 | 358,174 | 266,250 | 245,816 |
| Working capital | 104,611 | 145,632 | 128,424 | 108,329 | 216,306 |
| Current ratio | 1.27 | 1.41 | 1.36 | 1.41 | 1.88 |
| Total assets | \$1,206,976 | \$1,226,359 | \$1,140,271 | \$1,021,657 | \$1,021,826 |
| % return on beginning assets employed | 15.8% | 18.1% | 21.2% | 17.5% | 14.7% |
| Long-term debt and capital lease obligations | \$ 281,091 | \$ 285,974 | \$ 103,869 | \$ 3,645 | \$ 4,126 |
| Shareholders' equity | 458,908 | 495,919 | 593,944 | 669,163 | 709,889 |
| Current Share Data | | | | | |
| Number of shares outstanding at year-end | 44,834,519 | 47,905,351 | 51,848,591 | 55,303,323 | 58,238,519 |
| Weighted-average shares outstanding during year – basic | 46,684,774 | 50,059,443 | 54,649,199 | 57,127,110 | 58,178,739 |
| Weighted-average shares outstanding during year – diluted | 46,925,161 | 50,374,758 | 55,033,741 | 57,577,630 | 58,545,353 |
| Number of shareholders of record at year-end | 7,625 | 7,475 | 6,702 | 6,465 | 6,416 |
| Other Operational Data | | | | | |
| Capital expenditures (thousands of dollars) | \$ 58,568 | \$ 58,921 | \$ 38,912 | \$ 32,417 | \$ 34,842 |
| Members (employees) at year-end | 13,271 ^(b) | 14,170 ^(b) | 12,504 ^(b) | 10,589 ^(b) | 8,926 |

(a) Component reported as discontinued operations acquired in 2004.

(b) Includes acquisitions completed during the fiscal year.

COMPARISON OF FIVE-YEAR CUMULATIVE RETURN



| Annual Return | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|-----------------|---------|---------|---------|---------|---------|---------|
| HNI Corporation | \$100.0 | \$160.1 | \$161.3 | \$208.4 | \$171.0 | \$139.5 |
| S&P500 | \$100.0 | \$128.9 | \$143.3 | \$150.3 | \$174.0 | \$184.8 |
| OFIG* | \$100.0 | \$131.6 | \$137.5 | \$145.2 | \$186.9 | \$161.9 |

* The Office Furniture Industry Group (OFIG) is a composite peer index constructed by the Corporation. It is weighted by market capitalization and comprised of the following companies: Herman Miller, Inc.; Kimball International, Inc.; Teknion Corporation; and Steelcase Inc. It is weighted each quarter according to the market capitalization of its constituents on the last trading day of the Corporation's prior fiscal quarter.

Total returns for HNI Corporation, S&P 500 and OFIG are depicted at the end of Corporation's fiscal years. The total return assumes \$100.00 invested in each of HNI Corporation's Common Stock, the S&P 500 and the Office Furniture Industry Group Stocks on December 27, 2002, plus further reinvestment of dividends on the date of dividend payment. S&P 500 returns assume S&P 500 dividends are paid and reinvested on the last trading day of the Corporation's fiscal quarter.

The comparative performance of the Corporation's Common Stock against the indexes as depicted in this graph is dependent on the price of stock at a particular measurement point in time. Since individual stocks are more volatile than broader stock indexes, the perceived comparative performance of the Corporation's Common Stock may vary based on the strength or weakness of the stock price at the new measurement point used in each future annual report graph. For this reason, the Corporation does not believe that this graph should be considered as the sole indicator of the Corporation's performance.

Common Stock Market Prices and Dividends (Unaudited)

QUARTERLY 2007-2005

| 2007 by Quarter | High | Low | Dividends per Share |
|----------------------|---------|---------|---------------------|
| 1st | \$51.65 | \$43.95 | \$.195 |
| 2nd | 47.94 | 40.14 | .195 |
| 3rd | 45.35 | 35.56 | .195 |
| 4th | 44.32 | 33.79 | .195 |
| Total dividends paid | | | \$.78 |
| 2006 by Quarter | High | Low | Dividends per Share |
| 1st | \$61.68 | \$54.83 | \$.18 |
| 2nd | 59.70 | 44.68 | .18 |
| 3rd | 46.14 | 38.34 | .18 |
| 4th | 48.31 | 41.05 | .18 |
| Total dividends paid | | | \$.72 |
| 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 |

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

FISCAL YEARS 2007-2003

| Year | Market Price | | Diluted Earnings per Share | Price/Earnings Ratio | |
|-------------------|--------------|---------|----------------------------|----------------------|-----|
| | High | Low | | High | Low |
| 2007 | \$51.65 | \$33.79 | \$2.57 | 20 | 13 |
| 2006 | 61.68 | 38.34 | 2.45 | 25 | 16 |
| 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 |
| Five-year average | | | | 24 | 15 |

FORWARD-LOOKING STATEMENTS

Statements in this report that are not strictly historical, including statements as to plans, outlook, objectives, and future financial performance, are “forward-looking” statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Words such as “anticipate,” “believe,” “could,” “confident,” “estimate,” “expect,” “forecast,” “hope,” “intend,” “likely,” “may,” “plan,” “possible,” “potential,” “predict,” “project,” “should,” “will,” and variations of such words and similar expressions identify forward-looking statements. Forward-looking statements involve known and unknown risks, which may cause the Corporation’s actual results in the future to differ materially from expected results.

These risks include, without limitation:

- the Corporation’s ability to realize financial benefits from its (a) price increases, (b) cost containment and business simplification initiatives for the entire Corporation, (c) investments in strategic acquisitions, new products, and brand building, (d) investments in distribution and rapid continuous improvement, (e) repurchases of common stock, (f) ability to maintain its effective tax rate, and (g) consolidation and logistical realignment initiatives;
- uncertainty related to the availability of cash to fund future growth;
- lower than expected demand for the Corporation’s products due to uncertain political and economic conditions, including, with respect to the Corporation’s hearth products, the protracted decline in the housing market;
- lower industry growth than expected;
- major disruptions at our key facilities or in the supply of key raw materials, components, or finished goods;

- uncertainty related to disruptions of business by terrorism, military action, epidemic, acts of God, or other Force Majeure events;
- competitive pricing pressure from foreign and domestic competitors;
- higher than expected costs and lower than expected supplies of materials (including steel and petroleum-based materials);
- higher than expected costs for energy and fuel;
- changes in the mix of products sold and customers purchasing;
- restrictions imposed by the terms of the Corporation’s revolving credit facility and note purchase agreement; and
- currency fluctuations and other factors described in the Corporation’s annual and quarterly reports filed with the Securities and Exchange Commission on Forms 10-K and 10-Q.

The 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. Because of the foregoing 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. The Corporation undertakes no obligation to update, amend, or clarify any forward-looking statement, whether as a result of new information, future events, or otherwise, except as required by applicable law.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

During the normal course of business, the Corporation is subjected to market risk associated with interest rate movements. Interest rate risk arises from our variable interest debt obligations. For information related to the Corporation’s long-term debt, refer to the Long-Term Debt disclosure in the Notes to Consolidated Financial Statements filed as part of this report. The Corporation does not currently have any significant foreign currency exposure.

The Corporation is exposed to risks arising from price changes for certain direct materials and assembly components used in its operations. The largest such costs incurred by the Corporation are for steel, plastics, textiles, wood particleboard and cartoning. Steel is the most significant raw material used in the manufacturing of products. The market price of plastics and textiles in particular are sensitive to the cost of oil and natural gas. Oil and natural gas prices

have increased sharply in the last several years, and as a result, the cost of plastics and textiles has increased. The cost of wood particleboard has been impacted by continued downsizing of production capacity in the wood market as well as increased cost in transportation related to oil increases.

The Corporation works to offset these increased costs through global sourcing initiatives and price increases on its products; however, margins have been negatively impacted due to the lag between cost increases and the Corporation’s ability to increase its prices. The Corporation believes future market price increases on its key direct materials and assembly components are likely. Consequently, it views the prospect of such increases as an outlook risk to the business.

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF HNI CORPORATION:

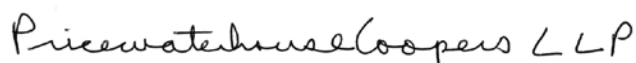
In our opinion, the accompanying consolidated balance sheets and related consolidated statements of income, shareholders' equity and cash flows, present fairly, in all material respects, the financial position of HNI Corporation and its subsidiaries (the "Corporation") at December 29, 2007, December 30, 2006, and December 31, 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 29, 2007 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 29, 2007, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Corporation's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the Management Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Corporation's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in the notes to the consolidated financial statements, the Corporation changed the manner in which it accounts for share-based compensation effective January 1, 2006 and the manner in which obligations associated with defined benefit pension and other postretirement plans are presented effective December 30, 2006.

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.

As described in the Management Report on Internal Control Over Financial Reporting, management has excluded Harman Stove Company ("Harman") from its assessment of internal control over financial reporting as of December 29, 2007 because it was acquired by the Corporation in a business purchase combination during 2007. We have also excluded Harman from our audit of internal control over financial reporting. Harman's total assets and total revenues represent approximately 3% and less than 1%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 29, 2007.



PRICEWATERHOUSECOOPERS LLP

Chicago, Illinois

February 25, 2008

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.

On November 13, 2007, the Corporation completed the acquisition of Harman Stove Company ("Harman") as discussed in the Business Combination footnote to the Corporation's consolidated financial statements. Management excluded Harman from its assessment of the Corporation's internal control over financial reporting as it was acquired during the fiscal year. Harman's total assets and total revenues represent 3% and less than 1%, respectively, of the consolidated financial statement amounts as of and for the year ended December 29, 2007.

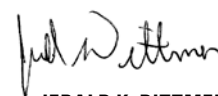
Management assessed the effectiveness of HNI Corporation's internal control over financial reporting as of December 29, 2007. Management based this assessment on criteria for effective internal control over financial reporting described in *Internal Control – Integrated Framework* issued by the Committee 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 29, 2007, 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 29, 2007 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in its report which appears herein.



STAN A. ASKREN
*Chairman, President
and Chief Executive Officer*



JERALD K. DITTMER
*Vice President and
Chief Financial Officer*

February 22, 2008

DEAR SHAREHOLDERS:

The pillars of the HNI Corporation Vision statement (as shown on page 44) are operating profitability, creating long-term shareholder value, pursuing profitable growth, delivering quality in all we do, being a great place to work and, above all, being a responsible corporate citizen.

Our role as members of the Board of Directors is to do our utmost to ensure the realization of the HNI Vision. We do this by supporting HNI Corporation's sound policies and practices, clear and open communications,

straightforward management style and conservative financial management. We also believe shareholder interests are best served by well-informed, active and engaged Board members, and this is what each of us strives to be.

We are proud to serve on this Board. We are committed to ensuring the highest standards of ethics and corporate governance in all we do. We thank you for your continued support.

Sincerely,

THE HNI CORPORATION BOARD OF DIRECTORS

Stan A. Askren

Mary H. Bell

Miguel M. Calado

Gary M. Christensen

Cheryl A. Francis

John A. Halbrook

James R. Jenkins

Dennis J. Martin

Larry B. Porcellato

Joseph E. Scalzo

Abbie J. Smith

Brian E. Stern

Ronald V. Waters, III



Board of Directors: (left to right, standing)

Ronald V. Waters, III, Abbie J. Smith, Brian E. Stern, James R. Jenkins, Larry B. Porcellato, Miguel M. Calado, Stan A. Askren, John A. Halbrook; (left to right, seated) Joseph E. Scalzo, Dennis J. Martin, Mary H. Bell, Gary M. Christensen, Cheryl A. Francis

BOARD OF DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

Stan A. Askren

Chairman, President and Chief Executive Officer, HNI Corporation

Mary H. Bell

Vice President, Building Construction Products Division, Caterpillar Inc.

Miguel M. Calado

Director and Chief Financial Officer, Hovione, SA

Gary M. Christensen

Lead Director, HNI Corporation Advisor, Wind Point Partners

Cheryl A. Francis

Vice Chairman, Corporate Leadership Center Independent Business and Financial Advisor

John A. Halbrook

Chairman, Woodward Governor Company

James R. Jenkins

Senior Vice President and General Counsel, Deere & Company

Dennis J. Martin

Independent Business Consultant
Retired Chairman, President and Chief Executive Officer, General Binding Corporation

Larry B. Porcellato

Independent Business Consultant
Former Chief Executive Officer, ICI Paints North America

Joseph E. Scalzo

President and Chief Executive Officer, WhiteWave and Morningstar Foods, LLC

Abbie J. Smith

Chaired Professor, The University of Chicago Graduate School of Business

Brian E. Stern

Director, Starboard Capital Partners, LLC

Ronald V. Waters, III

Director, President and Chief Operating Officer, LoJack Corporation

COMMITTEES OF THE BOARD

Audit

Ronald V. Waters, III, Chairperson

Miguel M. Calado
James R. Jenkins
Joseph E. Scalzo

Human Resources and Compensation

Abbie J. Smith, Chairperson

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

Public Policy and Corporate Governance

Dennis J. Martin, Chairperson

Mary H. Bell
Cheryl A. Francis
Brian E. Stern

HNI CORPORATION OFFICERS

Stan A. Askren

Chairman, President and Chief Executive Officer

Marshall H. Bridges

Treasurer and Vice President, Mergers and Acquisitions

Gary L. Carlson

Vice President, Member and Community Relations

Jerald K. Dittmer

Vice President and Chief Financial Officer

Robert J. Driessnack

Vice President, Controller

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

OPERATING COMPANIES

Timothy J. Anderson

President, Omni Workspace Company

Farida Chow

President, Lamex

Bradley D. Determan

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

David W. Gardner

President, Paoli Inc.

Eric K. Jungbluth

Executive Vice President, HNI Corporation President, The HON Company

Marco V. Molinari

Executive Vice President, HNI Corporation President, HNI International Inc.

Jean M. Reynolds

President, Maxon Furniture Inc.

Eugene Sung

Executive Vice President, HNI Corporation President, Allsteel Inc.

Donald C. Wharton

President, The Gunlocke Company LLC

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.

INVESTOR INFORMATION

Fiscal 2008 Quarter-End Dates

1st Quarter: Saturday, March 29
2nd Quarter: Saturday, June 28
3rd Quarter: Saturday, September 27
4th Quarter: Saturday, January 3

Annual Meeting

The Corporation's annual shareholders' meeting will be held at 10:30 a.m. on Tuesday, May 6, 2008, at the Holiday Inn, Highways 61 & 38 North, Muscatine, Iowa. Shareholders and other interested investors are encouraged to attend the meeting.

Form 10-K Report

A copy of the Corporation's annual report on Form 10-K, filed with the Securities and Exchange Commission, is available without charge upon request to:

Investor Relations

HNI Corporation
408 East Second Street
Muscatine, IA 52761
Telephone: 563.272.7400
Fax: 563.272.7655
Email: investorrelations@hnicorp.com

All financial information, including the Corporation's annual report on Form 10-K, can be accessed on the Corporation's website at www.hnicorp.com.

Corporate Headquarters

HNI Corporation
408 East Second Street
P.O. Box 1109
Muscatine, IA 52761-0071
Telephone: 563.272.7400
Fax: 563.272.7347

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.

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 May 30, 2007, the Corporation submitted to the NYSE, the Annual CEO Certification required by Section 303A.12(a) of the NYSE Listed Company Manual certifying that the Corporation's CEO is not aware of any violation by the Corporation of NYSE corporate governance listing standards. The Corporation also filed with the Securities and Exchange Commission the CEO/CFO Certifications regarding the quality of the Corporation's public disclosure required under Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 as Exhibits 31.1, 31.2, and 32.1 to the Corporation's annual report on Form 10-K for the fiscal year ended December 29, 2007.



HNI Corporation

408 East Second Street
Muscatine, Iowa 52761
www.hnicorp.com