

HNI Corporation 2009 Annual Report





Dear Shareholders:



Stan A. Askren
*Chairman, President
and Chief Executive Officer*

The year 2009 was very challenging yet energizing. The primary drivers of our businesses – small business confidence, business spending, employment and new home construction – all continued to deteriorate significantly. The pressures on our markets and our businesses were unprecedented.

Our response to the crisis was clear and swift. We aggressively reset our cost structure, fiercely managed cash and continued to invest in long-term growth initiatives. As a result, we ended the year financially strong and competitively well positioned.

Progress and accomplishments in 2009

Our management teams and members showed the strengths of our member/owner culture and the benefits of our split-and-focus business model. Our businesses moved quickly to realign themselves with shrinking markets, executing in very dynamic conditions.

We reenergized and accelerated our Rapid Continuous Improvement (RCI)/Lean Processes to streamline business flows and improve the customer experience. Our members found efficiencies and eliminated cost in all parts of our operations.

We put in place structural cost reductions that will result in more than \$150 million annual savings. We generated nearly 70 percent growth in free cash flow compared to last year, despite revenue declines. Our strong cash flow enabled us to reduce corporate debt by more than \$120 million, a key accomplishment strengthening our balance sheet. We are proud of the fact that even with negative conditions we managed cash well and were the only major office furniture company to maintain our dividend for shareholders.

Financial Highlights

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

	2009	2008
Income Statement Data		
Net sales	\$1,656,289	\$2,477,587
Gross profit	570,781	828,612
Selling and administrative expenses	526,346	717,870
Restructuring related and impairment charges	40,443	25,859
Operating income	3,992	84,883
Net income (loss) attributable to Parent Company	(6,442)	45,450
Net income (loss) attributable to Parent Company as a % of:		
Net sales	(0.4)%	1.8%
Average shareholders' equity	(1.5)%	10.0%
Per common share:		
Net income (loss) attributable to Parent Company – basic	(0.14)	1.03
Net income (loss) attributable to Parent Company – diluted	(0.14)	1.02
Cash dividends	0.86	0.86
Balance Sheet Data		
Total assets	\$ 994,326	\$1,165,629
Long-term debt and capital lease obligations	200,000	267,343
Debt/capitalization ratio	32.3%	41.8%
Parent Company shareholders' equity	\$ 419,284	\$ 448,833
Working capital	60,129	44,216
Other Data		
Capital expenditures (including capitalized software)	\$ 17,554	\$ 71,496
Cash flow from operations	193,205	174,369
Weighted-average shares outstanding – basic	44,888,809	44,309,765
Weighted-average shares outstanding – diluted	44,888,809	44,433,945
Share repurchases	\$ –	\$ 28,553
Number of shareholders at year-end	8,257	8,274
Members (employees) at year-end	8,748	12,241

We will stay agile and flexible; building market power, improving our best cost/lean enterprise and strengthening our unique culture and capabilities.

We continued to collaborate across our businesses to improve cost and capabilities. Our e-business initiative is a prime example of leveraging our collective strength. This initiative creates efficiencies while increasing our market reach and makes it easier for customers to do business with us.

Investing in the future

We did more than cut costs; we also invested in our future. We launched a record number of new products and continued to invest in selling and marketing initiatives. We achieved record-setting operational performance and customer service at all companies. These investments position the corporation to significantly benefit from even a modest upturn in economic conditions.

Focus on the core

In each of our businesses, we are focusing on core customers and market segments. We will stay agile and flexible; building market power, improving our best cost/lean enterprise and strengthening our unique culture and capabilities. We will continue to aggressively manage cash, and drive out cost and complexity while we accelerate strategies to grow.

In the office furniture business, we will continue to leverage our strength in the supplies-driven channel as well as expand in the contract channel through exciting, innovative new products and our unique HNI value propositions. In the hearth business, we are well positioned to grow profitably when the housing market begins to recover.

We have established a solid foundation for profitable growth.
Our management team is strong and experienced, and HNI's businesses
are leaner and stronger than ever.

Looking ahead with confidence

It is unclear when the economy and our markets will recover. Even so, I am optimistic about the future. We have established a solid foundation for profitable growth. Our management team is strong and experienced, and HNI's businesses are leaner and stronger than ever. Market momentum is good across all businesses as they drive strategies to further improve their competitive positions and increase market share.

A word of thanks

To our shareholders, thank you for your commitment and faith in our company and our members. Thank you, HNI members, for your commitment through these tough times. Your dedication and determination are great assets to this company. As economic and market conditions improve, I am confident our efforts will result in significant profitable growth and increased shareholder value.

Sincerely,



Stan A. Askren

Chairman, President and Chief Executive Officer

HNI Corporation

Performance in a downturn

We're meeting the challenge by aligning our business with market realities, focusing on cash generation and investing for the future.

Generating cash



We fiercely managed cash in 2009, generating 70 percent year-over-year growth in free cash flow. Strong cash flow enabled HNI to strengthen the balance sheet and continue to pay a strong dividend to shareholders.

Reducing costs and debt



We continued to aggressively reduce our costs, aligning the business with current market realities. At the same time, we applied cash to significantly reduce corporate debt, positioning HNI for strong profitable growth in the future.

Investing in new products



We continued to introduce new products in 2009, another record, reflecting our focus on building HNI brands and gaining market share through product leadership, innovation and quality.

Bringing our brands to life



Allsteel Stride®



HBF Salon Series



HON Mirus™



Gunlocke Silea®

Allsteel®

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

HON®

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

Gunlocke®

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

PAOLI™

A leading provider of high-quality and well-priced wood office furniture for mid-tier customers.

LAMEX®

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



Office furniture systems with planning and design technologies for mid-sized businesses.



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



Harman Pellet Stove



Heatilator 6000CLX Direct Vent Gas



Heat & Glo Edge 60

Innovation, style and value



Heat & Glo Solaris™



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



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



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



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



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

Consolidated Statements of Income

<i>(Amounts in thousands, except for per share data)</i>	For the years	2009	2008	2007
Net sales		\$1,656,289	\$2,477,587	\$2,570,472
Cost of products sold		1,085,508	1,648,975	1,664,697
Gross profit		570,781	828,612	905,775
Selling and administrative expenses		526,346	717,870	702,329
Restructuring related and impairment charges		40,443	25,859	9,788
<i>Operating income</i>		3,992	84,883	193,658
Interest income		415	1,172	1,229
Interest expense		12,080	16,865	18,161
<i>Income (loss) from continuing operations before tax</i>		(7,673)	69,190	176,726
Income taxes		(1,414)	23,583	57,280
<i>Income (loss) from continuing operations, less applicable income taxes</i>		(6,259)	45,607	119,446
Discontinued operations, less applicable income taxes		–	–	514
<i>Net income (loss)</i>		(6,259)	45,607	119,960
Less: Net income attributable to the noncontrolling interest		183	157	(418)
<i>Net income (loss) attributable to Parent Company</i>		\$ (6,442)	\$ 45,450	\$ 120,378
<i>Income (loss) from continuing operations attributable to Parent Company per common share – basic</i>		\$ (0.14)	\$ 1.03	\$ 2.57
Discontinued operations attributable to Parent Company per common share – basic		–	–	0.01
<i>Net income (loss) attributable to Parent Company per common share – basic</i>		\$ (0.14)	\$ 1.03	\$ 2.58
Weighted average shares outstanding – basic		44,888,809	44,309,765	46,684,774
<i>Net income (loss) attributable to Parent Company per common share – diluted</i>		\$ (0.14)	\$ 1.02	\$ 2.55
Discontinued operations attributable to Parent Company per common share – diluted		–	–	0.02
<i>Net income (loss) attributable to Parent Company per common share – diluted</i>		\$ (0.14)	\$ 1.02	\$ 2.57
Weighted average shares outstanding – diluted		44,888,809	44,433,945	46,925,161

Consolidated Balance Sheets

<i>(Amounts in thousands of dollars and shares except par value)</i>	As of year-end	2009	2008	2007
Assets				
Current Assets				
Cash and cash equivalents		\$ 87,374	\$ 39,538	\$ 33,881
Short-term investments		5,994	9,750	9,900
Receivables, net		163,732	238,327	288,777
Inventories		65,144	84,290	108,541
Deferred income taxes		20,299	16,313	17,828
Prepaid expenses and other current assets		17,728	29,623	30,145
<i>Total Current Assets</i>		360,271	417,841	489,072
<i>Property, plant, and equipment</i>		260,102	315,606	305,431
<i>Goodwill</i>		261,114	268,392	256,834
<i>Other assets</i>		112,839	163,790	155,639
<i>Total Assets</i>		\$994,326	\$1,165,629	\$1,206,976
Liabilities and Shareholders' Equity				
Current Liabilities				
Accounts payable and accrued expenses		\$299,718	\$ 313,431	\$ 367,320
Note payable and current maturities of long-term debt and capital lease obligations		39	54,494	14,715
Current maturities of other long-term obligations		385	5,700	2,426
<i>Total Current Liabilities</i>		300,142	373,625	384,461
<i>Long-term debt</i>		200,000	267,300	280,315
<i>Capital lease obligations</i>		–	43	776
<i>Other long-term liabilities</i>		50,332	50,399	55,843
<i>Deferred income taxes</i>		24,227	25,271	26,672
<i>Commitments and contingencies</i>				
Shareholders' Equity				
Preferred stock – \$1 par value		–	–	–
Authorized: 2,000				
Issued: None				
Common stock – \$1 par value		45,093	44,324	44,835
Authorized: 200,000				
Issued and outstanding: 2009 – 45,093; 2008 – 44,324; 2007 – 44,835				
Additional paid-in capital		19,695	6,037	3,152
Retained earnings		355,270	400,379	410,075
Accumulated other comprehensive income		(774)	(1,907)	846
<i>Total Parent Company Shareholders' Equity</i>		419,284	448,833	458,908
Noncontrolling interest		341	158	1
<i>Total Equity</i>		419,625	448,991	458,909
<i>Total Liabilities and Equity</i>		\$994,326	\$1,165,629	\$1,206,976

Consolidated Statements of Cash Flows

<i>(Amounts in thousands)</i>	For the years	2009	2008	2007
Net Cash Flows From (To) Operating Activities:				
Net income (loss)		\$ (6,259)	\$ 45,607	\$ 119,960
Noncash items included in net income:				
Depreciation and amortization		74,867	70,155	68,173
Other post-retirement and post-employment benefits		1,849	1,509	2,132
Stock-based compensation		3,830	1,616	3,603
Excess tax benefits from stock compensation		(8)	(11)	(808)
Deferred income taxes		(5,844)	2,600	(4,935)
Net loss on sales, retirements and impairments of long-lived assets and intangibles		26,025	22,691	1,662
Stock issued to retirement plan		6,565	6,592	6,611
Other – net		2,338	(4,065)	(744)
Changes in working capital, excluding acquisition and disposition:				
Receivables		74,593	58,570	39,941
Inventories		19,146	31,842	20,380
Prepaid expenses and other current assets		9,317	306	2,264
Accounts payable and accrued expenses		(14,313)	(59,145)	30,944
Income taxes		8,514	(1,255)	1,169
Increase (decrease) in other liabilities		(7,415)	(2,643)	835
<i>Net cash flows from (to) operating activities</i>		193,205	174,369	291,187
Net Cash Flows From (To) Investing Activities:				
Capital expenditures		(16,017)	(70,083)	(58,568)
Proceeds from sale of property, plant and equipment		6,733	6,191	12,145
Capitalized software		(1,537)	(1,413)	(346)
Acquisition spending, net of cash acquired		(500)	(75,479)	(41,696)
Short-term investments – net		–	(250)	–
Purchase of long-term investments		(9,710)	(10,650)	(24,427)
Sales or maturities of long-term investments		33,872	20,158	20,576
Other – net		440	–	294
<i>Net cash flows from (to) investing activities</i>		13,281	(131,526)	(92,022)
Net Cash Flows From (To) Financing Activities:				
Purchase of HNI Corporation common stock		–	(28,553)	(147,675)
Proceeds from long-term debt		97,000	359,500	289,503
Payments of note and long-term debt and other financing		(219,884)	(334,200)	(309,297)
Proceeds from sale of HNI Corporation common stock		2,893	4,151	9,708
Excess tax benefits from stock compensation		8	11	808
Dividends paid		(38,667)	(38,095)	(36,408)
<i>Net cash flows from (to) financing activities</i>		(158,650)	(37,186)	(193,361)
<i>Net increase (decrease) in cash and cash equivalents</i>		47,836	5,657	5,804
<i>Cash and cash equivalents at beginning of year</i>		39,538	33,881	28,077
<i>Cash and cash equivalents at end of year</i>		\$ 87,374	\$ 39,538	\$ 33,881
Supplemental Disclosures of Cash Flow Information:				
Cash paid during the year for:				
Interest		\$ 12,316	\$ 17,160	\$ 18,213
Income taxes		\$ (4,528)	\$ 22,852	\$ 57,128

Our Vision

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

We will be profitable.

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

We will create long-term value for shareholders.

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

We will pursue profitable growth.

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

We will be a supplier of quality products and services.

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

We will be a great place to work.

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

We will be a responsible corporate citizen.

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

To our stakeholders:

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

A Message from the Board of Directors

DEAR SHAREHOLDERS:

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

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

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

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

Sincerely,

THE HNI CORPORATION BOARD OF DIRECTORS

BOARD OF DIRECTORS

Stan A. Askren

Chairman, President and Chief Executive Officer, HNI Corporation

Mary H. Bell

Vice President, Building Construction Products Division, Caterpillar Inc.

Miguel M. Calado

Director and Chief Financial Officer, Hovione SA

Gary M. Christensen

Executive Advisor Partner, Wind Point Partners

Cheryl A. Francis

Co-Chairman, Corporate Leadership Center

John A. Halbrook

Retired Chairman and Chief Executive Officer, Woodward Governor Company

James R. Jenkins

Senior Vice President and General Counsel, Deere & Company

Dennis J. Martin

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

Larry B. Porcellato

Chief Executive Officer, The Homax Group, Inc.

Abbie J. Smith

Chaired Professor, University of Chicago Booth School of Business

Brian E. Stern

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

Ronald V. Waters, III

Director, President and Chief Executive Officer, LoJack Corporation

COMMITTEES OF THE BOARD

Audit

Miguel M. Calado,
Chairperson

James R. Jenkins
Ronald V. Waters, III

Human Resources and Compensation

Abbie J. Smith,
Chairperson

Cheryl A. Francis
John A. Halbrook
Brian E. Stern

Public Policy and Corporate Governance

Dennis J. Martin,
Chairperson

Mary H. Bell
Gary M. Christensen
Larry B. Porcellato

Investor Information

Fiscal 2010 Quarter-End Dates

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

Annual Meeting

The Corporation's annual shareholders' meeting will be held at 10:30 a.m. on Tuesday, May 11, 2010, at the Holiday Inn, 2915 North Highway 61, Muscatine, Iowa. Shareholders and other interested investors are encouraged to attend the meeting.

Form 10-K Report

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

Investor Relations

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Fax: 563.272.7655
Email: investorrelations@hnicorp.com

Corporate Headquarters

HNI Corporation
408 East Second Street
P.O. Box 1109
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Telephone: 563.272.7400
Fax: 563.272.7114

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP
One North Wacker Drive
Chicago, IL 60606

Common Stock

HNI Corporation common stock trades on the New York Stock Exchange (NYSE) under the symbol: HNI.

Transfer Agent

Shareholders may report a change of address or make inquiries by writing or calling:

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

Management Certifications

On June 8, 2009, the Corporation submitted to the NYSE, the Annual CEO Certification required by Section 303A.12(a) of the NYSE Listed Company Manual certifying the Corporation's CEO is not aware of any violation by the Corporation of NYSE corporate governance listing standards. The Corporation also filed with the Securities and Exchange Commission the CEO/CFO Certifications regarding the quality of the Corporation's public disclosure required under Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 as Exhibits 31.1, 31.2, and 32.1 to the Corporation's annual report on Form 10-K for the fiscal year ended January 2, 2010.

HNI CORPORATION OFFICERS

Stan A. Askren
Chairman, President and
Chief Executive Officer

Steven M. Bradford
Vice President, General
Counsel and Secretary

Gary L. Carlson
Vice President, Member
and Community Relations

Tamara S. Feldman
Vice President,
Financial Reporting

Douglas L. Jones
Vice President and
Chief Information Officer

Kelly J. McGriff
Treasurer and Vice President,
Investor Relations

Alan R. Moorhead
Vice President,
Internal Audit

Jean M. Reynolds
Vice President,
Corporate Marketing
and e-Business

Kurt A. Tjaden
Vice President and
Chief Financial Officer

OPERATING COMPANIES

Timothy J. Anderson
President,
Omni Workspace Company

Charles C. Bell
President,
Hickory Business Furniture,
LLC

Redus W. Brooks
President,
Maxon Furniture Inc.

Peter Chu
President,
Lamex

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

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

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

Donald T. Mead
President,
The Gunlocke Company L.L.C.

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

Brandon Sieben
President,
Paoli Inc.



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