

HNI CORP  
Form 10-Q  
August 05, 2010

---

---

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended July 3, 2010.

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-14225

HNI Corporation  
(Exact name of registrant as specified in its charter)

Iowa  
(State or other jurisdiction of  
incorporation or organization)

42-0617510  
(I.R.S. Employer  
Identification Number)

P. O. Box 1109, 408 East Second Street  
Muscatine, Iowa 52761-0071  
(Address of principal executive offices)

52761-0071  
(Zip Code)

Registrant's telephone number, including area code: 563/272-7400

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Edgar Filing: HNI CORP - Form 10-Q

YES  NO

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

YES  NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

Class	Outstanding at July 3, 2010
Common Shares, \$1 Par Value	45,040,418

HNI Corporation and SUBSIDIARIES

INDEX

PART I. FINANCIAL INFORMATION

	Page
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets July 3, 2010, and January 2, 2010	3
Condensed Consolidated Statements of Income Three Months Ended July 3, 2010, and July 4, 2009	5
Condensed Consolidated Statements of Income Six Months Ended July 3, 2010, and July 4, 2009	6
Condensed Consolidated Statements of Cash Flows Three Months Ended July 3, 2010, and July 4, 2009	7
Notes to Condensed Consolidated Financial Statements	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	20
Item 3. Quantitative and Qualitative Disclosures About Market Risk	26
Item 4. Controls and Procedures	26
<b>PART II. OTHER INFORMATION</b>	
Item 1. Legal Proceedings	27
Item 1A. Risk Factors	27
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	27
Item 3. Defaults Upon Senior Securities - None	-
Item 5. Other Information - None	-
Item 6. Exhibits	28
SIGNATURES	29
EXHIBIT INDEX	30



## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

HNI Corporation and SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

	July 3, 2010 (Unaudited)	Jan. 2, 2010
	(In thousands)	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$44,323	\$87,374
Short-term investments	8,397	5,994
Receivables	182,882	163,732
Inventories (Note C)	82,714	65,144
Deferred income taxes	19,253	20,299
Prepaid expenses and other current assets	24,570	17,728
<b>Total Current Assets</b>	<b>362,139</b>	<b>360,271</b>
<b>PROPERTY, PLANT, AND EQUIPMENT, at cost</b>		
Land and land improvements	21,378	21,815
Buildings	259,335	267,596
Machinery and equipment	482,806	490,287
Construction in progress	11,597	8,377
	775,116	788,075
Less accumulated depreciation	531,390	527,973
<b>Net Property, Plant, and Equipment</b>	<b>243,726</b>	<b>260,102</b>
<b>GOODWILL</b>	<b>260,628</b>	<b>261,114</b>
<b>OTHER ASSETS</b>	<b>106,313</b>	<b>112,839</b>
<b>Total Assets</b>	<b>\$972,806</b>	<b>\$994,326</b>

See accompanying Notes to Condensed Consolidated Financial Statements.

HNI Corporation and SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

	July 3, 2010 (Unaudited)	Jan. 2, 2010
	(In thousands, except share and per share value data)	
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 303,251	\$ 299,718
Note payable and current maturities of long-term debt and capital lease obligations	50,002	39
Current maturities of other long-term obligations	343	385
Total Current Liabilities	353,596	300,142
<b>LONG-TERM DEBT</b>	150,000	200,000
<b>CAPITAL LEASE OBLIGATIONS</b>	-	-
<b>OTHER LONG-TERM LIABILITIES</b>	48,255	50,332
<b>DEFERRED INCOME TAXES</b>	21,244	24,227
<b>EQUITY</b>		
HNI Corporation shareholders' equity:		
Capital Stock:		
Preferred, \$1 par value, authorized 2,000,000 shares, no shares outstanding	-	-
Common, \$1 par value, authorized 200,000,000 shares, outstanding - July 3, 2010 – 45,040,418 shares; January 2, 2010 – 45,093,504 shares	45,040	45,093
Additional paid-in capital	20,226	19,695
Retained earnings	334,514	355,270
Accumulated other comprehensive income	(606 )	(774 )
Total HNI Corporation shareholders' equity	399,174	419,284
Noncontrolling interest	537	341
Total Equity	399,711	419,625
Total Liabilities and Equity	\$972,806	\$994,326

See accompanying Notes to Condensed Consolidated Financial Statements.



HNI Corporation and SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

	Three Months Ended	
	July 3, 2010	July 4, 2009 (As Adjusted)
	(In thousands, except share and per share data)	
Net sales	\$398,222	\$374,773
Cost of sales	256,905	247,215
Gross profit	141,317	127,558
Selling and administrative expenses	128,032	122,637
Restructuring and impairment	1,238	3,878
Operating income (loss)	12,047	1,043
Interest income	92	125
Interest expense	3,054	3,049
Earnings (loss) before income taxes	9,085	(1,881 )
Income taxes	3,493	(635 )
Income (loss) from continuing operations, less applicable income taxes	5,592	(1,246 )
Discontinued operations, less applicable income taxes	(827 )	(144 )
Net income (loss)	4,765	(1,390 )
Less: Net income attributable to the noncontrolling interest	62	7
Net income (loss) attributable to HNI Corporation	\$4,703	\$(1,397 )
Income (loss) from continuing operations attributable to HNI Corporation per common share – basic	\$0.12	\$(0.03 )
Discontinued operations attributable to HNI Corporation per common share – basic	\$(0.02 )	\$(0.00 )
Net income (loss) attributable to HNI Corporation per common share – basic	\$0.10	\$(0.03 )
Average number of common shares outstanding – basic	45,193,336	44,894,656
Income (loss) from continuing operations attributable to HNI Corporation per common share – diluted	\$0.12	\$(0.03 )
Discontinued operations attributable to HNI Corporation per common share – diluted	\$(0.02 )	\$(0.00 )
Net income (loss) attributable to HNI Corporation per common share – diluted	\$0.10	\$(0.03 )
Average number of common shares outstanding – diluted	46,011,691	44,894,656
Cash dividends per common share	\$0.215	\$0.215

See accompanying Notes to Condensed Consolidated Financial Statements.

HNI Corporation and SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

	Six Months Ended	
	July 3, 2010	July 4, 2009 (As Adjusted)
	(In thousands, except share and per share data)	
Net sales	\$761,728	\$771,602
Cost of sales	501,231	521,398
Gross profit	260,497	250,204
Selling and administrative expenses	250,832	256,575
Restructuring and impairment	3,072	8,963
Operating income (loss)	6,593	(15,334 )
Interest income	180	260
Interest expense	5,777	6,247
Earnings (loss) before income taxes	996	(21,321 )
Income taxes	(454 )	(8,377 )
Income (loss) from continuing operations, less applicable income taxes	1,450	(12,944 )
Discontinued operations, less applicable income taxes	(2,538 )	(305 )
Net income (loss)	(1,088 )	(13,249 )
Less: Net income attributable to the noncontrolling interest	195	34
Net income (loss) attributable to HNI Corporation	\$(1,283 )	\$(13,283 )
Income (loss) from continuing operations attributable to HNI Corporation per common share – basic	\$0.03	\$(0.29 )
Discontinued operations attributable to HNI Corporation per common share – basic	\$(0.06 )	\$(0.01 )
Net income (loss) attributable to HNI Corporation per common share – basic	\$(0.03 )	\$(0.30 )
Average number of common shares outstanding – basic	45,179,893	44,753,368
Income (loss) from continuing operations attributable to HNI Corporation per common share – diluted	\$0.03	\$(0.29 )
Discontinued operations attributable to HNI Corporation per common share – diluted	\$(0.06 )	\$(0.01 )
Net income (loss) attributable to HNI Corporation per common share – diluted	\$(0.03 )	\$(0.30 )
Average number of common shares outstanding – diluted	45,179,893	44,753,368
Cash dividends per common share	\$0.43	\$0.43

See accompanying Notes to Condensed Consolidated Financial Statements.



HNI Corporation and SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Six Months Ended	
	July 3, 2010	July 4, 2009
(In thousands)		
<b>Net Cash Flows From (To) Operating Activities:</b>		
Net income (loss)	\$(1,088 )	\$(13,249 )
<b>Noncash items included in net income:</b>		
Depreciation and amortization	31,105	37,782
Other postretirement and post employment benefits	846	924
Stock-based compensation	3,081	1,859
Deferred income taxes	(1,950 )	1,307
(Gain)/Loss on sale, retirement and impairment of long-lived assets and intangibles	3,495	118
Stock issued to retirement plan	5,400	6,565
Other – net	292	232
Net increase (decrease) in operating assets and liabilities	(38,833 )	18,683
Increase (decrease) in other liabilities	(807 )	(4,775 )
Net cash flows from (to) operating activities	1,541	49,446
<b>Net Cash Flows From (To) Investing Activities:</b>		
Capital expenditures	(12,300 )	(6,958 )
Proceeds from sale of property, plant and equipment	1,669	1,938
Acquisition spending, net of cash acquired	-	(500 )
Capitalized software	(128 )	(795 )
Purchase of long-term investments	(4,805 )	(2,810 )
Sales or maturities of long-term investments	2,570	26,601
Other - Net	603	-
Net cash flows from (to) investing activities	(12,391 )	17,476
<b>Net Cash Flows From (To) Financing Activities:</b>		
Proceeds from sales of HNI Corporation common stock	1,651	1,265
Purchase of HNI Corporation common stock	(10,297 )	-
Proceeds from long-term debt	50,000	77,000
Payments of note and long-term debt and other financing	(54,081 )	(145,797 )
Dividends paid	(19,474 )	(19,303 )
Net cash flows from (to) financing activities	(32,201 )	(86,835 )
Net increase (decrease) in cash and cash equivalents	(43,051 )	(19,913 )
Cash and cash equivalents at beginning of period	87,374	39,538
Cash and cash equivalents at end of period	\$44,323	\$19,625

See accompanying Notes to Condensed Consolidated Financial Statements.



## HNI Corporation and SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
July 3, 2010

## Note A. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The January 2, 2010 consolidated balance sheet included in this Form 10-Q was derived from audited financial statements but does not include all disclosures required by generally accepted accounting principles. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six-month period ended July 3, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending January 1, 2011. For further information, refer to the consolidated financial statements and accompanying notes included in HNI Corporation's (the "Corporation") Annual Report on Form 10-K for the fiscal year ended January 2, 2010.

## Note B. Stock-Based Compensation

The Corporation measures stock-based compensation expense at grant date, based on the fair value of the award and recognizes expense over the employee requisite service period. For the three and six months ended July 3, 2010, and July 4, 2009, the Corporation recognized \$1.6 million and \$3.1 million, and \$1.1 million and \$1.9 million, respectively, of stock-based compensation expense for the cost of stock options and time-based restricted stock units issued under the HNI Corporation 2007 Stock-Based Compensation Plan and shares issued under the HNI Corporation 2002 Members' Stock Purchase Plan.

At July 3, 2010, there was \$12.4 million of unrecognized compensation cost related to nonvested stock-based compensation awards, which the Corporation expects to recognize over a weighted-average remaining requisite service period of 1.4 years.

## Note C. Inventories

The Corporation values its inventory at the lower of cost or market with approximately 84% valued by the last-in, first-out ("LIFO") method.

(In thousands)	July 3, 2010 (Unaudited)	Jan. 2, 2010
Finished products	\$61,970	\$48,198
Materials and work in process	44,120	40,322
LIFO allowance	(23,376 )	(23,376 )
	\$82,714	\$65,144



## Note D. Comprehensive Income and Shareholders' Equity

The following table reconciles net income to comprehensive income attributable to HNI Corporation:

(In thousands)	Three Months Ended		Six Months Ended	
	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
Net income (loss)	\$4,765	\$(1,390)	\$(1,088)	\$(13,249)
Other comprehensive income, net of income tax as applicable:				
Foreign currency translation adjustments	151	(10)	146	(101)
Change in unrealized gains (losses) on marketable securities	-	267	-	134
Change in pension and postretirement liability	79	79	158	158
Change in derivative financial instruments	(310)	113	(136)	102
Comprehensive income (loss)	4,685	(941)	(920)	(12,956)
Comprehensive income attributable to noncontrolling interest	62	7	195	34
Comprehensive income (loss) attributable to HNI Corporation	\$4,623	\$(948)	\$(1,115)	\$(12,990)

The following table summarizes the components of accumulated other comprehensive loss and the changes in accumulated other comprehensive loss, net of tax, as applicable for the six months ended July 3, 2010:

(in thousands)	Foreign Currency Translation Adjustment	Pension Postretirement Liability	Derivative Financial Instruments	Accumulated Other Comprehensive Loss
Balance at January 2, 2010	\$3,526	\$(2,710)	\$(1,590)	\$(774)
Year-to date change	146	158	(136)	168
Balance at July 3, 2010	\$3,672	\$(2,552)	\$(1,726)	\$(606)

During the six months ended July 3, 2010, the Corporation repurchased 372,822 shares of its common stock at a cost of approximately \$10.3 million. As of July 3, 2010, \$153.3 million of the Corporation's Board of Directors' current repurchase authorization remained unspent.

## Note E. Earnings Per Share

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

(In thousands, except per share data)	Three Months Ended		Six Months Ended	
	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
<b>Numerators:</b>				
Numerator for both basic and diluted EPS attributable to Parent Company net income (loss)	\$4,703	\$(1,397 )	\$(1,283 )	\$(13,283 )
<b>Denominators:</b>				
Denominator for basic EPS weighted-average common shares outstanding	45,193	44,895	45,180	44,753
Potentially dilutive shares from stock-based compensation plans	819	-	-	-
Denominator for diluted EPS	46,012	44,895	45,180	44,753
Earnings per share – basic	\$0.10	\$(0.03 )	\$(0.03 )	\$(0.30 )
Earnings per share – diluted	\$0.10	\$(0.03 )	\$(0.03 )	\$(0.30 )

Certain exercisable and non-exercisable stock options totaling 1,752,242 were not included in the computation of diluted EPS for the three months ended July 3, 2010 because their inclusion would have been anti-dilutive. None of the outstanding stock options or restricted stock units were included in the computation of diluted EPS for the three-month and six-month computation of diluted EPS at July 4, 2009 or the six-month computation of diluted EPS at July 3, 2010, as all would be anti-dilutive due to the current period loss.

## Note F. Restructuring Reserve and Plant Closures

As a result of challenging market conditions and the Corporation's ongoing business simplification and cost reduction strategies, management made the decision in the first quarter of fiscal 2010 to close an office furniture manufacturing facility located in Salisbury, North Carolina and consolidate production into existing office furniture manufacturing facilities. In connection with the closure of the Salisbury location and other office furniture plant closures announced in 2009, the Corporation recorded \$2.1 million of charges during the quarter ended July 3, 2010 which included \$0.9 million of accelerated depreciation recorded in cost of sales and \$1.2 million of other costs which were recorded as restructuring costs. The Corporation had previously recorded \$1.3 million of severance costs for approximately 125 members during the first quarter in connection with the closure of the Salisbury facility. The closure and consolidation of the Salisbury facility is expected to be substantially completed by the end of 2010.

The following is a summary of changes in restructuring accruals during the six months ended July 3, 2010. This summary does not include accelerated depreciation as this item was not accounted for through the restructuring accrual on the Condensed Consolidated Balance Sheets but is included as a component of "Restructuring and Impairment" in the Condensed Consolidated Statements of Income.

Edgar Filing: HNI CORP - Form 10-Q

(In thousands)	Severance	Facility Exit Costs & Other	Total
Balance as of January 2, 2010	\$4,389	\$1,569	