

Knoll 2019 Annual Report

Dear Fellow Stockholders:

2019 will go down in the books as another year of record revenue and increased profits as our strategy of diversifying our sources of revenue into higher-margin Lifestyle businesses with crossover workplace applicability continued to pay dividends. The unprecedented headwinds of the Covid-19 pandemic, however, have slowed this momentum significantly and we are evaluating the impact and developing contingency plans.

We remain proud of the strong full-year results we delivered from better than industry Business and Institutional Furniture Manufacturers Association (BIFMA®) top line growth to solid increases in our Adjusted EBITDA and earnings per share. While we did see industry demand decelerate in the back half of the year, prior to Covid-19, we did see positive secular drivers and impactful on-trend acquisitions from Muuto to Fully as well as organic investments in new products and expanded sales and marketing capabilities. We are continuing to assess the affect of this unprecedented situation on our global supply chain, distribution partners and business in general.

For the full year, revenue topped \$1.43 billion, growing 9.7%, or 8.2% excluding the impact of the Fully acquisition, well in excess of industry growth reported by BIFMA. Full-year growth was driven by both the Office and Lifestyle segments with strong growth from Muuto, DatesWeiser, Spinneybeck | Filzfelt, KnollStudio and North American Office. The growth in Lifestyle came predominantly from commercial clients, where our 19% growth rate in Workplace significantly outpaced our residential growth. We also were particularly pleased with the improved profitability of our Office segment. Lifestyle margins, while down somewhat as a higher portion of our mix went through our dealer channel, were still strong.

The secular drivers of demand continued to strengthen through 2019 and early in 2020. Looking beyond the coronavirus crisis, we expect that the time away from the workplace will only make people appreciate even more the benefits of the social interaction that the workplace provides. First, we expect places and spaces to continue to matter more than ever. The primacy of the workplace in attracting and retaining talent is a theme playing out across almost all of our major client engagements. Similarly, the “resimercialization” of the workplace and the continued shifting allocation of space away from the individual and toward the group continues. This drives demand for more

residential-feeling products with contract level quality – the primary reason we believe we have seen Muuto gain such rapid acceptance. The focus on wellness and wellbeing also continues to drive demand for our fastest growing product categories including height-adjustable tables. We see these trends as part of an effort to give users and teams more direct control in shaping their environments. We are also seeing similar progress organically with investments in existing businesses and product lines like Spinneybeck | FilzFelt’s architectural products, our internally developed Rockwell Unscripted interior architecture, Creative Wall, and KnollStudio’s Pixel meeting tables. And by bringing our constellation selling efforts together in early 2018, we are leveraging our investments across these categories more efficiently in virtually every major client engagement. I invite you to check out our new Knoll Works magazine at knoll.com to see exactly the kind of dynamic environments we helped create in the past year.

Driving Residential and Consumer Growth

Residential and consumer sales represented about half of our Lifestyle sales in 2019, including KnollStudio residential products sold to the decorating trade and through retail channels, including knoll.com. HOLLY HUNT represents the largest piece, followed by KnollStudio and then Muuto. While the high-end residential market was more muted this past year, we have an exciting series of plans for HOLLY HUNT since our acquisition. This includes the onboarding of a new President for this important business; the roll out of our proprietary wall covering collection throughout the year; a new showroom in Boston; and planning for a major 2021 street level opening in Los Angeles, plus a significant digital effort to bring the selling and marketing of the brand into the 21st century. Consumer end customers are an area with Muuto that we remain interested in exploring. Today, about a third of Muuto’s sales, primarily outside of North America, go through residential channels. At the time of the acquisition, this was closer to half of its sales, but with rapid commercial contract growth this, while still growing, has become a smaller piece of its pie. We expect to launch a direct to consumer / retail test later this year in France, and then intend to leverage this experience with a 2021 direct-to-consumer push in North America.

Optimizing our Manufacturing Footprint

We recently announced our plans to consolidate our manufacturing footprint and optimize our logistics operations over the next two years. As part of these activities, we will close our manufacturing facility in Grand Rapids, MI and absorb those operations into our other North American locations. This will yield a reduction of our current square footage footprint by approximately 20%; it is also expected to yield significant annualized saving as we reach completion of this plan at the end of 2021.

Leveraging our Constellation

As much as we have worked through both acquisition and organic product development to expand the breadth of our offer, 2020 will see focus on the depth of our portfolio as, for example, we broaden the entry level price points in adjustable tables and power and data distribution with Antenna Power Beam, a flexible streamlined technology spine. Later this year, Knoll Office will be launching a lower price height adjustable desk, driven from a research and development standpoint by Fully as well as some of Fully's ergonomic accessories, and Fully will start to sell a selection of Knoll and Muuto seating products at fully.com. It is great to have a digitally native entity part of Knoll, and together with our own Knoll Shop e-commerce efforts, we have targeted on-line sales to approach mid-single digits as a percentage of our revenue.

Additionally, we are poised to address, to quote Florence Knoll, our "good business" corporate social responsibility platform. From our founding 82 years ago, Knoll has always been a purpose-driven enterprise as we have sought to bring the benefits of good design to where our clients live and work. Very much core to this mission has been to do so as sustainably as possible; frankly, there is nothing more sustainable than producing timeless designs that become collectibles not disposables. We have helped countless clients

with LEED®, Well and Living Building Challenge-certified projects while aggressively reducing our own environmental impact. And in the process, supporting our associates and the communities where we live and work with initiatives like the Knoll scholarship program that has helped send over 650 children and grandchildren of Knoll associates with post-secondary technical, community and 4-year college education. We are proud of our gender diversity and pay equity from our board room to our plant floor as well as our progressive approach to partner benefits and LGBTQ rights. And, to our knowledge, we are the only public furniture company with its own B Corp subsidiary, Fully. We do all this not just because it's the right thing to do – we do it because it also makes us a better business and investment for all our stakeholders.

None of this comes together without the dedication of our 3,900 associates, whose health and well-being is our number one priority. Everyone associated with the Knoll constellation of brands, including our supply chain and distribution partners, has been impacted deeply by the effect of Covid-19. Together, we will address this difficult situation and resume our unparalleled service to clients across the commercial, education, healthcare, government and residential sectors, delivering inspired modern workplaces and residences. I thank our associates and our dealer and retail partners for their dedication.



Andrew Cogan
Chairman and CEO
Knoll, Inc.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended
December 31, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
Commission File No. 001-12907

KNOLL, INC.

(Exact name of registrant as specified in its charter)

Delaware

13-3873847

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification Number)

1235 Water Street
East Greenville, PA 18041
(215) 679-7991

(Address, including zip code, and telephone number including area code of principal executive offices)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

<u>Title of each class</u>	<u>Name of exchange on which registered</u>	<u>Trading Symbol</u>
Common Stock, par value \$0.01 per share	New York Stock Exchange	KNL

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: **NONE**

Indicate by check mark if the issuer is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act.)

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)

Yes No

As of June 30, 2019, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$1,128,501,610 based on the closing sale price as reported on the New York Stock Exchange.

As of February 19, 2020, there were 49,804,496 shares (including 742,559 shares of non-voting restricted shares) of the Registrant's common stock, par value \$0.01 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement for its 2020 Annual Meeting of Stockholders are incorporated by reference into Part III of this report on Form 10-K to the extent stated therein.

TABLE OF CONTENTS

<u>Item</u>	<u>Page</u>
PART I	
<u>1. Business</u>	<u>3</u>
<u>1A. Risk Factors</u>	<u>12</u>
<u>1B. Unresolved Staff Comments</u>	<u>20</u>
<u>2. Properties</u>	<u>21</u>
<u>3. Legal Proceedings</u>	<u>21</u>
<u>4. Mine Safety Disclosures</u>	<u>21</u>
PART II	
<u>5. Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>22</u>
<u>6. Selected Financial Data</u>	<u>24</u>
<u>7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
<u>7A. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>35</u>
<u>8. Financial Statements</u>	<u>36</u>
<u>9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures</u>	<u>77</u>
<u>9A. Controls and Procedures</u>	<u>77</u>
<u>9B. Other Information</u>	<u>79</u>
PART III	
<u>10. Directors, Executive Officers and Corporate Governance</u>	<u>79</u>
<u>11. Executive Compensation</u>	<u>79</u>
<u>12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>79</u>
<u>13. Certain Relationships and Related Transactions, and Director Independence</u>	<u>79</u>
<u>14. Principal Accounting Fees and Services</u>	<u>79</u>
PART IV	
<u>15. Exhibits and Financial Statement Schedules</u>	<u>80</u>
<u>16. Form 10-K Summary</u>	<u>83</u>
<u>Signatures</u>	<u>84</u>

PART I

ITEM 1. BUSINESS

General

Knoll, Inc. (“Knoll,” the “Company,” “we,” “us,” “our”) is a leading global manufacturer of commercial and residential furniture, accessories, lighting and coverings, including textiles, felt and leather. Our constellation of design-driven brands coupled with our perspectives on space planning allow our clients to create inspired modern interiors. Simply stated, we provide the furnishings to bring the beauty and benefits of modern design to the way we live and work. Our businesses represent a diversified portfolio that responds to evolving trends and performs throughout business cycles, sharing reputations for high-quality and sophistication. To the architects and designers we work with, to our clients in the commercial, education, healthcare and government sectors, and to the many consumers we reach, Knoll represents a commitment to innovative solutions and an unmatched heritage of modern design.

How people live and work is constantly being reshaped by changing technology and lifestyle trends. Our founders, Hans and Florence Knoll, believed in the power of design to enhance people’s lives. Since our founding over 80 years ago, Knoll has won a place in iconic settings and in museums worldwide, earning numerous design honors and awards. Today, we have an unsurpassed collection of classic products to introduce, and reintroduce, as well as groundbreaking new designs. We leverage strong relationships with contemporary furniture and industrial designers, and a reputation that attracts talented new designers.

We focus on two distinct “to-the-trade” specifier markets, workplace and residential. Workplace, the largest portion of our business, is where we see strategic opportunities through the expansion of underpenetrated categories and ancillary markets. At the same time, in the residential market, we are expanding further into consumer and decorator channels worldwide leveraging our experience with products that cross-over between the office and the home. We reach customers primarily through a broad network of independent dealers and distribution partners, our direct sales force, our showrooms, home design shops and our online presence.

We manage our business through our reportable segments: Office and Lifestyle. All unallocated costs are included within Corporate.

The Office segment addresses diverse workplace planning paradigms in domestic and international markets, creating high-quality performing spaces with open plan and private furniture, architectural elements, collaborative and ergonomic seating and modular storage. Product categories include: office systems furniture, seating, storage, tables, desks and KnollExtra[®] accessories. The Office segment includes DatesWeiser[®], known for signature spaces with refined and flexible conference furniture platforms that set a standard of design, quality and technology integration, as well as Fully[®], which offers standing desks, high-performance adjustable height desks, ergonomic chairs and accessories principally for individual home offices and small businesses.

The Lifestyle segment includes KnollStudio[®], HOLLY HUNT[®], KnollTextiles[®], Spinneybeck[®] | Filzfelt[®]Edelman[®] Leather and Muuto[®]. KnollStudio products, which are distributed in North America, Europe, the Middle East and Asia, include iconic seating, lounge furniture, side, café and dining chairs as well as conference, training, dining and occasional tables, lighting, rugs, textiles, high-quality fabrics, felt, leather and related architectural products. The Lifestyle segment products represent an important part of our workplace business.

The Corporate function represents the accumulation of unallocated costs relating to shared services and general corporate activities including, but not limited to, legal expenses, acquisition expenses, certain finance, human resources, administrative and executive expenses and other expenses that are not directly attributable to an operating segment. Dedicated, direct selling, general and administrative expenses of the segments are included within segment operating profit. As we continue to grow both organically and through acquisitions, the central support of the Corporate function will evolve and grow as well.

For further information regarding our segments see the section below and Note 21 in the accompanying financial statements.

Strategy

We draw on our constellation of businesses and brands to provide products and designs that meet the needs of our customers. Our offerings range from our classic signature pieces to our ancillary products which include the Rockwell Unscripted[®] collection by The Rockwell Group, the vast product portfolio of Muuto and the products of our most recent acquisition of Fully; from dramatic textiles, to Filzfelt architectural products for acoustical control. We solve a variety of needs for each customer, and our goal for each engagement is to maximize the opportunity from the start. To that end, we deploy strategic programs to better synchronize our office and lifestyle teams and resources to deliver a single compelling customer experience. We also continue to invest in technology for our dealer partners to make it easier to do business with Knoll.

Our growth strategy also focuses on specific international markets where we can significantly build our share, such as Canada, Mexico, Europe, Asia, the Middle East, and selected under-penetrated areas across the globe where there is a concentration of discerning clients.

Office Segment

Maximizing the sales growth and profitability of Office, our largest segment, has been a continuing priority. With respect to growth in our Office segment, a variety of initiatives will contribute to making this growth possible: broadening our Workplace products portfolio; enhancing sales coverage strategically, including a focus on global accounts; and capturing a greater share of our dealer's ancillary sales. At the same time, we aim to increase profitability through operational improvements and investments in our infrastructure. The acquisition of Fully in August 2019 provides the Office segment with a high-quality, cost-effective complement to our portfolio of office solutions, while also broadening our consumer market through an e-commerce platform. Our lean manufacturing initiative, combined with continued modernization of our facilities, is allowing us to progressively deliver on this goal.

The commercial market has shifted dramatically in the last decade. As clients are readdressing the relationship between individual and collaborative, shared spaces, they are reducing the footprint of individual workstations and investing in more ancillary furniture. Knoll is committed to maintaining our leadership in open floor-plan workspaces and private offices, while inventing and innovating new ways for people to work. Our constellation of businesses positions us well to deliver in the evolving work environment, where people choose how and where they work throughout the day, as the traditional boundaries between residential and workplace products blur, and the importance of a total environment outshines any one particular element.

We are looking beyond traditional office product categories - systems, task seating and storage - to furniture for shared spaces and the in-between spaces where people meet. We believe that our success in our traditional office products gives us an advantage throughout the workplace. As we design new products suited to these more flexible spaces, we are also responding to demands at different price points with different materials and finishes. Our Rockwell Unscripted™ collection, including Creative Wall®, continued to receive enthusiastic recognition at the 2019 Knoll Design Days trade show for addressing the idea of a hospitality work experience. Rockwell Unscripted brings a sense of theater and play to the workplace, putting people at the center of the work life experience and creating a warm and welcoming place where people want to be. Rockwell Unscripted Creative Wall has been successful in allowing clients to delineate space in the open environment, creating spaces for teams or individuals to focus and work. Our breath of height-adjustable tables, including k.™ Stand, k.™ bench, Tone® and Antenna® Telescope® continue to receive national industry recognition for its straightforward and adaptable concept that delivers a clean, compact workstation solution with intuitive adjustments and people centered design.

With the evolution from individual workstations to collaborative spaces and ancillary products, Knoll is not only expanding the breadth of our offerings through our constellation of brands but also strengthening our presence in the marketplace. We are continuing to partner with our dealers to ensure our customers understand that Knoll provides not just systems or workstations and work chairs but rather a complete family of complementary ancillary products. Together, we are meeting the demands of our customers while capturing more of their total spend and elevating the profitability of our engagements.

This approach has served as a catalyst for dealers to invest in their spaces. Their showrooms are becoming extensions of our own, offering not just product showcases but places to find new integrated workplace solutions from all of Knoll. Dealers help people to understand workplace needs and planning capabilities, and Knoll is providing more of the training and education that helps them add value and increase their profits when they sell Knoll.

Our principal Knoll Office product lines, described below, include systems furniture, seating, storage, tables, desks and KnollExtra ergonomic accessories. The Office segment comprised approximately 61.2% of our sales in 2019, 60.1% of our sales in 2018, and 63.8% of our sales in 2017.

Systems Furniture

Our office systems furniture encompasses a range of architect and designer-oriented products at different price levels, with a variety of planning models and product features. Systems furniture comprises integrated panels or table desks, work surfaces and storage units, power and data systems, and lighting. Many of these components can be moved, re-configured and re-used to create flexible, space-efficient work environments, tailored to each organization's business objectives with wide range of laminates, paints, veneers and textiles. Knoll systems can adapt to virtually any office environment, from team spaces to private executive offices. Through product line enhancements for clients to add to their installations, and through integration with other Knoll lines, we maximize the long-term value of their investment in Knoll.

Knoll systems furniture product lines include these panel, spine, technology wall and desk-based planning models:

- *Rockwell Unscripted*[®]
- *Antenna*[®] *Workspaces*
- *AutoStrada*[®]
- *Currents*[®]
- *Dividends Horizon*[®]
- *Reff*[®] *Profiles*

Seating

We constantly research and assess the general office seating market and offer a range of work chairs that are diverse in scale, aesthetic and performance, and enhances Knoll's reputation for ergonomics and value. The result is an increasingly innovative, versatile seating collection consistent with the Knoll brand.

Clients evaluate work chairs based on ergonomics, aesthetics, comfort, quality and affordability - all Knoll strengths. We offer market leading, high quality office chairs at a range of price points, performance levels and materials.

Our principal seating product lines include:

- *LIFE*[®]
- *Generation by Knoll*[®]
- *MultiGeneration by Knoll*[®]
- *ReGeneration by Knoll*[®]
- *Remix*[™]
- *Ollo*[™]

Files and Storage

Our files and storage products, featuring the *Template*[®], *Calibre*[®], *Series 2*[™] and *Quion*[®] product lines, are designed with unique features to maximize storage capabilities and personalization throughout the workplace. Our core files and storage products consist of lateral files, mobile pedestals and other storage units, bookcases and overhead cabinets.

The range of files and storage augments our product offering, allowing clients to address all of their office furniture needs with us, especially in competitive bid situations where Knoll systems, seating, tables and desks have been specified. The breadth of the product line also enables our dealers to offer stand-alone products to businesses that have smaller storage requirements. Files and storage are available in a wide range of sizes, configurations and colors, which can be integrated with other manufacturers' stand-alone furniture. In addition, some elements of the product line can be configured as freestanding furniture in private offices or open-plan environments.

Our principal storage product lines include:

- *Anchor*[™]
- *Calibre*[®]
- *Series 2*[™]
- *Template*[®]
- *Rockwell Unscripted*[®]
- *Quion*[®]

Desks and Tables

We offer collections of adjustable tables as well as meeting, conference, training, dining, stand-alone and table desks.

Our *Tone*[™], *Upstart*[®] and *Antenna*[®] *Simple Tables* and *Rockwell Unscripted*[®] product lines include adjustable, work, meeting, conference and training tables. *Tone*, a comprehensive collection of height-adjustable tables compatible with the *Dividends Horizon*, *Antenna Workspaces*, and *Reff Profiles* systems. *Tone* features a wide range of support and adjustment options that integrate seamlessly with Knoll open plan, private office and activity spaces furniture, or are used independently to create flexible work areas. We also expanded the *Reff Profiles* product line with a series of meeting tables. Our *k. bench* and *k. stand* products offer height-adjustable tables, which are easy to specify, assemble and use, offer an expanded price point option for today's office needs.

DatesWeiser

Our Office segment includes DatesWeiser which produces refined and flexible high-end contemporary conference furniture product platforms, including HIGHLINE[®], that feature a broad range of finishes across wood, metal, glass and stone. DatesWeiser's customers tend to be within the elite professional services markets. DatesWeiser's product offerings specialize in solutions to meet the needs of business interiors.

Fully

Our Office segment includes Fully which focuses on a human-centered approach to the workplace with adjustable height tables, seating and accessories designed to create a healthy, supportive workplace. Fully, a certified B Corp, offers standing desks, high-performance adjustable height desks, ergonomic chairs and accessories principally for individual home offices and small businesses. Fully is a direct-to-consumer, office furniture brand that addresses the small business and consumer markets through an e-commerce platform.

KnollExtra[®]

KnollExtra offers accessories that complement Knoll office furniture products, including technology support accessories, desktop organizational tools, lighting and storage. *KnollExtra* integrates technology comfortably into the workplace, with flat panel monitor supports and central processing unit holders that deliver adjustability and save space. The *Sapper* Monitor Arm Collection, designed by renowned industrial designer Richard Sapper, offers a clean, modern solution to technology challenges in the modern workplace; the collection is now in the permanent collection of New York's Museum of Modern Art. *KnollExtra* also includes marker boards, free-standing and mounted LED lighting and other technology support for the changing workplace.

Lifestyle Segment

The Lifestyle segment includes KnollStudio, HOLLY HUNT, Muuto, KnollTextiles, Spinneybeck | Filzfelt, and Edelman Leather. KnollStudio[®] products, which are distributed primarily in North America and Europe, include iconic seating, lounge furniture, side, café and dining chairs as well as conference, training, dining and occasional tables. HOLLY HUNT is known for high quality residential furniture, lighting, rugs, textiles and leathers. In addition, HOLLY HUNT also includes Vladimir Kagan Design Group, a renowned collection of modern luxury furnishings. The KnollTextiles, Spinneybeck | FilzFelt, and Edelman Leather businesses provide a wide range of customers with high-quality fabrics, felt, leather and related architectural products. Muuto rounds out the Lifestyle segment with its ancillary products and affordable luxury furnishings, which includes seating, lounge furniture, dining and occasional tables, lighting and accessories. These various offerings allow the Lifestyle segment to provide products for an all-encompassing “resimercial”, high performance workplaces, as well as furnish a range of living spaces from uber to affordable-luxury living spaces.

KnollStudio

Drawing upon Knoll's iconic heritage, KnollStudio elevates residential and commercial environments with inspiring and iconic designs that embody quality and craftsmanship.

For over eighty years, Knoll has worked with celebrated architects and designers from around the world, including Ludwig Mies van der Rohe, Marcel Breuer, Harry Bertoia, Eero Saarinen, Isamu Noguchi, Warren Platner, Frank Gehry, Maya Lin and Richard Schultz, among others. Many of their designs have remained in production since their initial launch, while others have been mined from the archives and re-imagined in recent years for a contemporary audience.

Today, KnollStudio works with today's most innovative thinkers worldwide to bring exceptional modern design to the home and office, collaborating with groundbreaking contemporary designers and architects including David Adjaye, Edward Barber, Mark Krusin, Piero Lissoni, Marc Newson and Jay Osgerby, to create future classics for residential and commercial markets. Signature KnollStudio designs display elevated detailing, artistry and comfort, across price points, and often draw designers and customers into the larger Knoll constellation of brands. Moving forward, KnollStudio has a multi-year strategy to build its classics portfolio by mining its archive and adding new finishes, as well as to grow its contemporary collections for both home and office with innovative designs by the new voices of today.

Our principal KnollStudio product lines include seating, storage, lounge furniture, side, café and dining chairs as well as conference, dining, training and occasional tables. While KnollStudio designs represent different viewpoints and eras, they all embrace a Modernist aesthetic. As a result, designers can integrate our ensemble of products into harmonious and inspiring settings furnished entirely with Knoll products.

With the trend towards residentially-inspired workplaces, KnollStudio products have gained cross-over appeal between residential and workplace. In North America, the workplace ancillary sales team continues to expand in size and reach, with a focus on corporate projects, hotels and restaurants, as well as government and educational institutions. To grow its residential channel, KnollStudio has expanded its audience in recent years through a to-the-trade showroom in New York City's Decoration & Design building, branded flagship Knoll Home Design Shops in New York City and Los Angeles, as well as the knoll.com website, which reach retail consumers and designers alike. Additionally, the company continues to invest in the Knoll Space retail sales program, which brings consumers the best of Knoll furnishings for their home and home office, through approximately 50 specialty retailers and e-tailers throughout the United States and Canada.

In addition to our presence in North America, KnollStudio is represented by showrooms in Paris, London and Milan and through our exclusive network of retailers throughout Europe and Asia. Our presence in the European market pursues the Company's objective of offering design, innovation, functional excellence and quality, and extending our reach into all markets through an intensive network of selected dealers.

HOLLY HUNT

Known for a look that is consistently at the forefront of style and quality, our HOLLY HUNT showrooms and collections lead the industry in luxury home furnishings. The company designs, produces and showcases high-quality, custom design pieces for the most exquisite interior spaces and properties around the globe, including indoor and outdoor furniture, lighting, rugs, wall covering, textiles, leathers, art and accessories. As both a premier provider and distributor of furnishings, HOLLY HUNT continues to expand our reach into the high-end, "to-the-trade" residential marketplace. Our strategy continues to focus on premium product category expansion and optimizing best-in-class client and operational service levels across domestic, international and digital trade channels. There are fourteen HOLLY HUNT-owned showrooms in the US and London, along with partner showrooms in major markets, and an expanding international presence.

KnollTextiles

Our Lifestyle segment includes KnollTextiles, renowned for enriching spaces with color, pattern and textures. In addition to a direct sales force, KnollTextiles distributes its products through a showroom in New York City's Decoration & Design building, Knoll consumer retail spaces in New York City and Los Angeles and through the knolltextiles.com website. KnollTextiles products appeal to contract, hospitality, education and residential clients and we offer a full range of products in the Modernist tradition from upholstery and drapery to wall coverings and healthcare curtains including some of the industry's most technically advanced materials. Our *KT Collection* of upholstery marries classic modern design for everyday use, in a range of high-performance patterns and textures. Against the backdrop of the rich and storied work of Florence Knoll, KnollTextiles combines beauty and function, producing fresh perspectives for contemporary interiors.

Spinneybeck | FilzFelt

Our Lifestyle segment includes Spinneybeck | FilzFelt which has expanded from being exclusively a supplier of raw material to a provider of leather, felt, plaster, cork and wood finished products that enhance the architectural and acoustic experience of commercial, education and hospitality settings. The same trends that have been transforming Knoll Office workspaces have created new opportunities for architectural and acoustic products that offer flexible space division and sound control. Spinneybeck and FilzFelt have evolved, respectively, from an upholstery leather company and 100% wool felt provider that meets the demand for new and renewable materials to a comprehensive natural materials resource. This approach provides specifiers and clients with architectural and acoustic solutions that leverage the opportunity for more large-scale orders. Our full Spinneybeck | Filzfelt assortment includes upholstery and wall coverings, modular acoustic wall tiles and panels, ceiling baffles and screens.

Edelman Leather

Our Lifestyle segment includes Edelman Leather which offers beautiful, natural leathers for the global design community. Edelman is a "to-the-trade" supplier and goes to market by leveraging eight branded showrooms and sales representation around the world. Edelman successfully expanded beyond leather coverings by offering rug furnishings through its distribution partner Ruckstuhl. Edelman is also developing new leather coverings for the hospitality business, offering quality within the financial constraints of today's hotels and restaurants.

Muuto

The acquisition of Muuto in January 2018 added a resimercial, design-driven provider of affordable luxury furniture, lighting and accessories for the workplace and home to our Lifestyle segment. Muuto is rooted in Scandinavian design traditions characterized by enduring aesthetics, functionality, craftsmanship and an honest expression. Muuto products pair seamlessly with the range of modern Knoll designs, offering an expanded breadth and depth of affordable luxury products with forward-looking ideas to reflect today's work and lifestyles, and particular appeal to a younger generation of architects, designers and clients seeking a homier, more relaxed aesthetic.

Muuto's principal furniture product lines include:

- *Outline Series*
- *Nerd Series*
- *The Dots Series*
- *Fiber Chairs*
- *Visu Chairs*

The Lifestyle segment represented approximately 38.8% of our sales in 2019, 39.9% of our sales in 2018, and 36.2% of our sales in 2017.

Product Design and Development

Our design philosophy and modern perspective reflects a historical commitment to partnering with preeminent industrial designers and architects to commercialize products that meet evolving workplace and residential needs. By combining designers' creative vision with our commitment to innovative materials and technologically advanced processes, we continue to cultivate brand loyalty among target clients. Our enviable history of nurturing the design process fosters strong, lasting relationships that attract the world's leading designers. In addition, these collaborations are consistent with our commitment to a lean organization and incentive-based compensation, by utilizing a variable royalty-based fee as opposed to the fixed costs typically associated with a larger in-house design staff.

Our broad range of workplace research, which explores the connection between workspace design and human behavior, health and performance, and the quality of the user experience, drives our workplace product development initiatives. Recent research initiatives include a study of acoustics in the workplace as well as a new way to think about space, referred to as Immersive Planning, and contributed to the development of Rockwell Unscripted.

In addition, our Office and Lifestyle segments product development relies upon a New Product Commercialization Process to ensure quality and consistency of our methodology, reducing product development cycle time without sacrificing quality objectives. We use Pro/ENGINEER® solids modeling tools and rapid prototyping technology to compress development cycles and to improve responsiveness to special requests for customized solutions. Working closely with the designers during the early phases of development provides critical focus to yield the most viable products, balancing innovative modern design with practical function. Cross-functional teams are employed for all major development efforts with dedicated leaders who facilitate a seamless flow into manufacturing while aggressively managing cost and schedule opportunities. Increasingly, total environmental impact is factored into product material and manufacturing process decisions.

Sales and Distribution

We generate workplace sales with our direct sales force and through a network of independent dealers, who jointly market and sell our products. We generally rely on these independent dealers to also provide a variety of important specification, installation and after-market services to our clients. Our dealers generally operate under short-term (one to three year), non-exclusive agreements. Our residential sales products are sold by our own internal sales force through a network of showrooms, as well as through a network of independent retailers.

Our workplace clients are typically Fortune 1000 companies, governmental agencies and other medium-to-large sized organizations in a variety of industries including financial, legal, technology, entertainment, accounting, education, government, healthcare and hospitality. Our direct sales force and independent dealers in North America work in close partnership with clients and design professionals to specify distinctive work environments. Our direct sales representatives, in conjunction with the independent dealers, sell to and call directly on key clients. Our independent dealers also call on many other medium and small sized clients to provide seamless sales support and client service.

We have aligned our sales force to target strategic areas of opportunity to include global accounts, healthcare, higher education and others. We have also placed sales representatives and technical specialists into certain dealerships to support programs such as Knoll Essentials, which is described below. We expanded our sales force to cover a more dispersed market which has shifted to include increased small to mid-size projects and fewer large projects. Additionally, we have provided specification tools to our dealers and sellers that enable them to share with our clients real time visual simulations and renderings from our complete product offerings.

In addition to coordinating sales efforts with the sales representatives, our dealers generally handle project management, installation and maintenance for client accounts after the initial product selection and sale. Although many of these dealerships also carry products of other manufacturers, they have agreed not to act as dealers for our principal direct competitors. We have not experienced significant dealer turnover. Our dealers' substantial commitment to understanding our product lines, and their strong relationships with us, serve to discourage dealers from changing vendor affiliations. We are not significantly dependent on any one dealer, the largest of which accounted for approximately 6.5%, 4.8%, and 4.6%, of our North American sales in 2019, 2018, and 2017, respectively.

As part of our commitment to building relationships with our dealers, we offer the Knoll Essentials program. Knoll Essentials is a catalog program developed in response to dealer requests for a consolidated, user-friendly selling tool for day-to-day systems, seating, storage, and accessory products. The Knoll Essentials program includes dealer incentives to sell our products. We also employ a dedicated team of dealer sales representatives to work with our dealerships.

Sales to U.S. and state and local government agencies, respectively, aggregated approximately 4.5% and 7.1%, respectively, of our consolidated sales in 2019. The U.S. government typically can terminate or modify any of its contracts with us either for its convenience or if we default by failing to perform under the terms of the applicable contract.

Our residential sales are sold through a global network of showrooms, e-commerce, retail stores and independent dealers. Our clients range from “to the trade” professionals, such as interior designers, to individual consumers.

Our products and knowledgeable sales force have generated strong brand recognition and loyalty among architects, designers and corporate facility managers, all of whom are key decision-makers in the furniture purchasing process. Our strong relationships with architects and design professionals help us stay abreast of key workplace and residential furniture trends and position us to better meet the changing needs of clients.

Manufacturing and Operations

Our global supply chain manufactures and assembles products to specific customer orders and operates all facilities under a philosophy of continuous improvement and lean manufacturing. Our Office segment is supported by operational and administrative facilities in Canada, Italy, Michigan, Oregon and Pennsylvania. The Lifestyle Segment is supported by sites in Connecticut, Illinois, Italy, New York, Pennsylvania, Denmark and Texas. In addition, we utilize many third parties to produce a variety of our Office and Lifestyle designs.

We continue to look for ways to ensure that our manufacturing capabilities match our supply chain strategy providing the most value for Knoll. The root of our continuous improvement efforts lies in the philosophy of lean manufacturing that drives operations. As part of this philosophy, we partner with suppliers who can facilitate efficient and often just-in-time deliveries, allowing us to manage our raw materials inventory. We also utilize “Kaizen” work groups in the plants to develop best practices to minimize scrap, time and material waste at all stages of the manufacturing process. The involvement of employees at all levels ensures an organizational commitment to lean and efficient manufacturing operations. These projects improved customer responsiveness, quality and significantly improve productivity.

In January 2020, we announced that we will consolidate our manufacturing footprint in North America, resulting in the closure of our Grand Rapids, Michigan manufacturing facility. We have elected to undergo this restructuring in order to reduce our structural costs and better optimize our North American manufacturing footprint and supply chain. See Note 22, Subsequent Events, of Notes to the Consolidated Financial Statements for further information.

Raw Materials and Suppliers

In addition to the continued focus on enhancing the efficiency of the manufacturing operations, we also seek to reduce costs through our global sourcing effort. We have capitalized on raw material and component cost savings available through lower cost global suppliers. This broader view of potential sources of supply has enhanced our leverage with domestic supply sources, and we have been able to reduce cycle times by extracting improvements from all levels throughout the supply chain.

The purchasing function in North America is centralized at the East Greenville facility for Office, KnollStudio North America, and Textiles. This centralization, and the close relationships with our primary suppliers, has enhanced our ability to realize purchasing economies of scale and implement “just-in-time” inventory practices. Steel, lumber, paper, paint, plastics, laminates, particleboard, veneers, glass, fabrics, leathers, upholstery filling material, aluminum extrusions and castings are used in our manufacturing process. The purchasing function for KnollStudio Europe is based in Italy, Muuto is based in Denmark, Holly Hunt is based in Illinois, Edelman is based in Connecticut, Spinneybeck and DatesWeiser are based in New York. Both domestic and overseas suppliers of these materials are selected based upon a variety of factors, with the price and quality of the materials and the supplier's ability to meet delivery requirements being primary factors in such selection. We do not generally enter into long-term supply contracts and, as a result, we can be vulnerable to fluctuations in the prices for these materials. No supplier is the only available source for a particular component or raw material. However, because of the specialization involved with some of our components, it can take a significant amount of time, money and effort to move to an alternate source.

Backlog

As of December 31, 2019 and 2018, the company's backlog of unfilled orders was \$249.6 million and \$249.7 million, respectively. We expect that substantially all the orders comprising the backlog at December 31, 2019, will be filled during the next fiscal year. Many orders received by the Company are reflected in the backlog for only a short period while other orders specify delayed shipments and are carried in our backlog for up to one year. Accordingly, the amount of the backlog at any particular time does not necessarily indicate the level of net sales for a particular succeeding period.

Competition

The markets in which we compete are highly competitive. We compete on the basis of (i) product design, including performance, ergonomic and aesthetic features; (ii) product quality and durability; (iii) relationships with clients, architects and designers; (iv) strength of dealer and distributor network; (v) on-time delivery and service performance; (vi) commitment to environmental standards by offering products that help clients achieve LEED® (Leadership in Energy and Environmental Design) certified facilities and minimize environmental impact; and (vii) price. We estimate that our share of the North American workplace market in 2019 and 2018 was 7.8% and 7.5%, respectively.

Some of our workplace competitors, especially those in North America, are larger and have significantly greater financial, marketing, manufacturing and technical resources than us. Our most significant competitors in primary markets are Herman Miller, Inc., Steelcase, Inc., Haworth, Inc. and, to a lesser extent, Teknion Corporation and Allsteel, Inc., an operating unit of HNI Corporation. These competitors have a substantial volume of furniture installed at businesses throughout North America, providing a continual source of demand for further products and enhancements. Moreover, the products of these competitors have strong acceptance in the marketplace. For Muuto, we also compete against smaller open-line brands that can be sold through our own dealers. Despite our competitors' strength in the marketplace, we believe that we have been able to compete successfully in the markets to date.

Competition in the residential sector is much more fragmented than in the workplace market. Our Lifestyle businesses serve the mid-to high-end of the market, but compete against many companies, none of which has a dominant market share.

Patents and Trademarks

We consider securing and protecting our intellectual property rights to be important to the business. We own approximately 59 active U.S. utility patents on various components used in our products and systems and approximately 184 active U.S. design patents. We also own approximately 494 patents and design rights in various foreign countries. The scope and duration of our patent protection varies throughout the world by jurisdiction and by individual product. In particular, patents for individual products extend for varying periods of time according to the date a patent application is filed, the date a patent is granted and the term of patent protection available in the jurisdiction granting the patent (generally 20 years from the date of filing in the U.S., for example). We believe that the duration of the applicable patents we are granted is adequate relative to the expected lives of our products. We own approximately 106 trademark registrations in the U.S., including registrations to the following trademarks, as well as related stylized depictions of the Knoll word mark: Knoll®, KnollExtra®, Knoll Luxe®, KnollStudio®, KnollTextiles®, Good Design Is Good Business®, Antenna®, Calibre®, Currents®, Dividends®, Edelman® Leather, Modern Always®, Pixel®, Reff®, Sapper XYZ®, Spinneybeck® Leather, Toboggan®, Generation by Knoll®, Regeneration by Knoll®, MultiGeneration by Knoll®, Remix®, Rockwell Unscripted®, HighLine®, HOLLY HUNT®, GREAT OUTDOORS A HOLLY HUNT COLLECTION®, VLADIMIR KAGAN®, MUUTO® and FULLY®.

We also own approximately 338 trademarks and copyrights registered in foreign countries. The scope and duration of our trademark protection varies throughout the world, with some countries protecting trademarks only as long as the mark is used, and others requiring registration of the mark and the payment of registration (generally ten years from the date of filing in the U.S., for example). In order to protect the indefinite duration, we make filings to continue registration of our trademarks.

In October 2004, we received registered trademark protection in the United States for five iconic furniture designs by Ludwig Mies van der Rohe—the Barcelona Chair, the Barcelona Stool, the Barcelona Couch, the Barcelona Table and the Flat Bar Brno Chair. In 2019, we received similar registered trademark protection for the iconic Eero Saarinen design for the Womb Chair. This protection recognizes the renown of these designs and reflects our commitment to ensuring that when architects, furniture retailers, businesses and individuals purchase a Ludwig Mies van der Rohe design, they are acquiring the authentic product, manufactured in accordance with the designer's historic specifications. Barcelona[®] is a registered trademark in the U.S., Canada and European Community owned by Knoll, Inc.

Environmental Matters

We believe that we are substantially in compliance with all applicable laws and regulations for the protection of the environment and the health and safety of our employees based upon existing facts presently known to us. Compliance with federal, state, local and foreign environmental laws and regulations relating to the discharge of substances into the environment, the disposal of hazardous wastes and other related activities has had and will continue to have an impact on our operations, but has, since 1990, been accomplished without having a material adverse effect on our operations. There can be no assurance that such laws and regulations will not change in the future or that we will not incur significant costs as a result of such laws and regulations. We have trained staff responsible for monitoring compliance with environmental, health and safety requirements. Our goal is to reduce and, wherever possible, eliminate the creation of hazardous waste in our manufacturing processes. While it is difficult to estimate the timing and ultimate costs to be incurred due to uncertainties about the status of laws, regulations and technology, based on information currently known to management, we do not expect environmental costs or contingencies to have a material adverse effect on our consolidated financial position, results of operations, competitive position, or cash flows. The operation of manufacturing plants entails risks in these areas, however, and we cannot be certain that we will not incur material costs or liabilities in the future which could adversely affect our operations.

We have been identified as a potentially responsible party pursuant to the Comprehensive Environmental Response Compensation and Liability Act, or “CERCLA,” for remediation costs associated with waste disposal sites previously used by us. CERCLA can impose liability for costs to investigate and remediate contamination without regard to fault or the legality of disposal and, under certain circumstances, liability may be joint and several resulting in one responsible party being held responsible for the entire obligation. Liability may also include damages for harm to natural resources. The remediation costs and our allocated share at some of these CERCLA sites are unknown. We may also be subject to claims for personal injury or contribution relating to CERCLA sites. We reserve amounts for such matters when expenditures are probable and reasonably estimable.

Employees

As of December 31, 2019, we employed a total of 3,734 people, consisting of 1,891 hourly and 1,833 salaried employees. The Grand Rapids, Michigan plant is the only unionized plant within North America and has an agreement with the Carpenters Union, Local 1615, of the United Brotherhood of Carpenters and Joiners of America, Affiliate of the Carpenters Industrial Council (the “Union”), covering approximately 187 hourly employees or 5.0% of the Company's labor force. The Collective Bargaining Agreement was entered into on May 1, 2018 and expires in April 2022. We expect the agreement to terminate as during the second quarter of 2020 due to the previously announced closure of the Grand Rapids, Michigan facility announced in January 2020. From time to time, there have been unsuccessful efforts to unionize at our other North American locations. We believe that relations with our employees are good. Nonetheless, it is possible that our employees may continue attempts to unionize. Certain workers in the facilities in Italy are also represented by unions.

Available Information

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports are made available free of charge through the “Investor Relations” section of our website at www.knoll.com, as soon as practicable after such material is electronically filed with or furnished to the U.S. Securities and Exchange Commission.

ITEM 1A. RISK FACTORS

RISK FACTORS

Risks Related to our Business

Our product sales are tied to corporate spending and service-sector employment, which are outside of our control. Our sales and/or growth in sales would be adversely affected by a recessionary economy characterized by decreased corporate spending and service-sector employment.

Our sales are significantly impacted by the level of corporate spending primarily in North America, which, in turn, is a function of the general economic environment. In a recessionary economy, business confidence, service-sector employment, corporate cash flows and residential and non-residential commercial construction decrease, which typically leads to a decrease in demand for furniture and our other products. In addition, a recessionary economy may also result in saturation of the market by “just new” used office systems, leading to a decrease in demand for new office environments. Sales of office systems, which have historically accounted for almost half of our revenues, represent longer term and higher cost investments for our clients. As a result, sales of office systems are more severely impacted by decreases in corporate spending than sales of seating, ancillary products, coverings, studio products, and demand for office systems typically takes longer to respond to an economic recovery.

Geopolitical uncertainties, terrorist attacks, acts of war, international public health emergencies, natural disasters, increases in energy and other costs or combinations of such and other factors that are outside of our control could at any time have a significant effect on the economy, and, therefore, our business. The occurrence of any of these or similar events in the future could result in downward pressure on the economy, which we would expect to cause demand for our products to decline and competitive pricing pressures to increase.

Weakness in the economy or uncertainty in the financial markets may adversely affect our results of operations and financial condition, as well as the financial soundness of our customers and suppliers.

Weakness in the economy or uncertainty in the financial markets may inhibit our ability to access capital and could be restricted at a time when we would like, or need, to access financial markets. In addition, interest rate fluctuations, financial market volatility or credit market disruptions may negatively affect our customers' and our suppliers' abilities to obtain credit to finance their businesses on acceptable terms. As a result, our customers' needs and abilities to purchase our products or services may decrease, and our suppliers may increase their prices, reduce their output or change their terms of sale. If our customers' or suppliers' operating and financial performance deteriorates, or if they are unable to make scheduled payments or obtain credit, our customers may not be able to pay, or may delay payment of, accounts receivable owed to us, and our suppliers may restrict credit or impose different payment terms on us. Any inability of customers to pay us for our products and services, or any demands by suppliers for different payment terms, may adversely affect our earnings and cash flow.

We may have difficulty increasing or maintaining our prices as a result of price competition, which could lower our profit margins. Our competitors may develop new product designs that give them an advantage over us in making future sales.

We compete with our competitors on the basis of, among other things, price and product design. Since our competitors offer products that are similar to ours, we face significant price competition from our competitors, particularly in the Office segment. This price competition impacts our ability to implement price increases or, in some cases, maintain prices, which could lower our profit margins.

Additionally, our competitors may develop new product designs that achieve a high level of customer acceptance, which could give them a competitive advantage over us in making future sales.

Our efforts to introduce new products that meet customer and workplace requirements may not be successful, which could limit our sales growth or cause our sales to decline.

To keep pace with workplace trends, such as changes in workplace design and increases in the use of technology, and with evolving regulatory and industry requirements, including environmental, health, safety and similar standards for the workplace and for product performance, we must periodically introduce new products. The introduction of new products requires the coordination of the design, manufacturing and marketing of such products, which may be affected by factors beyond our control. The design and engineering of certain of our new products can take up to a year or more and further time may be required to achieve client acceptance. In addition, we may face difficulties in introducing new products if we cannot successfully align ourselves with independent architects and designers who are able to design, in a timely manner, high-quality products consistent with our image. Accordingly, the launch of any particular product may be later or less successful than originally anticipated by us. Difficulties or delays in introducing new products or lack of customer acceptance of new products could limit our sales growth or cause our sales to decline.

We may not be able to manage our business effectively if we are unable to retain our experienced management team or recruit other key personnel.

The success of our business is highly dependent upon our ability to attract and retain qualified employees and upon the ability of our senior management and other key employees to implement our business strategy. We believe there are only a limited number of qualified executives in the industry in which we compete. The loss of the services of key members of our management team could harm our efforts to successfully implement our business strategy.

We are dependent on the pricing and availability of raw materials and components, and price increases and unavailability of raw materials and components could lower sales, increase our cost of goods sold and reduce our profits and margins.

We require substantial amounts of raw materials, which we purchase from outside sources. Steel, plastics, wood-related materials, and leather are the main raw materials used in our products. The prices and availability of raw materials are subject to change or curtailment due to, among other things, the supply of, and demand for, such raw materials, changes in laws or regulations, including duties and tariffs, suppliers' allocations to other purchasers, interruptions in production by raw materials or component parts suppliers, changes in currency exchange rates and worldwide price levels. We can be significantly impacted by price increases in these raw materials.

Although no supplier is the only available source for a particular component or raw material, some of our products and components are extremely specialized and, therefore, it can take a significant amount of time and money to move from one supply source to another. Any failure to obtain raw materials and components on a timely basis, or any significant delays or interruptions in the supply of raw materials or components, could prevent us from being able to produce products ordered by our clients in a timely fashion, which could have a negative impact on our reputation and our dealership network, and could cause our sales to decline.

We are affected by the cost of energy and increases in energy prices could reduce our margins and profits.

The profitability of our operations is sensitive to the cost of energy through our transportation costs, the cost of petroleum-based materials, like plastics, and the cost of operating our manufacturing facilities. Energy costs have been volatile in recent years due to changes in global supply and demand. Although we have been successful in countering energy price increases, primarily through our global sourcing initiatives and continuous improvement programs, we have not been able to offset these costs entirely.

We rely upon independent furniture dealers, and a loss of a significant number of dealers could affect our business, financial condition and results of operations.

We rely on a network of independent dealers for the joint marketing of our products to small and mid-sized accounts, and to assist us in the marketing of our products to large accounts, particularly in the Office segment. We also rely upon these dealers to provide a variety of important specification, installation and after-market services to our clients. Our dealers operate, generally, under short-term, non-exclusive agreements. There is nothing to prevent our dealers from terminating their relationships with us at the end of contract terms. In addition, individual dealers may not continue to be viable and profitable and may suffer from the lack of available credit. While we are not significantly dependent on any single dealer, our largest dealer accounted for 6.5% of our North American sales in 2019; if dealers go out of business or are restructured, we may suffer losses as they may not be able to pay us for products previously delivered to them. The loss of a dealer relationship could also negatively affect our ability to maintain market share in the affected geographic market and to compete for and service clients in that market until a new dealer relationship is established. Establishing a viable dealer in a market can take a significant amount of time and resources. The loss or termination of a significant dealer or a significant number of dealer relationships could cause significant difficulties for us in marketing and distributing our products, resulting in a decline in our sales.

Currently, one of our largest clients is the U.S. government, a relationship that is subject to uncertain future funding levels and federal procurement laws and requires restrictive contract terms; any of these factors could curtail current or future business.

For the year ended December 31, 2019, we derived approximately 4.5% and 7.1% of our revenue from sales to U.S. and state and local government agencies, respectively. Our ability to compete successfully for and retain business with the U.S. government is highly dependent on cost-effective performance and compliance with complex procurement laws. Historically, federal procurement laws required government agencies to purchase furniture products from Federal Prison Industries, Incorporated. If these or similar laws were re-instituted, it would make it more difficult for us to sell our furniture to agencies and departments of the U.S. government.

In addition, the U.S. government typically can terminate or modify its contracts with us either for its convenience or if we default by failing to perform under the terms of the applicable contract. A termination arising out of our default could expose us to liability and impede our ability to compete in the future for contracts and orders. Furthermore, if we were found to have committed fraud or certain criminal offenses, we could be suspended or debarred from all further government contracting.

Given the significance of our governmental business, we are sensitive to decreases in governmental spending. Federal, state and local government budgets have experienced deficits recently and are under significant pressure to reduce spending. These spending pressures have resulted in, and may continue to result in, decreased furniture spending, which has negatively impacted (and may continue to negatively impact) our governmental sales.

Our global operations may be adversely affected by political events, domestic or international hostilities, international health emergencies, or complications due to natural, nuclear or other disasters.

The ongoing coronavirus outbreak emanating from China at the beginning of 2020 has resulted in increased travel restrictions and extended shutdown of certain businesses in the region. This or any other governmental developments or health concerns in China or other countries in which we operate could result in social or economic instability. These uncertainties could have a material adverse effect on our business, including a potential supply chain impact, and on our results of operations and financial data.

Our efforts to diversify our sources of revenue may not be effective and may expose us to new risks.

Historically, the majority of our revenues were derived from the sales of office systems in North America. We have pursued a strategy to diversify our sources of revenue and reduce our dependence on North American office system sales by, for example, growing our seating, international, ancillary and lifestyle businesses. While we believe that this strategy enables us to better maintain and grow our sales and profitability during cyclical ups and downs in the industry, there can be no assurance that this diversification strategy will be effective in achieving these goals. Our diversification strategy involves the continued expansion of our lifestyle businesses, and business growth internationally, which may expose us to business risks that we have not experienced. We also may incur significant costs in pursuing our diversification strategy, and those costs may not be fully offset by increased revenues associated with new business lines.

We operate with leverage, and a significant amount of cash will be required to service our indebtedness. Restrictions imposed by the terms of our indebtedness may limit our operating and financial flexibility.

As of December 31, 2019, we had total consolidated outstanding debt of approximately \$450.3 million under our credit facility.

On January 22, 2018, we amended and extended our existing credit facility ("Existing Credit Facility"), dated May 20, 2014, with a new \$750.0 million credit facility maturing in January 2023, consisting of a revolving commitment in the amount of \$400.0 million, a U.S. term loan commitment in the amount of \$250.0 million, and a multi-currency term loan commitment in the amount of €81.7 million. The Amended Credit Agreement ("Amended Credit Agreement") also includes an option to increase the size of the credit facility or incur incremental term loans by up to an additional \$250.0 million, subject to the satisfaction of certain terms and conditions. On August 26, 2019, we entered into a first amendment to the Third Amended and Restated Credit Agreement (the "Credit Agreement Amendment"), which, among other things, extends the maturity of the credit facility from January 2023 to August 2024, and reduces both the applicable rate applied to outstanding borrowings and the commitment fee rate applied to the unutilized balance under the Revolver. The Amended Credit Agreement is described in more detail in "Capital Resources and Liquidity" under Item 7 as well as in Note 13, Indebtedness, to the Consolidated Financial Statements under Item 8 of this Annual Report on Form 10-K.

At December 31, 2019, if we were to borrow the maximum available to us under our Credit Facility, we would have total consolidated outstanding debt of approximately \$706.7 million. The high level of our indebtedness could have important consequences to holders of our common stock, given that:

- a substantial portion of our cash flow from operations must be dedicated to fund scheduled payments of principal and debt service and will not be available for other purposes;
- our ability to obtain additional debt financing in the future for working capital, capital expenditures, research and development or acquisitions may be limited by the terms of our credit facility; and
- the terms of our credit facility also impose other operating and financial restrictions on us, which could limit our flexibility in reacting to changes in our industry or in economic conditions generally.

Our Amended Credit Agreement prevents us and our subsidiaries from incurring any additional indebtedness other than (i) borrowings under our existing credit facility; (ii) certain types of indebtedness that may be incurred subject to aggregate dollar limitations identified in the credit facility, including, without limitation, purchase money indebtedness and capital lease obligations, indebtedness incurred in connection with a permitted acquisition, and loans obtained through an expansion of the facility, all of which cannot exceed \$250.0 million at any time, and (iii) other types of indebtedness that are not limited to specific dollar limitations, such as indebtedness incurred in the ordinary course of business and unsecured, subordinated indebtedness. The aggregate amount of indebtedness that we may incur pursuant to these exceptions is further limited by the financial covenants in our credit facility and, therefore, will depend on our future results of operations and cannot be determined at this time. As a result of the financial covenants, our capacity under our credit facility could be reduced if our trailing consolidated EBITDA (as defined by our credit agreement) declines due to deteriorating market conditions or poor performance. Furthermore, although we may incur unlimited amounts of certain types of indebtedness, subject to compliance with these financial covenants, the amount of indebtedness that we may be able to incur will depend on the terms on which such types of debt financing are available to us, if available at all.

As a result of the foregoing, we may be prevented from engaging in transactions that might further our growth strategy or otherwise be considered beneficial to us. A breach of any of the covenants in our credit facility could result in a default thereunder. If payments to the lenders under our credit facility were to be accelerated, our assets could be insufficient to repay in full the indebtedness under our credit facility and our other liabilities. Any such acceleration could also result in a foreclosure on all or substantially all of our subsidiaries' assets, which would have a negative impact on the value of our common stock and jeopardize our ability to continue as a going concern.

We may require additional capital in the future, which may not be available or may be available only on unfavorable terms.

Our capital requirements depend on many factors, including capital improvements, tooling, information technology upgrades and new product development. To the extent that our existing capital is insufficient to meet these requirements and cover any losses, we may need to raise additional funds through financings or curtail our growth and reduce our assets. Any equity or debt financing, if available at all, may be on terms that are not favorable to us. Equity financings could result in dilution to our stockholders, and the securities may have rights, preferences and privileges that are senior to those of our common stock. If our need for capital arises because of significant losses, the occurrence of these losses may make it more difficult for us to raise the necessary capital.

An inability to protect our intellectual property could have a significant impact on our business.

We attempt to protect our intellectual property rights, both in the United States and in foreign countries, through a combination of patent, trademark, copyright and trade secret laws, as well as licensing agreements and third-party nondisclosure and assignment agreements. Because of the differences in foreign trademark, copyright, patent and other laws concerning proprietary rights, our intellectual property rights do not generally receive the same degree of protection in foreign countries as they do in the United States. In some parts of the world, we have limited protections, if any, for our intellectual property. Our ability to compete effectively with our competitors depends, to a significant extent, on our ability to maintain the proprietary nature of our intellectual property. The degree of protection offered by the claims of the various patents, copyrights, trademarks and service marks may not be broad enough to provide significant proprietary protection or competitive advantages to us, and patents, copyrights, trademarks or service marks may not be issued on our pending or contemplated applications. In addition, not all of our products are covered by patents or similar intellectual property protections. It is also possible that our patents, copyrights, trademarks and service marks may be challenged, invalidated, canceled, narrowed or circumvented.

In the past, certain of our products have been copied and sold by others. We try to enforce our intellectual property rights, but we have to make choices about where and how we pursue enforcement and where we seek and maintain intellectual property protection. In many cases, the cost of enforcing our rights is substantial, and we may determine that the costs of enforcement outweigh the potential benefits. If we are unable to maintain the proprietary nature of our intellectual property with respect to our significant current or proposed products, our competitors may be able to sell copies of our products, which could adversely affect our ability to sell our original products and could also result in competitive pricing pressures, which may negatively affect our profitability.

If third parties claim that we infringe upon their intellectual property rights, we may incur liabilities and costs and may have to redesign or discontinue an infringing product.

We face the risk of claims that we have infringed upon third parties' intellectual property rights. Companies operating in our industry routinely seek patent protection for their product designs, and many of our principal competitors have large patent portfolios. Prior to launching major new products in our key markets, we normally evaluate existing intellectual property rights. However, our competitors may have filed for patent protection which is not, at the time of our evaluation, a matter of public knowledge. Our efforts to identify and avoid infringing upon third parties' intellectual property rights may not be successful. Any claims of patent or other intellectual property infringement, even those without merit, could (i) be expensive and time consuming to defend; (ii) cause us to cease making, licensing or using products that incorporate the challenged intellectual property; (iii) require us to redesign, reengineer, or rebrand our products or packaging, if feasible; or (iv) require us to enter into royalty or licensing agreements in order to obtain the right to use a third party's intellectual property.

We could be required to incur substantial costs to comply with environmental requirements. Violations of, and liabilities under, environmental laws and regulations may increase our costs or require us to change our business practices.

Our past and present ownership and operation of manufacturing plants are subject to extensive and changing federal, state, local and foreign environmental laws and regulations, including those relating to discharges to air, water and land, the handling and disposal of solid and hazardous waste and the cleanup of properties affected by hazardous substances. As a result, we are involved from time to time in administrative and judicial proceedings and inquiries relating to environmental matters and could become subject to fines or penalties related thereto. We cannot predict what environmental legislation or regulations will be enacted in the future, how existing or future laws or regulations will be administered or interpreted or what environmental conditions may be found to exist. Compliance with more stringent laws or regulations, or stricter interpretation of existing laws, may require additional expenditures by us, some of which may be material. We have been identified as a potentially responsible party pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, or CERCLA, for remediation costs associated with waste disposal sites previously used by us. In general, CERCLA can impose liability for costs to investigate and remediate contamination without regard to fault or the legality of disposal and, under certain circumstances, liability may be joint and several, resulting in one party being held responsible for the entire obligation. Liability may also include damages for harm to natural resources. The remediation costs and our allocated share at some of these CERCLA sites are unknown. We may also be subject to claims for personal injury or contribution relating to CERCLA sites. We reserve amounts for such matters when expenditures are probable and reasonably estimable.

We are subject to potential labor disruptions, which could have a significant impact on our business.

Certain of our employees located in Grand Rapids, Michigan and Italy are represented by unions. The collective bargaining agreement for our Grand Rapids location expires April 26, 2022. However, we expect this agreement to terminate earlier in connection with our previously announced closure of the Grand Rapids manufacturing operations. We have also had attempts to unionize our other North American manufacturing locations, which to date have been unsuccessful. We have experienced a number of brief work stoppages at our facilities in Italy as a result of national and local issues. While we believe that we have good relations with our workforce, we may experience work stoppages or other labor problems in the future, and further unionization efforts may be successful. Any prolonged work stoppage could have an adverse effect on our reputation, our vendor relations and our dealership network. Moreover, because substantially all of our products are manufactured to order, we do not carry finished goods inventory that could mitigate the effects of a prolonged work stoppage.

Product defects could adversely affect our results of operations.

Our customers may encounter product defects that could potentially arise in the course of our development of new products or due to manufacturing problems. If product defects do arise, we could incur product warranty costs, product liability costs and costs associated with recalling and repairing defective products. While we maintain a reserve for our product warranty costs based on estimates of the costs that may be incurred under the warranties on all of our products, our actual warranty costs may exceed this reserve, resulting in a need to increase the amounts accrued for warranty costs. We also maintain product liability and other insurance coverage that we believe to be generally in accordance with industry practices, but our insurance coverage does not extend to field visits to repair, retrofit or replace defective products, or to product recalls. As a result, our insurance coverage may not be adequate to protect us fully against substantial claims and costs that may arise from product defects, particularly if we have a large number of defective products that we must repair, retrofit, replace or recall. Sales of our products could be adversely affected by excessive warranty claims, product recalls and adverse perceptions of product quality. As a result of these factors, product defects could have a material adverse effect on our results of operations.

We may be vulnerable to the effects of currency exchange rate fluctuations, which could increase our expenses.

We primarily sell our products and report our financial results in U.S. dollars, but we generate some of our revenues and pay some of our expenses, including interest on euro denominated debt, in other currencies. Paying our expenses in other currencies can result in a significant increase or decrease in the amount of those expenses in U.S. dollar terms, which affects our profits.

In the future, any foreign currency appreciation relative to the U.S. dollar would increase our expenses that are denominated in that currency. Additionally, as we report currency in the U.S. dollar, our financial position is affected by the strength of the currencies in countries where we have operations relative to the strength of the U.S. dollar. The principal foreign currencies in which we conduct business are the Canadian dollar, the Euro, and the Danish Krone. Approximately 17.6% of our revenues in 2019 and 27.0% of our cost of goods sold in 2019 were denominated in currencies other than the U.S. dollar. From time to time, we review our foreign currency exposure and evaluate whether we should hedge our exposure.

Pension costs or funding requirements could increase at a higher-than-anticipated rate.

We administer a defined benefit pension plan, which holds significant amounts of equity securities. Changes in interest rates or other plan assumptions or in the market value of plan assets could affect the funded status of our pension plan. This could cause volatility in our benefits costs which could increase future funding requirements of our pension plan and have a negative impact on our results of operations, financial condition and cash flows. Our future funding obligations also are affected by the Pension Protection Act of 2006 (“PPA”), which established certain required funding targets. Volatility in the economic environment and/or a decline in the equity markets could cause the value of investment assets held by our pension plan to decline. As a result, we could be required to increase the amount of our cash contributions to our pension plan in order to meet the funding level requirements of the PPA.

If we fail to protect the integrity and security of our information technology systems and confidential information, it could adversely affect our business.

We rely upon information technology networks and systems to process, transmit and store electronic information, and to manage numerous aspects of our business and provide information to management. We also receive certain customer-specific data, including credit card information, in connection with orders placed through our various businesses, including our e-commerce websites and our retail stores. The secure operation of these information technology systems, and the processing and maintenance of this information, is critical to our business operations and strategy. These systems are vulnerable to, among other things, damage and interruption from power loss or natural disasters, computer system and network failures, loss of telecommunications services, physical and electronic loss of data, security breaches, hackers and employee misuse. We may face unauthorized attempts by hackers seeking to harm us or, as a result of industrial espionage, to penetrate our network security and gain access to our systems, steal intellectual or other proprietary data, including design, sales or personally identifiable information, introduce malicious software or interrupt our internal systems, manufacturing or distribution. Though we attempt to prevent and detect these incidents, we may not be successful. Any disruption of our information technology systems, or access to or disclosure of information stored in or transmitted by our systems, could result in legal claims and damages, loss of intellectual property or other proprietary information (including customer data), disrupt operations, result in competitive disadvantage and damage our reputation, which could adversely affect our business and results of operations.

In addition, states and the federal government are increasingly enacting laws and regulations to protect consumers against identity theft. Also, as our business expands globally, we are subject to data privacy and other similar laws in various foreign jurisdictions. If we are the target of a cybersecurity attack resulting in unauthorized disclosure of our customer data, we may be required to undertake costly notification procedures. Compliance with these laws will likely increase the costs of doing business. Further, if we fail to implement appropriate safeguards or to detect and provide prompt notice of unauthorized access as required by some of these laws, we could be subject to potential claims for damages and other remedies, which could harm our business.

We are in the process of implementing a new enterprise resource planning system, and problems with the design or implementation of this system could interfere with our business and operations.

We are engaged in a multi-year implementation of a new global enterprise resource planning system (ERP). The ERP is designed to accurately maintain the company's books and records and provide information to the company's management team important to the operation of the business. The company's ERP has required, and will continue to require, the investment of significant human and financial resources. We may not be able to successfully implement the ERP without experiencing delays, increased costs and other difficulties. If we are unable to successfully design and implement the new ERP system as planned, our financial positions, results of operations and cash flows could be negatively impacted.

We may not be able to successfully integrate acquired businesses, which may result in an inability to realize the anticipated benefits of our acquisitions.

One of our key operating strategies is to selectively pursue acquisitions. We have made a number of acquisitions in the past and we expect that a portion of our future growth may come from such transactions. We evaluate potential acquisitions on an ongoing basis. However, we may not be able to identify suitable acquisition candidates at prices we consider attractive. Further, our ability to successfully integrate acquired businesses could be negatively impaired because of difficulties, costs and delays that may include:

- Negative impacts on employee morale and performance as a result of job changes and reassignments;
- Unforeseen difficulties, costs or complications in integrating the companies' operations, which could lead to us not achieving the synergies we anticipate;
- Unanticipated incompatibility of systems and operating methods;
- Resolving possible inconsistencies in standards, controls, procedures and policies, business cultures and compensation structures;
- The diversion of management's attention from ongoing business concerns and other strategic opportunities;
- Unforeseen difficulties in operating acquired business in parallel with similar businesses that we operated previously;
- Unforeseen difficulties in operating businesses we have not operated before;
- Unanticipated difficulty of integrating multiple acquired businesses simultaneously;
- The retention of key employees and management of acquired businesses;
- The coordination of geographically separate organizations;
- The coordination and consolidation of ongoing and future research and development efforts; and
- Possible tax costs or inefficiencies associated with integrating the operations of a combined company.

In connection with any acquisition that we make, there may be liabilities that we fail to discover or that we inadequately assess. Acquired entities may not operate profitably or result in improved operating performance. Additionally, we may not realize anticipated synergies. If our acquisitions perform poorly, our business and financial results could be adversely affected.

Tax matters, including the changes in corporate tax rates, disagreements with taxing authorities and imposing of new taxes could impact our results of operations and financial condition.

Our effective tax rates, and tax payments, could be affected by numerous factors, including but not limited to entry into new geographies, changes to our existing business and operations, acquisitions, changes in our stock price, changes in our deferred tax assets and liabilities and the related valuation, and changes in relevant tax, accounting, and other laws, regulations, administrative practices, principles, and interpretations.

We need to comply with new, evolving or revised tax laws and regulations. The enactment of or increases in tariffs, or other changes in application or interpretation of The Tax Cuts and Jobs Act of 2017, or on specific products that we sell or with which our products compete, may have an adverse effect on our business or on results of operations.

Any attempt by the Administration to withdraw from or materially modify international trade agreements could adversely affect our business, financial condition and results of operations.

A significant portion of our business activities are conducted in foreign countries, including Canada and Mexico. The United States, Canada and Mexico have repealed and replaced NAFTA with the United States-Mexico-Canada Agreement ("USMCA") which could adversely affect our business. If the Administration takes action to withdraw from or materially modify certain other international trade agreements, our business, financial condition and results of operations could be adversely affected.

The implementation of tariffs and export controls on our products may have a material impact on our business.

Our global business operations and supply chain could be disrupted by any additional tariffs imposed on our products. In 2019, the U.S. Trade Representative imposed additional duties, ranging from 15% to 25% on a variety of goods imported from China. As a result of operational changes, the tariffs did not have, nor do we expect the increase in these tariffs to have, a significant impact on our business, supply chain, operations or financial results. However, if the United States increases the amount of these tariffs or adds additional items to the list of products subject to tariff, tariffs could materially adversely affect our business, financial results and operations.

Risks Related to Our Common Stock

Our corporate documents and Delaware law contain provisions that could discourage, delay or prevent a change in control of our company.

Provisions in our amended and restated certificate of incorporation and bylaws may discourage, delay or prevent a merger or acquisition involving us that our stockholders may consider favorable. For example, our amended and restated certificate of incorporation authorizes our board of directors to issue up to 10,000,000 shares of “blank check” preferred stock. Without stockholder approval, the board of directors has the authority to attach special rights, including voting and dividend rights, to this preferred stock. With these rights, preferred stockholders could make it more difficult for a third party to acquire us. In addition, our amended and restated certificate of incorporation provides for a staggered board of directors, whereby directors serve for three-year terms, with approximately one-third of the directors coming up for reelection each year. Having a staggered board will make it more difficult for a third party to obtain control of our board of directors through a proxy contest, which may be a necessary step in an acquisition of us that is not favored by our board of directors.

We are also subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law. Under these provisions, if anyone becomes an “interested stockholder,” we may not enter into a “business combination” with that person for three years without special approval, which could discourage a third party from making a takeover offer and could delay or prevent a change of control. For purposes of Section 203, “interested stockholder” means, generally, someone owning 15% or more of our outstanding voting stock or an affiliate of ours that owned 15% or more of our outstanding voting stock during the past three years, subject to certain exceptions as described in Section 203. Upon any change in control, the lenders under our credit facility would have the right to require us to repay all of our outstanding obligations under the facility.

Our stock price may be volatile, and your investment in our common stock could suffer a decline in value.

There has been significant volatility in the market price and trading volume of equity securities, which may be unrelated to the financial performance of the companies issuing the securities. These broad market fluctuations may negatively affect the market price of our common stock. You may not be able to resell your shares at or above the price at which you purchased them due to fluctuations in the market price of our common stock caused by changes in our operating performance or prospects and other factors. Some specific factors that may have a significant effect on our common stock market price include:

- actual or anticipated fluctuations in our operating results or future prospects, including actual or perceived fluctuations in the demand for our products;
- our announcements or our competitors' announcements of new products;
- the public's reaction to our press releases, our other public announcements and our filings with the SEC;
- strategic actions by us or our competitors, such as acquisitions, joint ventures, strategic investments, or restructurings;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidance, interpretations or principles;
- changes in our growth rates or our competitors' growth rates;
- our inability to raise additional capital;
- conditions of our industry as a result of changes in financial markets or general economic conditions, including those resulting from war, incidents of terrorism and responses to such events;
- trading volumes in Knoll common stock;
- sales of common stock by us or members of our management team; and
- changes in stock market analyst recommendations or earnings estimates regarding our common stock, other comparable companies or our industry generally.

Our corporate documents provide, subject to certain exceptions, that the Court of Chancery of the State of Delaware is the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our Amended and Restated Bylaws provide that the Court of Chancery of the State of Delaware is the exclusive forum for any derivative action or proceeding brought on our behalf, any action asserting a breach of fiduciary duty, any action asserting a claim against us arising pursuant to the Delaware General Corporation Law, our amended and restated certificate of incorporation or our Amended and Restated Bylaws, or any action asserting a claim against us that is governed by the internal affairs doctrine. This provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and other employees. Alternatively, if a court were to find this provision in our Amended and Restated Bylaws to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could adversely affect our business and financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

We operate over 4.2 million square feet of facilities, including manufacturing plants, warehouses and sales offices. Of these facilities, we own approximately 2.5 million square feet and lease approximately 1.6 million square feet. The location, square footage, and use of the facilities as of December 31, 2019 are shown below.

Owned Locations	Square Footage (in thousands)	Use	Reportable Segment
East Greenville, Pennsylvania	735	Corporate Headquarters, Manufacturing, Warehouses, and Administration	Office and Lifestyle
Grand Rapids, Michigan ⁽¹⁾	607	Manufacturing, Distribution, and Administration	Office
Toronto, Canada	386	Manufacturing, Distribution, Warehouses, and Administration	Office
Muskegon, Michigan	367	Manufacturing and Administration	Office
Foligno, Italy	259	Manufacturing, Distribution, Warehouses, and Administration	Office and Lifestyle
Graffignana, Italy	108	Manufacturing, Distribution, Warehouses, and Administration	Office
Paris, France	7	Sales Offices	Office and Lifestyle

Leased Locations	Square Footage (in thousands)	Use	Reportable Segment
Miscellaneous Showrooms	470	Sales Offices	Office and Lifestyle
Allentown, Pennsylvania	290	Warehouse, Distribution	Office and Lifestyle
LeGrange Highlands, Illinois	210	Warehouse, Distribution (Holly Hunt Enterprises)	Lifestyle
Muskegon, Michigan	105	Manufacturing	Office
Toronto, Canada	102	Manufacturing, Warehouses, Distribution and Administration	Office
Buffalo, New York	89	Manufacturing and Administration (DatesWeiser)	Lifestyle
Portland, Oregon	74	Warehouse, Distribution and Administration (Fully)	Office
Rossville, Maryland	64	Warehouse, Distribution (Fully)	Office
New Milford, Connecticut	55	Manufacturing and Administration (Edelman Leather)	Lifestyle
Getzville, New York	45	Manufacturing and Administration (Spinneybeck)	Office and Lifestyle
East Greenville, Pennsylvania	38	Warehouse, Distribution	Lifestyle
Dallas, Texas	30	Warehouse, Distribution (Holly Hunt Enterprises)	Lifestyle
Chicago, Illinois	26	Administration (Holly Hunt Enterprises)	Lifestyle
Copenhagen, Denmark	17	Administration (Muuto, Inc.)	Lifestyle
Clifton, New Jersey	13	Warehouse, Distribution (Holly Hunt Enterprises)	Lifestyle

(1) See Note 22, Subsequent Events, of Notes to the Consolidated Financial Statements.

We believe that our plants and other facilities are sufficient for our needs for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are subject to litigation or other legal proceedings arising in the ordinary course of business. Based upon information currently known to us, we believe the outcome of such proceedings will not have, individually or in the aggregate, a material adverse effect on our business, financial condition or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information and Dividend Policy

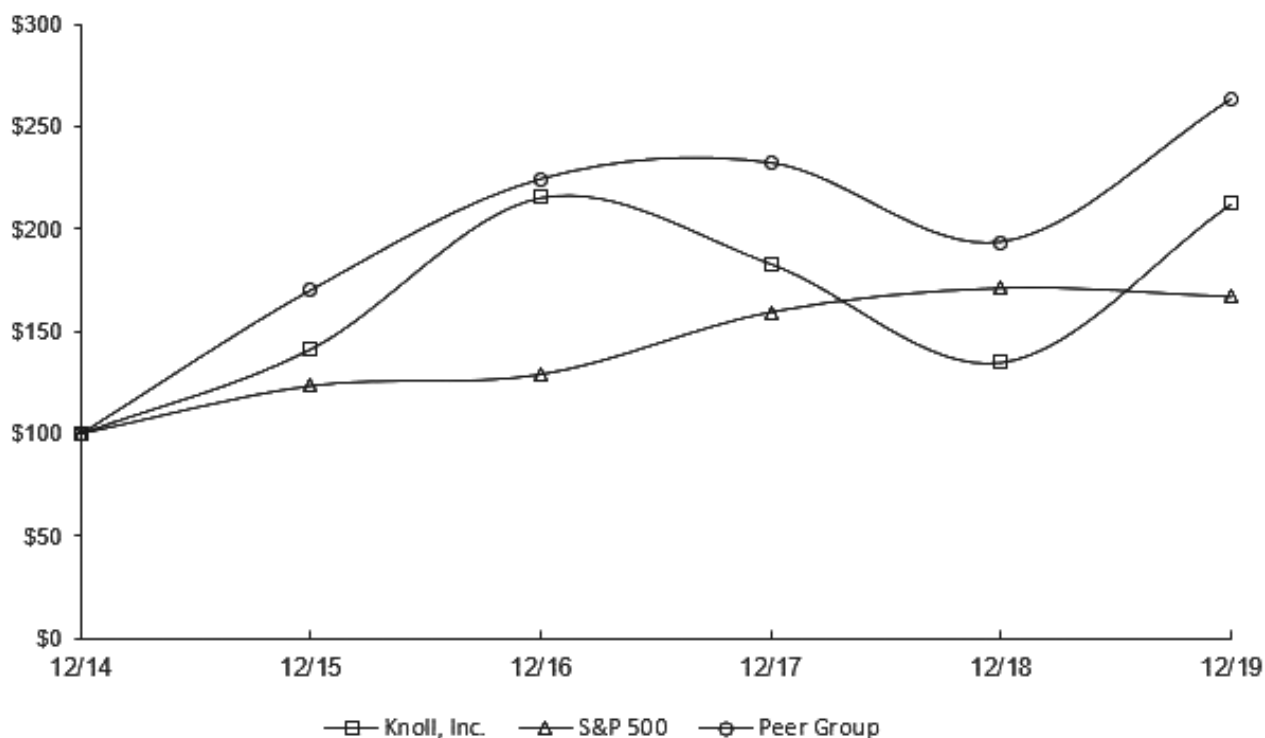
Our common stock has been listed on the New York Stock Exchange (“NYSE”) since December 14, 2004, the date of our initial public offering, under the symbol “KNL.” As of December 31, 2019, there were approximately 382 stockholders of record of our common stock.

Performance Graph

The following line graph compares the cumulative total stockholder return on our common stock with the cumulative total return of the Standard & Poor's 500 Stock Index and with the cumulative total return of a peer group of companies selected by us for the period commencing on December 31, 2014 and ending on December 31, 2019. Our share price at the beginning of the measurement period is \$21.17 per share. The graph and table assume that \$100 was invested on December 31, 2014 in each of our common stock, the stock of our peer group, and the S&P 500 Index, and that all dividends were reinvested. Our peer group is made up of six publicly-held companies, Herman Miller, Inc., Steelcase, Inc., HNI Corp, Kimball International Inc., Interface Inc., and Movado Group Inc. The stock performance on the graph below does not necessarily indicate future price performance.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN*

Among Knoll, Inc., the S&P 500 Index, and a Peer Group



\$100 invested on 12/31/14 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

	12/14	12/15	12/16	12/17	12/18	12/19
Knoll, Inc.	100.00	141.44	215.52	183.01	134.76	212.47
S&P 500	100.00	123.37	128.93	159.40	171.11	166.81
Peer Group	100.00	170.15	224.32	232.10	193.60	263.13

* The performance graph and the related chart should not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 or incorporated by reference into any of our filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, unless we specifically incorporate the performance graph by reference therein.

Issuer Purchases of Equity Securities

The following is a summary of share repurchase activity during the three months ended December 31, 2019.

On August 17, 2005, our board of directors approved a stock repurchase program (the “Options Proceeds Program”), whereby they authorized us to purchase shares of our common stock in the open market using the cash proceeds received by us upon exercise of outstanding options.

On February 2, 2006, our board of directors approved an additional stock repurchase program, pursuant to which we are authorized to purchase up to \$50.0 million of our common stock in the open market, through privately negotiated transactions, or otherwise. On February 4, 2008, our board of directors expanded this previously authorized \$50.0 million stock repurchase program by an additional \$50.0 million.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs(1)
October 1, 2019 - October 31, 2019	—	\$ —	—	\$ 32,352,413
November 1, 2019 - November 30, 2019	—	\$ —	—	\$ 32,352,413
December 1, 2019 - December 31, 2019	—	—	—	\$ 32,352,413
Total	—	—	—	—

(1) There is no limit on the number or value of shares that may be purchased by us under the Options Proceeds Program. Under our \$50.0 million stock repurchase program, which was expanded by an additional \$50.0 million in February 2008, we are only authorized to spend an aggregate of \$100.0 million on stock repurchases. Amounts in this column represent the amounts that remain available under the \$100.0 million stock repurchase program as of the end of the period indicated. There is no scheduled expiration date for the Option Proceeds Program or the \$100.0 million stock repurchase program, but our Board of Directors may terminate either program in the future.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with “Management's Discussion and Analysis of Financial Condition and Results of Operations” and our audited consolidated financial statements and the related notes included elsewhere in this Form 10-K. The selected consolidated financial data for the years ended December 31, 2017, 2018 and 2019 and as of December 31, 2018 and 2019 are derived from our audited financial statements included elsewhere in this Form 10-K. The selected consolidated financial data for the years ended December 31, 2015 and 2016 and as of December 31, 2015, 2016 and 2017 are derived from our audited financial statements not included in this Form 10-K.

Consolidated Statements of Operations and Comprehensive Income Data

Years Ended December 31,

(dollars in millions, except per share data)

	2015	2016	2017	2018	2019
Sales	\$ 1,104.4	\$ 1,164.3	\$ 1,132.9	\$ 1,302.3	\$ 1,428.1
Net earnings	65.9	82.1	80.2	73.3	67.5
Per Share Data:					
Earnings per share:					
Basic	1.38	1.71	1.66	1.51	1.38
Diluted	1.36	1.68	1.63	1.49	1.36
Cash dividends declared per share:	0.51	0.60	0.60	0.60	0.66

Consolidated Balance Sheet Data:

As of December 31,

	2015	2016	2017	2018	2019
	(in millions)				
Working capital	\$ 92.7	\$ 54.4	\$ 55.2	\$ 58.8	\$ 50.6
Total assets	853.8	858.6	861.0	1,226.9	1,357.9
Total long-term debt, including current portion	219.7	218.4	191.0	461.1	446.0
Total liabilities	598.3	549.1	502.3	840.4	930.3
Total equity	255.5	309.4	358.7	386.5	427.6

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis of financial condition and results of operations provides an account of our financial performance and financial condition that should be read in conjunction with the accompanying audited consolidated financial statements.

Forward-looking Statements

This annual report on Form 10-K contains forward-looking statements, principally in the sections entitled "Business," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Quantitative and Qualitative Disclosures About Market Risk." Statements and financial discussion and analysis contained in this Form 10-K that are not historical facts are forward-looking statements. These statements discuss goals, intentions and expectations as to future trends, plans, events, results of operations or financial condition, or state other information relating to us, based on our current beliefs as well as assumptions made by us and information currently available to us. Forward-looking statements generally will be accompanied by words such as "anticipate," "believe," "could," "estimate," "expect," "forecast," "intend," "may," "possible," "potential," "predict," "project," or other similar words, phrases or expressions. This includes, without limitation, our statements and expectations regarding any current or future recovery in our industry, our publicly announced plans for increased capital and investment spending to achieve our long-term revenue and profitability growth goals, our integration of acquired businesses, and our expectations with respect to leverage. Although we believe these forward-looking statements are reasonable, they are based upon a number of assumptions concerning future conditions, any or all of which may ultimately prove to be inaccurate. Important factors that could cause actual results to differ materially from the forward-looking statements include, without limitation: the risks described in Item 1A and in Item 7A of this annual report on Form 10-K; changes in the financial stability of our clients or the overall economic environment, resulting in decreased corporate spending and service sector employment; changes in relationships with clients; the mix of products sold and of clients purchasing our products; the success of new technology initiatives; changes in business strategies and decisions; competition from our competitors; our ability to recruit and retain an experienced management team; changes in raw material prices and availability; restrictions on government spending resulting in fewer sales to the U.S. government, one of our largest customers; our debt restrictions on spending; our ability to protect our patents, copyrights and trademarks; our reliance on furniture dealers to produce sales; lawsuits arising from patents, copyrights and trademark infringements; violations of environmental laws and regulations; potential labor disruptions; adequacy of our insurance policies; the availability of future capital and the cost of borrowing; the overall strength and stability of our dealers, suppliers, and customers; access to necessary capital; our ability to successfully integrate acquired businesses; the success of our design and implementation of a new enterprise resource planning system; and currency rate fluctuations. 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 us. All forward-looking statements included in this Form 10-K are expressly qualified in their entirety by the foregoing cautionary statements. Except as required under the Federal securities laws and the rules and regulations of the SEC, we undertake no obligation to update, amend, or clarify forward-looking statements, whether as a result of new information, future events, or otherwise.

Overview

We design, manufacture, market and sell high-end commercial and residential furniture, accessories, textiles, fine leathers and designer felt for the workplace and residential markets, as well as modern outdoor furniture. We work with clients to create inspired modern interiors. Our design-driven businesses share a reputation for high-quality and sophistication offering a diversified product portfolio that endures throughout evolving trends. Our products are targeted at the middle to upper-end of the market where we reach customers primarily through a broad network of independent dealers and distribution partners, our direct sales force, our showrooms, and our online presence.

Business Highlights

During the last decade we have diversified our sources of revenue among our varying operating segments. Over the last two years, our efforts to diversify have included the acquisition of Fully in August 2019, a Portland based e-commerce based company servicing the small business and consumer home office market, the acquisition of Muuto in January 2018, a Danish-based global commercial furniture design and distribution company, and multiple organic product development and design projects that have enhanced our portfolio and client offerings. We expect to continue to develop our acquired businesses and expand organically, be acquisitive on an opportunistic basis and continue our efforts to improve the profitability of our Office segment. We believe we are well positioned to continue to build on these initiatives and benefit from the trend to more social and hospitality-based workplaces in the coming years.

Our efforts to diversify our sources of revenue among our operating segments has not detracted from our continued focus on growing and improving the operating performance of our Office segment. The lean initiatives that were executed in 2019

have contributed greatly to the improvements in gross margin, and we expect more positive contributions in this area as we move into 2020. In addition, we just announced a restructuring plan in January 2020 involving a reduction of our fixed cost footprint that will occur over the next two years and will yield significant savings on an annualized basis as we near the end of 2021. We are looking beyond the traditional office product categories of systems, task seating and storage, to furniture that supports activity areas and the in-between spaces where people meet. Additionally, we believe that our success in traditional office products gives us an advantage throughout the workplace. Our Rockwell Unscripted collection, as well as Muuto offerings, encompass every product category ranging from seating and lounge to architectural walls and storage. These offerings address the needs of organizations that seek alternatives to the traditional workspace and are substantially additive to our current product portfolio. The acquisition of Fully in August 2019, provides the Office segment with high-quality, cost effective complement to our portfolio of office solutions, while also broadening our outreach to small business and consumer markets through an e-commerce platform. We aim to increase profitability with these product initiatives, operational improvements we have discussed, and investments in our physical and technological infrastructure.

We have also remained committed to building a more efficient and responsive customer centric service culture and technology infrastructure across our organization. In 2019, we completed the technology implementation of the order management functions as part of our overall enterprise resource planning strategy, and deployed front-end, 3-dimensional rendering tools that our clients, dealers and design partners can use to efficiently visualize and build out spaces, and then translate into an order instantaneously. These and other investments have made customer-facing touchpoints meaningfully easier to do business with us. Our capital expenditures are reflective of our commitment to improving efficiency and expanding our product portfolio, as we have continued, and expect to continue, to invest in the business through technology infrastructure upgrades, continued investments in our manufacturing facilities focusing on lean initiatives, and showroom presence.

Results of Operations

Comparison of Consolidated Results for the Years Ended December 31, 2019 and December 31, 2018

	Year Ended December 31,		2019 vs. 2018	
	2019	2018	\$ Change	% Change
	<i>(Dollar in millions)</i>			
Net Sales	\$ 1,428.1	\$ 1,302.3	\$ 125.8	9.7 %
Gross profit	549.0	481.5	67.5	14.0 %
Selling, general, and administrative expenses	411.9	363.7	48.2	13.3 %
Restructuring charges	0.8	2.6	(1.8)	(68.3)%
Intangible asset impairment charge	6.5	—	6.5	100.0 %
Operating profit	129.8	115.2	14.6	12.6 %
Pension settlement charge	21.0	5.7	15.3	265.8 %
Interest expense	21.7	20.9	0.8	4.0 %
Other expense (income), net	(3.8)	(9.6)	5.8	(60.0)%
Income tax expense	23.4	24.9	(1.5)	(5.9)%
Net earnings	67.5	73.3	(5.8)	(8.0)%
Net earnings attributable to Knoll, Inc. stockholders	67.5	73.3	(5.8)	(8.0)%
Net earnings per common share attributable to Knoll, Inc. stockholders:				
Basic	\$ 1.38	\$ 1.51	\$ (0.13)	(8.6)%
Diluted	\$ 1.36	\$ 1.49	\$ (0.13)	(8.7)%
Statistical Data				
Gross profit %	38.4%	37.0%		
Operating profit %	9.1%	8.8%		

Net Sales

Net sales for the year ended December 31, 2019 were \$1,428.1 million, an increase of \$125.8 million, or 9.7%, from sales of \$1,302.3 million for the year ended December 31, 2018. Net sales for the Office segment were \$873.8 million during the year ended 2019, an increase of \$76.7 million, or 9.6% compared to the year ended 2018. The Office segment sales growth was primarily due to improved performance in height-adjustable tables, newer office systems products, conference room solutions and four months of Fully sales since acquisition. Net sales for the Lifestyle segment were \$554.3 million during the year ended 2019, an increase of 9.7% compared with the year ended 2018. This increase was primarily driven by strong growth in cross-over sales into commercial workplace settings, particularly at Muuto.

Gross Profit

Gross profit for 2019 was \$549.0 million, an increase of \$67.5 million, or 14.0%, from gross profit of \$481.5 million in 2018. During the year ended 2019, gross margin increased to 38.4% from 37.0% in the year ended 2018. The increase in gross margin was mainly driven by continuous improvement activities, net price realization and higher volume absorption of fixed costs, partially offset by commodity and transportation inflation as well as higher tariffs during the year.

Operating Profit

Operating profit for 2019 was \$129.8 million, an increase of \$14.6 million, or 12.6%, from operating profit of \$115.2 million for 2018. Operating profit as a percentage of sales increased from 8.8% in 2018 to 9.1% in 2019.

Operating expenses were \$419.2 million for the year ended 2019, or 29.4% of net sales, compared to \$366.3 million, or 28.1% of net sales, for the year ended 2018. The increase in operating expenses was related primarily to higher incentive-based compensation resulting from increased volume, strategic investments in sales force headcount, information technology infrastructure, and investments in our showrooms, as well as the inclusion of a partial-year of Fully results. Operating expenses also included \$6.5 million of intangible asset impairment.

Pension Settlement Charge

In 2019, the Company incurred \$21.0 million of pension settlement charges that primarily resulted from the purchase of annuities and lump sum payouts in connection with the termination of the Company's pension plan for union employees. In addition, the Company incurred settlement charges resulting from cash payments of lump-sum elections related to the Company's pension plan for non-union employees. In 2018, the Company incurred of \$5.7 million of pension settlement charges related to the purchase of annuities for certain pension plan retirees as well as cash payments from lump sum elections.

Interest Expense

Interest expense for 2019 was \$21.7 million, an increase of \$0.8 million from \$20.9 million for 2018. The increase in interest expense was due primarily to higher weighted-average interest rates during 2019. During 2019 and 2018, the Company's weighted average interest rates were approximately 3.9% and 3.6%, respectively.

Other Income, net

Other income in 2019 was \$3.8 million compared to \$9.6 million in 2018. Other income decreased in 2019 primarily due to foreign exchange losses of \$1.5 million in 2019 compared to foreign exchange gains of \$2.0 million in 2018, as well as reduced net periodic benefit income from the Company's pension and other post-employment benefit plans.

Income Tax Expense (Benefit)

The effective tax rate for the year ended December 31, 2019 was 25.8%, compared to 25.4% for 2018. The increase in our effective tax rate was primarily due to increases in domestic apportionment percentages to certain high-tax state jurisdictions (CA and NY, primarily) and the change in the mix of pre-tax income between the U.S. and certain foreign jurisdictions in which we operate. This increase was partially offset by return to provision adjustments related to the results of examinations of certain of our tax filings from prior years. During 2018, we also recognized a one-time tax benefit of \$1.7 million in connection with the completion of our accounting for the provisional amounts recognized in December 2017 related to The Tax Cuts and Jobs Act of 2017.

Comparison of Consolidated Results for the Years Ended December 31, 2018 and December 31, 2017

	Year Ended December 31,		2018 vs. 2017	
	2018	2017	\$ Change	% Change
	<i>(Dollar in millions)</i>			
Sales	\$ 1,302.3	\$ 1,132.9	\$ 169.4	15.0 %
Gross profit	481.5	414.6	66.9	16.1 %
Operating profit	115.2	80.5	34.7	43.1 %
Pension settlement charge	5.7	2.2	3.5	165.3 %
Interest expense	20.9	7.4	13.5	179.4 %
Other income, net	(9.6)	(7.7)	(1.9)	24.7 %
Income tax expense (benefit)	24.9	(1.6)	26.5	(1,656.0)%
Net earnings	73.3	80.2	(6.9)	(8.6)%
Net earnings attributable to Knoll, Inc. stockholders	73.3	80.2	(6.9)	(8.6)%
Net earnings per common share attributable to Knoll, Inc. stockholders:				
Basic	\$ 1.51	\$ 1.66	\$ (0.15)	(9.0)%
Diluted	\$ 1.49	\$ 1.63	\$ (0.14)	(8.6)%
Statistical Data				
Gross profit %	37.0%	36.6%		
Operating profit %	8.8%	7.1%		

See the Knoll, Inc. 2018 annual report on Form 10-K for discussion related to the 2018 versus 2017 comparison of consolidated results.

Segment Reporting

The Company manages our business through our reportable segments: Office and Lifestyle. All unallocated expenses are included within Corporate. The Office segment includes a complete range of workplace products that address diverse workplace planning paradigms in North America and Europe, while the Lifestyle segment includes high quality residential furniture, ancillary products and affordable luxury furnishings for high performance workplaces, as well as uber-luxury living spaces to affordable-luxury residential living.

See Item 1 Business contained in this annual report on Form 10-K for further information regarding the business segments.

The comparisons of segment results found below present our segment information with Corporate costs excluded from operating segment results.

Comparison of Segment Results for the Years Ended December 31, 2019 and December 31, 2018

	Year Ended December 31,		2019 vs. 2018	
	2019	2018	\$ Change	% Change
	<i>(Dollar in millions)</i>			
SALES				
Office	\$ 873.8	\$ 797.1	\$ 76.7	9.6%
Lifestyle	554.3	505.2	49.1	9.7%
Corporate	—	—	—	—%
Knoll, Inc.	\$ 1,428.1	\$ 1,302.3	\$ 125.8	9.7%
OPERATING PROFIT ⁽¹⁾				
Office	\$ 64.2	\$ 49.5	\$ 14.7	29.7%
Lifestyle	90.2	90.0	0.2	0.2%
Corporate	(24.6)	(24.3)	(0.3)	12.3%
Knoll, Inc.	\$ 129.8	\$ 115.2	\$ 14.6	12.7%

(1) The Company does not allocate interest expense or other (income) expense, net to the reportable segments.

Office

Net sales for the Office segment in 2019 were \$873.8 million, an increase of \$76.7 million, or 9.6%, when compared with 2018. The increase in the Office segment was due to improved performance in height-adjustable tables, newer office systems products, conference room solutions and four months of Fully sales since acquisition. Operating profit for the Office segment in 2019 was \$64.2 million, an increase of \$14.7 million, or 29.7%, when compared with 2018. The increase in operating profit for the Office segment was due primarily to increased sales volume and continuous improvement initiatives, partially offset by commodity and transportation inflation as well as higher tariffs combined with strategic investments in sales force headcount, information technology infrastructure, and investments in our showrooms during the year.

Lifestyle

Net sales for the Lifestyle segment in 2019 were \$554.3 million, an increase of \$49.1 million, or 9.7%, when compared with 2018. This increase was driven by strong growth in cross-over sales into commercial workplace settings, particularly at Muuto. Operating profit for the Lifestyle segment in 2019 was \$90.2 million, an increase of \$0.2 million, or 0.2%, when compared with 2018. The increase in operating profit for the Lifestyle segment was due primarily to increased sales volume mostly offset by the \$6.5 million intangible asset impairment charge, additional investment spending in product launches and showrooms and strategic investments in sales-force headcount.

Corporate

Corporate costs in 2019 were \$24.6 million, an increase of \$0.3 million, or 12.3%, when compared with 2018. The increase was driven by costs incurred in connection with amending and extending the Company's Amended Credit Facility, partially offset by lower acquisition costs.

Comparison of Segment Results for the Years Ended December 31, 2018 and December 31, 2017

	Year Ended December 31,		2018 vs. 2017	
	2018	2017	\$ Change	% Change
	<i>(Dollar in millions)</i>			
SALES				
Office	\$ 797.1	\$ 733.3	\$ 63.8	8.7%
Lifestyle	505.2	399.6	105.6	26.4%
Corporate	—	—	—	—%
Knoll, Inc.	\$ 1,302.3	\$ 1,132.9	\$ 169.4	15.0%
OPERATING PROFIT ⁽¹⁾				
Office	\$ 49.5	\$ 26.1	\$ 23.4	89.7%
Lifestyle	90.0	78.5	11.5	14.6%
Corporate	(24.3)	(24.1)	(0.2)	15.1%
Knoll, Inc.	\$ 115.2	\$ 80.5	\$ 34.7	43.1%

(1) The Company does not allocate interest expense or other (income) expense, net to the reportable segments.

See the Knoll, Inc. 2018 annual report on Form 10-K for discussion related to the 2018 versus 2017 comparison of consolidated result.

Foreign and Domestic Operations

Our principal manufacturing operations and markets are in North America, and we also have manufacturing operations and markets in Europe. See Note 21, Segments, of Notes to the Consolidated Financial Statements contained elsewhere herein for our sales to clients and net property, plant and equipment summarized by geographic areas. Sales are attributed to the geographic areas based on the origin of sale.

Liquidity and Capital Resources

The following table highlights certain key cash flows and capital information pertinent to the discussion that follows:

	2019	2018	2017
	(in thousands)		
Cash provided by operating activities	\$ 138.2	\$ 108.2	\$ 103.7
Capital expenditures, net	(49.9)	(40.3)	(40.6)
Purchase of businesses, net of cash acquired	(30.9)	(308.0)	—
Cash used in investing activities	(80.7)	(348.3)	(40.6)
Purchase of common stock for treasury	(3.3)	(4.4)	(10.9)
Proceeds from credit facilities	417.5	490.5	310.0
Repayment of credit facilities	(413.5)	(383.0)	(338.0)
Proceeds from term loan	—	350.2	—
Repayment of term loans	(17.1)	(177.9)	—
Payment of dividends	(32.8)	(30.0)	(30.2)
Proceeds from issuance of common stock	—	—	0.6
Cash (used in) provided by financing activities	(50.7)	239.8	(74.5)

As of the dates presented, we had the following sources of liquidity to support our business (in millions):

	December 31,	
	2019	2018
Cash	\$ 8.5	\$ 1.6
Availability under revolving credit facility	256.4	260.3

We have historically funded our business through cash generated from operations, supplemented by debt borrowings. Available cash is primarily used for our working capital needs, ongoing operations, capital expenditures, the payment of quarterly dividends, and the repurchase of shares. Our investment in capital expenditures illustrates our commitment to improving our operating efficiency, innovation and modernization, showroom investment, new product tooling, manufacturing equipment and technology infrastructure. During 2019, we made annual dividend payments of \$0.66 per share, returning \$32.8 million of cash to our shareholders.

Cash provided by operating activities was \$138.2 million, \$108.2 million, and \$103.7 million in 2019, 2018 and 2017, respectively. For the year ended December 31, 2019, cash provided by operating activities consisted primarily of \$67.5 million of net income and \$82.7 million of various non-cash charges, including \$39.5 million of depreciation and amortization, \$10.8 million of stock-based compensation, \$21.0 million of pension settlement charges and \$6.5 million intangible asset impairment. These favorable changes were partially offset by \$12.0 million of unfavorable changes in assets and liabilities primarily driven by increased inventory as a result of ramping up inventory for our current order backlog and lower accrued expenses. For the year ended December 31, 2018, cash provided by operating activities consisted primarily of \$73.3 million of net income and \$61.4 million of various non-cash charges, including \$35.3 million of depreciation and amortization, \$9.2 million of stock-based compensation, \$5.7 million pension settlement charges and a \$4.8 million provision for deferred income taxes, offset in part by \$26.5 million of unfavorable changes in assets and liabilities primarily driven by growth in accounts receivable and inventory as a result of growth in sales and ramping up inventory for our current order backlog.

Investing activities for the year ended December 31, 2019 included the purchase of Fully for \$30.9 million, net of cash acquired. In addition, we used \$49.9 million of cash for capital expenditures. During 2018, we used \$308.0 million, net of cash acquired, for the purchase of Muuto and \$40.3 million of cash for capital expenditures. The capital expenditures are reflective of our commitment to enhance and modernize our sales, manufacturing and information technology infrastructure. Acquisitions are reflective of our strategy of building our global capabilities as a singular resource for high-design workplaces and homes.

During the year ended December 31, 2019, we entered into a first amendment to the Third Amended and Restated Credit Agreement (the "Credit Agreement Amendment"), dated as of January 23, 2018 (together, as amended, the "Credit Agreement"). Among other things, the Credit Agreement Amendment extends the maturity of the credit facility from January 2023 to August 2024. Net borrowings under the revolving credit facility (the "Revolver") governed by the Credit Agreement in 2019 were approximately \$4.0 million. Payments on the term loan facility were \$17.1 million in 2019. Additionally, we used \$32.8 million of cash to fund dividend payments, \$3.3 million to repurchase shares used to offset the cost of employee tax withholdings related to equity award settlements, and \$2.0 million to pay fees related to the Credit Agreement Amendment, of which the majority of the fees were capitalized and will be amortized over the term of the amended credit agreement.

We use our credit facility in the ordinary course of business to fund our working capital needs and investments and, at times, make significant borrowings and repayments under the facility depending on our cash needs and availability at such time. Borrowings under the Credit Agreement may be repaid at any time, but no later than at maturity in August 2024. As of December 31, 2019, we believe that existing cash balances and internally generated cash flows, together with the borrowing capacity available under our credit facility, will be sufficient to fund working capital needs, capital spending requirements, debt service requirements and dividend payments for at least the next twelve months. Future debt payments may be paid out of cash flows from operations, from future refinancing of our debt or from equity issuance.

In January 2018, we amended and extended what was then our existing credit facility, dated as of May 20, 2014, with a new \$750.0 million credit facility scheduled to mature in January 2023 (the "Third Amended and Restated Credit Agreement"). Cash proceeds received during 2018 from the issuance of revolving and term loan debt totaled approximately \$841 million, the majority of which was issued under the Third Amended and Restated Credit Agreement. These proceeds were used, among other things, to finance a portion of the Muuto acquisition and repay the outstanding term loan balances of \$165.0 million from the predecessor credit facility. Additionally, we used \$30.0 million of cash to fund dividend payments, \$4.4 million to repurchase shares used to offset the cost of employee tax withholdings related to equity award settlements, \$7.9 million to fund a contribution to the defined benefit union plan, and \$5.7 million to pay fees related to the issuance of debt under the Third Amended and Restated Credit Agreement.

The Credit Agreement requires that we comply with two financial covenants; (i) consolidated leverage ratio, defined as the ratio of total indebtedness to consolidated EBITDA (as defined in the Credit Agreement) and (ii) consolidated interest coverage ratio, defined as the ratio of our consolidated EBITDA (as defined in the Credit Agreement) to our consolidated interest expense. Our consolidated leverage ratio cannot exceed 4.00 to 1, which steps down over time to 3.75 to 1 starting with the quarter ending June 30, 2020, and to 3.50 to 1 starting with the quarter ending June 30, 2021, and which may be increased in certain circumstances. Our consolidated interest coverage ratio must be a minimum of 3.0 to 1.

Because of the financial covenant mentioned above, our ability to borrow the entire capacity under our credit facility could be reduced if by borrowing, our leverage ratio would exceed the covenant. We are also required to comply with various other affirmative and negative covenants including, without limitation, covenants that prevent, restrict or limit the following: our ability to pay dividends, engage in certain mergers or acquisitions, make certain investments or loans, incur future indebtedness, engage in sale-leaseback transactions, alter our capital structure or line of business, prepay subordinated indebtedness, engage in certain transactions with affiliates and sell stock or assets. At December 31, 2019, we were in compliance with all covenants applicable to our credit facility.

Contractual Obligations

The following table summarizes our contractual cash obligations as of December 31, 2019 (in millions):

	Payments Due by Period				Total
	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	
Long-term debt ⁽¹⁾	\$ 23.9	\$ 61.0	\$ 423.5	\$ —	\$ 508.4
Operating lease liabilities	26.0	43.5	31.8	27.8	129.1
Operating lease obligations ⁽²⁾	0.6	9.1	12.0	41.5	63.2
Purchase commitments	29.1	5.5	—	—	34.6
Pension and other post-employment benefit plan obligations ⁽³⁾	0.2	—	—	—	0.2
Other liabilities ⁽⁴⁾	—	—	—	—	—
Total *	<u>\$ 79.8</u>	<u>\$ 119.1</u>	<u>\$ 467.3</u>	<u>\$ 69.3</u>	<u>\$ 735.5</u>

- (1) Contractual obligations for long-term debt and short-term borrowings include principal and interest payments. Interest payments have been computed based on an estimated variable interest as of December 31, 2019. The estimated variable interest rate is based on the company's expected consolidated leverage ratio and the forecasted LIBOR rate for each period presented. The computation of interest, as included in the above table, is based on our Amended Credit Facility.
- (2) As of December 31, 2019, the Company has entered into operating leases for real property that commence in 2020 and 2021. The total contractual lease payments of \$63.2 million associated with these leases, which have not been recognized on the consolidated balance sheet, have been included above (see Note 9 for further details regarding our leases).
- (3) Due to the uncertainty of future cash outflows, contributions to the pension and other post-employment benefit plans subsequent to 2020 have been excluded from the table above.
- (4) The maximum earn-out consideration related to the Fully acquisition is \$15.0 million. The contingent earn-out consideration is based on certain revenue and earnings before interest, taxes, depreciation and amortization targets over the next four years. Due to the contingent nature of the payments, we have not included any earn-out payments in the table above. If these payments were to occur in full at the earliest time possible, \$12.5 million would be paid in 1 to 3 three years, and the remaining \$2.5 million would be paid in 3 to 5 years.

* Due to the uncertainty of future cash outflows, uncertain tax positions have been excluded from the table above.

Environmental Matters

Our past and present business operations and the past and present ownership and operation of manufacturing plants on real property are subject to extensive and changing federal, state, local and foreign environmental laws and regulations, including those relating to discharges to air, water and land, the handling and disposal of solid and hazardous waste and the cleanup of properties affected by hazardous substances. As a result, we are involved from time-to-time in administrative and judicial proceedings and inquiries relating to environmental matters and could become subject to fines or penalties related thereto. We cannot predict what environmental legislation or regulations will be enacted in the future, how existing or future laws or regulations will be administered or interpreted or what environmental conditions may be found to exist. Compliance with more stringent laws or regulations, or stricter interpretation of existing laws, may require additional expenditures by us, some of which may be material. We have been identified as a potentially responsible party pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA") for remediation costs associated with waste disposal sites that we previously used. The remediation costs and our allocated share at some of these CERCLA sites are unknown. We may also be subject to claims for personal injury or contribution relating to CERCLA sites. We reserve amounts for such matters when expenditures are probable and reasonably estimable.

Off-Balance Sheet Arrangements

We do not currently have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special-purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not engage in trading activities involving non-exchange-traded contracts. As a result, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in these relationships.

Critical Accounting Policies

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the U.S. (“GAAP”) requires us to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results may differ from such estimates. We believe that the critical accounting policies that follow are those policies that require the most judgment, estimation and assumption in preparing our consolidated financial statements.

Goodwill and Intangible Assets

We record the excess of purchase price over the fair value of the tangible and identifiable intangible assets acquired as goodwill. Goodwill and intangible assets with indefinite lives are tested for impairment at least annually, as of October 1, and whenever events or circumstances occur indicating that a possible impairment may have been incurred. Intangible assets with finite lives are amortized over their useful lives.

We assess whether goodwill impairment exists using both qualitative and quantitative assessments. The qualitative assessment involves determining whether events or circumstances exist that indicate it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If based on this qualitative assessment we determine it is not more likely than not that the fair value of a reporting unit is less than its carrying amount or if we elect not to perform a qualitative assessment, a quantitative assessment is performed to determine whether a goodwill impairment exists at the reporting unit.

We compare the fair value of each reporting unit to its carrying value and if the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired and no further testing is required. If the fair value of the reporting unit is less than the carrying value, the difference is recorded as an impairment loss.

We estimate the fair value of its reporting units using a combination of the fair values derived from both the income approach and the market approach. Under the income approach, we calculate the fair value of a reporting unit based on the present value of estimated future cash flows. Cash flow projections are based on our estimates of revenue growth rates and operating margins, taking into consideration industry and market conditions. The discount rate used to determine the present value of future cash flows is based on the weighted-average cost of capital adjusted for the relevant risk associated with business-specific characteristics and the uncertainty related to the business's ability to execute on the projected cash flows. The market approach estimates fair value based on market multiples of revenue and earnings derived from comparable publicly-traded companies with similar operating and investment characteristics as the reporting unit.

We assess whether indefinite-lived intangible assets impairment exists using both qualitative and quantitative assessments. The qualitative assessment involves determining whether events or circumstances exist that indicate it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount. If, based on this qualitative assessment, we determine it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount or if we elect not to perform a qualitative assessment, a quantitative assessment is performed to determine whether an indefinite-lived intangible asset impairment exists. We test the indefinite-lived intangible assets for impairment by comparing the carrying value to the fair value based on current revenue projections of the related operations, under the relief from royalty method. Any excess of the carrying value over the amount of fair value is recognized as an impairment. Any such impairment would be recognized in full in the reporting period in which it has been identified.

Based on the results of the annual impairment test as of October 1, 2019, we determined there were no indications of impairment for goodwill. We did identify an impairment of our Edelman tradename and recorded a \$6.5 million impairment charge (see Notes 7 and 11 to the Consolidated Financial Statements included elsewhere herein). We determined there were no indications of impairment in any of our other indefinite-lived intangible assets.

Pension and Other Post-Employment Benefits

We sponsor two defined benefit pension plans, one of which has terminated and fully paid out benefits due to all participants, and the other is an ongoing plan. We also sponsor four other post-employment benefit plans (“OPEB”). Several statistical and other factors, which attempt to anticipate future events, are used in calculating the expense and liability related to the plans. Key factors include assumptions about the expected rates of return on plan assets, discount rates, mortality rates and health care cost trend rates. We consider market and regulatory conditions, including changes in investment returns and interest rates, in making these assumptions.

We determine the expected long-term rate of return on plan assets based on aggregating the expected rates of return for each component of the plan's asset mix. We use historic plan asset returns combined with current market conditions to estimate the rate of return. The expected rate of return on plan assets is a long-term assumption and generally does not change annually. The discount rate reflects the market rate for high-quality fixed income debt instruments as of our annual measurement date and is subject to change each year. Holding all other assumptions constant, a one-percentage-point increase or decrease in the assumed rate of return on plan assets would decrease or increase 2019 net periodic pension expense by approximately \$1.9 million. Likewise, a one-percentage-point increase or decrease in the discount rate would increase or decrease 2019 net periodic pension expense by approximately \$0.4 million or \$0.1 million, respectively.

Unrecognized actuarial gains and losses are recognized over the expected remaining lifetime of the plan participants. Unrecognized actuarial gains and losses arise from several factors, including experience and assumption changes with respect to the obligations and from the difference between expected returns and actual returns on plan assets. These unrecognized gains and losses are systematically recognized as a change in future net periodic pension expense in accordance with the appropriate accounting guidance relating to defined benefit pension and OPEB plans.

We utilize a full yield curve approach in the estimation of this component by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows.

Key assumptions that we use in determining the amount of the obligation and expense recorded for OPEB, under the appropriate accounting guidance, include the assumed discount rate and the assumed rate of increases in future health care costs. In estimating the health care cost trend rate, we consider actual health care cost experience, future benefit structures, industry trends and advice from our actuaries. We assume that the relative increase in health care costs will generally trend downward over the next several years, reflecting assumed increases in efficiency and cost-containment initiatives in the health care system. For purposes of measuring the benefit obligation associated with the Company's OPEB plans as of December 31, 2019, as well as the assumed rate for 2020, a 6.30% annual rate of increase in the per capita cost of covered health care benefits was assumed and an 8.40% annual rate of increase in the per capita cost of covered prescription drug benefits was assumed. The rate was then assumed to decrease to an ultimate rate of 4.50% for 2027 and thereafter for both the medical plan and prescription drug plan and thereafter for the benefit obligation. Increasing the assumed health care cost trend by one-percentage-point in each year would increase the benefit obligation as of December 31, 2019 by a minimal amount and increase the aggregate of the service and interest cost components of net periodic benefit cost for 2019 by a minimal amount. Decreasing the assumed health care cost trend rate by one percentage point in each year would decrease the benefit obligation as of December 31, 2019 by a minimal amount and decrease the aggregate of the service and interest cost components of net periodic benefit cost for 2019 by a minimal amount.

In accordance with the appropriate accounting guidance, we recognize in our consolidated balance sheet the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligation) of our defined benefit pension and OPEB plans. To record the unfunded status of our plans, we recorded an additional liability and an asset and an adjustment to accumulated other comprehensive income, net of tax.

The actuarial assumptions we use in determining our pension and OPEB retirement benefits may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates, or longer or shorter life spans of participants. While we believe that the assumptions used are appropriate, differences in actual experience or changes in assumptions may materially affect our financial position or results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

During the normal course of business, we are routinely subjected to market risk associated with interest rate movements and foreign currency exchange rate movements. Interest rate risk arises from our debt obligations. Foreign currency exchange rate risk arises from our non-U.S. operations and purchases of inventory from foreign suppliers.

We also have risk in our exposure to certain materials and transportation costs. Steel, leather, wood products and plastics are all used in our products. For the year ended December 31, 2019, we estimated that materials inflation was approximately \$5.0 million and transportation inflation was approximately \$2.1 million. During 2018, we estimated that materials and transportation inflation were approximately \$6.9 million and \$7.9 million, respectively. We continue to work to offset price increases in raw materials and transportation through our global sourcing initiatives, cost improvements and price increases to our products.

Interest Rate Risk

We have variable rate debt obligations that are denominated in U.S. dollars. A change in interest rates will impact the interest costs incurred and cash paid on the variable rate debt.

At December 31, 2019, we had \$450.3 million in principal of variable rate debt. We have entered into an interest rate swap agreement which fixes the interest rate for an initial notional amount of \$300 million of our variable rate debt which decreases over time by \$50 million increments, matures in January 2023 and effectively fixes our interest rate at 2.63%. Our remaining variable rate debt of \$150.3 million is subject to changes in underlying interest rates, and, accordingly, our interest payments will fluctuate. During 2019, a 1% change in interest rates would result in a change in interest expense of approximately \$1.5 million per year. As the notional amount of the swap decreases, each \$50 million decrease in the notional amount would be exposed to interest rate fluctuations, and a one percent change in interest rates would change interest expense by an additional \$0.5 million.

Foreign Currency Exchange Rate Risk

We manufacture our products in the United States, Canada and Italy, and sell our products primarily in those markets as well as in other European countries. Our foreign sales and certain expenses are transacted in foreign currencies. Our production costs, profit margins and competitive position are affected by the strength of the currencies in countries where we manufacture or purchase goods relative to the strength of the currencies in countries where our products are sold. Additionally, as our reporting currency is the U.S. dollar, our financial position is affected by the strength of the currencies in countries where we have operations relative to the strength of the U.S. dollar. The principal foreign currencies in which we conduct business are the Canadian dollar, Danish krone and the Euro. Approximately 17.6% and 18.1% of our revenues in 2019 and 2018, respectively, and 27.0% and 28.5% of our cost of goods sold in 2019 and 2018, respectively, were denominated in currencies other than the U.S. dollar. Assuming a hypothetical adverse (weakening of the U.S. dollar) and favorable (strengthening of the U.S. dollar) change of 10% on the average foreign currency exchange rate for 2019, earnings before income taxes would have decreased or increased approximately \$4.1 million. Foreign currency exchange rate fluctuations resulted in \$1.5 million of translation losses and \$2.0 million of translation gains for 2019 and 2018, respectively.

From time to time, we enter into foreign currency hedges to manage our exposure to foreign exchange rates. The terms of these contracts are typically less than a year. Changes in the fair value of such contracts are reported in earnings in the period the value of the contract changes. The net gain or loss upon settlement and the change in fair value of outstanding contracts is recorded as a component of other expense (income).

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Knoll, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Knoll, Inc. (the Company) as of December 31, 2019 and 2018, the related consolidated statements of operations and comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 21, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Defined Benefit Pension Obligation

*Description
of the Matter*

At December 31, 2019, the Company’s projected benefit obligation related to its defined benefit plan was \$203.7 million and exceeded the fair value of pension plan assets of \$181.7 million, resulting in an unfunded defined benefit pension obligation of \$22.0 million. As explained in Note 2 to the consolidated financial statements, the measurement of the Company’s projected benefit obligation is dependent, in part, on the selection of certain actuarial assumptions.

Auditing the projected benefit obligation was complex and required the involvement of actuarial specialists due to the highly judgmental nature of the assumptions (e.g., discount rates and mortality rates) used in the Company’s measurement process. These assumptions had a significant effect on the projected benefit obligation.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's valuation of the projected benefit obligation. For example, we tested the Company's controls over management's review of the significant assumptions utilized in the valuation, including the discount rates and mortality rates.

To test the projected benefit obligation, we performed audit procedures that included, among others, evaluating the methodology used, the significant actuarial assumptions described above, and the underlying data used by the Company. We compared the actuarial assumptions used by management to historical trends and evaluated the change in the projected benefit obligation from the prior year due to the change in interest cost, actuarial gains and losses, benefit payments, plan settlements and other activities. In addition, we involved our actuarial specialists to assist in evaluating management's methodology for selecting the appropriate discount rates that reflect the maturity and duration of the expected benefit payments and applying those discount rates to the benefit payments used to measure the projected benefit obligation. As part of this assessment, we compared the projected benefit obligation cash flows to those in the prior year and compared the current-year benefits paid to the prior-year projected cash flows. To evaluate the mortality rates, we assessed whether the information is consistent with publicly available information, and whether any adjustments for entity-specific factors were applied. We also tested the completeness and accuracy of the underlying data, including the participant data used in the actuarial calculations.

Valuation of Goodwill and Other Indefinite-Lived Intangible Assets

Description of the Matter

At December 31, 2019, the Company's goodwill and other indefinite-lived intangible assets were \$332.1 million and \$277.6 million, respectively. As discussed in Note 2 to the consolidated financial statements, goodwill and other indefinite-lived intangible assets are either qualitatively tested and, when considered necessary, quantitatively tested, for impairment at least annually. The Company's goodwill is tested for impairment at the reporting unit level.

Auditing management's annual quantitative goodwill and other indefinite-lived intangible assets impairment tests was complex and involved a high degree of subjectivity due to the significant estimation required in determining the fair value of the reporting units and the other indefinite-lived intangible assets. In particular, the fair value estimates were sensitive to significant assumptions such as discount rates, revenue growth rates, profit margins, royalty rates, and terminal growth rates, which are forward-looking and could be affected by future economic and market conditions.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's quantitative goodwill and other indefinite-lived intangible assets annual impairment tests. For example, we tested controls over management's review of the valuation models, the significant assumptions described above, and the completeness and accuracy of the data used in the valuations.

To test the estimated fair value of the Company's reporting units and other indefinite-lived intangible assets, we performed audit procedures that included, among others, assessing fair value methodologies and testing the significant assumptions discussed above and the completeness and accuracy of the underlying data used by the Company in its analyses. For example, we compared the significant assumptions used by management to current industry, market and economic trends, to historical results of the Company's business and other guideline companies within the same industry and to other relevant factors. We assessed the historical accuracy of management's estimates and performed sensitivity analyses of significant assumptions to evaluate the changes in the fair value of the reporting units and other indefinite-lived intangible assets that would result from changes in the assumptions. We also involved internal valuation specialists to assist in our evaluation of the significant assumptions and methodologies used by the Company.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1996.

Philadelphia, Pennsylvania
February 21, 2020

KNOLL, INC.
CONSOLIDATED BALANCE SHEETS
(dollars in millions, except per share data)

	December 31, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8.5	\$ 1.6
Customer receivables, net of allowance for doubtful accounts of \$4.0 and \$3.7, respectively	107.4	120.2
Inventories	195.9	170.5
Prepaid expenses	17.2	25.6
Other current assets	11.6	13.7
Total current assets	340.6	331.6
Property, plant, and equipment, net	239.0	215.0
Goodwill	332.1	320.8
Intangible assets, net	348.2	353.9
Right-of-use lease assets	94.4	—
Other noncurrent assets	3.6	5.6
Total Assets	\$ 1,357.9	\$ 1,226.9
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt	17.1	17.2
Accounts payable	131.9	126.7
Current portion of lease liability	20.7	—
Other current liabilities	120.3	128.9
Total current liabilities	290.0	272.8
Long-term debt	428.9	443.9
Deferred income taxes	87.5	86.5
Lease liability	87.0	—
Pension liability	22.0	13.9
Other noncurrent liabilities	14.9	23.3
Total liabilities	930.3	840.4
Commitments and contingencies (Note 14)		
Equity: (shares in thousands)		
Common stock, \$0.01 par value; 200,000 shares authorized; 66,296 shares and 65,779 shares issued, respectively, and 49,775 and 49,431 shares outstanding, respectively, net, at all periods, of treasury shares and inclusive of non-voting restricted shares	0.5	0.5
Additional paid-in capital	66.8	58.8
Retained earnings	429.7	395.4
Accumulated other comprehensive loss	(69.4)	(68.4)
Total Knoll, Inc. stockholders' equity	427.6	386.3
Noncontrolling interests	—	0.2
Total equity	427.6	386.5
Total Liabilities and Equity	\$ 1,357.9	\$ 1,226.9

See accompanying notes to the consolidated financial statements.

KNOLL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(in millions, except per share data)

	Years ended December 31,		
	2019	2018	2017
Sales	\$ 1,428.1	\$ 1,302.3	\$ 1,132.9
Cost of sales	879.1	820.8	718.3
Gross profit	549.0	481.5	414.6
Selling, general, and administrative expenses	411.9	363.7	315.6
Restructuring charges	0.8	2.6	2.2
Write-off of property, plant, and equipment	—	—	16.3
Intangible asset impairment charge	6.5	—	—
Operating profit	129.8	115.2	80.5
Pension settlement charges	21.0	5.7	2.2
Interest expense	21.7	20.9	7.4
Other income, net	(3.8)	(9.6)	(7.7)
Income before income tax expense (benefit)	90.9	98.2	78.6
Income tax expense (benefit)	23.4	24.9	(1.6)
Net earnings	\$ 67.5	\$ 73.3	\$ 80.2
Net earnings per share:			
Basic	\$ 1.38	\$ 1.51	\$ 1.66
Diluted	\$ 1.36	\$ 1.49	\$ 1.63
Weighted-average common shares outstanding: (in thousands)			
Basic	48,846	48,657	48,423
Diluted	49,457	49,218	49,160
Net earnings	\$ 67.5	\$ 73.3	\$ 80.2
Other comprehensive income (loss), net of tax:			
Unrealized loss on cash flow hedge	(3.6)	(1.3)	—
Pension and other post-employment liability adjustments, net of tax	4.3	2.6	(5.3)
Foreign currency translation adjustments	3.2	(13.1)	4.9
Foreign currency translation adjustments on long term intercompany notes	(4.9)	(8.1)	—
Total other comprehensive loss, net	(1.0)	(19.9)	(0.4)
Comprehensive income	\$ 66.5	\$ 53.4	\$ 79.8

See accompanying notes to the consolidated financial statements.

KNOLL, INC.
CONSOLIDATED STATEMENTS OF EQUITY
(dollars in thousands, except per share data)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Knoll, Inc. Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2016	\$ 0.5	\$ 55.1	\$ 297.0	\$ (43.4)	\$ 309.2	\$ 0.2	\$ 309.4
Net earnings	—	—	80.2	—	80.2	—	80.2
Other comprehensive loss	—	—	—	(0.4)	(0.4)	—	(0.4)
Exercise of stock options	—	0.5	—	—	0.5	—	0.5
Stock-based compensation	—	9.8	—	—	9.8	—	9.8
Cash dividends (\$0.60 per share)	—	—	(29.9)	—	(29.9)	—	(29.9)
Purchase of common stock for treasury	—	(10.9)	—	—	(10.9)	—	(10.9)
Balance at December 31, 2017	\$ 0.5	\$ 54.5	\$ 347.3	\$ (43.8)	\$ 358.5	\$ 0.2	\$ 358.7
Net earnings	—	—	73.3	—	73.3	—	73.3
Adoption of ASU 2018-02	—	—	4.7	(4.7)	—	—	—
Other comprehensive loss	—	—	—	(19.9)	(19.9)	—	(19.9)
Stock-based compensation	—	8.7	—	—	8.7	—	8.7
Cash dividends (\$0.60 per share)	—	—	(29.9)	—	(29.9)	—	(29.9)
Purchase of common stock for treasury	—	(4.4)	—	—	(4.4)	—	(4.4)
Balance at December 31, 2018	\$ 0.5	\$ 58.8	\$ 395.4	\$ (68.4)	\$ 386.3	\$ 0.2	\$ 386.5
Net earnings	—	—	67.5	—	67.5	—	67.5
Other comprehensive loss	—	—	—	(1.0)	(1.0)	—	(1.0)
Stock-based compensation	—	10.8	—	—	10.8	—	10.8
Cash dividends (\$0.66 per share)	—	—	(33.2)	—	(33.2)	—	(33.2)
Purchase of common stock for treasury	—	(3.3)	—	—	(3.3)	—	(3.3)
Other	—	0.5	—	—	0.5	(0.2)	0.3
Balance at December 31, 2019	\$ 0.5	\$ 66.8	\$ 429.7	\$ (69.4)	\$ 427.6	\$ —	\$ 427.6

See accompanying notes to the consolidated financial statements.

KNOLL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in millions)

	Years Ended December 31,		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Net earnings	\$ 67.5	\$ 73.3	\$ 80.2
Adjustments to reconcile net earnings to cash provided by operating activities:			
Depreciation	29.6	25.5	22.7
Amortization expense (including debt issuance costs)	9.9	9.8	3.9
Deferred income tax (benefit) expense	(1.3)	4.8	(19.6)
Loss on extinguishment of debt	0.4	1.4	—
Pension settlement charges	21.0	5.7	2.2
Inventory obsolescence	2.0	1.7	1.9
Unrealized foreign currency losses	2.0	0.5	1.3
Stock-based compensation	10.8	9.2	9.7
Intangible asset impairment charge	6.5	—	—
Non-cash write-off of property, plant and equipment	—	—	16.3
Other non-cash items	1.8	2.8	1.8
Changes in assets and liabilities, net of effects of acquisitions:			
Customer receivables	13.0	(25.0)	(5.5)
Inventories	(20.9)	(16.2)	(4.0)
Prepaid and other current assets	6.2	(3.5)	(3.4)
Accounts payable	(1.4)	12.5	12.1
Other current liabilities	(8.9)	13.6	(15.9)
Other noncurrent assets and liabilities	—	(7.9)	—
Cash provided by operating activities	<u>138.2</u>	<u>108.2</u>	<u>103.7</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(49.9)	(40.3)	(40.6)
Purchase of businesses, net of cash acquired	(30.9)	(308.0)	—
Proceeds from sales of assets	0.1	—	—
Cash used in investing activities	<u>(80.7)</u>	<u>(348.3)</u>	<u>(40.6)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from revolving credit facility	417.5	490.5	310.0
Repayment of revolving credit facility	(413.5)	(383.0)	(338.0)
Proceeds from term loans	—	350.2	—
Repayment of term loans	(17.1)	(177.9)	—
Capitalized debt issuance costs	(1.5)	(4.6)	—
Payment of fees related to debt extinguishment	—	(1.0)	—
Payment of dividends	(32.8)	(30.0)	(30.2)
Proceeds from the issuance of common stock	—	—	0.6
Purchase of common stock for treasury	(3.3)	(4.4)	(10.9)
Contingent purchase price payment	—	—	(6.0)
Cash (used in) provided by financing activities	<u>(50.7)</u>	<u>239.8</u>	<u>(74.5)</u>
Effect of exchange rate changes on cash and cash equivalents	0.1	(0.3)	3.7
Net increase (decrease) in cash and cash equivalents	6.9	(0.6)	(7.7)
Cash and cash equivalents at beginning of year	1.6	2.2	9.9
Cash and cash equivalents at end of year	<u>\$ 8.5</u>	<u>\$ 1.6</u>	<u>\$ 2.2</u>
Supplemental disclosure of cash flow information:			
Cash paid for interest, net of amounts capitalized	\$ 20.3	\$ 18.3	\$ 7.6
Cash paid for income taxes, net of refunds received	\$ 12.5	\$ 9.6	\$ 22.4

See accompanying notes to the consolidated financial statements.

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

1. DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION

Description of the Business

Knoll, Inc. and its subsidiaries (the “Company” or “Knoll”) are engaged in the design, manufacture, marketing and sale of high-end furniture products and accessories, for both workplace and residential markets, as well as modern outdoor furniture. The Company is also engaged in the sale of fine leather, textiles, and felt, focusing on the middle to high-end segments of the market. The Company primarily operates in the United States (“U.S.”), Canada and Europe, and sells its products through a broad network of independent dealers and distribution partners, a direct sales force, its showrooms, and its e-commerce platforms.

Basis of Presentation

The Company follows accounting standards set by the Financial Accounting Standards Board (“FASB”). The FASB establishes accounting principles generally accepted in the United States (“GAAP”). Rules and interpretive releases of the Securities and Exchange Commission (“SEC”) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants, which the Company is required to follow. References to GAAP issued by the FASB in these footnotes are to the FASB Accounting Standards Codification (“ASC”), which serves as a single source of authoritative non-SEC accounting and reporting standards to be applied by non-governmental entities. Beginning in 2019, the Company began reporting all dollar amounts in millions. In certain circumstances, this change in rounding resulted in prior year disclosures being removed. Certain prior period amounts in the consolidated financial statements, as well as in the Notes thereto, have been reclassified to conform to the current year presentation.

During the fourth quarter of 2019, the Company aligned the consolidation of certain of the Company’s foreign subsidiaries in the consolidated financial statements which previously included results on a one-month reporting lag. The Company believes that this change in accounting principle is preferable, as all of the Company’s subsidiaries are now reported based on the same period-end, which improves overall financial reporting to investors by providing the most current information available. In accordance with applicable accounting literature, the elimination of a one month reporting lag of a subsidiary is treated as a change in accounting principle and requires retrospective application. The Company has determined that the effect of this change is not material to the financial statements for all periods presented and therefore, the Company has not presented retrospective application of this change. The net impact of the elimination of the reporting lag of \$0.6 million of loss for the month of December 2019 has been included within "Other income, net" on the Consolidated Statements of Operations and Comprehensive Income in the fourth quarter of 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements of the Company include the accounts of the Company and its wholly-owned subsidiaries and any partially-owned subsidiaries that the Company has the ability to control. Significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results may differ from such estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and highly-liquid investments with maturities of three months or less at the date of purchase.

Revenue Recognition

Revenue for the year ended December 31, 2017 was recognized under ASC 605, *Revenue Recognition*, when (i) persuasive evidence of an arrangement existed, (ii) delivery occurred or services were rendered, (iii) the price was fixed or determinable and (iv) collectability was reasonably assured.

ASC 606, *Revenue from Contracts with Customers*, was adopted for the fiscal year beginning January 1, 2018. Per the new standard, the Company determines revenue recognition by applying the following steps: (i) identify the contract with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations and (v) recognize revenue as the performance obligations are satisfied.

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

The Company recognizes revenue when performance obligations under the terms of a contract with a customer are satisfied. The Company's primary performance obligation to its customers is the delivery of products. Control of the products sold typically transfers to the customer upon shipment or delivery depending on the shipping terms of the underlying contract.

Each customer contract sets forth the transaction price for the products and services purchased under that arrangement. Some customer arrangements include variable consideration, such as volume rebates, some of which depend upon the customers meeting specified performance criteria, such as a purchasing level over a period of time. The Company uses judgment to estimate the most likely amount of variable consideration at each reporting date. When estimating variable consideration, the Company applies judgment when considering the probability of whether a reversal of revenue could occur and only recognize revenue subject to this constraint.

The Company uses historical customer return data as a basis of estimation for customer returns and records the reduction of sales at the time revenue is recognized. Customer returns have historically not been significant. The Company may receive deposits from customers before revenue is recognized, thus resulting in the recognition of a contract liability (customer deposits).

Amounts billed to customers for shipping and handling of products are included in sales and the related costs incurred by the Company for shipping and handling are included in cost of sales. If shipping activities are performed after a customer obtains control of a product, the Company applies a policy election to account for shipping and handling as an activity to fulfill the promise to transfer the product to the customer.

The Company applies an accounting policy election to exclude from the measurement of the transaction price all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected by the Company from a customer.

The Company has elected the practical expedient permitted in ASC 340-40-25-4, which permits an entity to recognize incremental costs to obtain a contract as an expense when incurred if the amortization period will be less than one year.

The Company has elected the practical expedient permitted in ASC 606-10-32-18, which allows an entity to not adjust the promised amount of consideration for the effects of a significant financing component if a contract has a duration of one year or less. As the Company's contracts are typically less than one year in length, consideration will not be adjusted. The Company's contracts generally include a standard payment term of 30 days, consequently there is no significant financing component within its contracts.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts for losses associated with accounts receivable balances that are estimated to be uncollectible. The allowance is determined through an analysis of the aging of accounts receivable and assessments of risk that are based on historical trends. The Company evaluates the past-due status of its customer receivables based on the contractual terms of sale. If the financial condition of the Company's customers were to deteriorate, additional allowances may be required. Accounts receivable and corresponding allowance for doubtful accounts are written off when the Company determines that the likelihood of recovery is remote and the Company no longer intends to expend resources to attempt collection.

The following table summarizes the changes in the allowance for doubtful accounts for the periods presented (in millions):

<u>Description</u>	<u>Balance at Beginning of Year</u>	<u>Additions Charged to Expenses (Income)</u>	<u>Charge-Offs</u>	<u>Other</u>	<u>Balance at End of Year</u>
Allowance for doubtful accounts:					
Year ended December 31, 2017	\$ 8.0	\$ (2.2)	\$ (1.8)	\$ —	\$ 4.0
Year ended December 31, 2018	4.0	0.1	(0.4)	—	3.7
Year ended December 31, 2019	3.7	0.9	(0.7)	0.1	4.0

Inventories

Inventories are stated at the lower of cost or net realizable value and include material, labor and overhead. Cost is determined using the first-in, first-out method. The Company adjusts for inventory that it believes is impaired or obsolete. Obsolescence occurs as the result of several factors, including the discontinuance of a product line, changes in product material specifications, replacement products in the marketplace and other competitive influences.

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The useful lives are as follows:

Category	Useful Life (in years)
Leasehold improvements ⁽¹⁾	Various
Buildings	35-60
Building improvements	5-25
Office equipment	3-10
Software	3-10
Machinery and equipment	4-12

(1) Leasehold improvements are amortized over the shorter of the economic life of the asset or the remaining lease term.

Maintenance and repairs are expensed as incurred. Interest on capital projects is capitalized during the construction period.

The Company reviews the carrying values of its property and equipment for possible impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable based on undiscounted estimated cash flows expected to result from its use and eventual disposition. The factors considered by the Company in performing this assessment include current operating results, business trends affecting the use of certain assets and other economic factors. In assessing the recoverability of the carrying value of property and equipment, the Company must make assumptions regarding future cash flows and other factors. If these estimates or the related assumptions change in the future, the Company may be required to record an impairment loss for these assets.

Goodwill and Intangible Assets

Goodwill and intangible assets with indefinite lives are tested for impairment at least annually, as of October 1, and more frequently whenever events or circumstances occur indicating that a possible impairment may have been incurred. Intangible assets with finite lives are amortized over their estimated useful lives.

The Company evaluates goodwill for impairment by way of qualitative and quantitative assessments. A qualitative assessment involves determining whether events or circumstances exist that indicate it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If, based on this qualitative assessment, the Company determines it is more likely than not that the fair value of a reporting unit is less than its carrying amount, or if the Company elects not to perform a qualitative assessment, a quantitative assessment is performed by determining the fair value of the Company's reporting units.

The Company estimates the fair value of its reporting units using a combination of the fair values derived from both the income approach and the market approach. Under the income approach, the Company calculates the fair value of a reporting unit based on the present value of estimated future cash flows. Cash flow projections are based on management's estimates of revenue growth rates and operating margins, taking into consideration industry and market conditions. The discount rate is based on the weighted-average cost of capital adjusted for the relevant risk associated with business-specific characteristics and the uncertainty related to the businesses ability to execute on the projected cash flows. The market approach estimates fair value based on market multiples of revenue and earnings derived from comparable publicly-traded companies with similar operating and investment characteristics as the reporting unit.

If the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired and no further testing is required. If the fair value of the reporting unit is less than the carrying value, an impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit.

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

When performing a qualitative assessment, the Company assesses numerous factors to determine whether it is more likely than not that the fair value of the reporting units are less than their respective carrying values. The Company considered factors that would impact the reporting unit fair values as estimated by the market and income approaches used in the last quantitative assessment. The Company reviewed current projections of cash flows and compared these current projections to the projections included in the most recent quantitative assessment and considered the fact that no new significant competitors entered the marketplace in the industry and that consumer demand for the industry's products remains relatively constant, if not growing slightly. Also, economic factors during the year did not significantly affect the discount rates used for the valuation of these reporting units. The Company concluded that events occurring since the last quantitative assessment did not have a significant impact on the fair value of each of these reporting units. Therefore, the Company determined that it was not necessary to perform a quantitative goodwill impairment test for certain of these reporting units as the qualitative assessment indicated that it is not more than likely than not that the fair value of a reporting unit is less than its carrying amount.

The Company assesses whether impairment of indefinite-lived intangible assets, namely tradenames, exists using both the qualitative and quantitative assessments. The qualitative assessment involves determining whether events or circumstances exist that indicate it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount. If based on this qualitative assessment, the Company determines it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount or if the Company elects not to perform a qualitative assessment, a quantitative assessment is performed to determine whether an indefinite-lived intangible asset impairment exists. The Company tests the indefinite-lived intangible assets for impairment by comparing the carrying value to the fair value based on current revenue projections of the related operations, under the relief from royalty method. Any excess of the carrying value over the amount of fair value is recognized as an impairment. Any such impairment is recognized in the reporting period in which it has been identified.

Finite-lived intangible assets such as customer relationships, non-compete agreements, and licenses are amortized over their estimated useful lives. The Company reviews the carrying values of these assets for possible impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable based on estimated undiscounted cash flows expected to result from its use and eventual disposition. The Company regularly evaluates the reasonableness of the useful lives of these assets.

Leases

The Company accounts for leases in accordance with ASC Topic 842, *Leases*, ("ASC 842"). The Company determines if an arrangement is a lease at contract inception. A lease exists when a contract conveys to the customer the right to control the use of identified property, plant, or equipment for a period of time in exchange for consideration. The definition of a lease embodies two conditions: (1) there is an identified asset in the contract that is land or a depreciable asset (i.e., property, plant, and equipment), and (2) the customer has the right to control the use of the identified asset. The Company determines whether the contracts are considered an operating or finance lease. The Company does not currently have finance leases.

Operating leases are included in right-of-use ("ROU") lease assets, current portion lease liability, and lease liabilities on the Consolidated Balance Sheets when the lease term exceeds one year. The lease liabilities are initially measured at the present value of the unpaid lease payments at the lease commencement date.

Key estimates and judgments include how the Company determined (1) the discount rate it uses to discount the unpaid lease payments to present value, (2) lease term and (3) lease payments.

- (1) ASC 842 requires a lessee to discount its unpaid lease payments using the interest rate implicit in the lease or, if that rate cannot be readily determined, its incremental borrowing rate. As the majority of the Company's leases do not provide an implicit rate, the Company uses the incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The Company's incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms. The Company uses the implicit rate when readily determinable.
- (2) The lease term for all of the Company's leases includes the non-cancellable period of the lease plus any additional periods covered by a Company option to extend (or not to terminate) the lease that the Company is reasonably certain to exercise.
- (3) Lease payments included in the measurement of the lease liability comprise the following: fixed payments (including in-substance fixed payments), less any lease incentives paid or payable to the lessee, variable payments that depend on an index or rate, amounts expected to be payable under a residual value guarantee and the exercise price of the Company option to purchase the underlying asset if the Company is reasonably certain to exercise.

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

The ROU asset is initially measured at cost, which comprises the initial measurement of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred, less any lease incentives received.

For operating leases, the ROU asset is subsequently measured throughout the lease term at the amount of the remeasured lease liability, adjusted for the remaining balance of any lease incentives received, any cumulative prepaid or accrued rent if the lease payments are uneven throughout the lease term and any unamortized initial direct costs. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Variable lease payments associated with the Company's leases are recognized when the event, activity, or circumstance in the lease agreement on which those payments are assessed occurs. Variable lease payments are presented as operating expenses in the Company's Consolidated Statement of Operations and Comprehensive Income in the same line item as expense arising from fixed lease payments for operating leases.

ROU assets for operating leases are subject to the long-lived assets impairment guidance in ASC Subtopic 360-10, *Property, Plant, and Equipment*.

The Company monitors for events or changes in circumstances that require a reassessment of a lease. When a reassessment results in the remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the corresponding ROU asset unless doing so would reduce the carrying amount of the ROU asset to an amount less than zero. In that case, the amount of the adjustment that would result in a negative ROU asset balance is recorded in profit or loss.

The Company has lease agreements which include lease and non-lease components, which are accounted for separately using a relative stand-alone price basis.

On January 1, 2019 the Company adopted ASC 842 using a modified retrospective transition method and elected the optional transition method as defined within Accounting Standards Update ("ASU") 2018-11. As a result, the Company was not required to adjust its comparative period financial information for effects of the standard or make the new required lease disclosures for periods before the date of adoption (i.e. January 1, 2019). The Company has elected to adopt the package of transition practical expedients and, therefore, has not reassessed (1) whether existing or expired contracts contain a lease, (2) lease classification for existing or expired leases or (3) the accounting for initial direct costs that were previously capitalized. The Company did not elect the practical expedient to use hindsight for leases existing at the adoption date.

The Company has elected not to recognize ROU assets and lease liabilities for all short-term leases that have a lease term of 12 months or less. The Company recognizes the lease payments associated with its short-term leases as an expense on a straight-line basis over the lease term. Variable lease payments associated with these leases are recognized and presented in the same manner as for all other Company leases.

Additionally, the Company applies a portfolio approach to determine the discount rate (i.e. incremental borrowing rate for leases with similar characteristics). The Company applies the incremental borrowing rate generally based on the transactional currency of the lease and the lease term.

Business Combinations

The purchase price of an acquired company is allocated between tangible and intangible assets acquired and liabilities assumed from the acquired business based on their estimated fair values, with the residual of the purchase price recorded as goodwill. The results of operations of the acquired business are included in the Company's operating results from the date of acquisition.

Deferred Financing Fees

Financing fees that are incurred by the Company in connection with the issuance of debt are deferred and amortized to interest expense over the life of the underlying indebtedness. Deferred financing fees are presented in the Company's consolidated balance sheets as a direct reduction from long-term debt.

Research and Development Costs

Research and development costs are expensed as incurred, and are included as a component of selling, general, and administrative expenses. Research and development expenses were \$16.4 million for 2019, \$20.1 million for 2018, and \$19.2 million for 2017.

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are determined and recognized based on the differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases using the tax rates expected to be in effect when the temporary differences are expected to reverse. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not some portion or all of the related tax benefit will not be realized. The need to establish valuation allowances against deferred tax assets is assessed quarterly. The Company's valuation allowances are primarily attributable to net operating loss ("NOL") carryforwards in certain foreign tax jurisdictions where the Company has incurred historical tax losses from operations and has determined that it is more likely than not these deferred tax assets will not be realized. The primary factors used to assess the likelihood of realization are reversals of taxable temporary timing differences, forecasts of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets.

The Company evaluates tax positions to determine whether the benefits of tax positions are more likely than not to be sustained upon audit based on the technical merits of the tax position. For tax positions that are more likely than not to be sustained upon audit, the Company recognizes the largest amount of the benefit that is greater than 50% likely of being realized upon ultimate settlement. For tax positions that are not more likely than not to be sustained upon audit, the Company does not recognize any portion of the benefit. If the more likely than not threshold is not met in the period for which a tax position is taken, the Company may subsequently recognize the benefit of that tax position if the tax matter is effectively settled, the statute of limitations expires, or if the more likely than not threshold is met in a subsequent period.

The Company recognizes income tax-related interest and penalties in income tax expense and accrues for interest and penalties in other noncurrent liabilities.

Fair Value of Financial Instruments

The Company uses the following valuation techniques to measure fair value for its financial assets and financial liabilities:

- Level 1 Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 Inputs are quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable and market-corroborated inputs which are derived principally from or corroborated by observable market data.
- Level 3 Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company and its subsidiaries use, as appropriate, a market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models), and/or a cost approach (generally, replacement cost) to measure the fair value of an asset or liability. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk.

Derivative Instruments

The Company utilizes derivative instruments to mitigate volatility related to interest rates on certain debt instruments. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. The Company recognizes derivatives as either assets or liabilities in the Consolidated Balance Sheets and measures those instruments at fair value. Changes in the fair value of those instruments are initially reported in Accumulated Other Comprehensive Income (Loss) if they qualify for hedge accounting and are subsequently recognized in earnings when the hedged exposure affects earnings. Derivatives qualify for hedge accounting if they are designated as hedge instruments and if the hedge is highly effective in achieving offsetting changes in the cash flows of the asset or liability hedged. Hedge effectiveness is assessed on a regular basis. Changes in fair value of derivative instruments that do not qualify for hedge accounting are recognized immediately in current net earnings.

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

Commitments and Contingencies

The Company establishes reserves for the estimated cost of environmental, legal and other contingencies when such expenditures are probable and reasonably estimable. A significant amount of judgment is required to estimate and quantify the ultimate exposure in these matters. The Company engages outside experts as deemed necessary or appropriate to assist in the evaluation of exposure. From time to time, as information becomes available regarding changes in circumstances for ongoing issues as well as information regarding emerging issues, the potential liability is reassessed and reserve balances are adjusted as necessary. Revisions to the estimates of potential liability, and actual expenditures related to commitments and contingencies, could have a material impact on the results of operations or financial position.

Warranty

The Company generally offers an assurance-type warranty for its products. The specific terms and conditions of those warranties vary depending upon the product sold. The Company estimates the costs that may be incurred under its warranties and records a liability in the amount of such costs at the time product revenue is recognized. Factors that affect the Company's warranty liability include historical product-failure experience and estimated repair costs for identified matters. The Company regularly assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

Concentration of Credit Risk

The Company's customer receivables are comprised primarily of amounts due from independent dealers and direct customers. The Company monitors and manages the credit risk associated with the individual dealers and direct customers. The independent dealers are responsible for assessing and assuming the credit risk of their customers and may require their customers to provide deposits or other credit enhancement measures. Historically, the Company has had a concentration of federal and local government receivables; however, they carry minimal credit risk.

Foreign Currency Translation

Results of foreign operations are translated into U.S. dollars using average exchange rates during the year, while assets and liabilities are translated into U.S. dollars using the exchange rates as of the balance sheet dates. The resulting translation adjustments are recorded in accumulated other comprehensive income (loss).

Transaction gains and losses resulting from exchange rate changes on transactions denominated in currencies other than the functional currency of the applicable subsidiary are included in the consolidated statements of operations, within other income, net, in the year in which the gain or loss occurs.

Stock-Based Compensation

The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The Company recognizes compensation expense using the straight-line method over the vesting period. Compensation expense relating to restricted stock units subject to performance conditions is recognized if it is probable that the performance condition will be achieved. Forfeitures are recognized when they occur.

The fair value of restricted stock and restricted stock units, excluding market-based restricted stock units, is based upon the closing market price of the Company's common stock on the date of grant.

The fair value of market-based restricted stock units is estimated at the date of grant using a Monte Carlo simulation model, which requires management to make certain assumptions based on both historical and current data. These awards vest based upon the performance of the Company's stock price relative to a peer group. The assumptions included in the model include, but are not limited to, risk-free interest rate, expected volatility of the Company's and the peer group's stock prices, and dividend yield. The risk-free rate is based upon the applicable U.S. Treasury Note rate. Expected volatility is estimated based on the historical volatility of the Company's and peer group's stock prices. The dividend yield is based on the Company's historical data.

Pension and Other Post-Employment Benefits

The Company sponsors two defined benefit pension plans, one of which was terminated during 2019, and four other post-employment benefit plans ("OPEB"), one of which was terminated during 2019. Several statistical and other factors, which attempt to anticipate future events, are used in calculating the expense and liability related to the plans. Key factors include assumptions about the expected rates of return on plan assets, discount rates, mortality rates and health care cost trend rates. The Company considers market and regulatory conditions, including changes in investment returns and interest rates, in making these assumptions.

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

The Company determines the expected long-term rate of return on plan assets based on aggregating the expected rates of return for each component of the plan's asset mix. The Company uses historic plan asset returns combined with current market conditions to estimate the rate of return. The expected rate of return on plan assets is a long-term assumption. The discount rate reflects the market rate for high-quality fixed income debt instruments as of the Company's annual measurement date and is subject to change each year.

Unrecognized actuarial gains and losses are recognized over the expected remaining lifetime of the plan participants. Unrecognized actuarial gains and losses arise from several factors, including experience and assumption changes with respect to the obligations of the pension and OPEB plans, and from the difference between expected returns and actual returns on plan assets. These unrecognized gains and losses are systematically recognized as a change in future net periodic pension expense in accordance with the appropriate accounting guidance relating to defined benefit pension and OPEB plans.

Key assumptions used in determining the amount of the obligation and expense recorded for the OPEB plans include the assumed discount rate and the assumed rate of increases in future health care costs. In estimating the health care cost trend rate, the Company considers actual health care cost experience, future benefit structures, industry trends and advice from its actuaries. The Company assumes that the relative increase in health care costs will generally trend downward over the next several years, reflecting assumed increases in efficiency and cost-containment initiatives in the health care system.

In accordance with the appropriate accounting guidance, the Company has recognized the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligation) of the defined benefit pension and OPEB plans in the consolidated balance sheets. To record the unfunded status of the plans, the Company recorded an additional liability and an adjustment to accumulated other comprehensive loss, net of tax. Other changes in the benefit obligation including net actuarial loss (gain) and prior service cost (credit) are recognized in other comprehensive income.

The actuarial assumptions the Company used in determining the pension and OPEB retirement benefits may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates, or longer or shorter life spans of participants. While the Company believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions could materially affect the financial position or results of operations.

Segment Information

The Company has two reportable segments: Office and Lifestyle. The Office reportable segment is comprised of the operations of the Office operating segment. The Lifestyle reportable segment is an aggregation of the Lifestyle, Europe Studio, and Muuto operating segments. All unallocated expenses are included within Corporate.

The Office reportable segment includes a complete range of workplace products that address diverse workplace planning paradigms. These products include: systems furniture, seating, storage, tables, desks and KnollExtra® accessories as well as the international sales of our North American Office products. The Office segment includes DatesWeiser and Fully. DatesWeiser, known for its sophisticated meeting and conference tables and credenzas, sets a standard of design, quality and technology integration. Fully is an e-commerce furniture brand selling height-adjustable desks, ergonomic chairs and accessories principally for individual home offices and small businesses.

The Lifestyle reportable segment aggregates three operating segments: Lifestyle, Europe Studio and Muuto. The Lifestyle reportable segment products, which are distributed in North America and Europe, include iconic seating, lounge furniture, side, café and dining chairs as well as conference, training, dining and occasional tables, lighting, rugs, textiles, high-quality fabrics, felt, leather and related architectural products.

During the first quarter of 2019, the Company changed the structure of its internal organization, resulting in a change to the composition of its reportable segments. DatesWeiser is now a component of the Office operating segment, as opposed to the Lifestyle operating segment. As a result of this change in segment reporting, the Company retrospectively revised prior period results, by segment, to conform to current period presentation.

Corporate costs include unallocated costs relating to shared services and general corporate activities such as legal expenses, acquisition expenses, certain finance, human resources, administrative and executive expenses and other expenses that are not directly attributable to an operating segment. Dedicated, direct selling, general and administrative expenses of the segments are included within segment operating profit. Management regularly reviews the costs included in the Corporate function and believes disclosing such information provides more visibility and transparency of how the chief operating decision maker reviews the results for the Company.

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

New Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13 - *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 replaces the incurred loss impairment methodology for measuring and recognizing credit losses with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 will be effective for the Company as of January 1, 2020. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820)* which modifies the disclosure requirements of fair value measurements in Topic 820, Fair Value Measurement. For public companies the ASU removes disclosure requirements for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels and the valuation process for Level 3 fair value measurements. The ASU modifies the disclosure requirements for investments in certain entities that calculate net asset value and clarifies that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. The ASU adds the disclosure requirement for changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The amendments in this update are effective for all entities for fiscal years beginning after December 15, 2019 including interim periods within that fiscal year. Early adoption is permitted. The Company does not believe there will be a material impact to the consolidated financial statements as a result of adopting this ASU.

Accounting Standards Adopted

In February 2016, the FASB issued guidance codified in ASC 842, *Leases*, which supersedes the guidance in ASC 840, *Leases*. ASC 842 was effective for the Company on January 1, 2019, and the Company adopted the standard using the modified retrospective approach. The Company recorded lease liabilities of \$119.3 million, with an offsetting increase to the right-of-use assets of \$101.7 million, for all leases with an initial term of greater than twelve months regardless of their classification as of January 1, 2019.

In 2018, the FASB issued clarifying guidance to the topic in ASUs No. 2018-10 and No. 2018-11, which clarified certain aspects of the new leases standard and provided an optional transition method. The Company has elected the package of practical expedients and adopted utilizing the optional transition method defined within ASU 2018-11 on January 1, 2019. The Company did not elect the hindsight expedient. The adoption of the standard did not materially impact the Consolidated Statements of Operations and Comprehensive Income or Cash Flows.

In June 2018, the FASB issued ASU 2018-07, *Compensation - Stock compensation (Topic 718)* which simplifies several aspects of the accounting for nonemployee share-based payment transactions resulting from expanding the scope of Topic 718, *Compensation-Stock Compensation*, to include share-based payment transactions for acquiring goods and services from non-employees. Some of the areas for simplification apply only to nonpublic entities. The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. The amendments also clarify that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Topic 606, *Revenue from Contracts with Customers*. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. The Company adopted this ASU effective January 1, 2019. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40)* which reduces the complexity of accounting for costs of implementing a cloud computing service arrangement and aligns the accounting for capitalizing implementation costs of hosting arrangements, regardless of whether they convey a license to the hosted software. Capitalized implementation costs related to a hosting arrangement that is a service contract will be amortized over the term of the hosting arrangement, beginning when the component of the hosting arrangement is ready for its intended use. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2019, including interim periods within that fiscal year. Early adoption is permitted. The Company adopted the amendment prospectively as of October 1, 2019 and the adoption did not have a material impact on the Company's consolidated financial statements.

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

3. REVENUE

Disaggregation of Revenue

The majority of the Company's revenue presented as "Sales" in the Consolidated Statements of Operations and Comprehensive Income is the result of contracts with customers for the sale of the Company's products.

The Company's sales by product category were as follows (in millions):

	Year Ended December 31,		
	2019	2018	2017
Office Segment			
Office Systems	\$ 449.4	\$ 439.2	\$ 422.7
Seating	131.2	131.0	118.4
Files and Storage	104.9	92.0	90.4
Ancillary	134.4	91.9	59.5
Other	53.9	43.0	42.3
Total Office Segment	<u>\$ 873.8</u>	<u>\$ 797.1</u>	<u>\$ 733.3</u>
Lifestyle Segment			
Studio	439.9	395.2	290.6
Coverings	114.4	110.0	109.0
Total Lifestyle Segment	<u>\$ 554.3</u>	<u>\$ 505.2</u>	<u>\$ 399.6</u>
Total Sales	<u><u>\$ 1,428.1</u></u>	<u><u>\$ 1,302.3</u></u>	<u><u>\$ 1,132.9</u></u>

Contract Balances

The Company has contract assets consisting of Customer receivables in the Consolidated Balance Sheets which represent the amount of consideration the Company expects to be entitled to in exchange for the goods or services rendered to its customers.

When the Company receives deposits, the recognition of revenue is deferred and results in the recognition of a contract liability (Customer deposits) presented as a component of Other Current Liabilities in the Consolidated Balance Sheets. Subsequent recognition of revenue and the satisfaction of the contract liability is typically less than one year as the Company's standard contract is less than one year. As of December 31, 2019 and December 31, 2018, the contract liability related to customer deposits was \$32.5 million and \$37.7 million, respectively. The Company recognized revenues that were included in the contract liability at the beginning of the 2019 and 2018 of \$31.1 million and \$30.5 million, respectively. In addition, the Company assumed a contract liability of \$0.5 million related to a business combination during the year.

4. ACQUISITIONS

Fully

On August 20, 2019, the Company acquired FHI LLC ("Fully"), a Portland, Oregon-based e-commerce furniture brand with products targeting the home office and small business markets. The acquisition provides the Company access to new markets for current products, while simultaneously allowing it to leverage its existing distribution channels to expand its product offerings to include Fully's portfolio of high-performance adjustable height desks, ergonomic chairs and accessories.

The aggregate purchase price consists of cash paid at closing of \$30.9 million, net of cash acquired of \$4.1 million, plus additional earn-out consideration should Fully achieve certain revenue and earnings targets associated with separate short-term and long-term earn-out periods of two and four years, respectively (together, the "Earn-Out Consideration"). The estimated fair value of the Earn-Out Consideration is \$2.0 million as of the acquisition date (see Note 11 for further discussion). The acquisition was funded from cash on hand and borrowings under the Company's Revolver. The Company recognized the assets acquired and liabilities assumed at their estimated fair values as of the acquisition date. The excess of the purchase price over the net tangible and identifiable intangible assets was recorded to goodwill. Adjustments to the initial accounting for the acquisition may occur if additional information is obtained that results in a revision to the analysis of the facts and circumstances that existed as of the acquisition date, but no later than one year thereafter (the "Measurement Period"). The results of operations of Fully are reported in the Office segment and have been included in the consolidated results of operations from the acquisition date.

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

The pro forma financial information, has not been presented for the Fully acquisition as the financial impact of this acquisition is not considered material.

The following table summarizes the preliminary fair value and useful lives of the intangible assets acquired as of the acquisition date of Fully (dollars in millions):

	Fair Value as of August 20, 2019	Estimated useful Life (in years)
Tradenames	\$ 10.0	10
Customer relationships	1.0	5
Non-compete agreements	0.5	4
Goodwill	14.9	-

Muuto

On January 25, 2018, the Company acquired one hundred percent (100%) of the shares of Muuto Holding ApS and MIE4 Holding 5 ApS, which collectively held all the business operations of Muuto ApS (“Muuto”). Muuto’s affordable luxury products span commercial and residential applications, adding scale and diversity to the Company’s business. The aggregate purchase price for the acquisition was \$307.7 million, net of \$7.6 million of cash acquired. The Company recognized the assets acquired and liabilities assumed at their estimated fair values as of the date of acquisition. The results of operations of Muuto have been included in the Company’s Lifestyle segment beginning January 25, 2018. The Company funded the acquisition with proceeds from debt issued under the Third Amended and Restated Credit Agreement, as well as cash on hand (see Note 13). The Company recorded acquisition and certain other costs of \$5.1 million within selling, general, and administrative expenses in its Consolidated Statement of Operations and Comprehensive Income, during the twelve months ended December 31, 2018.

The following table summarizes the fair values assigned to the assets acquired and liabilities assumed of Muuto and the resulting goodwill as of the January 25, 2018 acquisition date (in millions):

	Amount
Cash	\$ 7.6
Customer receivables	8.6
Inventory	11.1
Other current assets	0.4
Property, plant, and equipment, net	1.3
Intangible assets	135.6
Other non-current assets	0.3
Total assets acquired	\$ 164.9
Accounts payable	3.4
Other current liabilities	10.6
Deferred income taxes	29.9
Total liabilities assumed	\$ 43.9
Net assets acquired	\$ 121.0
Purchase price	\$ 315.3
Less: Fair value of acquired identifiable assets and liabilities	121.0
Goodwill	\$ 194.3

The excess of the purchase price over the net tangible and intangible assets is recorded to goodwill and primarily reflects the assembled workforce and expected synergies. Goodwill is not deductible for tax purposes.

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

The following table summarizes the estimated fair value of Muuto's identifiable intangible assets and their estimated useful lives (in millions):

	Fair Value as of January 25, 2018	Estimated Useful Life (in years)
Indefinite-lived intangible assets:		
Trade name	\$ 66.0	Indefinite
Finite-lived intangible assets:		
Wholesale customer relationships	35.8	15
Contract customer relationships	25.0	9
Copyrights & designs	7.5	7
Non-competition agreements	1.3	3
Total intangible assets	<u>\$ 135.6</u>	

The following table presents unaudited pro forma information for the periods presented as if the acquisition of Muuto had occurred as of January 1, 2017 (in millions):

	Year Ended December 31,	
	2018	2017
Pro forma sales	\$ 1,306.4	\$ 1,203.2
Pro forma net earnings attributable to Knoll, Inc. stockholders	\$ 79.0	\$ 77.9

The unaudited pro forma financial information has been presented for illustrative purposes only and is not necessarily indicative of results of operations that would have been achieved had the acquisition taken place on the date indicated, or the future consolidated results of operations of the Company. The pro forma financial information presented above has been derived from the historical consolidated financial statements of the Company and from the historical consolidated financial statements of Muuto.

The pro forma financial information presented above include adjustments for: (1) incremental amortization expense related to fair value adjustments to identifiable intangible assets, (2) incremental interest expense for outstanding borrowings to reflect the terms of the Amended Credit Agreement, (3) nonrecurring items, (4) the tax effect of the above adjustments.

The pro forma information presented for the twelve months ended December 31, 2018 excludes expenses for future payments that are considered compensation for post combination service of \$3.2 million, loss on debt extinguishment of \$1.4 million, acquisition costs of \$1.9 million, and acquisition-related inventory step-up valuation adjustment of \$0.9 million, and includes incremental interest expense of \$0.1 million and incremental amortization of intangibles of \$0.8 million. The income tax impact of these adjustments for the twelve months ended December 31, 2018 was \$1.3 million. The pro forma information presented for the twelve months ended December 31, 2017 includes incremental amortization of intangibles of \$6.6 million, acquisition costs of \$1.9 million, future payments that are considered compensation for post combination service of \$3.5 million, incremental amortization of deferred financing fees of \$1.2 million, incremental interest expense of \$1.7 million, and an acquisition-related inventory step-up valuation adjustment of \$0.9 million. The income tax impact of these adjustments for the twelve months ended December 31, 2017 was \$4.6 million.

5. INVENTORIES

Information regarding the Company's inventories is as follows (in millions):

	December 31,	
	2019	2018
Raw materials	\$ 58.7	\$ 65.2
Work-in-process	8.1	8.3
Finished goods	129.1	97.0
	<u>\$ 195.9</u>	<u>\$ 170.5</u>

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

6. PROPERTY, PLANT, AND EQUIPMENT, NET

Property, plant and equipment, net consisted of the following as of the dates presented (in millions):

	December 31,	
	2019	2018
Land	\$ 16.0	\$ 12.0
Leasehold improvements	62.9	59.6
Buildings	71.9	68.9
Office equipment	27.2	19.5
Software	71.2	43.4
Machinery and equipment	236.4	237.2
Construction-in-progress	35.0	52.7
Property, plant and equipment	520.6	493.3
Accumulated depreciation	(281.6)	(278.3)
Property, plant, and equipment, net	<u>\$ 239.0</u>	<u>\$ 215.0</u>

During 2019, 2018 and 2017, the Company capitalized interest of approximately \$0.5 million, \$0.8 million and \$0.8 million, respectively.

During the fourth quarter of 2017, the Company completed a global design review of the next phases of its enterprise resource planning ("ERP") system implementation. Through this review, the Company identified certain software items that were no longer useful to the future phases of the ERP system. As a result, the Company recorded a \$16.3 million write-off of capitalized software costs in 2017.

7. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Goodwill

The following table summarizes the carrying amount of goodwill by reportable segment as of the dates presented, as well as the changes to goodwill during the years ended December 31, 2019 and 2018 (in millions):

	Office Segment	Lifestyle Segment	Total
Balance as of December 31, 2017	\$ 39.7	\$ 102.4	\$ 142.1
Foreign currency translation adjustment	(0.6)	(15.3)	(15.9)
Goodwill recognized in connection with the Muuto acquisition	—	194.6	194.6
Balance as of December 31, 2018	39.1	281.7	320.8
Foreign currency translation adjustment	0.3	(3.9)	(3.6)
Goodwill recognized in connection with the Fully acquisition	14.9	—	14.9
Balance as of December 31, 2019	<u>\$ 54.3</u>	<u>\$ 277.8</u>	<u>\$ 332.1</u>

The Company did not record any goodwill impairment charges in 2019, 2018 or 2017.

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

Intangible Assets

Information regarding the Company's other intangible assets is as follows (in millions):

	December 31, 2019			December 31, 2018		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Indefinite-lived intangible assets:						
Tradenames	\$ 277.6	\$ —	\$ 277.6	\$ 285.5	\$ —	\$ 285.5
Finite-lived intangible assets:						
Customer relationships	78.9	(25.0)	53.9	78.4	(18.4)	60.0
Various	30.9	(14.2)	16.7	20.5	(12.1)	8.4
Total	\$ 387.4	\$ (39.2)	\$ 348.2	\$ 384.4	\$ (30.5)	\$ 353.9

Based on the result of the annual impairment test of indefinite-lived intangible assets as of October 1, 2019, the Company determined that the Edelman Leather tradename was impaired, as the estimated fair value of the Edelman Leather tradename was less than its respective carrying amount. The decline in the fair value of the Edelman tradename was primarily the result of weaker than expected revenue performance in late 2019, a corresponding reduction of future revenue expectations and a reduction of the royalty rate used for valuation purposes. The revenue reductions were primarily a result of lower sales of luxury products, an aging of Edelman showrooms, and the inability to replace private aviation customers with a comparable revenue stream. The Edelman Leather tradename was estimated to be fully impaired, resulting in a non-cash pre-tax impairment charge of \$6.5 million during the fourth quarter of 2019. This fair value measurement fell within Level 3 of the fair value hierarchy as described in Note 2. Edelman Leather is included within the Company's Lifestyle Segment. There were no impairments of indefinite-lived intangible assets during 2018 or 2017.

Amortization expense related to finite-lived intangible assets was \$8.9 million, \$8.9 million, and \$3.3 million for the years ended December 31, 2019, 2018, and 2017, respectively. The estimated future amortization expense of finite-lived intangible assets as of December 31, 2019 is as follows (in millions):

Year	Amount
2020	\$ 9.6
2021	9.1
2022	8.8
2023	8.7
2024	7.1

8. OTHER CURRENT LIABILITIES

Information regarding the Company's other current liabilities is as follows (in millions):

	December 31,	
	2019	2018
Accrued employee compensation	\$ 37.4	\$ 40.6
Customer deposits	32.5	37.7
Warranty	10.1	9.6
Other	40.3	41.0
Other current liabilities	\$ 120.3	\$ 128.9

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

9. LEASES

The Company has commitments under operating leases for certain machinery and equipment, as well as manufacturing, warehousing, showroom and other facilities used in its operations. The Company has no finance leases. Excluding short-term leases, the Company's leases have initial terms ranging from 1 to 16 years, most of which include options the Company may exercise to extend or renew the lease for 1.0 to 6 years, and some of which include options to terminate the leases with notice periods of up to 1 year. Certain lease agreements contain provisions for future rent increases. Payments due under lease contracts are fixed.

The Company recognized rent expense for 2018 and 2017 of \$32.1 million and \$28.9 million, respectively. Lease cost recognized in the consolidated statements of operations for 2019 is summarized as follows (in millions):

	Year Ended December 31, 2019
Lease cost:	
Operating lease cost	\$ 28.6
Short-term lease cost	3.3
Sublease income	(0.2)
Total lease cost	\$ 31.7

Other lease information as of and for the year ended December 31, 2019 includes (dollars in millions):

	December 31, 2019
Weighted-average remaining lease term (in years)	
Operating leases	5.9
Weighted-average discount rate	
Operating leases	4.9%
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 29.0
ROU assets obtained in exchange for new operating lease liabilities:	
Operating leases	\$ 15.8

As of December 31, 2019, the Company has entered into operating leases that have not yet commenced, for which it will recognize ROU assets and lease liabilities of approximately \$43.6 million. These leases will commence in 2020 and 2021 with lease terms of 7 years to 12 years.

As of December 31, 2019, maturities of the Company's operating lease liabilities are as follows (in millions):

2020	\$ 26.0
2021	23.2
2022	20.3
2023	17.4
2024	14.4
Thereafter	27.8
Total lease payments	129.1
Less imputed interest	(21.4)
Present value of lease liability	\$ 107.7

Future minimum rental payments under operating leases (net of sublease amounts) that were required to be disclosed prior to the adoption of the new lease standard as of December 31, 2018 were as follows (in millions):

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

	Future Minimum Rental Payments
2019	\$ 26.4
2020	23.8
2021	19.1
2022	17.2
2023	15.1
Thereafter	38.8
Total	\$ 140.4

10. PENSION AND OTHER POST-EMPLOYMENT BENEFITS

The Company has two domestic defined benefit pension plans and four plans providing for other post-employment benefits, including two medical and two life insurance coverage plans. One of the pension plans and one each of the medical and life insurance coverage plans covered eligible U.S. nonunion employees while the other pension plan and one each of the medical and life insurance coverage plans covered eligible U.S. union employees. The Company uses a December 31 measurement date for all of these plans.

Prior to 2017, the Company froze all of the defined benefit plans thereby eliminating the accrual of future benefits and closed entry to new participants. During 2019, the union pension plan paid lump sum distributions to certain participants and purchased annuities from an insurance company to cover the benefits available to employees who did not elect a lump sum payment, and the Company terminated the plan. The remaining balance of union pension plan assets of \$2.0 million was transferred to the Company's U.S. retirement savings plan. There were no assets or liabilities of the union pension plan remaining at December 31, 2019. Also during 2019, the Company terminated the medical OPEB plan for nonunion employees.

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

The following table sets forth a reconciliation of the related benefit obligation and plan assets related to the benefits provided by the Company (in millions):

	Pension Benefits		Other Benefits	
	2019	2018	2019	2018
Change in projected benefit obligation:				
Projected benefit obligation at beginning of the period	\$ 243.6	\$ 295.6	\$ 3.6	\$ 3.8
Expected administrative expenses	1.7	0.9	—	—
Interest cost	9.0	10.2	0.1	0.1
Participant contributions	—	—	0.1	0.2
Actuarial loss (gain)	40.5	(26.4)	0.3	—
Benefits paid	(6.6)	(7.1)	(0.2)	(0.5)
Benefits paid related to settlement	(79.6)	(29.5)	—	—
(Gain) loss related to settlement	(2.9)	0.9	—	—
Administrative expenses paid	(2.0)	(1.0)	—	—
Projected benefit obligation at end of the period	203.7	243.6	3.9	3.6
Accumulated benefit obligation at end of the period	203.7	243.6	—	—
Change in fair value of plan assets:				
Fair value of plan assets at beginning of the period	233.9	273.9	—	—
Actual return on plan assets	38.0	(10.3)	—	—
Employer contributions	—	7.9	0.1	0.3
Transfer to U.S. retirement savings plan	(2.0)	—	—	—
Participant contributions	—	—	0.1	0.2
Actual expenses paid	(2.0)	(1.0)	—	—
Benefits paid	(6.6)	(7.1)	(0.2)	(0.5)
Benefits paid related to settlement	(79.6)	(29.5)	—	—
Fair value of plan assets at the end of period	181.7	233.9	—	—
Funded status (underfunded)	\$ (22.0)	\$ (9.7)	\$ (3.9)	\$ (3.6)

The actuarial gain in 2018 was primarily driven by an approximately 70 basis point increase in the discount rates, which lowered the value of the projected benefit obligation. The actuarial loss in 2019 was primarily due to an approximately 110 basis point decrease in the discount rate used to value the projected benefit obligation. Additionally, each year the plans experienced other sources of gains and losses due to other changes in assumptions and demographic data.

Assumptions used in computing the benefit obligation as of December 31, 2019 and 2018 were as follows:

	Pension Benefits		Other Benefits	
	2019	2018	2019	2018
Discount rate	3.34%	4.37% - 4.46%	2.02% - 3.15%	3.30% - 4.32%
Rate of compensation increase	N/A	N/A	N/A	N/A

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

The following table presents the fair value of the Company's pension plan investments as of December 31, 2019 and 2018 (in millions):

	As of December 31, 2019			Total
	Level 1	Level 2	Level 3	
Short-term investments	\$ 4.6	\$ —	\$ —	\$ 4.6
U.S. government securities	—	19.8	—	19.8
Corporate bonds	—	57.9	—	57.9
Total investments in the fair value hierarchy	4.6	77.7	—	82.3
Investments measured at net asset value	—	—	—	99.4
Total investments at fair value	\$ 4.6	\$ 77.7	\$ —	\$ 181.7

	As of December 31, 2018			Total
	Level 1	Level 2	Level 3	
Short-term investments	\$ 7.5	\$ —	\$ —	\$ 7.5
U.S. government securities	—	37.2	—	37.2
Corporate bonds	—	71.6	—	71.6
Certificates of deposit	—	1.5	—	1.5
Asset-backed securities	—	3.8	—	3.8
Total investments in the fair value hierarchy	7.5	114.1	—	121.6
Investments measured at net asset value	—	—	—	112.3
Total investments at fair value	\$ 7.5	\$ 114.1	\$ —	\$ 233.9

Short-term investments are primarily held in registered short-term investment vehicles which are valued using a market approach based on quoted market prices of similar instruments.

U.S. government securities, corporate bonds, certificates of deposit and asset-backed securities are primarily valued using a market approach with inputs that include broker quotes, benchmark yields, base spreads and reported observable trades for identical or comparable instruments.

Investments in commingled, common investment trust funds are carried at net asset value ("NAV") as a practical expedient to estimate fair value. The NAV is the total value of the fund divided by the number of shares outstanding. Adjustments to NAV, if any, are determined based on evaluation of data provided by fund managers, including valuation of the underlying investments derived using inputs such as cost, operating results, discounted future cash flows and market-based comparable data. In accordance with ASC 820-10, investments that are measured at NAV practical expedient are not classified in the fair value hierarchy; however, their fair value amounts are presented in these tables to permit reconciliation of the fair value hierarchy to the total plan assets disclosed in this footnote. Termination of investing in the common collective trust requires a 30-day notice period.

See Note 2 of the consolidated financial statements for the description of the levels of the fair value hierarchy.

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

The following table sets forth the consolidated balance sheets presentation for components relating to the Company's pension and OPEB plans (in millions):

	Pension Benefits		Other Benefits	
	2019	2018	2019	2018
Amounts recognized in the consolidated balance sheets consist of:				
Other noncurrent assets	\$ —	\$ 4.2	\$ —	\$ —
Other current liabilities	—	—	(0.3)	(0.3)
Pension Liability	(22.0)	(13.9)	—	—
Other noncurrent liabilities	—	—	(3.6)	(3.3)
Net amount recognized	\$ (22.0)	\$ (9.7)	\$ (3.9)	\$ (3.6)
Amounts recognized in accumulated other comprehensive income (loss) before taxes:				
Net actuarial loss	\$ 49.2	\$ 55.9	\$ 1.1	\$ 1.1
Prior service (credit)	—	—	(1.5)	(2.6)
Net amount recognized	\$ 49.2	\$ 55.9	\$ (0.4)	\$ (1.5)

The following table sets forth changes in the benefit obligation before income taxes recognized in other comprehensive income for the Company's pension and OPEB plans (in millions):

	Pension Benefits		Other Benefits	
	2019	2018	2019	2018
Net actuarial loss	\$ 15.1	\$ 2.4	\$ 0.3	\$ —
Amortization of:				
Prior service credit	—	—	0.7	0.7
Actuarial (loss) gain	(0.8)	(1.0)	(0.1)	0.1
(Loss) gain recognized related to settlement	(21.0)	(5.7)	0.2	—
Total recognized in OCI	\$ (6.7)	\$ (4.3)	\$ 1.1	\$ 0.8

The following table sets forth the components of the net periodic benefit cost (income) of the Company's pension and OPEB plans (in millions):

	Pension Benefits			Other Benefits		
	2019	2018	2017	2019	2018	2017
Expected administrative expenses	\$ 1.7	\$ 0.9	\$ 0.7	\$ —	\$ —	\$ —
Interest cost	9.0	10.2	9.4	0.1	0.1	0.2
Expected return on plan assets	(15.5)	(17.6)	(18.4)	—	—	—
Amortization of prior service credit	—	—	—	(0.7)	(0.7)	(1.5)
Recognized actuarial loss (gain)	0.8	1.0	0.7	0.1	(0.1)	—
Settlement-related expense ⁽¹⁾	21.0	5.7	2.2	(0.2)	—	—
Net periodic benefit cost (income)	\$ 17.0	\$ 0.2	\$ (5.4)	\$ (0.7)	\$ (0.7)	\$ (1.3)

- The pension settlement charge for 2019 is comprised of two components. First, the Union Pension Plan terminated in 2019. As a result of the plan termination the plan settled all participant benefits, which triggered a settlement charge of \$14.5 million in 2019. Second, the Nonunion Plan executed a lump sum window for both retirees and terminated vested participants. The lump sums paid to Nonunion participants caused a settlement charge of \$6.6 million in 2019. The pension settlement charge for 2018 related to the purchase of annuities for certain plan retirees as well as cash payments for lump sum elections. The pension settlement charge for 2017 related to lump sum elections made by employees affected by the restructuring activities in the second quarter of 2017.

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

Assumptions used to determine net periodic benefit cost for the years ended December 31, 2019, 2018, and 2017 were as follows:

	Pension Benefits			Other Benefits		
	2019	2018	2017	2019	2018	2017
Discount rate	4.37% - 4.46%	3.70 - 3.77%	3.80 - 4.25%	3.30% - 4.32%	2.48 - 3.66%	2.35 - 4.20%
Expected return on plan assets	4.60% - 7.10%	7.10%	7.10%	N/A	N/A	N/A
Rate of compensation increase	N/A	N/A	N/A	N/A	N/A	N/A

The expected long-term rate of return on assets is based on management's expectations of long-term average rates of return to be earned on the investment portfolio. In establishing this assumption, management considers historical and expected returns for the asset classes in which the plan assets are invested.

For purposes of measuring the benefit obligation associated with the Company's OPEB plans as of December 31, 2019, as well as the assumed rate for 2019, the following rates were assumed to affect the per capita costs of the following covered benefits:

	Benefit obligation		Net periodic benefit cost	
	2019	2027 and thereafter	2019	2027 and thereafter
Healthcare	6.30%	4.50%	6.50%	4.50%
Prescription drug	8.40%	4.50%	9.00%	4.50%

The Company's pension plans' weighted-average asset allocations by asset category as of December 31, 2019 and 2018, were as follows:

<i>Asset Category:</i>	Plan Assets at December 31,	
	2019	2018
Fixed income funds	46%	52%
Return seeking (growth assets) funds	54%	48%
Total	100%	100%

The Company's nonunion pension plan investment policy includes an asset mix based on the Company's risk posture. The investment policy follows a glide path approach that shifts a higher portfolio weighting to assets with interest rate sensitive characteristics, similar to those used for liability measurement, as the funded status increases. The investment policy states a target allocation based on the plan's funded status of approximately 54% return seeking investments (growth assets) and 46% liability hedging investments (fixed income). Inclusion of the fixed income assets is to hedge risk associated with the plan's liabilities along with providing potential growth through income. These assets should primarily invest in fixed income instruments of the U.S. Treasury and government agencies and investment-grade corporate bonds. The return seeking investments (growth assets) can consist of broadly diversified domestic equity, international equity, fixed income, alternative investments, commodities, and real estate assets. The purpose of these assets is to provide the opportunity for capital appreciation, income, and the ability to diversify investments. A mix of mutual funds, exchange traded funds, and separate accounts are used as the plan's investment vehicles with clearly stated investment objectives and guidelines, as well as offer competitive long-term results.

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

The Company expects to contribute \$0.2 million to its OPEB plans in 2020. Currently, no contributions are expected in 2020 for the Company's nonunion pension plan. Estimated future benefit payments under the pension and OPEB plans are as follows (in millions):

	Pension Benefits	Other Benefits
2020	\$ 13.0	\$ 0.2
2021	13.3	0.3
2022	13.4	0.3
2023	13.0	0.3
2024	12.9	0.3
2025 - 2029	59.7	1.3

The Company also sponsors 401(k) retirement savings plans for all U.S. associates. Under the 401(k) retirement savings plans, participants may defer a portion of their earnings up to the annual contribution limits established by the Internal Revenue Service, and the Company matches a portion of the participant's deferral up to a maximum of 3% of the participant's salary. The Company also may make profit-sharing contributions based on the Company's financial performance. The Company's total expense under the 401(k) plans for U.S. employees was \$4.3 million for 2019, \$3.9 million for 2018 and \$5.5 million for 2017. Employees of the Canadian, Belgium, Denmark and United Kingdom operations also participate in defined contribution pension plans sponsored by the Company. The Company's expense related to these plans for 2019, 2018, and 2017 was \$1.8 million, \$1.7 million, and \$1.0 million, respectively.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of the Company's cash and cash equivalents, classified as Level 1 within the fair value hierarchy, approximate carrying value due to their short maturities.

The fair value of the Company's long-term debt, classified as Level 2 within the fair value hierarchy, approximates its carrying value, as it is variable rate debt and the terms are comparable to market terms as of the balance sheet dates.

Recurring Fair Value Measurements

The Company measures certain financial liabilities at fair value on a recurring basis. The following table summarizes the valuation of those liabilities as of the dates presented (in millions):

Description:	Fair Value as of December 31, 2019				Fair Value as of December 31, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Interest rate swap	\$ —	\$ 6.6	\$ —	\$ 6.6	\$ —	\$ 1.7	\$ —	\$ 1.7
Contingent consideration - Fully	—	—	2.0	2.0	—	—	—	—
Contingent consideration - DatesWeiser	—	—	—	—	—	—	0.8	0.8

Interest Rate Swap

The fair value of the interest rate swap is based on observable prices as quoted for receiving the variable one-month London Interbank Offered Rates (LIBOR) and paying fixed interest rates and therefore is classified as Level 2 within the fair value hierarchy.

Contingent Consideration - Fully

Earn-Out Consideration payments up to \$5.0 million may be required if Fully achieves certain annual targets related to net sales and earnings before interest, taxes, depreciation and amortization (EBITDA) for each of the calendar years 2020 through 2023. In addition, the Company may be required to pay up to \$10.0 million if Fully achieves a certain cumulative EBITDA target for calendar years 2020 and 2021. The Company classifies these as Level 3 measurements and was required to measure these liabilities at fair value. The estimated fair value of the Earn-Out Consideration of \$2.0 million was determined as of the acquisition date using net sales and EBITDA projections for Fully through 2023, and a discount rate of 3.7%. Any change in fair value will be included within Selling, general and administrative expenses.

Contingent Consideration - DatesWeiser

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

Pursuant to the agreement governing the acquisition of DatesWeiser, the Company was required to make annual contingent purchase price payments. The payouts were based upon DatesWeiser reaching an annual net sales target, for each year through 2020. The Company classifies this as a Level 3 measurement and was required to remeasure this liability at fair value on a recurring basis. The fair value of such contingent purchase price payments, totaling \$1.1 million, was determined at the time of acquisition based upon net sales projections for DatesWeiser through 2020 and a discount rate of 10%. As of December 31, 2019, the Company remeasured the fair value of the liability and determined that it is unlikely that DatesWeiser will meet any of the remaining future targets related to the agreement. The Company recorded reductions in fair value of \$0.8 million and \$0.4 million within Selling, general and administrative expense during 2019 and 2018, respectively. There were no changes in the fair value during 2017. The maximum amount of possible future contingent payments under the agreement as of December 31, 2019 is \$4.0 million.

There were no additional assets and/or liabilities recorded at fair value on a recurring basis as of December 31, 2019 or 2018.

Assets Measured at Fair Value on a Nonrecurring Basis

The following table presents the impairment loss on assets that were measured at fair value on a nonrecurring basis (in millions):

	Level 3 Fair Value as of December 31,			Impairment/Loss
	2019	2018		
Assets:				
Tradename - Edelman Leather ⁽¹⁾	\$ —	\$ 6.5	\$	6.5

(1) See Note 7 for additional information.

Other than the fair value measurements applied to the Edelman Leather tradename, the Company did not have any non-recurring fair value measurements as of December 31, 2019 or 2018 and for the years then ended.

12. DERIVATIVE INSTRUMENTS

The Company is exposed to certain market risks, including the effect of changes in interest rates on future payments to be made on its variable rate debt. The Company utilizes a derivative instrument to mitigate its financial exposure to interest rate volatility. The derivative instrument, which is placed with a financial institution that the Company believes to be of acceptable credit risk, takes the form of an interest rate swap. The Company does not use derivatives for speculative trading purposes.

Cash flow hedge

In January 2018, the Company entered into an interest rate swap contract, which is designated as a cash flow hedge of the forecasted interest payments associated with a portion of the Company's variable rate debt. The interest rate swap hedges one-month LIBOR, which effectively converts a portion of the variable rate debt to a fixed interest rate. The interest rate swap was effective as of December 31, 2018, matures January 23, 2023 and carries a fixed rate of 2.63%. As of December 31, 2019, the interest rate swap has a notional amount of \$250.0 million, which decreases over time by \$50 million increments as follows:

Period	Notional Amount (in millions)
December 31, 2019 - December 30, 2020	\$250
December 31, 2020 - December 30, 2021	\$200
December 31, 2021 - December 29, 2022	\$150
December 30, 2022 - January 23, 2023	\$100

The following table summarizes the fair value of the Company's derivative instrument, as well as the location of this instrument on the Consolidated Balance Sheets as of the dates presented (in millions):

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

Derivatives designated as hedging instruments	Balance Sheet Location	December 31,	
		2019	2018
Derivative liabilities:			
Interest rate swap	Other current liabilities	\$ 2.6	\$ 0.3
Interest rate swap	Other noncurrent liabilities	4.0	1.4
Total derivative liabilities		\$ 6.6	\$ 1.7

The fair value of the swap recorded in Accumulated Other Comprehensive Loss ("AOCL") may be recognized in the Consolidated Statement of Operations if certain terms of the agreement change, are modified or if the loan is extinguished. As of December 31, 2019, there was no hedge ineffectiveness associated with the Company's interest rate swap and no portion of the cash flow hedge is excluded from the assessment of effectiveness. The Company reclassified \$1.1 million from AOCL to interest expense within the Consolidated Statement of Operations during the year ended December 31, 2019. The Company expects to reclassify in the next twelve months a loss of approximately \$2.6 million from AOCL into earnings, as a component of interest expense, related to the Company's interest rate swap based on the borrowing rates at December 31, 2019.

13. INDEBTEDNESS

The following table summarizes the Company's long-term debt as of the dates presented:

	December 31,	
	2019	2018
Revolving credit facility	\$ 138.5	\$ 134.5
U.S. term loan	228.1	240.6
Multi-currency term loans	83.7	90.2
Total long-term debt	450.3	465.3
Less: Current maturities of long-term debt	17.1	17.2
Less: Unamortized debt issuance costs	4.3	4.2
Long-term debt, net	\$ 428.9	\$ 443.9

Credit Facility

On August 26, 2019, the Company entered into a first amendment to the Third Amended and Restated Credit Agreement (the "Credit Agreement Amendment"), dated as of January 23, 2018 (together, as amended, the "Credit Agreement"). The Credit Agreement Amendment, among other things, extends the maturity of the credit facility from January 2023 to August 2024, and reduces both the applicable rate applied to outstanding borrowings and the commitment fee rate applied to the unutilized balance under the revolving credit facility (the "Revolver").

Borrowings under the Revolver and the term loan facilities bear interest, at the Company's election, at either (i) the Eurocurrency Rate (as defined in the Credit Agreement), plus a spread based on the Company's leverage ratio or (ii) the Base Rate (as defined in the Credit Agreement), which is a fluctuating rate equal to the highest of (a) the prime rate announced from time-to-time by Bank of America, (b) the Federal Reserve System's federal funds rate, plus 0.50% and (c) the Eurocurrency Rate, plus 1.00%.

Indebtedness incurred under the credit facility is secured by substantially all of the Company's tangible and intangible assets, including, without limitation, the Company's intellectual property. The Company's direct and indirect wholly-owned domestic subsidiaries have also guaranteed the obligations of the Company and the foreign borrowers under the Credit Agreement and pledged substantially all of their tangible and intangible assets as security for their obligations under such guarantee. Certain of the Company's wholly-owned foreign subsidiaries have guaranteed the obligations of the foreign borrowers under the Credit Agreement and pledged certain of their assets as security for their obligations under such guarantee.

Repayments under the Credit Agreement can be accelerated by the lenders upon the occurrence of certain events of default, including, without limitation, a failure to pay any principal, interest or other amounts in respect of loans when due, breach by the Company (or its subsidiaries) of any of the covenants or representations contained in the Credit Agreement or related loan documents, failure of the Company (or its material subsidiaries) to pay any amounts owed with respect to other significant indebtedness of the Company or such subsidiary, or a bankruptcy event with respect to the Company or any of its material subsidiaries.

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

The Credit Agreement requires the Company to comply with various affirmative and negative covenants, including, without limitation (i) covenants to maintain a minimum specified interest coverage ratio and maximum specified net leverage ratio (or under certain circumstances, a maximum specified net secured leverage ratio), and (ii) covenants that prevent or restrict the Company's ability to pay dividends, engage in certain mergers or acquisitions, make certain investments or loans, incur future indebtedness, engage in sale-leaseback transactions, alter its capital structure or line of business, prepay subordinated indebtedness, engage in certain transactions with affiliates and sell stock or assets. At December 31, 2019, the Company was in compliance with all covenants applicable to its credit facility.

Revolver

The commitments and available borrowing capacity under the Revolver were as follows as of the dates presented:

	Commitments	Outstanding Borrowings	Letter of Credit Outstanding	Borrowing Capacity
December 31, 2019	\$ 400.0	\$ 138.5	\$ 5.1	\$ 256.4
December 31, 2018	\$ 400.0	\$ 134.5	\$ 5.2	\$ 260.3

At December 31, 2019, borrowings under the Revolver include \$10.0 million at a base rate of 5.25% and \$128.5 million at a weighted-average LIBOR rate of 3.27%. At December 31, 2018, borrowings under the revolving credit facility included \$2.5 million at a base rate of 6.25% and \$132.0 million at a weighted-average LIBOR rate of 4.25%. At December 31, 2019 and 2018, letters of credit issued under the Revolver incurred interest at the rates of 1.50% and 1.75%, respectively, while commitment fees on the undrawn portion of the Revolver were charged at the rates of 0.225% and 0.250%, respectively.

Borrowings under the Revolver may be repaid at any time, but no later than at maturity in August 2024. The Company retains the right to terminate or reduce the size of the Revolver at any time.

Term Loan Facilities

At December 31, 2019, the U.S term loan and multi-currency term loans incurred interest at the rate of 3.30% and 1.50%, respectively. At December 31, 2018 the U.S. term loan and multi-currency term loans incurred interest at 4.27% and 1.75%, respectively. The Eurocurrency rates used for the U.S. dollar-denominated term loan and the Euro-denominated term loans are one-month LIBOR and one-month or three-month Euribor, respectively. Borrowings under the term loan facilities amortize in equal quarterly installments at the rate of 5% per annum, with the remaining balance due upon maturity.

Third Amended and Restated Credit Agreement

On January 23, 2018, the Company amended its existing credit facility at the time, dated as of May 20, 2014 (the "Second Amended and Restated Credit Agreement"), whereby the existing credit agreement was amended and restated in its entirety (as amended and restated, the "Third Amended and Restated Credit Agreement"), by and among the Company and certain foreign subsidiaries of the Company, as borrowers, and certain domestic and foreign subsidiaries of the Company, as guarantors.

The Third Amended and Restated Credit Agreement provided for a \$750.0 million credit facility that was scheduled to mature in five years, consisting of a revolving commitment in the amount of \$400.0 million, which may be made available in U.S. dollars, Euro, British Pound and other foreign currencies, a U.S. term loan commitment in the amount of \$250.0 million and a multi-currency term loan commitment in the amount of €81.7 million. The Third Amended and Restated Credit Agreement also includes an option to increase the size of the Revolver or incur incremental term loans by an amount equal to the greater of \$250.0 million or 90% of the EBITDA of the Company and its subsidiaries for the four fiscal quarters prior to such increase or additional loan, subject to the satisfaction of certain terms and conditions. Proceeds from the debt issued under the Third Amended and Restated Credit Agreement were used, among other things, to (1) fund the Muuto acquisition and, (2) refinance certain indebtedness.

Maturities

As of December 31, 2019, the Company's contractual future maturities of its debt are as follows (in millions):

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

2020	\$	17.1
2021		17.1
2022		17.1
2023		17.1
2024		381.9
Thereafter		—
Total	\$	450.3

Deferred Financing Fees

Amortization expense related to deferred financing fees, recognized as a component of interest expense on the consolidated statements of operations, was \$1.0 million, \$1.1 million and \$0.7 million for the years ended December 31, 2019, 2018 and 2017, respectively. In connection with the Credit Agreement Amendment executed in the third quarter of 2019, the Company incurred \$2.0 million of debt issuance costs, the majority of which were capitalized and will be amortized over the term of the amended credit agreement. The Company recorded a loss on extinguishment of debt of approximately \$0.4 million related to the balance of unamortized costs associated with lenders that exited the credit facility or reduced their Revolver commitment.

During 2018, the Company recorded a loss on extinguishment of debt of approximately \$1.4 million related to its termination of the Second Amended and Restated Credit Agreement.

14. COMMITMENTS AND CONTINGENCIES

Litigation

The Company is currently involved in matters of litigation, including environmental contingencies, arising in the ordinary course of business. The Company accrues for such matters when expenditures are probable and reasonably estimable. Based upon information presently known, management is of the opinion that such litigation, either individually or in the aggregate, will not have a material adverse effect on the Company's financial position, results of operations, or cash flows.

Warranty

The Company provides for estimated product warranty expenses, which are included in other current liabilities, when related products are sold. Because warranty estimates are forecasts that are based on the best available information, primarily historical claims experience, future warranty claims may differ from the amounts provided.

Changes in the warranty reserve are as follows (in millions):

	2019	2018	2017
Balance, beginning of the year	\$ 9.6	\$ 9.2	\$ 8.9
Provision for warranty claims	8.4	7.7	7.1
Warranty claims settled	(7.8)	(7.9)	(6.7)
Warranties acquired through business acquisition	—	0.6	—
Foreign currency translation adjustment	(0.1)	—	(0.1)
Balance, end of the year	\$ 10.1	\$ 9.6	\$ 9.2

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

15. STOCK-BASED COMPENSATION

The Company sponsors several stock compensation plans (collectively, the "Stock Compensation Plans") under which awards denominated or payable in shares, units or options to purchase shares of Knoll common stock may be granted to officers, certain other employees, directors and consultants of the Company. As of December 31, 2019, there were approximately 1.6 million shares authorized and available for issuance pursuant to the Stock Compensation Plans. Equity awards are granted under the Stock Compensation Plans based upon terms and conditions established by the Compensation Committee of the Company's Board of Directors (the "Committee").

Stock-based compensation expense recognized in earnings for the years ended December 31, 2019, 2018, and 2017 totaled \$10.8 million (\$8.0 million after-tax), \$9.2 million (\$6.9 million after-tax) and \$9.6 million (\$6.1 million after-tax) respectively, and is included within selling, general, and administrative expenses.

As of December 31, 2019, unrecognized compensation cost related to all unvested equity awards was \$16.3 million, the vast majority of which relates to unvested restricted shares and restricted stock units. This expense is expected to be recognized over a weighted-average period of 1.7 years.

Restricted Shares

Restricted shares generally vest at the end of the three or four-year period following the grant date. Stock-based compensation cost is measured at grant date based on the fair value of the underlying awards on the grant date. Grantees of restricted shares are entitled to participate in dividends declared on the Company's outstanding common stock, the accumulated balance of which is paid or payable upon the vesting date of the underlying restricted shares.

The following table summarizes activity during 2019 with respect to restricted shares (shares in thousands):

	Restricted Shares	Weighted-Average Grant Date Fair Value
Outstanding at December 31, 2018	725	\$ 21.03
Granted	425	\$ 20.46
Forfeited	(20)	\$ 21.13
Vested	(234)	\$ 19.07
Outstanding at December 31, 2019	896	\$ 21.27

The fair value of restricted shares that vested during 2019, 2018 and 2017 was \$5.0 million, \$7.4 million, \$9.5 million, respectively.

Restricted Stock Units

All of the Company's outstanding restricted stock units ("RSUs") are contingently issuable, as they are subject to either certain performance-based conditions ("PBRs") or a market-based condition related to relative total shareholder return ("MBSUs"). The Committee determines the time period over which RSUs vest, as well as the vesting schedule per award, which is generally at the end of the three or four-year period following the grant date. PBRs have payouts that range from 0% to 150% of the target award. MBSUs either payout at 100% or not at all. All RSUs settle in shares and are entitled to participate in dividends declared on the Company's outstanding common stock, the accumulated balance of which is paid or payable upon the vesting of the underlying RSUs. To the extent that performance or market conditions are not fully attained, the underlying RSUs are forfeited.

The estimated fair values of MBSUs are initially determined on the grant date using a Monte Carlo simulation model. The Company's assumptions used as inputs into the valuation process are based on the expected life, which matches the applicable vesting period.

The following weighted-average assumptions were used as inputs into the valuation of the MBSUs granted during the fiscal years indicated:

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

	2019	2018	2017
Weighted-average grant date fair value	\$ 14.75	\$ 13.87	\$ 10.63
Assumptions used to compute fair value :			
Volatility	28.6%	27.3%	27.2%
Risk free interest rate	2.5%	2.3%	1.6%
Expected life	3 years	3 years	3 years
Expected dividend yield	2.9%	2.8%	2.6%

The following table summarizes activity during 2019 with respect to RSUs (shares in thousands):

	PBRsUs	Weighted- Average Grant Date Fair Value	MBRSUs	Weighted- Average Grant Date Fair Value
Outstanding at December 31, 2018	405	\$ 20.92	270	\$ 12.46
Granted	335	\$ 20.40	114	\$ 14.75
Vested	(89)	\$ 18.93	—	\$ —
Forfeited	(57)	\$ 19.44	(97)	\$ 12.68
Outstanding at December 31, 2019	594	\$ 21.07	287	\$ 13.29

The fair value of RSUs that vested and settled in shares during 2019, 2018 and 2017 was \$1.9 million, \$1.4 million, and \$9.9 million, respectively.

Stock Options

Stock options are granted with an exercise price equal to the market value of Knoll's common stock on the date of grant and have a maximum contractual term of ten years. The fair value of each option is initially measured on the grant date using the Black-Scholes option pricing model. The expected life is estimated based on the vesting period and expiration date of the award. Expected volatility is estimated based on the historical volatility of the Company's stock price over a period of time matching the expected life. The dividend yield is based on the Company's historical dividend record. The risk-free rate is based on the applicable U.S. Treasury Note rate.

The following table summarizes activity during 2019 with respect to stock options (shares in thousands):

	Shares under Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2018	20	\$ 22.59		
Granted	90	20.44		
Outstanding at December 31, 2019	110	\$ 20.83	8.1	\$ 0.1
Exercisable at December 31, 2019	20	\$ 22.59	3.6	\$ 0.1

The weighted-average grant-date fair value of options granted during the years ended December 31, 2019 and 2018 was \$4.65 and \$4.01 per option, respectively. There were no options awarded in 2017. The total intrinsic value of options exercised during the year ended December 31, 2017 was \$0.2 million. No options were exercised during 2019 or 2018. The total grant-date fair value of options that vested during each of the years ended December 31, 2019 and 2017 was less than \$0.1 million. There were no options that vested in 2018.

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

16. STOCKHOLDERS' EQUITY

Common Stock

The following table presents the change in the number of shares of common stock outstanding during the years ended December 2019, 2018, and 2017 (table in thousands and is exclusive of non-voting restricted shares):

Shares outstanding as of December 31, 2016	48,102
Purchase of common stock	(17)
Shares issued under stock incentive plan, net of awards surrendered to pay applicable taxes	385
Exercise of stock options	22
Shares issued to Board of Directors in lieu of cash	6
Shares outstanding as of December 31, 2017	48,498
Shares issued under stock incentive plan, net of awards surrendered to pay applicable taxes	205
Shares issued to Board of Directors in lieu of cash	3
Shares outstanding as of December 31, 2018	48,706
Shares issued under stock incentive plan, net of awards surrendered to pay applicable taxes	171
Shares issued to Board of Directors in lieu of cash	2
Shares outstanding as of December 31, 2019	48,879

Treasury Stock (in thousands)

As of December 31, 2019 and 2018, the Company held 16,521 and 16,348 treasury shares, respectively. The Company records repurchases of its common stock for treasury at cost.

Preferred Stock

The Company's Certificate of Incorporation authorizes the issuance of 10,000,000 shares of preferred stock with a par value of \$1.00 per share. Subject to applicable laws, the Board of Directors is authorized to provide for the issuance of preferred shares in one or more series, and may determine the rights, preferences and terms thereof. To date, no preferred shares have been issued or are outstanding.

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

Accumulated Other Comprehensive Income (Loss)

The following table summarizes the changes in AOCL by component for the following twelve-month periods ended December 31 (in millions):

	Unrealized gains (losses) on Interest Rate Swaps	Foreign Currency Translation Adjustment	Foreign Currency Translation Adjustment on Long-term Intercompany Notes	Pension and Other Post- Employment Liability Adjustment	Total
Balance as of December 31, 2016	\$ —	\$ (14.0)	\$ —	\$ (29.4)	\$ (43.4)
Other comprehensive income (loss) before reclassifications	—	8.4	—	(11.2)	(2.8)
Amounts reclassified from AOCL	—	—	—	1.4	1.4
Net current period other comprehensive loss before income tax	—	8.4	—	(9.8)	(1.4)
Income tax benefit	—	—	—	1.0	1.0
Other comprehensive income (loss)	—	8.4	—	(8.8)	(0.4)
Balance as of December 31, 2017	\$ —	\$ (5.6)	\$ —	\$ (38.2)	\$ (43.8)
Other comprehensive loss before reclassifications	(1.6)	(13.2)	(8.1)	(2.4)	(25.3)
Amounts reclassified from AOCL	—	—	—	5.9	5.9
Net current period other comprehensive loss before income tax	(1.6)	(13.2)	(8.1)	3.5	(19.4)
Income tax benefit (expense)	0.4	—	—	(0.9)	(0.5)
Other comprehensive loss (income)	(1.2)	(13.2)	(8.1)	2.6	(19.9)
ASU 2018-02	—	—	—	(4.7)	(4.7)
Balance as of December 31, 2018	\$ (1.2)	\$ (18.8)	\$ (8.1)	\$ (40.3)	\$ (68.4)
Other comprehensive (loss) income before reclassifications	(6.0)	3.2	(4.9)	(15.4)	(23.1)
Amounts reclassified from AOCL	1.1	—	—	21.0	22.1
Net current period other comprehensive loss before income tax	(4.9)	3.2	(4.9)	5.6	(1.0)
Income tax benefit (expense)	1.3	—	—	(1.3)	—
Other comprehensive loss (income)	(3.6)	3.2	(4.9)	4.3	(1.0)
Balance as of December 31, 2019	\$ (4.8)	\$ (15.6)	\$ (13.0)	\$ (36.0)	\$ (69.4)

The following pension and OPEB reclassifications were made from AOCL into earnings during the periods presented (in millions):

	Year Ended December 31,		
	2019	2018	2017
Amortization of pension and other post-employment liability adjustments			
Prior service credits ⁽¹⁾	\$ 0.7	\$ 0.7	\$ 1.5
Actuarial losses ⁽¹⁾	(0.9)	(0.9)	(0.7)
Loss recognized during settlement	(20.8)	(5.7)	(2.2)
Total before tax	(21.0)	(5.9)	(1.4)
Tax (benefit)	(5.5)	(1.5)	(0.6)
Net of tax	\$ (15.5)	\$ (4.4)	\$ (0.8)

(1) These accumulated other comprehensive income (loss) components are included in the computation of net periodic pension costs. See Note 10 for additional information.

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

17. EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted EPS is similarly calculated but includes the weighted-average dilutive effect of outstanding restricted shares, RSUs and stock options.

The following table sets forth the reconciliation from basic to dilutive average common shares (in millions):

	Years ended December 31,		
	2019	2018	2017
Numerator:			
Net earnings attributable to Knoll, Inc. stockholders	\$ 67.5	\$ 73.3	\$ 80.2
Denominator: (shares in thousands)			
Denominator for basic earnings per shares - weighted-average shares	48,846	48,657	48,423
Effect of dilutive securities:			
Potentially dilutive shares resulting from stock plans	611	561	737
Denominator for diluted earnings per share - weighted-average shares	49,457	49,218	49,160
Antidilutive equity awards not included in weighted-average common shares - diluted	—	20	—
Net earnings per share:			
Basic	\$ 1.38	\$ 1.51	\$ 1.66
Diluted	\$ 1.36	\$ 1.49	\$ 1.63

18. INCOME TAXES

The source of earnings before income taxes consisted of the following (in millions):

	2019	2018	2017
U.S. operations	\$ 50.9	\$ 67.3	\$ 62.6
Foreign operations	40.0	30.9	16.0
Total	\$ 90.9	\$ 98.2	\$ 78.6

Income tax expense (benefit) is comprised of the following (in millions):

	2019	2018	2017
Current:			
Federal	\$ 8.5	\$ 4.3	\$ 11.7
State	5.3	2.1	2.4
Foreign	10.9	13.7	3.9
Total current	\$ 24.7	\$ 20.1	\$ 18.0
Deferred:			
Federal	(0.7)	6.3	(20.6)
State	(0.4)	0.9	2.5
Foreign	(0.2)	(2.4)	(1.5)
Total deferred	(1.3)	4.8	(19.6)
Income tax expense (benefit)	\$ 23.4	\$ 24.9	\$ (1.6)

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

The Tax Cuts and Jobs Act of 2017 (the "Tax Act"), as enacted December 22, 2017, significantly revised U.S. tax law. The law included significant changes to the U.S. corporate income tax system, including a Federal corporate rate reduction from 35% to 21%, limitations on the deductibility of interest expense and executive compensation, and the transition of U.S. international taxation from a worldwide tax system to a territorial tax system.

During the fourth quarter of 2017, the Company recorded an estimated tax benefit derived from the enactment of the Tax Act of \$26.6 million, which primarily related to the remeasurement of the Company's net deferred tax liabilities in the U.S. and the one-time transition tax on deemed repatriation of foreign earnings. During 2018, the Company completed its accounting for the provisional amounts recognized in December 2017 and recorded an additional tax benefit of \$1.7 million related to the rate differential on the deferred provision to return.

The following table sets forth the tax effects of temporary differences that give rise to the Company's deferred tax assets and liabilities (in millions):

	December 31, 2019	December 31, 2018
Deferred tax assets		
Accounts receivable, principally due to allowance for doubtful accounts	\$ 1.4	\$ —
Inventories	5.9	5.9
NOL carryforwards	5.0	6.9
Accrued pension	5.8	2.1
Stock-based compensation	4.8	3.7
Compensation-related accruals	1.2	0.7
Warranty	2.7	2.1
OPEB obligation	1.0	0.9
Accrued liabilities and other items	8.3	8.4
Gross deferred tax assets	\$ 36.1	\$ 30.7
Valuation allowance	(4.3)	(4.8)
Net deferred tax assets	31.8	25.9
Deferred tax liabilities:		
Intangibles	(92.3)	(85.6)
Plant and equipment	(24.5)	(26.8)
Gross deferred tax liabilities	(116.8)	(112.4)
Net deferred tax liabilities	\$ (85.0)	\$ (86.5)

As of December 31, 2019, the Company had NOL carryforwards of approximately \$18.7 million between the United Kingdom ("U.K."), Germany and Brazil. These NOL carryforwards do not expire. The Company regularly evaluates positive and negative evidence as it relates to realizability of deferred tax assets in each jurisdiction. During 2017, the Company determined that the valuation allowance placed against the deferred tax asset associated with the UK NOL should be reversed, as a history of positive earnings and anticipated future taxable income supported the conclusion that it is more likely than not that the related tax benefit will be realized. This reversal resulted in the recognition of an income tax benefit of \$2.6 million. The Company still provides valuation allowances against the deferred tax assets associated with the NOL carryovers from operations in Germany and Brazil due to the uncertainty of their realization, either in whole or in part.

The following table summarizes the activity related to the Company's deferred tax asset valuation allowance and the changes therein during the periods presented (in millions):

	Balance at Beginning of Year	Releases (tax benefit recognized) ⁽¹⁾	Other ⁽²⁾	Balance at End of Year
Year ended December 31, 2017	\$ 6.2	\$ (2.6)	\$ 1.2	\$ 4.8
Year ended December 31, 2018	4.8	—	—	4.8
Year ended December 31, 2019	4.8	(0.2)	(0.3)	4.3

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

- (1) During 2017, the valuation allowance related to the NOL carryover from operations in the UK was fully released. During 2019, the valuation allowance related to the NOL carryover from operations in Germany was partially released.
- (2) Primarily foreign exchange impact

The following table sets forth a reconciliation of the statutory federal income tax rate to the effective income tax rate:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Federal statutory tax rate	21.0 %	21.0 %	35.0 %
Increase (decrease) in the tax rate resulting from:			
State taxes, net of federal effect	4.2 %	2.4 %	5.2 %
Foreign operations, net ⁽¹⁾	2.5 %	0.7 %	(0.9)%
Research and development tax credits Tax Act ⁽²⁾	(1.1)%	(1.1)%	(1.3)%
Return to provision adjustments	(3.7)%	1.1 %	(0.5)%
Change in valuation allowance against deferred tax assets	(0.3)%	— %	(3.3)%
Other	3.2 %	4.5 %	(2.3)%
Effective tax rate	<u>25.8 %</u>	<u>25.4 %</u>	<u>(2.0)%</u>

- (1) Includes the tax effects of income tax rate differentials, deductions and credits applicable to the operations of the Company's foreign subsidiaries. Certain provisions of the Tax Act were newly effective for the Company in 2019, including provisions related to inclusions of foreign-sourced earnings in excess of an allowable return on foreign subsidiaries' tangible assets. These provisions are designed to tax global intangible low-taxed income ("GILTI"). The Company has elected to account for any GILTI tax in the period in which it is incurred.
- (2) Primarily attributable to the impact of the remeasurement of domestic net deferred tax liabilities (at the lower statutory rate of 21.0%) and the one-time transition tax on unremitted foreign earnings (See Note 2).

As of December 31, 2019, to the extent the Company's earnings attributable to its foreign subsidiaries are not considered permanently reinvested, a deferred tax liability for the tax consequences of remitting the accumulated earnings has been provided in the financial statements.

The following table presents a reconciliation of the total amounts of unrecognized tax benefits at the beginning and end of the periods presented (in millions):

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Balance, beginning of the year	\$ 0.9	\$ 0.9	\$ 0.9
Additions for tax position related to the current year	—	0.1	0.1
Lapse of statute of limitations	(0.1)	(0.1)	(0.1)
Balance, end of the year	<u>\$ 0.8</u>	<u>\$ 0.9</u>	<u>\$ 0.9</u>

All of the unrecognized tax benefits as of December 31, 2019, if recognized, would affect the Company's effective tax rate. The amounts of income tax-related interest and penalties recognized in the Consolidated Statements of Operations were not significant for the years ended December 31, 2019 and 2018, and 2017. There were no amounts accrued for the payment of income tax-related interest and penalties in the Consolidated Balance Sheets as of December 31, 2019 and 2018.

As of December 31, 2019, the Company is subject to U.S. Federal Income Tax examination for the tax years 2016 through 2019, and to non-U.S. income tax examination for the tax years 2012 to 2019. In addition, the Company is subject to state and local income tax examinations for the tax years 2015 through 2019.

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019

19. OTHER INCOME, NET

The components of other income, net are as follows (in millions):

	Years Ended December 31,		
	2019	2018	2017
Foreign exchange losses (gains)	\$ 1.5	\$ (2.0)	\$ 1.8
Net periodic pension and OPEB benefit cost (credit)	(6.4)	(7.1)	(9.6)
Other, net	1.1	(0.5)	0.1
Other income, net	<u>\$ (3.8)</u>	<u>\$ (9.6)</u>	<u>\$ (7.7)</u>

20. QUARTERLY RESULTS (UNAUDITED)

The following tables contain selected unaudited Consolidated Statements of Operations and Comprehensive Income data for each quarter for the years ended December 31, 2019 and 2018. The operating results for any quarter are not necessarily indicative of results for any future period. The quarterly results are as follows (in millions):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year	
2019						
Sales	\$ 332.8	\$ 367.3	\$ 356.5	\$ 371.5	\$ 1,428.1	
Gross profit	123.8	140.7	140.4	144.1	549.0	
Net earnings	18.0	21.7	17.5	10.3	67.5	(1) (2) (3)
Earnings per share—Basic	\$ 0.37	\$ 0.44	\$ 0.36	\$ 0.21	\$ 1.38	(1) (2) (3)
Earnings per share—Diluted	\$ 0.37	\$ 0.44	\$ 0.35	\$ 0.21	\$ 1.36	(1) (2) (3)
2018						
Sales	\$ 296.6	\$ 323.4	\$ 327.7	\$ 354.6	\$ 1,302.3	
Gross profit	107.7	119.3	122.8	131.7	481.5	
Net earnings	15.3	13.1	20.3	24.6	73.3	(4) (5) (6) (7)
Earnings per share—Basic	\$ 0.31	\$ 0.27	\$ 0.42	\$ 0.50	\$ 1.51	(4) (5) (6) (7)
Earnings per share—Diluted	\$ 0.31	\$ 0.27	\$ 0.41	\$ 0.50	\$ 1.49	(4) (5) (6) (7)

- (1) During the first, second, third and fourth quarters of 2019, the Company recorded pension settlement charges of \$0.2 million, \$0.5 million, \$9.8 million and \$10.5 million, respectively.
- (2) During the first, third and fourth quarters of 2019, the Company recorded restructuring charges of \$0.1 million, \$0.1 million and \$0.6 million, respectively within the Office segment related to an organizational realignment that will result in greater operating efficiency and control.
- (3) During the fourth quarter of 2019, the Company recorded an intangible asset impairment charge of \$6.5 million.
- (4) During the second, third and fourth quarters of 2018, the Company recorded pension settlement charges of \$4.6 million, \$0.6 million and \$0.5 million, respectively.
- (5) During the first, second, third and fourth quarters of 2018, the Company recorded restructuring charges of \$0.5 million, \$0.8 million, \$1.2 million and \$0.1 million, respectively within the Office segment related to an organizational realignment that will result in greater operating efficiency and control.
- (6) During the first, second, third and fourth quarters of 2018, the Company recorded acquisition costs of \$1.0 million, \$0.5 million, \$0.2 million and \$0.2 million, respectively related to the acquisition of Muuto.
- (7) The fourth quarter of 2018 includes the recognition of a tax benefit of \$1.7 million related to the Tax Act.

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019

21. SEGMENT AND GEOGRAPHIC REGION INFORMATION

The tables below present the Company's segment information (in millions):

	2019	2018	2017
SALES			
Office	\$ 873.8	\$ 797.1	\$ 733.3
Lifestyle	554.3	505.2	399.6
Corporate	—	—	—
Knoll, Inc.	<u>\$ 1,428.1</u>	<u>\$ 1,302.3</u>	<u>\$ 1,132.9</u>
INTERSEGMENT SALES ⁽¹⁾			
Office	\$ 2.1	\$ 1.6	\$ 1.3
Lifestyle	9.9	10.8	10.9
Corporate	—	—	—
Knoll, Inc.	<u>\$ 12.0</u>	<u>\$ 12.4</u>	<u>\$ 12.2</u>
DEPRECIATION AND AMORTIZATION ⁽²⁾			
Office	\$ 23.9	\$ 20.7	\$ 18.7
Lifestyle	14.1	12.9	6.3
Corporate	0.5	0.6	0.9
Knoll, Inc.	<u>\$ 38.5</u>	<u>\$ 34.2</u>	<u>\$ 25.9</u>
OPERATING PROFIT			
Office ⁽³⁾	\$ 64.2	\$ 49.5	\$ 26.1
Lifestyle ⁽⁴⁾	90.2	90.0	78.5
Corporate ⁽⁴⁾	(24.6)	(24.3)	(24.1)
Knoll, Inc. ⁽⁵⁾	<u>\$ 129.8</u>	<u>\$ 115.2</u>	<u>\$ 80.5</u>
CAPITAL EXPENDITURES ⁽⁶⁾			
Office	\$ 36.1	\$ 32.7	\$ 33.3
Lifestyle	14.7	8.3	5.9
Corporate	1.1	0.9	0.5
Knoll, Inc.	<u>\$ 51.9</u>	<u>\$ 41.9</u>	<u>\$ 39.7</u>

- (1) Intersegment sales are presented on a cost-plus basis which takes into consideration the effect of transfer prices between legal entities.
- (2) Excludes amortization of deferred financing fees.
- (3) Within the Office segment, Knoll recorded a \$16.3 million write-off of property, plant, and equipment during 2017; a \$21.0 million, \$5.7 million and \$2.2 million pension settlement charge during 2019, 2018 and 2017, respectively; and a \$0.8 million, \$2.6 million and \$2.2 million restructuring charge during 2019, 2018 and 2017, respectively.
- (4) Knoll recorded acquisition costs of \$0.6 million and \$1.3 million related to the acquisition of Muuto within the Lifestyle segment and Corporate, respectively, during 2018.
- (5) The Company does not allocate interest expense or other (income) expense, net to the reportable segments.
- (6) The amounts reported above do not account for the change in accrued capital costs during the years ended December 31, 2019, 2018 or 2017.

Many of the Company's facilities manufacture products for both reportable segments. Therefore, it is impractical to disclose asset information on a segment basis.

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019

The Company markets its products in the United States and internationally, with its principal international markets being Canada and Europe. The table below contains information about the geographical areas in which the Company operates. Sales are attributed to the geographic areas based on the origin of sale, and property, plant, and equipment, net is based on the geographic area in which the asset resides (in millions):

	United States	Canada	Europe	Other	Consolidated
2019					
Sales	\$ 1,183.6	\$ 37.2	\$ 206.9	\$ 0.4	\$ 1,428.1
Property, plant, and equipment, net	191.3	28.9	18.8	—	239.0
2018					
Sales	\$ 1,066.8	\$ 37.3	\$ 197.4	\$ 0.8	\$ 1,302.3
Property, plant, and equipment, net	172.7	26.9	15.4	—	215.0
2017					
Sales	\$ 977.7	\$ 52.9	\$ 100.2	\$ 2.1	\$ 1,132.9
Property, plant, and equipment, net	157.8	29.3	13.5	—	200.6

22. SUBSEQUENT EVENT

On January 16, 2020 the Company announced the closure of the Grand Rapids, Michigan manufacturing operations. Under the restructuring plan, the Grand Rapids manufacturing operations are expected to be substantially closed by the end of the second quarter of 2020. As a result of this restructuring plan, the Company will make changes to better optimize its logistics operations which are expected to be substantially completed by the end of 2021. All product lines currently manufactured in Grand Rapids will be transitioned to other Knoll manufacturing sites in North America.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. We, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 as of the end of the period covered by this report (December 31, 2019) ("Disclosure Controls"). Based upon the Disclosure Controls evaluation, our principal executive officer and principal financial officer have concluded that the Disclosure Controls are effective in reaching a reasonable level of assurance that (i) information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management's annual report on internal control over financial reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended, for the Company. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes without limitation, maintaining records that in reasonable detail accurately and fairly reflect our transactions, providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statements, providing reasonable assurance that receipts and expenditures of company assets are made in accordance with management authorization, and providing reasonable assurance that unauthorized acquisition, use or disposition of company assets that could have a material effect on our financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected.

Our management assessed the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Our evaluation of internal control over financial reporting did not include the internal controls of FHI LLC ("Fully"), which was acquired on August 29, 2019, and is included in our 2019 consolidated financial statements and constitutes 3.2% of total assets as of December 31, 2019 and 1.3% and 2.6% of sales and net earnings, respectively, for the year then ended. The Company is currently in the process of integrating Fully into its internal control over financial reporting process pursuant to the Sarbanes-Oxley Act of 2002. The Company is evaluating changes to processes, information technology systems and other components of internal controls over financial reporting as part of its ongoing integration activities, and as a result, controls may be periodically changed. The Company believes, however, that it will be able to maintain sufficient controls over its financial reporting throughout this integration process. Based on our assessment, with the exclusion of Fully, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2019.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2019 has been audited by Ernst & Young LLP, the Company's independent registered public accounting firm, as stated in their report included in Item 8, "Financial Statements and Supplementary Data."

Changes in Internal Control Over Financial Reporting. During the period covered by this report, there has been no change in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Knoll, Inc.

Opinion on Internal Control over Financial Reporting

We have audited Knoll, Inc.'s internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Knoll, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

As indicated in the accompanying *Management's annual report on internal control over financial reporting*, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of FHI LLC (Fully), which is included in the 2019 consolidated financial statements of the Company and constituted 3.2% of total assets as of December 31, 2019 and 1.3% and 2.6% of sales and net earnings, respectively, for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of Fully.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the 2019 consolidated financial statements of the Company and our report dated February 21, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Management's annual report on internal control over financial reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 (3) 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.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 21, 2020

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 relating to directors, director nominees and executive officers of the registrant is incorporated by reference from the information under the captions “Board of Directors,” “Election of Directors,” “Executive Officers,” “Board Meetings and Committees,” “Code of Ethics,” and “Section 16(a) Beneficial Ownership Reporting Compliance” contained in our Proxy Statement for our 2020 Annual Meeting of Stockholders (the “Proxy Statement”).

The information relating to the identification of the audit committee, audit committee financial expert and director nomination procedures of the registrant is incorporated by reference from the information under the caption “Board Meetings and Committees” contained in our Proxy Statement.

Our Board of Directors has adopted a code of ethics for all employees. This code is made available free of charge on our website at www.knoll.com. For further information see subsection “Code of Ethics” in our Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is hereby incorporated by reference from the information under the caption “Executive Compensation” contained in our Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Securities Authorized for Issuance Under Equity Compensation Plans

Plan Category	Equity Compensation Plan Information As of December 31, 2019		
	Number of Securities to be Issued upon Exercise of Outstanding Options (a)	Weighted-Average Exercise Price of Outstanding Options (b)	Number of Shares Remaining for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	110,000	\$ 22.59	1,644,939
Equity compensation plans not approved by security holders	—	—	—
Total	110,000		1,644,939

If there is an expiration, termination, or cancellation of any benefit granted under the plans without the issuance of shares, the shares subject to or reserved for that benefit may again be used for new stock options, rights, or awards of any type authorized under the plans.

All other information required by Item 12 is hereby incorporated by reference from the information under the caption “Security Ownership of Certain Beneficial Owners and Management” contained in our Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 is hereby incorporated by reference from the information under the captions “Transactions with Related Persons” and “Director Independence” contained in our Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Item 14 is hereby incorporated by reference from the information under the caption “Independent Registered Public Accounting Firm” contained in our Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this Form 10-K:

(1) CONSOLIDATED FINANCIAL STATEMENTS (ITEM 8)

- Consolidated Balance Sheets as of December 31, 2019 and 2018
- Consolidated Statements of Operations and Comprehensive Income for the Years Ended December 31, 2019, 2018 and 2017
- Consolidated Statements of Equity for the Years Ended December 31, 2019, 2018 and 2017
- Consolidated Statements of Cash Flows for the Years Ended December 31, 2019, 2018 and 2017
- Notes to the Consolidated Financial Statements
- Report of Independent Registered Public Accounting Firm

(2) FINANCIAL STATEMENT SCHEDULES

- All schedules for which provision is made in the applicable regulation of the Commission have either been presented in the Company's financial statements or are not required under the related instructions or are inapplicable and therefore have been omitted.

(3) EXHIBITS

<u>Exhibit Number</u>	<u>Description</u>
2.1 (b)	<u>Share Purchase Agreement, dated as of December 10, 2017, among Knoll Denmark ApS, Maj Invest Equity 4 K/S, B Holding 2005 ApS, KB ApS, Unos ApS and AK Cleemann Holding APS.</u>
2.2 (g)	<u>Securities Purchase Agreement, dated February 3, 2014, among Knoll, Inc., Holly Hunt Enterprises, Inc., HHMI LLC, the Shareholders of Holly Hunt Enterprises, Inc. and the Members of HHMI LLC.</u>
3.1 (a)	<u>Amended and Restated Certificate of Incorporation of Knoll, Inc.</u>
3.2 (i)	<u>Amended and Restated By-Laws of Knoll, Inc.</u>
4.1 (m)	<u>Form of Stock Certificate.</u>
4.2 *	<u>Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934</u>
10.1 (b)	<u>Third Amended and Restated Credit Agreement, dated as of January 23, 2018, by and among Knoll, Inc., certain of the domestic subsidiaries of Knoll, Inc., Bank of America, N.A., as Administrative Agent, Swing Line Lender and an L/C Issuer, Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Joint Lead Arranger and Sole Bookrunner, and certain other lenders and the other lenders party thereto.</u>

Exhibit Number	Description
10.2 (q)	<u>First Amendment to Third Amended and Restated Credit Agreement, dated as of August 26, 2019, among Knoll, Inc., certain subsidiaries of Knoll, Inc., as borrowers, certain foreign and domestic subsidiaries of Knoll, Inc., as guarantors, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, and each of the lenders party thereto.</u>
10.3 (d)*	<u>Amended and Restated Employment Agreement, dated as of July 1, 2016, between Knoll, Inc. and Andrew B. Cogan.</u>
10.4 (l)*	<u>Amended and Restated Knoll, Inc. 2010 Stock Incentive Plan.</u>
10.5 (o)*	<u>Amended and Restated Knoll, Inc. 2013 Stock Incentive Plan</u>
10.6 (e)	<u>Amended and Restated Knoll, Inc. 2018 Stock Incentive Plan</u>
10.7 (k)	<u>Amended and Restated Knoll, Inc. Non-Employee Director Compensation Plan.</u>
10.8 (h)*	<u>Form of Restricted Share Agreement under the Non-Employee Director Compensation Plan (time vesting).</u>
10.9 (f)*	<u>Form of Restricted Share Agreement under the 2010 Stock Incentive Plan (time vesting).</u>
10.10 (f)*	<u>Form of Restricted Share Agreement under the 2010 Stock Incentive Plan (time vesting with accelerated performance vesting).</u>
10.11 (f)*	<u>Form of Non-Qualified Stock Option Agreement under the 2010 Stock Incentive Plan.</u>
10.12 (p)*	<u>Form of Performance-Based Stock Unit Agreement under the 2013 Stock Incentive Plan.</u>
10.13 (n)*	<u>Form of Performance-Based Stock Unit Agreement under the 2013 Stock Incentive Plan (enhanced vesting).</u>
10.14 (c)*	<u>Form of Restricted Share Agreement under the 2013 Stock Incentive Plan (updated change in control).</u>
10.15 (c)*	<u>Form of Performance-Based Stock Unit Agreement under the 2013 Stock Incentive Plan (updated change in control).</u>
10.16 (r)*	<u>Form of Performance-Based Stock Unit Agreement under the 2018 Stock Incentive Plan.</u>
10.17 (r)*	<u>Form of Restricted Share Agreement under the 2018 Stock Incentive Plan.</u>
10.18 (r)*	<u>Form of Non-Qualified Stock Option Agreement under the 2018 Stock Incentive Plan.</u>
10.19 (a)*	<u>Form of Director and Officer Indemnification Agreement.</u>
10.20 (j)*	<u>Andrew B. Cogan 2020 Incentive Compensation Letter, dated December 2, 2019.</u>
10.21 (j)*	<u>2020 Incentive Compensation Letter for Named Executive Officers (other than CEO), dated December 2, 2019.</u>
10.22 (i)*	<u>Severance Agreement between Company and Charles W. Rayfield.</u>
10.23 (i)*	<u>Severance Agreement between Company and Michael A. Pollner.</u>
10.24 *	<u>Severance Agreement between Company and Christopher M. Baldwin.</u>
18	<u>Preferability Letter of Ernst & Young LLP (filed herewith)</u>
21	<u>Subsidiaries of Knoll, Inc.</u>
23.1	<u>Consent of Independent Registered Public Accounting Firm.</u>
24.1	<u>Power of Attorney [(included on signature page)].</u>
31.1	<u>Certification for Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.</u>

Exhibit Number	Description
31.2	<u>Certification for Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.</u>
32.1	<u>Certification for Chief Executive Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2	<u>Certification for Chief Financial Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101	The following materials from the Company's Annual Report on Form 10-K for the period ended December 31, 2019, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2019, and December 31, 2018, (ii) Consolidated Statements of Operations and Comprehensive Income for the years ended December 31, 2019, December 31, 2018 and December 31, 2017, (iii) Consolidated Statements of Equity for the years ended December 31, 2019, December 31, 2018, and December 31, 2017, (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2019, December 31, 2018, and December 31, 2017 and (v) Notes to Consolidated Financial Statements, tagged as blocks of text.**
104	Cover Page Interactive Data File (formatted as Inline XBRL)

* Management Contract or Compensatory Plan or Arrangement required to be identified by Item 15(a) (3) of Form 10-K.

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections

- (a) Incorporated by reference to Knoll, Inc.'s Registration Statement on Form S-1 (File No. 333-118901), which was declared effective by the Commission on December 13, 2004.
- (b) Incorporated by reference to Knoll, Inc.'s Current Report on Form 8-K filed with the Commission on January 25, 2018.
- (c) Incorporated by reference to Knoll, Inc.'s Quarterly Report on Form 10-Q filed with the Commission on May 10, 2017.
- (d) Incorporated by reference to Knoll, Inc.'s Quarterly Report on Form 10-Q filed with the Commission on August 9, 2016.
- (e) Incorporated by reference to Knoll, Inc.'s Annual Report on Form 8-K filed with the Commission on April 9, 2018.
- (f) Incorporated by reference to Knoll, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2010.
- (g) Incorporated by reference to Knoll, Inc.'s Current Report on Form 8-K filed with the Commission on February 3, 2014.
- (h) Incorporated by reference to Knoll, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2007.
- (i) Incorporated by reference to Knoll, Inc.'s Quarterly Report on Form 10-Q filed with the Commission on August 9, 2018.
- (j) Incorporated by reference to Knoll, Inc.'s Current Report on Form 8-K filed with the Commission on December 6, 2019.
- (k) Incorporated by reference to Knoll, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2017.
- (l) Incorporated by reference to Knoll, Inc.'s Current Report on Form 8-K filed with the Commission on May 11, 2010.
- (m) Incorporated by reference to Knoll, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2012.
- (n) Incorporated by reference to Knoll, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2015.
- (o) Incorporated by reference to Knoll, Inc.'s Current Report on Form 8-K filed with the Commission on April 26, 2013.
- (p) Incorporated by reference to Knoll, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2013.
- (q) Incorporated by reference to Knoll, Inc.'s Current Report on Form 8-K filed with the Commission on August 26, 2019.
- (r) Incorporated by reference to Knoll, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2018.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, on this 21st day of February 2020.

KNOLL, INC.

By: /s/ ANDREW B. COGAN
Andrew B. Cogan
Chairman and Chief Executive Officer

KNOW ALL PERSONS BY THESE PRESENTS, that each individual whose signature appears below constitutes and appoints Andrew B. Cogan and Charles W. Rayfield, and each of them, his true and lawful attorneys-in-fact and agents with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Form 10-K, and to file the same, with all exhibits thereto and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report on Form 10-K has been signed by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

<u>/s/ ANDREW B. COGAN</u> Andrew B. Cogan	Chairman of the Board and Chief Executive Officer, Knoll, Inc.	2/21/2020
<u>/s/CHARLES W. RAYFIELD</u> Charles W. Rayfield	Chief Financial Officer (Chief Accounting Officer)	2/21/2020
<u>/s/ DANIEL W. DIENST</u> Daniel W. Dienst	Director	2/21/2020
<u>/s/ JEFFREY A. HARRIS</u> Jeffrey A. Harris	Director	2/21/2020
<u>/s/ RONALD R. KASS</u> Ronald R. Kass	Director	2/21/2020
<u>/s/ JOHN F. MAYPOLE</u> John F. Maypole	Director	2/21/2020
<u>/s/ SARAH E. NASH</u> Sarah E. Nash	Director	2/21/2020
<u>/s/ STEPHEN F. FISHER</u> Stephen F. Fisher	Director	2/21/2020
<u>/s/ STEPHANIE STAHL</u> Stephanie Stahl	Director	2/21/2020
<u>/s/ CHRISTOPHER G. KENNEDY</u> Christopher G. Kennedy	Director	2/21/2020

Certification of Chief Executive Officer

I, Andrew B. Cogan, certify that:

- (1) I have reviewed this annual report on Form 10-K of Knoll, Inc.;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to material affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 21, 2020

/s/ Andrew B. Cogan

Andrew B. Cogan

Chairman and Chief Executive Officer

Certification of Chief Financial Officer

I, Charles W. Rayfield, certify that:

- (1) I have reviewed this annual report on Form 10-K of Knoll, Inc.;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to material affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 21, 2020

/s/ Charles W. Rayfield

Charles W. Rayfield
Chief Financial Officer

Certification of Chief Executive Officer

In connection with the Annual Report on Form 10-K of Knoll, Inc. (the “Company”) for the year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Andrew B. Cogan, Chief Executive Officer of the Company, certifies, pursuant to 18 U.S.C. Section 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002), that to my knowledge:

- a. The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- b. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 21, 2020

/s/ Andrew B. Cogan

Andrew B. Cogan

Chairman and Chief Executive Officer

Certification of Chief Financial Officer

In connection with the Annual Report on Form 10-K of Knoll, Inc. (the “Company”) for the year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Charles W. Rayfield, Chief Financial Officer of the Company, certifies, pursuant to 18 U.S.C. Section 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002), that to my knowledge:

- a. The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- b. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 21, 2020

/s/ Charles W. Rayfield

Charles W. Rayfield

Chief Financial Officer

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Corporate Information

Officers

Andrew B. Cogan

Chairman of the Board
and Chief Executive Officer

Charles W. Rayfield

Senior Vice President and
Chief Financial Officer

Christopher M. Baldwin

President and Chief Operating
Officer, Knoll Office

Benjamin A. Pardo

Executive Vice President and
Director of Design

David L. Schutte

Executive Vice President,
Specialty Businesses

Michael A. Pollner

Senior Vice President,
Chief Administrative Officer,
General Counsel and Secretary

Roxanne B. Klein

Senior Vice President,
Human Resources

Executive Offices

Knoll, Inc.

1235 Water Street
East Greenville, PA 18041
215 679-7991
knoll.com

Board of Directors

Andrew B. Cogan

Director
Chairman of the Board
and Chief Executive Officer

Daniel W. Dienst

Director

Stephen F. Fisher

Director

Jeffrey A. Harris

Director

Ronald R. Kass

Director

Christopher G. Kennedy

Director

John F. Maypole

Director

Sarah E. Nash

Director

Stephanie Stahl

Director

Stock Listing

New York Stock Exchange
Ticker Symbol: KNL

Locations

Knoll, Inc.

Knoll Office KnollStudio
KnollExtra KnollTextiles
1235 Water Street
East Greenville, PA 18041
215 679-7991

For showrooms and sales offices:
knoll.com

DatesWeiser

45 West 21st Street
New York, NY 10010
212 727-8555

For showrooms and sales offices:
datesweiser.com

Edelman Leather

80 Pickett District Road
New Milford, CT 06776
860 350-9600

For showrooms and sales offices:
edelmanleather.com

Fully

117 SE Taylor St
Suite 301
Portland, OR 97214
888 508-3725

For showrooms and sales offices:
fully.com

Muuto

Østergade 36-38
DK-1100 Copenhagen
Denmark

For showrooms and sales offices:
muuto.com

HOLLY HUNT

801 West Adams Street # 700,
Chicago, IL 60607
312 329-5999

For showrooms and sales offices:
hollyhunt.com

Spinneybeck | FilzFelt

425 CrossPoint Parkway
Getzville, NY 14068
716 446-2380

For showrooms and sales offices:
spinneybeck.com

Independent Registered Public Accounting Firm

Ernst & Young
One Commerce Square
Suite 700
2005 Market Street
Philadelphia, PA 19103

Transfer Agent and Registrar

Computershare Trust Company, N.A.
PO Box 43023
Providence, RI 02940-3023
www.computershare.com

Knoll