



HNI Corporation 2010 Annual Report

Financial Highlights

(Amounts in thousands, except for per share and member data)

	2010	2009
Income Statement Data		
Net sales	\$1,686,728	\$1,623,327
Gross profit	585,616	562,801
Selling and administrative expenses	518,257	513,776
Restructuring related and impairment charges	9,449	40,443
Operating income	57,910	8,582
Net income (loss) attributable to HNI Corporation	26,941	(6,442)
Net income (loss) attributable to HNI Corporation as a % of:		
Net sales	1.6%	(0.4)%
Average shareholders' equity	6.5%	(1.5)%
Per common share:		
Net income (loss) attributable to HNI Corporation – basic	\$ 0.60	\$ (0.14)
Net income (loss) attributable to HNI Corporation – diluted	0.59	(0.14)
Cash dividends	0.86	0.86
Balance Sheet Data		
Total assets	\$ 997,880	\$ 994,326
Long-term debt and capital lease obligations	150,111	200,000
Debt/capitalization ratio	26.9%	32.3%
HNI Corporation's shareholders' equity	\$ 407,985	\$ 419,284
Working capital	46,810	60,129
Other Data		
Capital expenditures (including capitalized software)	\$ 26,722	\$ 17,554
Cash flow from operations	94,384	193,205
Weighted-average shares outstanding – basic	44,993,934	44,888,809
Weighted-average shares outstanding – diluted	45,808,704	44,888,809
Share repurchases	\$ 17,817	\$ –
Number of shareholders at year-end	7,866	8,257
Members (employees) at year-end	8,470	8,748

Dear Shareholders:



Stan A. Askren
Chairman, President
and Chief Executive Officer

The year 2010 was a good year for HNI Corporation. We began to see the payoff from our moves during the recession to significantly reduce structural costs and simultaneously invest for future growth. The economy began to heal; our office furniture businesses grew and our hearth business's profits improved.

Solid Recovery – Office Furniture

Our corporate project-driven office furniture business experienced strong growth as larger corporations and the federal government began to spend in pursuit of lower lease rates, lower occupancy costs and growth.

Our business in China experienced significant growth and won large projects with some of the leading and fastest-growing Chinese companies. Our international business is relatively small but growing rapidly.

The supplies-driven portion of our business, driven by small businesses, grew as well, though more slowly than our project business. Small business confidence and spending was low throughout the year with the overhang of uncertainty about employment, retail spending, tax increases, new healthcare legislation and tight bank lending. We are a leader in this segment of the market with our HON brand and look forward to an accelerated recovery as the economy continues to improve.

Hearth Business Profit Improvement

Our hearth business continued to face a challenging climate as housing starts were stubborn to grow. Despite the challenges, we managed a \$16 million profit improvement versus last year on 1 percent more sales. Our hearth market position is outstanding. We have the strongest brands, strongest distribution, best manufacturing and best product lineup. With our cost reset, and investments in products and selling and marketing capabilities, this business is spring loaded for profitable growth as housing recovers. We believe the worst in housing is over, though the pace of recovery remains uncertain.

Profitable Growth

HNI has done an effective job of simultaneously reducing costs and investing for the future. The net result in 2010 is profit growth of 34 percent on sales growth of 4 percent.

The organization also did a good job of generating strong cash flow. This allowed us to strengthen our balance sheet and continue to pay a strong dividend, which is valued by shareholders and a key objective of the management team. We are the only major public office furniture company to maintain its dividend during the economic crisis, and we are pleased we were able to increase the dividend in February of this year.

Split and Focus Strategy Is Working

Our unique split and focus business model serves us well during dynamic times, when the race is won by companies most responsive to changing economic conditions and customer demand. Each of our companies focuses on a distinct market. Each has its own organization, strategy, selling and fulfillment models and financial model. At the same time, we leverage HNI's collective scale around purchasing, information technologies and people development and HNI's best practices around lean manufacturing and management.

As we look forward, we have no doubt the world and our markets will continue to be dynamic, uncertain and competitive. We will continue to leverage the combined strength of our members, culture and business model to excel, whatever the economic climate.

Our member owners, and their respective companies, delivered very strong operational and customer service results. We again achieved record levels of reliable and responsive service and delivery. We continued to drive our Rapid Continuous Improvement (RCI) processes to improve product flow and customer responsiveness and eliminate cost and waste. RCI remains at the heart of our culture and touches everything we do. We have a unique culture where members are engaged – thinking and behaving like owners. This, combined with our philosophy and culture of continuous improvement, makes a powerful and sustainable value creator for customers and shareholders alike.

Accelerating Investments and Positioning for Profitable Growth

We continue to focus on long-term shareholder value creation, at times foregoing short-term gains. During the economic recession, in the midst of painful cost resets, we accelerated our investments in business growth initiatives. We again introduced a record number of new product solutions across all our companies. We introduced new industry-leading sales, marketing and delivery programs. We achieved excellent success with our core focused market strategy and saw strong growth in our education, government and international markets. We added numerous new dealer and channel partner resources and programs to help our resellers compete more effectively and profitably in their markets. We have confidence in our market momentum and the returns our strategic investments are generating now and in the future.

As we look forward, we have no doubt the world and our markets will continue to be dynamic, uncertain and competitive. We will continue to leverage the combined strength of our members, culture and business model to excel, whatever the economic climate.

Words of Thanks

Thank you to our customers for your business. Thank you to our members for your commitment. Thank you to our shareholders for your investment and faith in us.



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

Investing in the Future



Selling Capabilities

We are adding resources to extend the reach and capabilities of HNI selling organizations. We provide the training, tools and resources to enhance the efficiency and effectiveness of our selling processes.



New Product Solutions

We continue to invest in innovative products that exceed our customers' expectations. In 2010, we launched a record number of new products, reflecting our focus on building HNI brands and gaining market share through innovation, quality and product leadership.



e-Business

Our strategy to invest in leading-edge technology allows us to reach more customers and makes it easier for our partners to do business with HNI.



Customer Loyalty

We are investing in people, programs and processes to make HNI the preferred choice – first time, every time with end-users and our channel partners.



Expanding Markets

We continue to expand our presence in key vertical markets and geographies. Strategic investments will further develop HNI platforms driving long-term growth of our businesses in new markets.

Allsteel Stride Bench



Allsteel®

Allsteel designs, builds and delivers relevant innovation in workplace furniture.

HON®

Inspired by practicality, offering a full line of high-quality solutions serving the small and medium-size workplace.

HON Nucleus



Gunlocke Converge



Paoli Mingle



Gunlocke®

An industry leader in the design, manufacture and marketing of premium wood office furniture.

PAOLI™

A leading provider of high-quality and well-priced wood office furniture.



LAMEX®

China's leading manufacturer and marketer of a full range of office furniture solutions.



Bringing our brands to life through innovation, style and value.

Maxon Empower



Office furniture systems with planning and design technologies for small to medium-size office solutions.

HBF Duna Chair



Award-winning design and superior craftsmanship in wood office furniture and fabrics created for demanding clients worldwide.



QUADRA-FIRE®
NOTHING BURNS LIKE A QUAD

Renowned for performance, durability and control in wood, pellet and gas-fueled hearth products.



Quadra-Fire Voyager Wood Fireplace Insert



Heatilator Caliber nXt Direct Vent Gas Fireplace

heatilator®
The first name in fireplaces

The number-one preferred fireplace brand among homebuilders since 1927.

FIRESIDE
HEARTH & HOME

America's largest network of hearth product and service outlets for consumers and homebuilders.



Heat & Glo Solaris Multi-Sided Direct Vent Gas Fireplace

HEAT & GLO®
No one builds a better fire

The innovation and design leader in gas hearth systems – the industry's most award-winning brand.



Harman Oakleaf Wood Stove

HARMAN™

The hearth industry's foremost producer of precision quality-crafted wood and pellet stoves.

Our Commitment to a Sustainable Future

HNI Corporation has a long history of sustainable business practices. From our earliest days we focused on the fundamentals of true sustainability—people, planet and profits.



People

The company was founded to create jobs for veterans returning from World War II, and one of our first policies declared employees to be “members” with collective responsibility and shared rewards. Member development continues to be a key priority of our long-term strategy. Today, HNI has more than 8,000 members worldwide, most of whom are part owners of HNI through our stock ownership programs. Our members are actively involved in numerous initiatives to make a positive difference and improve the quality of life in the communities where they live. In addition, the HNI Charitable Foundation funds many civic, community, cultural and education activities.



Planet

Efficient manufacturing and careful use of resources is the core of who we are. As early as 1947, the corporation was recycling scrap materials into new consumer products. HNI was an early adopter of Lean and Rapid Continuous Improvement methodology to eliminate waste and drive the most efficient use of natural resources. Today, we have one of the industry’s strongest and most comprehensive programs to conserve raw materials and reduce waste. We have proven “Lean leads to green.”



Profits

True sustainability demands sufficient return on investment to reward shareholders for use of their money, appropriately reward members and fund innovations and investments for long-term growth. HNI has a long track record of delivering steady growth and creating long-term shareholder value. We are committed to rewarding our shareholders and investing in our businesses for aggressive profitable growth.

In 2010, we:

- Established an executive Corporate Governance, Compliance and Social Responsibility Committee
- Formalized a comprehensive energy management system
- Reduced our recordable injury rate for the sixth consecutive year to about 30% of the national average
- Earned Ethisphere™ Institute recognition for corporate ethics
- Established a corporate-wide wellness and health management system
- Our growing commitment to sustainability has allowed HNI businesses to obtain level certification for the industry’s widest and most complete offering of products rated under the ANSI/BIFMA e3 Furniture Sustainability Standard

Consolidated Statements of Income

<i>(Amounts in thousands, except for per share data)</i>	For the years	2010	2009
Net sales		\$ 1,686,728	\$ 1,623,327
Cost of products sold		1,101,112	1,060,526
Gross profit		585,616	562,801
Selling and administrative expenses		518,257	513,776
Restructuring related and impairment charges		9,449	40,443
<i>Operating income</i>		57,910	8,582
Interest income		471	415
Interest expense		11,903	12,080
<i>Income (loss) from continuing operations before income taxes</i>		46,478	(3,083)
Income taxes		16,797	(1,485)
<i>Income (loss) from continuing operations, less applicable income taxes</i>		29,681	(1,598)
Discontinued operations, less applicable income taxes		(2,558)	(4,661)
<i>Net income (loss)</i>		27,123	(6,259)
Less: Net income attributable to the noncontrolling interest		182	183
<i>Net income (loss) attributable to HNI Corporation</i>		\$ 26,941	\$ (6,442)
<i>Income (loss) from continuing operations attributable to HNI Corporation per common share – basic</i>		\$ 0.66	\$ (0.04)
Discontinued operations attributable to HNI Corporation per common share – basic		\$ (0.06)	\$ (0.10)
<i>Net income (loss) attributable to HNI Corporation per common share – basic</i>		\$ 0.60	\$ (0.14)
Weighted average shares outstanding – basic		44,993,934	44,888,809
<i>Income (loss) from continuing operations attributable to HNI Corporation per common share – diluted</i>		\$ 0.65	\$ (0.04)
Discontinued operations attributable to HNI Corporation per common share – diluted		\$ (0.06)	\$ (0.10)
<i>Net income (loss) attributable to HNI Corporation per common share – diluted</i>		\$ 0.59	\$ (0.14)
Weighted average shares outstanding – diluted		45,808,704	44,888,809

Consolidated Balance Sheets

<i>(Amounts in thousands of dollars and shares except par value)</i>	As of year-end	2010	2009
Assets			
Current Assets			
Cash and cash equivalents		\$ 99,096	\$ 87,374
Short-term investments		10,567	5,994
Receivables, net		190,118	163,732
Inventories		68,956	65,144
Deferred income taxes		18,467	20,299
Prepaid expenses and other current assets		20,957	17,728
<i>Total Current Assets</i>		408,161	360,271
<i>Property, plant, and equipment</i>		231,781	260,102
<i>Goodwill</i>		260,634	261,114
<i>Other assets</i>		97,304	112,839
<i>Total Assets</i>		\$ 997,880	\$ 994,326
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts payable and accrued expenses		\$ 311,066	\$ 299,718
Note payable and current maturities of long-term debt and capital lease obligations		50,029	39
Current maturities of other long-term obligations		256	385
<i>Total Current Liabilities</i>		361,351	300,142
<i>Long-term debt</i>		150,000	200,000
<i>Capital lease obligations</i>		111	—
<i>Other long-term liabilities</i>		47,437	50,332
<i>Deferred income taxes</i>		30,525	24,227
<i>Commitments and contingencies</i>			
Shareholders' Equity			
Preferred stock – \$1 par value		—	—
Authorized: 2,000			
Issued: None			
Common stock – \$1 par value		44,841	45,093
Authorized: 200,000			
Issued and outstanding: 2010 – 44,841; 2009 – 45,093; 2008 – 44,324			
Additional paid-in capital		18,011	19,695
Retained earnings		343,474	355,270
Accumulated other comprehensive income		1,659	(774)
<i>Total Parent Company Shareholders' Equity</i>		407,985	419,284
Noncontrolling interest		471	341
<i>Total Equity</i>		408,456	419,625
<i>Total Liabilities and Equity</i>		\$ 997,880	\$ 994,326

Consolidated Statements of Cash Flows

<i>(Amounts in thousands)</i>	For the years	2010	2009
Net Cash Flows From (To) Operating Activities:			
Net income (loss)		\$ 27,123	\$ (6,259)
Noncash items included in net income:			
Depreciation and amortization		58,630	74,867
Other post-retirement and post-employment benefits		1,691	1,849
Stock-based compensation		6,601	3,830
Excess tax benefits from stock compensation		(25)	(8)
Deferred income taxes		7,196	(5,844)
Net loss on sales, retirements and impairments of long-lived assets and intangibles		8,951	26,025
Stock issued to retirement plan		5,400	6,565
Other – net		2,025	2,338
Changes in working capital, excluding acquisition and disposition:			
Receivables		(30,027)	74,593
Inventories		(4,391)	19,146
Prepaid expenses and other current assets		(527)	9,317
Accounts payable and accrued expenses		14,412	(14,313)
Income taxes		529	8,514
Increase (decrease) in other liabilities		(3,204)	(7,415)
<i>Net cash flows from (to) operating activities</i>		94,384	193,205
Net Cash Flows From (To) Investing Activities:			
Capital expenditures		(25,683)	(16,017)
Proceeds from sale of property, plant and equipment		2,289	6,733
Capitalized software		(1,039)	(1,537)
Acquisition spending, net of cash acquired		(149)	(500)
Purchase of long-term investments		(15,040)	(9,710)
Sales or maturities of long-term investments		10,624	33,872
Other – net		3,945	440
<i>Net cash flows from (to) investing activities</i>		(25,053)	13,281
Net Cash Flows From (To) Financing Activities:			
Purchase of HNI Corporation common stock		(17,817)	–
Proceeds from long-term debt		50,157	97,000
Payments of note and long-term debt and other financing		(54,241)	(219,884)
Proceeds from sale of HNI Corporation common stock		3,004	2,893
Excess tax benefits from stock compensation		25	8
Dividends paid		(38,737)	(38,667)
<i>Net cash flows from (to) financing activities</i>		(57,609)	(158,650)
<i>Net increase (decrease) in cash and cash equivalents</i>		11,722	47,836
<i>Cash and cash equivalents at beginning of year</i>		87,374	39,538
<i>Cash and cash equivalents at end of year</i>		\$ 99,096	\$ 87,374
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the year for:			
Interest		\$ 12,062	\$ 12,316
Income taxes		\$ 7,079	\$ (4,528)

Our Vision

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.

A Message from the Board of Directors

Dear Shareholders:

During these difficult economic times, the principles of the HNI Vision (as shown on page 11) are as important as ever. These principles are creating long-term shareholder value, pursuing profitable growth, delivering quality in all we do, being a great place to work and being a responsible corporate citizen.

As members of the Board of Directors, our role is to do our utmost to realize the HNI Vision. We do this by supporting HNI's sound business policies and practices, straightforward communications and conservative financial management.

An informed, independent and involved Board is essential to ensure integrity, transparency and long-term success. Each of us strives for this standard.

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

Sincerely,

THE HNI CORPORATION BOARD OF DIRECTORS

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

Executive Advisor Partner, Wind Point Partners

Cheryl A. Francis

Co-Chairman, Corporate Leadership Center

James R. Jenkins

Senior Vice President and General Counsel, Deere & Company

Dennis J. Martin

President and Chief Executive Officer, Federal Signal Corporation

Larry B. Porcellato

Chief Executive Officer, The Homax Group, Inc.

Abbie J. Smith

Chaired Professor, University of Chicago Booth School of Business

Brian E. Stern

Lead Director, HNI Corporation
Director, Starboard Capital Partners, LLC

Ronald V. Waters, III

Independent Business Consultant, Former Director, President and Chief Executive Officer, LoJack Corporation

COMMITTEES OF THE BOARD

Audit

Miguel M. Calado, Chairperson

Mary H. Bell
James R. Jenkins

Human Resources and Compensation

Abbie J. Smith, Chairperson

Cheryl A. Francis
Dennis J. Martin
Brian E. Stern

Public Policy and Corporate Governance

Larry B. Porcellato, Chairperson

Gary M. Christensen
Ronald V. Waters, III

Investor Information

Fiscal 2011 Quarter-End Dates

1st Quarter: Saturday, April 2 3rd Quarter: Saturday, October 1
2nd Quarter: Saturday, July 2 4th Quarter: Saturday, December 31

Annual Meeting

The Corporation's annual shareholders' meeting will be held at 10:30 a.m. on Tuesday, May 10, 2011, at the Clarion Hotel, 2915 North Highway 61, Muscatine, Iowa. Shareholders and other interested investors are encouraged to attend the meeting.

Form 10-K Report

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.

Investor Relations

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Fax: 563.272.7114

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:

Wells Fargo Shareowner Services
161 North Concord Exchange
South Saint Paul, MN 55075
Telephone: 800.468.9716

Management Certifications

On May 28, 2010, the Corporation submitted to the NYSE, the Annual CEO Certification required by Section 303A.12(a) of the NYSE Listed Company Manual certifying 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 January 1, 2011.

HNI CORPORATION OFFICERS

Stan A. Askren
Chairman, President and
Chief Executive Officer

Steven M. Bradford
Vice President, General
Counsel and Secretary

Gary L. Carlson
Vice President, Member
and Community Relations

Tamara S. Feldman
Vice President,
Financial Reporting

Kelly J. McGriff
Treasurer and Vice President,
Investor Relations

Alan R. Moorhead
Vice President,
Internal Audit

Kurt A. Tjaden
Vice President and
Chief Financial Officer

OPERATING COMPANIES

Charles C. Bell
President,
Hickory Business Furniture

Redus W. Brooks
President,
Maxon Furniture

Peter C. M. Chu
President,
Lamex

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

Jerald K. Dittmer
Executive Vice President,
HNI Corporation
President,
The HON Company

Jeffery D. Lorenger
Executive Vice President,
HNI Corporation
President,
Allsteel

Donald T. Mead
Executive Vice President,
HNI Corporation
President,
The Gunlocke Company

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

Brandon T. Sieben
President,
Paoli



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