HNI CORP
Form 10-K
February 26, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-K

(Mark One)

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

For the fiscal year ended December 30, 2006

OR

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

Commission File Number 1-14225

HNI Corporation

An Iowa Corporation	408 East Second Street P. O. Box 1109 Muscatine, IA 52761-0071 563/272-7400	IRS Employer No. 42-0617510

Securities registered pursuant to Section 12(b) of the Act: None.

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, with par value of $1.00 per share.
Preferred Share Purchase Rights to purchase shares of Series A Junior Participating.
Preferred Stock, with par value of $1.00 per share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

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

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 x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x

The aggregate market value of the voting stock held by nonaffiliates of the registrant, as of July 1, 2006, was $1,641,673,764, assuming all 5% holders are affiliates.

The number of shares outstanding of the registrant's common stock, as of February 13, 2007 was: 47,915,040.

Documents Incorporated by Reference

Portions of the registrant's Proxy Statement dated March 16, 2007, for the May 8, 2007, Annual Meeting of Shareholders are incorporated by reference into Part III.

Index of Exhibits is located on Page 76.

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ANNUAL REPORT ON FORM 10-K

PART I

ITEM 1. BUSINESS

General

HNI Corporation (the “Corporation”) is an Iowa corporation incorporated in 1944. The Corporation is a provider of office furniture and hearth products. A broad office furniture product offering is sold to dealers, wholesalers, retail superstores, end-user customers, and federal, state, and local governments. Dealer, wholesaler, and retail superstores are the major channels based on sales. Hearth products include a full array of gas, electric, and wood burning fireplaces, inserts, stoves, facings, and accessories. These products are sold through a national system of dealers, wholesalers, large regional contractors, as well as Corporation-owned distribution and retail outlets. In fiscal 2006, the Corporation had net sales of $2.7 billion, of which approximately $2.1 billion or 78% was attributable to office furniture products and $0.6 billion or 22% was attributable to hearth products. Please refer to Operating Segment Information in the Notes to Consolidated Financial Statements for further information about operating segments.

The Corporation is organized into a corporate headquarters and operating units with offices, manufacturing plants, distribution centers, and sales showrooms in the United States, Canada, Mexico, China, Hong Kong, and Taiwan. See Item 2. Properties for additional related discussion.

Seven operating units, marketing under various brand names, participate in the office furniture industry. These operating units include: The HON Company, Allsteel Inc., Maxon Furniture Inc., The Gunlocke Company L.L.C., Paoli Inc., HNI Hong Kong Limited, and Omni Workspace Company. Each of these operating units provides products which are sold through various channels of distribution and segments of the industry.

The operating unit Hearth & Home Technologies Inc. participates in the hearth industry. The retail and distribution brand for this operating unit is Fireside Hearth & Home.

During fiscal 2006, the Corporation completed the acquisition of Lamex, a privately held Chinese manufacturer and marketer of office furniture and established the HNI Hong Kong Limited operating unit. The Corporation also completed the acquisition of a small office furniture services company, a small office furniture dealer and a small manufacturer of fireplace facings during fiscal 2006. The combined purchase price of these acquisitions less cash acquired was $78.2 million.

HNI International Inc. (“HNI International”) sells office furniture products manufactured by the Corporation’s operating units in select markets outside the United States and Canada. With dealers and servicing partners located in more than fifty countries, HNI International provides project management services virtually anywhere in the world.

Since its inception, the Corporation has been committed to improvement in manufacturing and in 1992 introduced its process improvement approach known as Rapid Continuous Improvement (“RCI”) which focuses on streamlining design, manufacturing, and administrative processes. The Corporation's RCI program, in which most members participate, has contributed to increased productivity, lower manufacturing costs, improved product quality, and workplace safety. In addition, the Corporation's RCI efforts enable it to offer short average lead times, from receipt of order to delivery and installation, for most of its products.

The Corporation distributes its products through an extensive network of independent office furniture dealers, office products dealers, wholesalers, and retailers. The Corporation is a supplier of office furniture to the largest nationwide

distributors of office products, including Corporate Express Inc., A Buhrmann Company; Office Depot, Inc.; Office Max Incorporated; and Staples, Inc.

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The Corporation's product development efforts are focused on developing and providing solutions that are relevant and differentiated, deliver quality, aesthetics, and style, and are focused on reducing manufacturing costs.

An important element of the Corporation's success has been its member-owner culture, which has enabled it to attract, develop, retain, and motivate skilled, experienced, and efficient members (i.e., employees). Each of the Corporation's eligible members own stock in the Corporation through a number of stock-based plans, including a member stock purchase plan and a profit-sharing retirement plan, which drives a unique level of commitment to the Corporation’s success throughout the entire workforce.

For further financial-related information with respect to acquisitions, restructuring, and the Corporation’s operations in general, refer to Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations, and the following sections in the Notes to Consolidated Financial Statements: Nature of Operations, Business Combinations, and Operating Segment Information.

Industry

According to the Business and Institutional Furniture Manufacturer's Association (“BIFMA”), U.S. office furniture industry shipments were estimated to be $10.8 billion in 2006, an increase of 7% compared to 2005, which was a 13% increase from 2004 levels. The Corporation believes that the increase was due to improving economic conditions and price increases due to higher material costs.

The U.S. office furniture market consists of two primary segments—the project or contract segment and the commercial segment. The project segment has traditionally been characterized by sales of office furniture and services to large corporations, primarily for new office facilities, relocations, or department or office redesigns, which are frequently customized to meet specific client and designer preferences. Project furniture is generally purchased through office furniture dealers who typically prepare a custom-designed office layout emphasizing image and design. The selling process is often complex and lengthy and generally has several manufacturers competing for the same projects.

The commercial segment of the market, in which the Corporation is a leader, primarily represents smaller orders of office furniture purchased by businesses and home office users on the basis of price, quality, selection, and speed and reliability of delivery. Office products dealers, wholesalers, and retailers, such as office products superstores, are the primary distribution channels in this market segment. Office furniture and products dealers publish periodic catalogs that display office furniture and products from various manufacturers.

The Corporation also competes in the domestic hearth industry, where it is a market leader. Hearth products are typically purchased by builders during the construction of new homes and homeowners during the renovation of existing homes. Both types of purchases involve seasonality with remodel/retrofit activity being concentrated in the September to December time-frame. Distribution is primarily through independent dealers, who may buy direct from the manufacturer or from an intermediate distributor. The Corporation sells approximately 70% of its products to the new construction/builder channel.

Growth Strategy

The Corporation's strategy is to build on its position as a leading manufacturer of office furniture and hearth products in North America and pursue select global markets where opportunities are strong. The components of this growth strategy are to introduce new products, build brand equity, continually reduce costs, provide outstanding customer satisfaction by focusing on the end-user, strengthen the distribution network, respond to global competition, pursue complementary strategic acquisitions, and enter markets not currently served.

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Employees/Members

As of December 30, 2006, the Corporation employed approximately 14,200 persons, 13,400 of who were full-time and 800 of who were temporary personnel. The Corporation employed approximately 400 persons who were members of unions. The Corporation believes that its labor relations are good.

Products and Solutions

Office Furniture

The Corporation designs, manufactures, and markets a broad range of office furniture in four basic categories: (i) storage, including vertical files, lateral files, pedestals, and high density filing; (ii) seating, including task chairs, executive desk chairs, conference/training chairs, and side chairs; (iii) office systems (typically modular and moveable workspaces with integrated work surfaces, space dividers, and lighting); and (iv) desks and related products, including tables, bookcases, and credenzas. In order to meet the demands of various markets, the Corporation's products are sold under the Corporation's brands - HON®, Allsteel®, Maxon®, Gunlocke®, Paoli®, Whitehall®, basyx™, Lamex®, IntraSpec Solutions™, and Smartspace® as well as private labels.

The following is a description of the Corporation's major product categories and product lines:

Storage
The Corporation offers a variety of storage options designed either to be integrated into the Corporation's office systems products or to function as freestanding furniture in office applications. The Corporation sells most of its freestanding storage through independent office products and office furniture dealers, nationwide chains of office products dealers, wholesalers, office products superstores, and mail order distributors.

Seating
The Corporation's seating line includes chairs designed for all types of office work. The chairs are available in a variety of frame colors, coverings, and a wide range of price points. Key customer criteria in seating includes superior design, ergonomics, aesthetics, comfort, and quality.

Office Panel Systems
The Corporation offers a complete line of office panel system products in order to meet the needs of a wide spectrum of organizations. Office panel systems may be used for team work settings, private offices, and open floor plans. They are typically modular and movable workspaces composed of adjustable partitions, work surfaces, desk extensions, storage cabinets and electrical lighting systems which can be moved, reconfigured and reused within the office. Office panel systems offer a cost-effective and flexible alternative to traditional drywall office construction. A typical installation of office panels often includes related sales of seating, storage, and accessories.

The Corporation offers whole office solutions, movable panels, storage units, and work surfaces that can be installed easily and reconfigured to accommodate growth and change in organizations. The Corporation also offers consultative selling and design services for its office system products.

Desks and Related Products
The Corporation's collection of desks and related products includes stand-alone steel, laminate, and wood furniture items, such as desks, bookshelves, credenzas, and mobile desking. These products are available in a range of designs and price points. The Corporation's desks and related products are sold to a wide variety of customers from those designing large office configurations to small retail and home office purchasers. The Corporation offers a variety of tables designed for use in conference rooms, private offices, training areas, team work settings, and open floor plans.

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Hearth Products

The Corporation is North America's largest manufacturer and marketer of prefabricated fireplaces and related products, primarily for the home, which it sells under its widely recognized Heatilator®, Heat & Glo™, and Quadra-Fire® brand names.

The Corporation's line of hearth products includes a full array of gas, electric and wood burning fireplaces, inserts, stoves, facings and accessories. Heatilator® and Heat & Glo™ are brand leaders in the two largest segments of the home fireplace market: vented-gas and wood fireplaces. The Corporation is the leader in "direct vent" fireplaces, which replace the chimney-venting system used in traditional fireplaces with a less expensive vent through the roof or an outer wall. See "Intellectual Property" under this Item 1. Business for additional details.

Manufacturing

The Corporation manufactures office furniture in Alabama, California, Georgia, Indiana, Iowa, Kentucky, Minnesota, New York, North Carolina, Virginia, Mexico, and China. The Corporation manufactures hearth products in Iowa, Maryland, Minnesota, Washington, California, and Virginia.

The Corporation purchases raw materials and components from a variety of suppliers, and generally most items are available from multiple sources. Major raw materials and components include coil steel, aluminum, castings, lumber, veneer, particleboard, fabric, paint, lacquer, hardware, plastic products, and shipping cartons.

Since its inception, the Corporation has focused on making its manufacturing facilities and processes more flexible while at the same time reducing costs and improving product quality. In 1992, the Corporation adopted the principles of RCI, which focus on developing flexible and efficient design, manufacturing and administrative processes that remove excess cost. To achieve flexibility and attain efficiency goals, the Corporation has adopted a variety of production techniques, including cellular manufacturing, focused factories, just-in-time inventory management, value engineering, business simplification, and 80/20 principles. The application of RCI has increased productivity by reducing set-up and processing times, square footage, inventory levels, product costs, and delivery times, while improving quality and enhancing member safety. The Corporation's RCI process involves production and administrative employees, management, customers, and suppliers. The Corporation has facilitators, coaches, and consultants dedicated to the RCI process and strives to involve all members in the RCI process. In addition, the Corporation has organized a group that designs, fabricates, tests, and installs proprietary manufacturing equipment. Manufacturing also plays a key role in the Corporation's concurrent product development process that primarily seeks to design new products for ease of manufacturability.

Product Development

The Corporation's product development efforts are primarily focused on developing end-user solutions that are relevant and differentiated and focused on quality, aesthetics, style, and on reducing manufacturing costs. The Corporation accomplishes this through improving existing products, extending product lines, applying ergonomic research, improving manufacturing processes, applying alternative materials, and providing engineering support and training to its operating units. The Corporation conducts its product development efforts at both the corporate and operating unit level. At the corporate level, the staff at the Corporation's Stanley M. Howe Technical Center, working in conjunction with operating unit staff, seeks breakthrough developments in product design, manufacturability, and materials usage. At the operating unit level, development efforts are focused on achieving improvements in product features and manufacturing processes. The Corporation invested approximately $27.6 million, $27.3 million, and $27.4 million in product development during fiscal 2006, 2005, and 2004, respectively, and has budgeted in excess of $26 million for product development in fiscal 2007.

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Intellectual Property

As of December 30, 2006, the Corporation owned 352 U.S. and 278 foreign patents and had applications pending for 70 U.S. and 212 foreign patents. In addition, the Corporation holds 158 U.S. and 271 foreign trademark registrations and has applications pending for 51 U.S. and 107 foreign trademarks.

The Corporation's principal office furniture products do not require frequent technical changes. The majority of the Corporation's office furniture patents are design patents which expire at various times depending on the patent's date of issuance. The Corporation believes that neither any individual office furniture patent nor the Corporation's office furniture patents in the aggregate are material to the Corporation's business as a whole.

The Corporation’s patents covering its hearth products protect various technical innovations and expire at various times depending upon each patent’s date of issuance. While the acquisition of patents reflects Hearth & Home Technologies Inc.’s position in the market as an innovation leader, the Corporation believes that neither any individual hearth product’s patent nor the Corporation’s hearth products’ patents in the aggregate are material to the Corporation’s business as a whole.

The Corporation applies for patent protection when it believes the expense of doing so is justified, and the Corporation believes that the duration of its registered patents is adequate to protect these rights. The Corporation also pays royalties in certain instances for the use of patents on products and processes owned by others.

The Corporation actively protects its trademarks that it believes have significant value.

Sales and Distribution: Customers

In fiscal 2006, the Corporation’s ten largest customers represented approximately 34% of its consolidated net sales. One customer, United Stationers Inc., accounted for approximately 12% of the Corporation’s consolidated net sales in fiscal 2006, 12% in fiscal 2005 and 13% in fiscal 2004. The substantial purchasing power exercised by large customers may adversely affect the prices at which the Corporation can successfully offer its products. In addition, there can be no assurance that the Corporation will be able to maintain its customer relationships as consolidation of its customers occurs.

The Corporation today sells its office furniture products through five principal distribution channels. The first channel, which consists of independent, local office furniture and office products dealers, specializes in the sale of a broad range of office furniture and office furniture systems to commercial, government, education, health care entities, and home office owners.

The second distribution channel comprises national office product distributors including Office Max Incorporated; Corporate Express Inc., A Buhrmann Company; Office Depot, Inc.; and Staples, Inc. These distributors sell furniture along with office supplies through a national network of dealerships and sales offices which assist their customers with the evaluation of office space requirements, systems layout and product selection, and design and office solution services provided by professional designers. All of these distributors, except for Corporate Express Inc., also sell through retail office products superstores.

The third distribution channel, comprising corporate accounts, is where the Corporation has the lead selling relationship with the end-user. Installation and service are normally provided through a dealer.

The fourth distribution channel comprises wholesalers that serve as distributors of the Corporation's products to independent dealers, national supply dealers, and superstores. The Corporation sells to the nation's largest wholesalers,

United Stationers Inc. and S.P. Richards Company, as well as to regional wholesalers. Wholesalers maintain inventory of standard product lines for resale to the various dealers and retailers. They also special order products from the Corporation in customer-selected models and colors. The Corporation's wholesalers maintain warehouse locations throughout the United States, which enables the Corporation to make its products available for rapid delivery to retailers anywhere in the country.

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The fifth distribution channel comprises direct sales of the Corporation's products to federal, state, and local government offices.

The Corporation's office furniture sales force consists of regional sales managers, salespersons, and firms of independent manufacturers' representatives who collectively provide national sales coverage. Sales managers and salespersons are compensated by a combination of salary and incentive bonus.

Office products dealers, national wholesalers, and retailers market their products over the Internet and through catalogs published periodically. These catalogs are distributed to existing and potential customers. The Corporation believes that the inclusion of the Corporation's product lines in customer catalogs and e-business listings offers strong potential for increased sales of the listed product lines due to the exposure provided.

The Corporation also makes export sales through HNI International to office furniture dealers and wholesale distributors serving select foreign markets. Distributors are principally located in Latin America and the Caribbean. With the acquisition of Lamex in 2006 the Corporation manufactures and distributes office furniture through owned and independent dealers in Asia.

Limited quantities of select finished goods inventories built to order awaiting shipment are at the Corporation's principal manufacturing plants and at its various distribution centers.

Hearth & Home Technologies Inc. sells its fireplace and stove products through dealers, distributors, and Corporation-owned distribution and retail outlets. The Corporation has a field sales organization of regional sales managers, salespersons, and firms of independent manufacturers' representatives.

As of December 30, 2006, the Corporation had an order backlog of approximately $182.7 million which will be filled in the ordinary course of business within the first few weeks of the current fiscal year. This compares with $185.4 million as of December 31, 2005, and $133.6 million as of January 1, 2005. Backlog, in terms of percentage of net sales, was 6.8%, 7.6%, and 6.4%, for fiscal 2006, 2005, and 2004, respectively. The Corporation’s products are typically manufactured and shipped within a few weeks following receipt of order. The dollar amount of the Corporation’s order backlog is therefore not considered by management to be a leading indicator of the Corporation’s expected sales in any particular fiscal period.

Competition

The Corporation is one of the largest office furniture manufacturers in the world, and believes that it is the largest provider of furniture to small- and medium-sized workplaces. The Corporation is the largest manufacturer and marketer of fireplaces in North America.

The office furniture industry is highly competitive, with a significant number of competitors offering similar products. The Corporation competes by emphasizing its ability to deliver compelling value products and unsurpassed customer service. The Corporation competes with the large office furniture manufacturers, which control a substantial portion of the market share in the project-oriented office furniture market, such as Steelcase Inc.; Haworth, Inc.; Herman Miller, Inc.; and Knoll, Inc. The Corporation also competes with a number of other office furniture manufacturers, including The Global Group (a Canadian company); Kimball International, Inc.; KI; and Teknion Corporation (a Canadian company), as well as global importers. The Corporation faces significant price competition from its competitors and may encounter competition from new market entrants.

Hearth products, consisting of prefabricated fireplaces and related products, are manufactured by a number of national and regional competitors. The Corporation competes primarily against other large manufacturers, including CFM

Corporation Inc. (a Canadian company) and Lennox International Inc.

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Both office furniture and hearth products compete on the basis of performance, quality, price, complete and on-time delivery to the customer, and customer service and support. The Corporation believes that it competes principally by providing compelling value products designed to be among the best in their price range for product quality and performance, superior customer service, and short lead-times. This is made possible, in part, by the Corporation's significant on-going investment in product development, highly efficient and low cost manufacturing operations, and an extensive distribution network.

For further discussion of the Corporation's competitive situation, refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Effects of Inflation

Certain business costs may, from time to time, increase at a rate exceeding the general rate of inflation. The Corporation’s objective is to offset the effect of inflation on its costs primarily through productivity increases in combination with certain adjustments to the selling price of its products as competitive market and general economic conditions permit.

Investments are routinely made in modernizing plants, equipment, support systems, and RCI programs. These investments collectively focus on business simplification and increasing productivity which helps to offset the effect of rising material and labor costs. Ongoing cost control disciplines are also routinely employed. In addition, the last-in, first-out (LIFO) valuation method is used for most of the Corporation's inventories, which ensures that changing material and labor costs are recognized in reported income, and, more importantly, these costs are recognized in pricing decisions.

Environmental

The Corporation is subject to a variety of environmental laws and regulations governing discharges of air and water; the handling, storage, and disposal of hazardous or solid waste materials; and the remediation of contamination associated with releases of hazardous substances. Although the Corporation believes it is in material compliance with all of the various regulations applicable to its business, there can be no assurance that requirements will not change in the future or that the Corporation will not incur material costs to comply with such regulations. The Corporation has trained staff responsible for monitoring compliance with environmental, health, and safety requirements. The Corporation’s environmental staff works with responsible personnel at each manufacturing facility, the Corporation’s environmental legal counsel, and consultants on the management of environmental, health and safety issues. The Corporation’s ultimate goal is to reduce and, when practical, eliminate the generation of environmental pollutants in its manufacturing processes.

Compliance with federal, state, and local environmental regulations has not had a material effect on the capital expenditures, earnings, or competitive position of the Corporation to date. The Corporation does not anticipate that financially material capital expenditures will be required during fiscal 2007 for environmental control facilities. It is management’s judgment that compliance with current regulations should not have a material effect on the Corporation’s financial condition or results of operations. However, there can be no assurance that new environmental legislation and technology in this area will not result in or require material capital expenditures.

Business Development

The development of the Corporation's business during the fiscal years ended December 30, 2006, December 31, 2005, and January 1, 2005, is discussed in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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Available Information

Information regarding the Corporation's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to these reports, will be made available, free of charge, on the Corporation's Internet website at www.hnicorp.com, as soon as reasonably practicable after the Corporation electronically files such reports with or furnishes them to the Securities and Exchange Commission (the "SEC"). The Corporation's information is also available from the SEC's Public Reference room at 100 F Street, N.E., Washington, D.C. 20549 or on the SEC website at www.sec.gov.

Forward-Looking Statements

Statements in this report that are not strictly historical, including statements as to plans, outlook, objectives, and future financial performance, are "forward-looking" statements that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Words, such as "anticipate," "believe," "could," "confident," "estimate," "expect," "forecast," "intend," "likely," "may," "plan," "possible," "potential," "predict," "project," "should," and variations of and similar expressions identify forward-looking statements.

Forward-looking statements involve risks and uncertainties. The most significant factors known to the Corporation that may adversely affect the Corporation's business, operations, industries, financial position or future financial performance are described later in this report under the heading entitled "Item 1A. Risk Factors." The Corporation cautions readers not to place undue reliance on any forward-looking statement which speaks only as of the date made and to recognize that forward-looking statements are predictions of future results, which may not occur as anticipated. Actual results could differ materially from those anticipated in the forward-looking statements and from historical results due to the risks and uncertainties described elsewhere in this report, including under the heading entitled "Item 1A. Risk Factors," as well as others that the Corporation may consider immaterial or does not anticipate at this time. The risks and uncertainties described in this report, including those under the heading entitled "Item 1A. Risk Factors," are not exclusive and further information concerning the Corporation, including factors that potentially could materially affect the Corporation's financial results or condition, may emerge from time to time.

The Corporation assumes no obligation to update, amend, or clarify forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by applicable law. The Corporation does advise you, however, to consult any further disclosures made on related subjects in future quarterly reports on Form 10-Q and current reports on Form 8-K filed with or furnished to the Securities and Exchange Commission.

ITEM 1A. RISK FACTORS

The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we presently deem less significant may also adversely affect our business, operating results, cash flows, and financial condition. If any of the following risks actually occur, our business, operating results, cash flows and financial condition could be materially adversely affected.

We operate in a highly competitive environment and, as a result, we may not always be successful.

Both the office furniture and hearth products industries are highly competitive, with a significant number of competitors in both industries offering similar products. While competitive factors vary geographically and between differing sales situations, typical factors for both industries include: price; delivery and service; product design and features; product quality; strength of dealers and other distributors; and relationships with customers and key influencers, such as architects, designers, home-builders and facility managers. Our principal competitors in the office

furniture industry include The Global Group (a Canadian company), Haworth, Inc., Kimball International, Inc., Steelcase Inc., Herman Miller, Inc., Teknion Corporation (a Canadian company), KI and Knoll, Inc. Our principal competitors in the hearth products industry include Lennox International Inc. and CFM Corporation (a Canadian company). In both industries, most of our top competitors have an installed base of products that can be a source of significant future sales through repeat and expansion orders. These competitors manufacture products with strong acceptance in the marketplace and are capable of developing products that have a competitive advantage over our products.

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Our continued success will depend on many things, including our ability to continue to manufacture and market high quality, high performance products at competitive prices and our ability to adapt our business model to effectively compete in the highly competitive environments of both the office furniture and hearth products industries. Our success is also subject to our ability to sustain and grow our positive brand reputation and recognition among existing and potential customers and use our brands and trademarks effectively in entering new markets.

In both the office furniture and hearth products industries, we also face significant price competition from our competitors and from new market entrants primarily from lower-cost countries. Such price competition impacts our ability to implement price increases or, in some cases, even maintain prices, which could lower our profit margins. In addition, we may not be able to maintain or raise the prices of our products in response to rising raw material prices and other inflationary pressures. Increased competition from low-cost Asian imports represents one of the most significant threats to our current market share in the office furniture industry. In the hearth products industry, big box retailers, such as Lowe's and Home Depot, with whom we currently do not do business, have increased their penetration into the market. If such market penetration continues, it could adversely affect our business, operating results, or financial condition.

There can be no assurance that we will be able to compete successfully in our various markets in the future.

The concentration of our customer base, changes in demand and order patterns from our customers, particularly the top ten customers, as well as the increased purchasing power of such customers, could adversely affect our business, operating results, or financial condition.

We sell our products through multiple distribution channels. These distribution channels have been consolidating in the past several years and may continue to consolidate in the future. Such consolidation may result in a greater proportion of our sales being concentrated in fewer customers. In fiscal 2006, our ten largest customers represented approximately 34% of consolidated net sales. The increased purchasing power exercised by larger customers may adversely affect the prices at which we can successfully offer our products. As a result of this consolidation, changes in the purchase patterns or the loss of a single customer may have a greater impact on our business, operating results, or financial condition than such events would have had prior to such consolidation. There can be no assurance that we will be able to maintain our relationships with customers if this consolidation continues.

The growth in sales of private label products by some of our largest office furniture customers may reduce our revenue and adversely affect our business, operating results, or financial condition.

Private label products are products sold under the name of the distributor or retailer, but manufactured by another party. Some of our largest customers have begun an aggressive private label initiative to increase sales of office furniture. If these initiatives are successful, they may reduce our revenue and inhibit our ability to raise prices and may, in some cases, even force us to lower prices, which could result in an adverse effect on our business, operating results, or financial condition.

Increases in basic commodity, raw material, and component costs as well as disruptions to the supply of such basic commodities, raw materials, and components could adversely affect our profitability.

Fluctuations in the price, availability, and quality of the commodities, raw materials, and components used by us in manufacturing could have an adverse effect on our costs of sales, profitability, and our ability to meet the demand of customers. We are increasingly sourcing commodities, raw materials, and components from low-cost, international suppliers for both our office furniture and hearth products. From both domestic and international suppliers, the cost, quality, and availability of commodities, raw materials, and components, including steel, our largest raw material category, have been significantly affected in recent years by, among other things, changes in global supply and

demand, changes in laws and regulations (including tariffs and duties), changes in exchange rates and worldwide price levels, natural disasters, labor disputes, terrorism, and political unrest or instability. These factors could lead to further price increases or supply interruptions in the future. Our profit margins could be adversely affected if commodity, raw material, and component costs remain high or escalate further, and we are either unable to offset such costs through strategic sourcing initiatives and continuous improvement programs or, as a result of competitive market dynamics, unable to pass along a portion of the higher costs to our customers.

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We are affected by the cost of energy, and increases in energy prices could adversely affect our gross margins and profitability.

Our gross margins and the profitability of our business operations are sensitive to the cost of energy because the cost of energy is reflected in our transportation costs, the cost of petroleum-based materials like plastics, and the cost of operating our manufacturing facilities. If the price of petroleum-based products, the cost of operating our manufacturing facilities, and our transportation costs continue to increase, it could adversely affect our gross margins and profitability.

We may not be successful in implementing and managing the risks inherent in our growth strategy.

As a part of our growth strategy, we seek to increase sales and market share by introducing new products, further enhancing our existing line of products, and continuing to pursue complementary acquisitions. This strategy depends on our ability to increase sales through our existing customer network, principally dealers, wholesalers and retailers. Furthermore, the ability to effectuate and manage profitable growth will depend on our ability to contain costs, including costs associated with increased manufacturing, sales and marketing efforts, freight utilization, warehouse capacity, product development, and acquisition efforts.

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

To keep pace with market trends in both the office furniture and hearth products industries, such as changes in workplace and home 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 home and for product performance, we must periodically introduce new products. The introduction of new products in both industries 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, home-builders 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 we originally anticipated. 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, and may result in an adverse effect on our business, operating results, or financial condition.

We intend to grow our business through additional acquisitions, alliances, and joint venture arrangements, which could adversely affect our business, operating results, or financial condition.

One of our growth strategies is to supplement our internal growth through acquisitions of and alliances and joint venture arrangements with, businesses with technologies or products that complement or augment our existing products or distribution or add new products or distribution to our business. The benefits of an acquisition, alliance, or joint venture may take more time than expected to develop or integrate into our operations, and we cannot guarantee that any completed or future acquisitions, alliances, or joint ventures will in fact produce any benefits. In addition, acquisitions, alliances, and joint ventures involve a number of risks, including, without limitation:

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- diversion of management's attention;
- difficulties in assimilating the operations and products of an acquired business or in realizing projected efficiencies, cost savings, and revenue synergies;
- potential loss of key employees or customers of the acquired businesses or adverse effects on existing business relationships with suppliers and customers;
- adverse impact on overall profitability if acquired businesses do not achieve the financial results projected in our valuation models;
- reallocation of amounts of capital from other operating initiatives or an increase in our leverage and debt service requirements to pay the acquisition purchase prices, which could in turn restrict our ability to access additional capital when needed or to pursue other important elements of our business strategy;
- inaccurate assessment of undisclosed, contingent, or other liabilities or problems and unanticipated costs associated with the acquisition; and
- incorrect estimates made in accounting for acquisitions, incurrence of non-recurring charges, and write-off of significant amounts of goodwill that could adversely affect our operating results.

Our ability to grow through acquisitions will depend, in part, on the availability of suitable acquisition candidates at an acceptable price, our ability to compete effectively for these acquisition candidates, and the availability of capital to complete such acquisitions. These risks could be heightened if we complete several acquisitions within a relatively short period of time. In addition, there can be no assurance that we will be able to continue to identify attractive opportunities or enter into any such transactions with acceptable terms in the future. If an acquisition is completed, there can be no assurance that we will be able to successfully integrate the acquired entity into our operations or that we will achieve sales and profitability that justify our investment in such businesses. Any potential acquisition may not be successful and could adversely affect our business, operating results, or financial condition.

We are subject to extensive environmental regulation and have exposure to potential environmental liabilities.

The past and present operation and ownership by us of manufacturing facilities and real property are subject to extensive and changing federal, state, and local environmental laws and regulations, including those relating to discharges in air, water and land, the handling and disposal of solid and hazardous waste and the remediation of contamination associated with releases of hazardous substances. Compliance with environmental regulations has not had a material affect on our capital expenditures, earnings, or competitive position to date; however, compliance with current laws or more stringent laws or regulations which may be imposed on us in the future, stricter interpretation of existing laws, or discoveries of contamination at our real property sites which occurred prior to our ownership or the advent of environmental regulation may require us to make additional expenditures in the future, some of which may be material.

The existence of various unfavorable macroeconomic and industry factors for a prolonged period could adversely affect our business, operating results, or financial condition.

Office furniture industry revenues are impacted by a variety of macroeconomic factors such as service-sector employment levels, corporate profits, non-residential fixed investment, and commercial construction. Industry factors, such as corporate restructuring, technology changes, corporate relocations, health and safety concerns, including ergonomic considerations, and the globalization of companies also influence office furniture industry revenues.

Hearth products industry revenues are impacted by a variety of macroeconomic factors as well, including housing starts, overall employment levels, interest rates, consumer confidence, energy costs, disposable income, and changing demographics. Industry factors, such as technology changes, health and safety concerns, and environmental regulation, including indoor air quality standards, also influence hearth products industry revenues.

There can be no assurance that current or future economic or industry trends will not adversely affect our business, operating results, or financial condition.

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Increasing healthcare costs could adversely affect our business, operating results, or financial condition.

We provide healthcare benefits to the majority of our members. Healthcare costs have continued to rise over time and could adversely affect our business, operating results, or financial condition.

Our inability to improve the quality/capability of our network of independent dealers or the loss of a significant number of such dealers could adversely affect our business, operating results, or financial condition.

In both the office furniture and hearth products industries, we rely in large part on a network of independent dealers to market our products to customers. We also rely upon these dealers to provide a variety of important specification, installation, and after-market services to our customers. Our dealers may terminate their relationships with us at any time and for any reason. The loss or termination of a significant number of dealer relationships could cause difficulties for us in marketing and distributing our products, resulting in a decline in our sales, which may adversely affect our business, operating results, or financial condition.

Our increasing international operations expose us to risks related to conducting business in multiple jurisdictions outside the United States.

We primarily sell our products and report our financial results in U.S. Dollars; however we have increasingly been conducting business in countries outside the United States, which exposes us to fluctuations in foreign currency exchange rates. Paying our expenses in other currencies can result in a significant increase or decrease in the amount of those expenses in terms of U.S. Dollars, which may affect 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.

We periodically review our foreign currency exposure and evaluate whether we should enter into hedging transactions.

Our international sales and operations are subject to a number of additional risks, including, without limitation:

- social and political turmoil, official corruption, and civil unrest;
- restrictive government actions, such as the imposition of trade quotas and tariffs and restrictions on transfers of funds;
- changes in labor laws and regulations affecting our ability to hire, retain, or dismiss employees;
- the need to comply with multiple and potentially conflicting laws and regulations, including environmental laws and regulations;
- preference for locally branded products and laws and business practices favoring local competition;
- less effective protection of intellectual property;
- unfavorable business conditions or economic instability in any particular country or region; and
- difficulty in obtaining distribution and support.

There can be no assurance that these and other factors will not have an adverse affect on our business, operating results, or financial condition.

We may not be able to maintain our effective tax rate.

We may not be able to maintain our effective tax rate because (1) income tax benefits may be offset by an increase in the valuation allowance due to the uncertainty regarding the ability to utilize the benefits in the future, (2) the losses

incurred in certain jurisdictions may not offset the tax expense in profitable jurisdictions, (3) there are differences between foreign and U.S. income tax rates, and (4) many tax years are subject to audit by different tax jurisdictions, which may result in additional taxes payable.

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Restrictions imposed by the terms of our existing credit facility and note purchase agreement may limit our operating and financial flexibility.

Our existing credit facility and note purchase agreement, dated as of April 6, 2006, pursuant to which we issued $150 million of senior, unsecured notes designated as Series 2006-A Senior Notes, limit our ability to finance operations, service debt, or engage in other business activities that may be in our interest. Specifically, our credit facility restricts our ability to incur additional indebtedness, create or incur certain liens with respect to any of our properties or assets, engage in lines of business substantially different than those currently conducted by us, sell, lease, license, or dispose of any of our assets, enter into certain transactions with affiliates, make certain restricted payments or take certain restricted actions, and enter into certain sale-leaseback arrangements. Our note purchase agreement contains customary restrictive covenants that, among other things, place limits on our ability to incur liens on assets, incur additional debt, transfer or sell our assets, merge or consolidate with other persons, or enter into material transactions with affiliates. Both our credit facility and note purchase agreement also require us to maintain certain financial covenants.

Our failure to comply with the obligations under our credit facility may result in an event of default, which, if not cured or waived, may permit acceleration of the indebtedness under the credit facility and result in a cross default under our note purchase agreement. We cannot be certain that we will have sufficient funds available to pay any accelerated indebtedness or that we will have the ability to refinance accelerated indebtedness on terms favorable to us or at all.

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, new product development, and acquisitions. 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. Our ability to generate cash depends on economic, financial, competitive, legislative, regulatory, and other factors that may be beyond our control. Future borrowings or financings may not be available to us under our credit facility or otherwise in an amount sufficient to enable us to pay our debt or meet our liquidity needs.

Any equity or debt financing, if available at all, could have terms that are not favorable to us. In addition, financings could result in dilution to our shareholders or 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.

Our business is subject to a number of other miscellaneous risks that may adversely affect our business, operating results, or financial condition.

Other miscellaneous risks include, without limitation:

- uncertainty related to disruptions of business by accidents, third-party labor disputes, terrorism, military action, natural disasters, epidemic, acts of God, or other force majeure events;
- reduced demand for our storage products caused by changes in office technology, including the change from paper record storage to electronic record storage;
- the effects of economic conditions on demand for office furniture and hearth products, customer insolvencies, bankruptcies and related bad debts and claims against us that we received preferential payments;

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- our ability to realize cost savings and productivity improvements from our cost containment and business simplification initiatives;
- our ability to realize financial benefits from our repurchases of common stock;
- volatility in the market price and trading volume of equity securities may adversely affect the market price for our common stock;
- our ability to protect our intellectual property;
- potential claims by third-parties that we infringed upon their intellectual property rights;
- our insurance may not adequately insulate us from expenses for product defects; and
- our ability to retain our experienced management team and recruit other key personnel.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Corporation maintains its corporate headquarters in Muscatine, Iowa, and conducts its operations at locations throughout the United States, Canada, Mexico, China, and Taiwan, which house manufacturing, distribution, and retail operations and offices totaling an aggregate of approximately 11.3 million square feet. Of this total, approximately 2.9 million square feet are leased, including approximately .3 million square feet under a capital lease.

Although the plants are of varying ages, the Corporation believes they are well maintained, equipped with modern and efficient equipment, in good operating condition, and suitable for the purposes for which they are being used. The Corporation has sufficient capacity to increase output at most locations by increasing the use of overtime or the number of production shifts employed.

The Corporation's principal manufacturing and distribution facilities (200,000 square feet in size or larger) are as follows:

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Location	Approximate Square Feet	Owned or Leased	Description of Use
Cedartown, Georgia	547,014	Owned	Manufacturing nonwood casegoods office furniture (1)
Chester, Virginia	382,082	Owned/ Leased(2)	Manufacturing nonwood casegoods office furniture (1)
Dongguan, China	1,007,716	Owned	Manufacturing wood casegoods office furniture
Florence, Alabama	308,763	Owned	Manufacturing nonwood casegoods office furniture
Lake City, Minnesota	235,000	Owned	Manufacturing metal prefabricated fireplaces (1)
Mt. Pleasant, Iowa	288,006	Owned	Manufacturing metal prefabricated fireplaces (1)
Muscatine, Iowa	286,000	Owned	Manufacturing nonwood casegoods office furniture
Muscatine, Iowa	578,284	Owned	Warehousing office furniture (1)
Muscatine, Iowa	236,100	Owned	Manufacturing nonwood casegoods office furniture
Muscatine, Iowa	630,000	Owned	Manufacturing nonwood casegoods and systems office furniture(1)
Muscatine, Iowa	237,800	Owned	Manufacturing nonwood seating office furniture
Orleans, Indiana	1,196,946	Owned	Manufacturing wood casegoods and seating office furniture(1)
Owensboro, Kentucky	311,575	Owned	Manufacturing wood seating office furniture
South Gate, California	520,270	Owned	Manufacturing nonwood casegoods office furniture (1)
Wayland, New York	716,484	Owned	Manufacturing wood casegoods and seating office furniture (1)

(1) *Also includes a regional warehouse/distribution center*

(2) *A capital lease*

Other Corporation facilities, under 200,000 square feet in size, are located in various communities throughout the United States, Mexico, Canada, China, and Taiwan. These facilities total approximately 3.8 million square feet with approximately 2.6 million square feet used for the manufacture and distribution of office furniture and approximately 1.2 million square feet for hearth products. Of this total, approximately 2.6 million square feet are leased. The Corporation also leases sales showroom space in office furniture market centers in several major metropolitan areas. There are no major encumbrances on Corporation-owned properties. Refer to Property, Plant, and Equipment in the Notes to Consolidated Financial Statements for related cost, accumulated depreciation, and net book value data.

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ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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PART I, TABLE I
EXECUTIVE OFFICERS OF THE REGISTRANT
December 30, 2006

Name	Age	Family Relationship	Position	Position Held Since	Other Business Experience During Past Five Years
Stan A. Askren	46	None	Chairman of the Board Chief Executive Officer President Director	2004 2004 2003 2003	Executive Vice President (2001-03); President, (1999-03), Allsteel Inc.
David C. Burdakin	51	None	Executive Vice President	2001	President, The HON Company (2000-2006)
Bradley D. Determan	45	None	Executive Vice President President, Hearth & Home Technologies Inc.	2005 2003	Senior Vice President, Operations (1995-2003), Hearth & Home Technologies Inc.
Jerald K. Dittmer	49	None	Vice President and Chief Financial Officer	2001	
Robert J. Driessnack	48	None	Vice President, Controller	2004	Chief Financial Officer, Retail Division (2002-04), Corporate Controller (2000-02), NCR Corporation
Melinda C. Ellsworth	48	None	Vice President, Treasurer and Investor Relations	2002	Vice President, International Finance & Treasury (1998-02), Sunbeam Corporation
Tamara S. Feldman	46	None	Vice President, Financial Reporting	2001	
David W. Gardner	47	None	Vice President, Lean Enterprise	2006	Vice President, Lean Operations Improvement (2005-2006); Vice President, Operations, The Gunlocke Company LLC (2003-2005)
Robert D. Hayes	63	None	Vice President, Business Analysis and General Auditor	2001	

Douglas L. Jones	48	None	Vice President and Chief Information Officer	2005	Vice President, Business Systems (2001-2005)
Eric K. Jungbluth	46	None	President, The HON Company Executive Vice President	2006 2005	President, Allsteel Inc. (2003-2006); Vice President, Sales and Marketing (2003), Allsteel Inc.; Vice President and General Manager, Creative Specialties (2000-03), Fortune Brands/Moen
Jeffrey D. Lorenger	41	None	Vice President, General Counsel and Secretary	2005	Vice President, Seating (2003-05), Vice President, Marketing (2001-03), Allsteel Inc.
Marco V. Molinari	47	None	Executive Vice President President, HNI International Inc.	2006 2003	President, International and Business Development (2003-2004); Vice President, HON Products, The HON Company (2004-2006); and Chairman and Group MD, Goodyear-Dunlap, UK (2002)

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PART II

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

The Corporation's common stock is listed for trading on the New York Stock Exchange ("NYSE"), trading symbol HNI. As of year-end 2006, the Corporation had 7,475 stockholders of record.

Computershare Investor Services, L.L.C., Chicago, Illinois, serves as the Corporation's transfer agent and registrar of its common stock. Shareholders may report a change of address or make inquiries by writing or calling: Computershare Investor Services, L.L.C., P.O. Box 1689, Chicago, IL 60690-1689 or telephone 312/588-4991.

Common Stock Market Prices and Dividends (Unaudited) and Common Stock Market Price and Price/Earnings Ratio (Unaudited) are presented in the Investor Information section which follows the Notes to Consolidated Financial Statements filed as part of this report.

The Corporation expects to continue its policy of paying regular quarterly cash dividends. Dividends have been paid each quarter since the Corporation paid its first dividend in 1955. The average dividend payout percentage for the most recent three-year period has been 29% of prior year earnings. Future dividends are dependent on future earnings, capital requirements, and the Corporation's financial condition.

The following is a summary of share repurchase activity during the fourth quarter ended December 30, 2006.

Period	(a) Total Number of Shares (or Units) Purchased [1]	(b) Average Price Paid per Share or Unit	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet be Purchased Under the Plans or Programs
10/01/06- 10/28/06	413,726	$42.72	413,726	$155,504,919
10/29/06- 11/25/06	348,458	$44.95	348,458	$139,840,212
11/26/06- 12/30/06	-	-	-	$139,840,212
Total	762,184	$43.74	762,184	$139,840,212

(1) No shares were purchased outside of a publicly announced plan or program.

The Corporation repurchases shares under previously announced plans authorized by the Corporation's Board of Directors as follows:

- Plan announced August 8, 2006, providing share repurchase authorization of $200,000,000 with no specific expiration date.
- No repurchase plans expired or were terminated during the fourth quarter, nor do any plans exist under which the Corporation does not intend to make further purchases.

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ITEM 6. **SELECTED FINANCIAL DATA — FIVE-YEAR SUMMARY**

	2006	2005	2004	2003	2002
Per Common Share Data (Basic and Dilutive)					
Income from Continuing Operations - basic	$ 2.59	$ 2.53	$ 1.99	$ 1.69	$ 1.55
Income from Continuing Operations - diluted	2.57	2.51	1.97	1.68	1.55
Net Income - basic	2.46	2.51	1.99	1.69	1.55
Net Income - diluted	2.45	2.50	1.97	1.68	1.55
Cash Dividends	.72	.62	.56	.52	.50
Book Value - basic	10.35	11.46	12.10	12.19	11.08
Net Working Capital - basic	3.04	2.48	1.96	3.71	1.82
Operating Results (Thousands of Dollars)					
Net Sales	$ 2,679,803	$ 2,433,316	$ 2,084,435	$ 1,755,728	$ 1,692,622
Gross Profit as a % of Net Sales	34.6%	36.3%	36.0%	36.4%	35.4%
Interest Expense	$ 14,323	$ 2,355	$ 886	$ 2,970	$ 4,714
Income from Continuing Operations	129,672	138,166	113,660	98,105	91,360
Income from Continuing Operations as a % of Net Sales	4.8%	5.7%	5.5%	5.6%	5.4%
Loss from Discontinued Operations[(a)]	$ (6,297)	$ (746)	$ (78)	-	-
Net Income	123,375	137,420	113,582	98,105	91,360
Net Income as a % of Net Sales	4.6%	5.6%	5.4%	5.6%	5.4%
Cash Dividends	$ 36,028	$ 33,841	$ 32,023	$ 30,299	$ 29,386
% Return on Average Shareholders' Equity	22.6%	21.8%	16.5%	14.5%	14.7%
Depreciation and Amortization	$ 69,503	$ 65,514	$ 66,703	$ 72,772	$ 68,755
Distribution of Net Income					
% Paid to Shareholders	29.2%	24.6%	28.2%	30.9%	32.2%
% Reinvested in Business	70.8%	75.4%	71.8%	69.1%	67.8%
Financial Position (Thousands of Dollars)					
Current Assets	$ 504,174	$ 486,598	$ 374,579	$ 462,122	$ 405,054
Current Liabilities	358,542	358,174	266,250	245,816	298,680
Working Capital	145,632	128,424	108,329	216,306	106,374
Current Ratio	1.41	1.36	1.41	1.88	1.36
Total Assets	$ 1,226,359	$ 1,140,271	$ 1,021,657	$ 1,021,826	$ 1,020,552
% Return on Beginning Assets Employed	18.1%	21.2%	17.5%	14.7%	14.8%
Long-Term Debt and Capital Lease Obligations	$ 285,974	$ 103,869	$ 3,645	$ 4,126	$ 9,837

Shareholders' Equity	495,919	593,944	669,163	709,889	646,893
Current Share Data					
Number of Shares Outstanding at Year-End	47,905,351	51,848,591	55,303,323	58,238,519	58,373,607
Weighted-Average Shares Outstanding During Year - basic	50,059,443	54,649,199	57,127,110	58,178,739	58,789,851
Weighted-Average Shares Outstanding During Year - diluted	50,374,758	55,033,741	57,577,630	58,545,353	59,021,071
Number of Shareholders of Record at Year-End	7,475	6,702	6,465	6,416	6,777
Other Operational Data					
Capital Expenditures (Thousands of Dollars)	$ 58,921	$ 38,912	$ 32,417	$ 34,842	$ 25,885
Members (Employees) at Year-End	(b) 14,170	(b) 12,504	(b) 10,589	8,926	8,828

(a) Component reported as discontinued operations acquired in 2004.
(b) Includes acquisitions completed during the fiscal year.

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

The following discussion of the Corporation's historical results of operations and of its liquidity and capital resources should be read in conjunction with the Consolidated Financial Statements of the Corporation and related notes. Statements that are not historical are forward-looking and involve risks and uncertainties, including those discussed under the caption "Risk Factors" in Item 1A of this Annual Report on Form 10-K and elsewhere in this report.

Overview

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

During 2006, the office furniture industry experienced solid growth across all sectors that positively impacted the Corporation's office furniture segment. The housing market experienced its largest annual decline since the recession in 1991, which negatively impacted the Corporation's hearth products segment during the second half of the year.

In 2006, the Corporation experienced strong growth across its multiple brands and product lines in the office furniture segment. Sales benefited from price increases that were implemented in 2005 and 2006 as well as acquisitions completed over the past two years. Despite the decline in housing starts, the Corporation increased market share in the new construction and remodel/retrofit business. The Corporation experienced a significant rise in the cost of materials during 2006. The Corporation completed the acquisition of Lamex, a Chinese manufacturer and marketer of office furniture as well as other small acquisitions to support specific company strategies in both segments of its business. The Corporation made the decision to shut down one office furniture facility and completed the shutdown of two office furniture facilities which began in 2005. The Corporation also made the decision to sell a small non-core component of its office furniture segment. Revenues and expenses associated with this component are presented as discontinued operations for all periods presented. The Corporation increased its debt levels during 2006, consistent with its strategy of maintaining a leaner, more efficient capital structure.

Critical Accounting Policies and Estimates

General

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

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially

impact the financial statements. Management believes the following critical accounting policies reflect its more significant estimates and assumptions used in the preparation of the Consolidated Financial Statements.

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Fiscal year end - The Corporation follows a 52/53-week fiscal year which ends on the Saturday nearest December 31. Fiscal year 2006 ended on December 30, 2006; fiscal 2005 ended on December 31, 2005; and fiscal 2004 ended on January 1, 2005. The financial statements for fiscal years 2006, 2005, and 2004 are all on a 52-week basis. A 53-week year occurs approximately every sixth year.

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

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

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

As of December 30, 2006, there was approximately $329 million in outstanding accounts receivable and $13 million recorded in the allowance for doubtful accounts to cover potential future customer non-payments. However, if economic conditions deteriorate significantly or one of the Corporation’s large customers declares bankruptcy, a larger allowance for doubtful accounts might be necessary. The allowance for doubtful accounts was approximately $12 million at year end 2005 and $11 million at year end 2004.

Inventory valuation - The Corporation valued 86% of its inventory by the last-in, first-out (LIFO) method at December 30, 2006. Additionally, the Corporation evaluates inventory reserves in terms of excess and obsolete exposure. This evaluation includes such factors as anticipated usage, inventory turnover, inventory levels, and ultimate product sales value. As such, these factors may change over time causing the Corporation to adjust the reserve level accordingly. The Corporation’s reserves for excess and obsolete inventory were approximately $8 million at year-end 2006, 2005, and 2004.

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

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

Goodwill and other intangibles - In accordance with the Statement of Financial Accounting Standards ("SFAS") No. 142, the Corporation evaluates its goodwill for impairment on an annual basis based on values at the end of third quarter or whenever indicators of impairment exist. The Corporation has evaluated its goodwill for impairment and has determined that the fair value of the reporting units included in continuing operations exceeded their carrying value, so no impairment of goodwill was recognized in continuing operations for the period ending December 30, 2006. The Corporation did record an impairment charge of $5.7 million related to its discontinued operations. Goodwill of approximately $252 million is shown on the consolidated balance sheet as of the end of fiscal 2006.

Management's assumptions about future cash flows for the reporting units require significant judgment and actual cash flows in the future may differ significantly from those forecasted today. The estimated future cash flow for any reporting unit could be reduced by 35% without decreasing the fair value to less than the carrying value.

The Corporation also determines the fair value of indefinite lived trademarks on an annual basis or whenever indication of impairment exist. The Corporation has evaluated its trademarks for impairment and recorded an impairment charge of $1.0 million in 2006 and $0.5 million in 2005 related to two trademarks associated with its discontinued operations where the carrying value exceeded the current fair market value. The carrying value of the trademarks was approximately $43.2 million at the end of fiscal 2006.

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

Stock-based compensation - The Corporation adopted the provisions of Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" ("SFAS 123(R)"), beginning January 1, 2006, using the modified prospective transition method. This statement requires the Corporation to measure the cost of employee services in exchange for an award of equity instruments based on the grant-date fair value of the award and to recognize cost over the requisite service period. This resulted in a cost of approximately $3 million in 2006. In 2005 and 2004 the Corporation accounted for its stock option plan using Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," which resulted in no charge to earnings when options are issued at fair market value. If the fair value method had been adopted previously the Corporation's net income for 2005 and 2004 would have been reduced by approximately $2 million and $5 million respectively.

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

Recent Accounting Pronouncements

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

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Results of Operations

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

Fiscal	2006	2005	2004
Net Sales	100.0%	100.0%	100.0%
Cost of products sold	65.4	63.7	64.0
Gross profit	34.6	36.3	36.0
Selling and administrative expenses	26.8	27.3	27.4
Restructuring related charges	0.1	0.1	0.0
Operating income	7.7	8.9	8.6
Interest income (expense) net	(0.5)	0.0	0.0
Earnings from continuing operations before income taxes and minority interest	7.2	8.9	8.6
Income taxes	2.4	3.2	3.1
Minority interest in earnings of subsidiary	0.0	0.0	0.0
Income from continuing operations	4.8%	5.7%	5.5%

Net Sales

Net sales during 2006 were $2.7 billion, an increase of 10.1 percent, compared to net sales of $2.4 billion in 2005. The increase in 2006 was due to $113 million of incremental sales from acquisitions, $43 million in price increases implemented in 2005 and 2006, solid growth across all brands in the office furniture segment offset by lower volume in the hearth products segment. Net sales during 2005 were $2.4 billion, an increase of 16.7 percent, compared to net sales of $2.1 billion in 2004. The increase in 2005 was due to $84 million of incremental sales from acquisitions, $112 million in price increases implemented in 2004 and early 2005, and strong volume across all brands in both the office furniture and hearth products segments.

Gross Profit

Gross profit as a percent of net sales decreased 1.7 percentage points in 2006 as compared to 2005 due to broad based material price increases in both segments and lower volume in the hearth products segment. Gross profit as a percent of net sales increased 0.3 percentage points in 2005 as compared to fiscal 2004 due to ongoing cost reduction initiatives in addition to the benefit of price realization partially offsetting the significant steel and other material price increases experienced over the previous two years.

Selling and Administrative Expenses

Selling and administrative expenses, excluding restructuring charges, increased 8.1 percent and 16.4 percent in 2006 and 2005, respectively. The increase in 2006 was due to $40 million of additional costs from acquisitions; increased freight and distribution costs of $33 million due to volume, rate increases and fuel surcharges; $3.2 million of stock based compensation expense due to the adoption of SFAS 123(R) and $1.6 million of costs to resize the hearth business. These increases were partially offset by a gain on the sale of a vacated facility, lower incentive compensation expense and cost containment measures. The increase in 2005 was due to $26 million of additional

costs from acquisitions; increased freight and distribution costs of $34 million due to volume, rate increases and fuel surcharges; investments in selling and marketing initiatives and product launches; and increased profit-sharing and incentive compensation expense due to strong results.

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

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Restructuring Charges

As a result of the Corporation's ongoing business simplification and cost reduction initiatives, management made the decision in fourth quarter 2006 to close an office furniture facility in Monterrey, Mexico and consolidate production into other locations. In connection with the shutdown of the Monterrey facility, the Corporation recorded $0.8 million of severance costs for approximately 200 members. The closure and consolidation will be completed during the first half of 2007. The Corporation will incur additional charges of approximately $3 million in connection with the closure.

During 2006, the Corporation completed the shutdown of two office furniture facilities which began in the third quarter of 2005. The facilities were located in Kent, Washington and Van Nuys, California and production from these facilities was consolidated into other locations. Pre-tax charges for these closures in 2005 totaled $4.1 million which included $0.6 million of accelerated depreciation of machinery and equipment recorded in cost of sales, $1.2 million of severance, $0.4 million of pension related expenses, and $1.9 million of facility exit, production relocation, and other costs which were recorded as restructuring costs. In connection with those shutdowns, the Corporation incurred $2.0 million of current period charges during 2006.

During 2003, the Corporation closed two office furniture facilities located in Hazleton, Pennsylvania, and Milan, Tennessee and consolidated production into other manufacturing locations. In connection with these closures, the Corporation incurred $1.2 million of current period charges during 2004.

Operating Income

Operating income was $206 million in 2006, a decrease of 4.8 percent compared to $216 million in 2005. The decrease in 2006 is due to lower volume in the hearth products segment, broad based material cost increases, increased freight costs, and stock compensation expense due to the adoption of SFAS 123(R) offset by higher volume and price increases in the office furniture segment. Operating income was $216 million in 2005, an increase of 20.8 percent compared to $178 million in 2004. The increase in 2005 was due to increased sales volume in both segments, and price increases, offset by increased material costs, investments in selling and marketing initiatives and product launches, increased freight costs, and restructuring costs due to plant closures and consolidations.

Income From Continuing Operations

Income from continuing operations in 2006, which excludes the Corporation's discontinued business (see Discontinued Operations in the Notes to Consolidated Financial Statements), was $130 million compared with $138 million in 2005, a 6.1 percent decrease. Income from continuing operations was negatively impacted by increased interest expense of $12 million on moderate debt levels, consistent with the Corporation's strategy of maintaining a leaner, more efficient capital structure. The Corporation completed a detailed analysis of all deferred tax accounts, and determined that net deferred income tax liabilities were overstated. The overstatement primarily related to a deferred tax liability associated with property, plant and equipment, partially offset by an overstated deferred tax asset associated with inventory. In analyzing the difference, the Corporation determined that the items originated in fiscal years prior to 2002. To correct this difference, the Corporation reduced income tax expense in the fourth quarter of 2006 by $4.1 million. The effect of this adjustment is to reduce the effective income tax rate related to continuing operations by 2.1 percentage points for the year and increase earnings per share from continuing operations by $0.08. Income from continuing operations increased 21.6 percent to $138 million in 2005 compared to $114 million in 2004. Income from continuing operations in 2005 was favorably impacted by a decrease in the effective tax rate to 36.0 percent in 2005 from 36.5 percent in 2004 due to benefits resulting from the implementation of the American Jobs Creation Act of 2004. Income from continuing operations in 2005 was negatively impacted by increased interest expense due to a planned increase in debt. Income from continuing operations per diluted share increased by 2.4

percent to $2.57 in 2006 including a positive tax adjustment of $0.08 per share and by 27.4 percent to $2.51 in 2005.

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Discontinued Operations

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

Net Income

Net income decreased 10.2 percent to $123 million in 2006 compared to $137 million in 2005 which was an increase of 21.0 percent compared to 2004. Net income per diluted share decreased by 2.0 percent to $2.45 in 2006 and increased 26.9 percent to $2.50 in 2005 Net income per diluted share was positively impacted $0.21 per share in 2006 and $0.11 per share in 2005 by the Corporation’s share repurchase program.

Office Furniture

Office furniture comprised 78 percent, 76 percent, and 75 percent of consolidated net sales for 2006, 2005, and 2004, respectively. Net sales for office furniture increased 13 percent in 2006 to $2.1 billion compared to $1.8 billion in 2005. The increase in 2006 was due to approximately $95 million from the Corporation’s acquisitions and organic growth of $144 million or 7.8 percent, including increased price realization of $41 million. Net sales for office furniture increased 18 percent in 2005 to $1.8 billion compared to $1.6 billion in 2004. The increase in 2005 was due to approximately $58 million of incremental sales from the Corporation’s acquisitions and organic growth of $219 million or 14.0 percent, including increased price realization of $91 million. The Business and Institutional Furniture Manufacturer’s Association (“BIFMA”) reported 2006 shipments up 7 percent and 2005 shipments up 13 percent. The Corporation believes it was able to continue to outperform the industry by providing strong brands, innovative products and services, and value to end-users.

Operating profit as a percent of net sales was 8.8 percent in 2006, 9.7 percent in 2005, and 9.9 percent in 2004. The decrease in operating margins in 2006 was due to higher material, transportation and other input costs offset partially by price realization, lower restructuring charges, and a gain on the sale of a vacant facility. Acquisitions also negatively impacted profitability as anticipated. Included in 2005 were $4.1 million of net pre-tax charges related to the closure of two office furniture facilities, which impacted operating margins by 0.2 percentage points. In addition the Corporation continued to make investments in the areas of selling, product launches, and strategic distribution acquisitions that had an expected negative impact on profitability in 2005.

Hearth Products

Hearth products sales increased 1 percent in 2006 to $603 million compared to $595 million in 2005 due to the contribution from new acquisitions of $18 million. The decrease in organic sales was due to a dramatic decline in the second half of 2006 as a result of the largest annual decline in the housing market since the 1991 recession. Hearth products sales increased 14 percent in 2005 to $595 million compared to $523 million in 2004. The growth in 2005 was attributable to strong housing starts, new product introductions, contributions from new acquisitions as well as price increases. Acquisitions accounted for $26 million, or approximately 5 percentage points, of the increase in 2005.

Operating profit as a percent of sales in 2006 was 9.7 percent compared to 12.6 percent in 2005, and 11.9 percent in 2004, respectively. The decrease in operating margins in 2006 was due to lower overall volume, higher mix of lower margin remodel/retrofit business and increased material and transportation costs. The increase in operating margins in 2005 was due to volume and increased price realization as well as continued focus on cost improvements.

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Liquidity and Capital Resources

During 2006, cash flow from operations was $159.6 million, which along with available cash and short-term investments, funds from stock option exercises under employee stock plans, and proceeds from senior unsecured notes and the Corporation's revolving credit agreement, provided the funds necessary to meet working capital needs, pay for strategic acquisitions, invest in capital improvements, repurchase common stock, and pay increased dividends.

Cash, cash equivalents, and short-term investments totaled $37.3 million at the end of 2006 compared to $84.7 million at the end of 2005 and $36.5 million at the end of 2004. These funds, coupled with cash from future operations and additional debt, if needed, are expected to be adequate to finance operations, planned improvements, and internal growth. The Corporation is not presently aware of any known trends or demands, commitments, events, or uncertainties that are reasonably likely to result in its liquidity increasing or decreasing in any material way.

The Corporation places special emphasis on the management and control of its working capital with a particular focus on trade receivables and inventory levels. The success achieved in managing receivables is in large part a result of doing business with quality customers and maintaining close communication with them. Trade receivables at year-end 2006 increased from the prior year due to the Corporation's new acquisitions and increased sales. The Corporation's inventory turns were 18, 18, and 21, for 2006, 2005, and 2004, respectively. The Corporation is increasing its foreign-sourced raw materials and finished goods, which while reducing inventory turns does have a favorable impact on the overall total cost.

Investments
Management classifies investments in marketable securities at the time of purchase and reevaluates such classification at each balance sheet date. Equity securities are classified as available-for-sale and are stated at current market value with unrealized gains and losses included as a separate component of equity, net of any related tax effect. Debt securities are classified as held-to-maturity and are stated at amortized cost. In 2004 the Corporation made an investment, which was excluded from the scope of Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS No. 115") due to the fact that the investment's per unit value in a master fund was not readily available. Therefore, this investment was recorded at cost. The weighted average cost method was used to determine realized gains and losses on the trade date. In 2005, the Corporation liquidated this investment and subsequently invested in an investment fund that is also excluded from the scope of SFAS No. 115, however, the Corporation's ownership in this investment fund is such that the underlying investments are recorded at fair market value. A table of holdings as of year-end 2006, 2005, and 2004 is included in the Cash, Cash Equivalents, and Investments note included in the Consolidated Financial Statements.

Capital Expenditure Investments
Capital expenditures were $58.9 million in 2006, $38.9 million in 2005, and $32.4 million in 2004, respectively. These expenditures have consistently focused on machinery and equipment and tooling required to support new products, continuous improvements in our manufacturing processes and cost savings initiatives. The Corporation anticipates capital expenditures for 2007 to be approximately 10 to 20 percent higher than the previous year due to increased focus on new products and operational process improvement.

Acquisitions
During 2006, the Corporation completed the acquisition of Lamex, a privately held Chinese manufacturer and marketer of office furniture, as well as a small office furniture services company, a small office furniture dealer and a small manufacturer of fireplace facings for a total combined purchase price of approximately $78 million. During 2005, the Corporation completed the acquisition of four small office furniture services companies, three office furniture dealers and three small hearth distributors for a total combined purchase price of approximately $35 million. During 2004, the Corporation completed three office furniture business acquisitions, the acquisitions of two hearth

products distributors, as well as the acquisitions of a strategic sourcing entity for a combined purchase price of approximately $135 million. Each of the transactions was paid in cash and the results of the acquired entities have been included in the Consolidated Financial Statements since the date of acquisition. The Corporation did increase its borrowings under the revolving credit facility to fund the 2006 acquisitions.

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Long-Term Debt

Long-term debt, including capital lease obligations, was 37% of total capitalization as of December 30, 2006, 15% as of December 31, 2005, and 1% as of January 1, 2005. The increase in long-term debt during 2006 and 2005 was due to the Corporation issuing $150 million of senior unsecured notes through the private placement debt market and utilizing its revolving credit facility to fund acquisitions and share repurchases in accordance with its strategy of operating with a more efficient capital structure. On January 28, 2005, the Corporation replaced a $136 million revolving credit facility entered into on May 10, 2002 with a new revolving credit facility that provided for a maximum borrowing of $150 million subject to increase (to a maximum amount of $300 million) or reduction from time to time according to the terms of the agreement. On December 22, 2005, the Corporation increased the facility to the maximum amount of $300 million. On April 6, 2006, the Corporation refinanced $150 million of borrowings outstanding under its revolving credit facility with 5.54 percent ten-year unsecured Senior Notes due in 2016 issued through the private placement debt market. Additional borrowing capacity of $156 million, less amounts used for designated letters of credit, is available through this revolving bank credit agreement in the event cash generated from operations should be inadequate to meet future needs. The Corporation does not expect future capital resources to be a constraint on planned growth. Certain of the Corporation's credit agreements include covenants that limit the assumption of additional debt and lease obligations. The Corporation has been, and currently is, in compliance with the covenants related to the debt agreements.

Contractual Obligations

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

		Payments Due by Period			
(In thousands)	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
Long-term debt obligations, including estimated interest (1)	$ 422,838	$ 31,669	$ 33,221	$ 25,644	$ 332,304
Capital lease obligations	1,012	211	422	379	-
Operating lease obligations	141,293	31,001	52,210	38,680	19,402
Purchase obligations (2)	89,518	89,518	-	-	-
Other long-term obligations (3)	38,385	4,445	2,982	586	30,372
Total	$ 693,046	$ 156,844	$ 88,835	$ 65,289	$ 382,078

(1) The $144 million in borrowings outstanding under the revolving credit facility at December 30, 2006 are due in 2011; however, $11 million is included in current liabilities in the consolidated financial statements based on management's intent to repay the $11 million during fiscal 2007. Assuming the amount is repaid in 2007, interest obligation amounts included in this table would be reduced by approximately $1.3 million in the 1-3 year category and $0.7 million in the 3-5 year category. Interest has been included for all debt at either the fixed rate or variable rate in effect as of December 30, 2006, as applicable.

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

(3) Other long-term liabilities represent payments due to members who are participants in the Corporation's salary deferral and long-term incentive compensation programs, mandatory purchases of the remaining unowned interest in four acquisitions, and contribution and benefit payments expected to be made for our post-retirement benefit

plans. It should be noted that the obligations related to post-retirement benefit plans are not contractual and the plans could be amended at the discretion of the Corporation. The disclosure of contributions and benefit payments has been limited to 10 years, as information beyond this time period was not available.

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Cash Dividends
Cash dividends were $0.72 per common share for 2006, $0.62 for 2005, and $0.56 for 2004. Further, the Board of Directors announced an 8.3 percent increase in the quarterly dividend from $0.18 to $0.195 per common share effective with the March 1, 2007, dividend payment for shareholders of record at the close of business February 23, 2007. The previous quarterly dividend increase was from $0.155 to $0.18, effective with the March 1, 2006 dividend payment for shareholders of record at the close of business on February 24, 2006. A cash dividend has been paid every quarter since April 15, 1955, and quarterly dividends are expected to continue. The average dividend payout percentage for the most recent three-year period has been 29 percent of prior year earnings.

Common Share Repurchases
During 2006, the Corporation repurchased 4,336,987 shares of its common stock at a cost of approximately $203.6 million, or an average price of $46.96. The Board of Directors authorized $100 million on May 4, 2004, an additional $150 million on November 12, 2004, an additional $200 million on November 11, 2005, and an additional $200 million on August 8, 2006, for repurchases of the Corporation's common stock. As of December 30, 2006, approximately $139.8 million of this authorized amount remained unspent. During 2005, the Corporation repurchased 4,059,068 shares of its common stock at a cost of approximately $202.2 million, or an average price of $49.82. During 2004, the Corporation repurchased 3,641,400 shares of its common stock at a cost of approximately $145.6 million, or an average price of $39.99.

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

Looking Ahead

Management believes its growth in the office furniture segment will be consistent with the industry and anticipates increasing profit momentum as the full benefit of price increases and cost reduction initiatives are realized.

Declining industry trends in the hearth product segment will make 2007 very challenging. Management believes that profitability will be challenged through the first half of 2007 as its hearth product business continues to adjust to lower demand levels and cost reduction initiatives become effective. The Corporation will continue to implement structural and operating cost reduction initiatives to ensure that its cost structure is appropriately aligned with market conditions.

The Corporation anticipates that its tax rate on average will be 35.5 percent in 2007 due to increased benefit from the U.S. manufacturing deduction partially offset by the elimination of the extra-territorial income exclusion.

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

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

The Corporation is exposed to risks arising from price changes for certain direct materials and assembly components used in its operations. The largest such costs incurred by the Corporation are for steel, plastics, textiles, wood particleboard, and cartoning. Steel is the most significant raw material used in the manufacturing of products. The market price of plastics and textiles in particular are sensitive to the cost of oil and natural gas. Oil and natural gas prices have increased sharply in the last several years and as a result the cost of plastics and textiles have increased. The cost of wood particleboard has been impacted by continued downsizing of production capacity in the wood market as well as increased cost in transportation related to oil increases. The Corporation works to offset these increased costs through global sourcing initiatives and price increases on its products, however, margins have been negatively impacted due to the lag between cost increases and the Corporation's ability to increase its prices. The Corporation believes future market price increases on its key direct materials and assembly components are likely. Consequently, it views the prospect of such increases as an outlook risk to the business.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements listed under Item 15(a)(1) and (2) are filed as part of this report.

The Summary of Unaudited Quarterly Results of Operations follows the Notes to Consolidated Financial Statements filed as part of this report.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Corporation in the reports that it files or submits 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. Disclosure controls and procedures are also designed to ensure that information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Under the supervision and with the participation of management, the Chief Executive Officer and Chief Financial Officer of the Corporation have evaluated the effectiveness of the design and operation of the Corporation's disclosure controls and procedures as defined in Rules 13a - 15(e) and 15d - 15(e) under the Securities Exchange Act of 1934. As of December 30, 2006, and, based on their evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective. There have not been any changes in the Corporation's internal control over financial reporting that occurred during the fiscal quarter ended December 30, 2006 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

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Disclosure controls and procedures are also designed to ensure that information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's annual report on internal control over financial reporting and the attestation report of the Corporation's independent registered public accounting firm are included in Item 15 of this report under the headings "Management Report on Internal Control Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm," respectively.

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The information under the caption "Election of Directors" of the Corporation's Proxy Statement for the Annual Meeting of Shareholders to be held on May 8, 2007, is incorporated herein by reference. For information with respect to executive officers of the Corporation, see Part I, Table I "Executive Officers of the Registrant."

Information relating to the identification of the audit committee, audit committee financial expert, and director nomination procedures of the registrant is contained under the caption “Information Regarding the Board” of the Corporation’s Proxy Statement for the Annual Meeting of Shareholders to be held on May 8, 2007, and is incorporated herein by reference.

Code of Ethics

The information under the caption “Code of Business Conduct and Ethics” of the Corporation’s Proxy Statement for the Annual Meeting of Shareholders to be held on May 8, 2007, is incorporated herein by reference.

Section 16(a) Beneficial Ownership Reporting Compliance

The information under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" of the Corporation's Proxy Statement for the Annual Meeting of Shareholders to be held on May 8, 2007, is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information under the captions “Executive Compensation,” “Compensation Committee Report,” and “Director Compensation” of the Corporation's Proxy Statement for the Annual Meeting of Shareholders to be held on May 8, 2007, is incorporated herein by reference.

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

The information under the captions “Security Ownership” and “Equity Compensation Plan Information” of the Corporation's Proxy Statement for the Annual Meeting of Shareholders to be held on May 8, 2007, is incorporated herein by reference.

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

The information under the captions “Director Independence,” “Certain Relationships and Related Transactions,” and “Review, Approval or Ratification of Transactions with Related Persons” of the Corporation's Proxy Statement for the Annual Meeting of Shareholders to be held on May 8, 2007, is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information under the caption “Fees Incurred for PricewaterhouseCoopers LLP” of the Corporation’s Proxy Statement for the Annual Meeting of Shareholders to be held on May 8, 2007, is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) (1) Financial Statements

The following consolidated financial statements of the Corporation and its subsidiaries included in the Corporation's 2006 Annual Report to Shareholders are filed as a part of this report pursuant to Item 8:

	Page
Management Report on Internal Control Over Financial Reporting	38
Report of Independent Registered Public Accounting Firm	39
Consolidated Statements of Income for the Years Ended December 30, 2006, December 31, 2005, and January 1, 2005	41
Consolidated Balance Sheets - December 30, 2006; December 31, 2005; and January 1, 2005;	42
Consolidated Statements of Shareholders' Equity for the Years Ended December 30, 2006, December 31, 2005, and January 1, 2005	43
Consolidated Statements of Cash Flows for the Years Ended December 30, 2006, December 31, 2005, and January 1, 2005	44
Notes to Consolidated Financial Statements	45
Investor Information	73

(2) Financial Statement Schedules

The following consolidated financial statement schedule of the Corporation and its subsidiaries is attached pursuant to Item 15(d):

Schedule II	Valuation and Qualifying Accounts for the Years Ended December 30, 2006, December 31, 2005; and January 1, 2005	74

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

(b) Exhibits

An exhibit index of all exhibits incorporated by reference into, or filed with, this Form 10-K appears on Page 75. The following exhibits are filed herewith:

Exhibit

(21)	Subsidiaries of the Registrant
(23)	Consent of Independent Registered Public Accounting Firm
(31.1)	Certification of the CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(31.2)	Certification of the CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(32.1)	Certification of CEO and CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

HNI Corporation

Date:	February 26, 2007	By:	/s/ Stan A. Askren Stan A. Askren Chairman, President and CEO

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated. Each Director whose signature appears below authorizes and appoints Stan A. Askren as his or her attorney-in-fact to sign and file on his or her behalf any and all amendments and post-effective amendments to this report.

Signature	Title	Date
/s/ Stan A. Askren Stan A. Askren	Chairman, President and CEO, Principal Executive Officer, and Director	February 26, 2007
/s/ Jerald K. Dittmer Jerald K. Dittmer	Vice President, Chief Financial Officer and Principal Accounting Officer	February 26, 2007
/s/ Mary H. Bell Mary H. Bell	Director	February 26, 2007
/s/ Miguel M. Calado Miguel M. Calado	Director	February 26, 2007
/s/ Gary M. Christensen Gary M. Christensen	Director	February 26, 2007
/s/ Cheryl A. Francis Cheryl A. Francis	Director	February 26, 2007
/s/ John A. Halbrook John A. Halbrook	Director	February 26, 2007

/s/ James R. Jenkins James R. Jenkins	Director	February 26, 2007
/s/ Dennis J. Martin Dennis J. Martin	Director	February 26, 2007

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Signature	Title	Date
/s/ Larry B. Porcellato Larry B. Porcellato	Director	February 26, 2007
/s/ Joseph Scalzo Joseph Scalzo	Director	February 26, 2007
/s/ Abbie J. Smith Abbie J. Smith	Director	February 26, 2007
/s/ Brian E. Stern Brian E. Stern	Director	February 26, 2007
/s/ Ronald V. Waters, III Ronald V. Waters, III	Director	February 26, 2007

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Management Report on Internal Control Over Financial Reporting

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

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

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

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

On March 1, 2006, the Corporation completed the acquisition of Lamex as discussed in the Business Combination footnote to the Corporation's consolidated financial statements. Management excluded Lamex from it's assessment of the Corporation's internal control over financial reporting as it was acquired during the fiscal year. Lamex is a wholly-owned subsidiary, whose total assets and total revenues represent 3% and 2%, respectively, of the consolidated financial statement amounts as of and for the year ended December 30, 2006.

Management assessed the effectiveness of HNI Corporation's internal control over financial reporting as of December 30, 2006. Management based this assessment on criteria for effective internal control over financial reporting described in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of the design of the Corporation's internal control over financial reporting and testing of the operational effectiveness of the Corporation's internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of our Board of Directors.

Based on this assessment, management determined that, as of December 30, 2006, HNI Corporation maintained effective internal control over financial reporting.

Management's assessment of the effectiveness of the Corporation's internal control over financial reporting as of December 30, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in its report which appears herein.

February 22, 2007

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
HNI Corporation:

We have completed an integrated audit of HNI Corporation's consolidated financial statements and of its internal control over financial reporting as of December 30, 2006, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1), present fairly, in all material respects, the financial position of HNI Corporation and its subsidiaries (the "Corporation") at December 30, 2006, December 31, 2005, and January 1, 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 30, 2006 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

Internal control over financial reporting

Also, in our opinion, management's assessment, included in the Management Report on Internal Control Over Financial Reporting appearing under Item 15, that the Corporation maintained effective internal control over financial reporting as of December 30, 2006 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 30, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Corporation's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit

provides a reasonable basis for our opinions.

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

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

As described in the Management Report on Internal Control Over Financial Reporting, management has excluded Lamex from its assessment of internal control over financial reporting as of December 30, 2006 because it was acquired by the Company in a purchase business combination during 2006. We have also excluded Lamex from our audit of internal control over financial reporting. Lamex is a wholly-owned subsidiary, whose total assets and total revenues represent 3% and 2%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 30, 2006.

PricewaterhouseCoopers LLP
Chicago, Illinois
February 26, 2007

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HNI CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Amounts in thousands, except for per share data)

For the Years	**2006**	**2005**	**2004**
Net sales	$ 2,679,803	$ 2,433,316	$ 2,084,435
Cost of products sold	1,752,882	1,549,475	1,334,777
Gross profit	926,921	883,841	749,658
Selling and administrative expenses	717,676	663,667	570,237
Restructuring related charges	2,829	3,462	886
Operating income	206,416	216,712	178,535
Interest income	1,139	1,518	1,343
Interest expense	14,323	2,355	886
Earnings from continuing operations before income taxes and minority interest	193,232	215,875	178,992
Income taxes	63,670	77,715	65,332
Earnings from continuing operations before minority interest	129,562	138,160	113,660
Minority interest in earnings of subsidiary	(110)	(6)	-
Income from continuing operations	129,672	138,166	113,660
Loss from discontinued operations, net of income tax benefit	(6,297)	(746)	(78)
Net income	$ 123,375	$ 137,420	$ 113,582
Net income from continuing operations - basic	$ 2.59	$ 2.53	$ 1.99
Net loss from discontinued operations - basic			