

HNI CORP
Form 10-Q
November 02, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

Draft 10/27/11 4:30pm

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended October 1, 2011.

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 42-0617510
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)

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

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).

YES NO

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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 October 1, 2011
Common Shares, \$1 Par Value	44,825,933

HNI Corporation and SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HNI Corporation and SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited)

	October 1, 2011	January 1, 2011
	(In thousands)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$101,534	\$99,096
Short-term investments	19,504	10,567
Receivables	220,484	190,118
Inventories (Note C)	95,725	68,956
Deferred income taxes	21,336	18,467
Prepaid expenses and other current assets	20,564	20,957
Total Current Assets	479,147	408,161
PROPERTY, PLANT, AND EQUIPMENT, at cost		
Land and land improvements	21,484	21,554
Buildings	259,033	257,819
Machinery and equipment	462,090	474,911
Construction in progress	9,421	10,221
	752,028	764,505
Less accumulated depreciation	532,317	532,724
Net Property, Plant, and Equipment	219,711	231,781
GOODWILL	260,634	260,634
OTHER ASSETS	95,692	97,304
Total Assets	\$1,055,184	\$997,880

See accompanying Notes to Condensed Consolidated Financial Statements.

HNI Corporation and SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited)

	October 1, 2011	January 1, 2011
(In thousands, except share and per share value data)		
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$352,222	\$311,066
Note payable and current maturities of long-term debt and capital lease obligations	50,378	50,029
Current maturities of other long-term obligations	261	256
Total Current Liabilities	402,861	361,351
LONG-TERM DEBT	150,182	150,000
CAPITAL LEASE OBLIGATIONS	370	111
OTHER LONG-TERM LIABILITIES	51,064	47,437
DEFERRED INCOME TAXES	41,022	30,525
EQUITY		
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 - October 1, 2011 – 44,825,933 shares; January 1, 2011 – 44,840,701 shares	44,826	44,841
Additional paid-in capital	21,685	18,011
Retained earnings	340,383	343,474
Accumulated other comprehensive income	2,434	1,659
Total HNI Corporation shareholders' equity	409,328	407,985
Noncontrolling interest	357	471
Total Equity	409,685	408,456
Total Liabilities and Equity	\$1,055,184	\$997,880

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	October 1, 2011	October 2, 2010
	(In thousands, except share and per share data)	
Net sales	\$504,220	\$458,853
Cost of sales	324,825	297,635
Gross profit	179,395	161,218
Selling and administrative expenses	138,671	130,514
Restructuring and impairment	277	(251)
Operating income	40,447	30,955
Interest income	222	166
Interest expense	2,567	2,843
Earnings before income taxes	38,102	28,278
Income taxes	13,186	12,630
Income from continuing operations, less applicable income taxes	24,916	15,648
Discontinued operations, less applicable income taxes	—	(13)
Net income	24,916	15,635
Less: Net (loss) attributable to the noncontrolling interest	(31)	(46)
Net income attributable to HNI Corporation	\$24,947	\$15,681
Income from continuing operations attributable to HNI Corporation per common share – basic	\$0.56	\$0.35
Discontinued operations attributable to HNI Corporation per common share – basic	\$—	\$—
Net income attributable to HNI Corporation per common share – basic	\$0.56	\$0.35
Average number of common shares outstanding – basic	44,787,437	44,800,821
Income from continuing operations attributable to HNI Corporation per common share – diluted	\$0.55	\$0.34
Discontinued operations attributable to HNI Corporation per common share – diluted	\$—	\$—
Net income attributable to HNI Corporation per common share – diluted	\$0.55	\$0.34
Average number of common shares outstanding – diluted	45,637,042	45,601,327
Cash dividends per common share	\$0.230	\$0.215

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended	
	October 1, 2011	October 2, 2010
	(In thousands, except share and per share data)	
Net sales	\$ 1,333,181	\$ 1,220,581
Cost of sales	872,132	798,866
Gross profit	461,049	421,715
Selling and administrative expenses	407,281	381,346
Restructuring and impairment	2,130	2,821
Operating income	51,638	37,548
Interest income	465	346
Interest expense	9,189	8,620
Earnings before income taxes	42,914	29,274
Income taxes	15,192	12,176
Income from continuing operations, less applicable income taxes	27,722	17,098
Discontinued operations, less applicable income taxes	—	(2,551)
Net income	27,722	14,547
Less: Net income (loss) attributable to the noncontrolling interest	(127 )	) 149
Net income attributable to HNI Corporation	\$ 27,849	\$ 14,398
Income from continuing operations attributable to HNI Corporation per common share – basic	\$ 0.62	\$ 0.38
Discontinued operations attributable to HNI Corporation per common share – basic	\$ —	\$ (0.06)
Net income attributable to HNI Corporation per common share – basic	\$ 0.62	\$ 0.32
Average number of common shares outstanding – basic	44,795,155	45,053,536
Income from continuing operations attributable to HNI Corporation per common share – diluted	\$ 0.61	\$ 0.37
Discontinued operations attributable to HNI Corporation per common share – diluted	\$ —	\$ (0.06)
Net income attributable to HNI Corporation per common share – diluted	\$ 0.61	\$ 0.31
Average number of common shares outstanding – diluted	45,683,520	45,831,091
Cash dividends per common share	\$ 0.69	\$ 0.645

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended	
	October 1, 2011	October 2, 2010
	(In thousands)	
Net Cash Flows From (To) Operating Activities:		
Net income	\$27,722	\$14,547
Noncash items included in net income:		
Depreciation and amortization	35,135	45,361
Other postretirement and post employment benefits	1,245	1,268
Stock-based compensation	5,210	5,020
Excess tax benefits from stock compensation	(99)
Deferred income taxes	7,412	8,579
Loss on sale, retirement and impairment of long-lived assets and intangibles	397	2,468
Stock issued to retirement plan	4,906	5,400
Other – net	(834	) 1,918
Net increase (decrease) in operating assets and liabilities	(18,785	) (31,885
Increase (decrease) in other liabilities	4,663	(3,557
Net cash flows from (to) operating activities	66,972	49,119
Net Cash Flows From (To) Investing Activities:		
Capital expenditures	(16,937	) (17,834
Proceeds from sale of property, plant and equipment	2,697	2,217
Capitalized software	(3,257	) (842
Purchase of long-term investments	(14,555	) (11,209
Sales or maturities of long-term investments	5,857	8,320
Other – net	413	3,444
Net cash flows from (to) investing activities	(25,782	) (15,904
Net Cash Flows From (To) Financing Activities:		
Proceeds from sales of HNI Corporation common stock	2,607	2,242
Purchase of HNI Corporation common stock	(10,000	) (17,806
Proceeds from long-term debt	5,455	50,157
Payments of note and long-term debt and other financing	(5,973	) (53,845
Excess tax benefits from stock compensation	99	
Dividends paid	(30,940	) (29,098
Net cash flows from (to) financing activities	(38,752	) (48,350
Net increase (decrease) in cash and cash equivalents	2,438	(15,135
Cash and cash equivalents at beginning of period	99,096	87,374
Cash and cash equivalents at end of period	\$101,534	\$72,239

See accompanying Notes to Condensed Consolidated Financial Statements.

HNI Corporation and SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

October 1, 2011

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 1, 2011 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 nine-month period ended October 1, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 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 1, 2011.

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 nine months ended October 1, 2011, and October 2, 2010, the Corporation recognized \$1.8 million and \$5.2 million, and \$1.9 million and \$5.0 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 October 1, 2011, there was \$9.9 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 1.3 years.

Note C. Inventories

The Corporation values its inventory at the lower of cost or market with approximately 80% valued by the last-in, first-out ("LIFO") costing method.

(In thousands)	October 1, 2011 (Unaudited)	January 1, 2011
Finished products	\$66,324	\$43,389
Materials and work in process	53,238	49,404
LIFO allowance	(23,837)	(23,837)
	\$95,725	\$68,956

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		Nine Months Ended	
	October 1, 2011	October 2, 2010	October 1, 2011	October 2, 2010
Net income	\$24,916	\$15,635	\$27,722	\$14,547
Other comprehensive income, net of income tax as applicable:				
Foreign currency translation adjustments	(145)	361	397	508
Change in unrealized gains (losses) on marketable securities	97	8	154	8
Change in pension and postretirement liability	79	79	238	237
Change in derivative financial instruments	(485)	805	(14)	668
Comprehensive income	24,462	16,888	28,497	15,968
Comprehensive income (loss) attributable to noncontrolling interest	(31)	(46)	(127)	149
Comprehensive income attributable to HNI Corporation	\$24,493	\$16,934	\$28,624	\$15,819

The following table summarizes the components of accumulated other comprehensive income and the changes in accumulated other comprehensive income, net of tax, as applicable for the nine months ended October 1, 2011:

(In thousands)	Foreign Currency Translation Adjustment	Unrealized Gains(Losses) on Marketable Securities	Pension Postretirement Liability	Derivative Financial Instruments	Accumulated Other Comprehensive Income
Balance at January 1, 2011	\$4,415	(48)	\$(2,313)	\$(395)	\$1,659
Year-to date change	397	154	238	(14)	775
Balance at October 1, 2011	\$4,812	\$106	\$(2,075)	\$(409)	\$2,434

During the nine months ended October 1, 2011, the Corporation repurchased 323,965 shares of its common stock at a cost of approximately \$10 million. As of October 1, 2011, \$135.8 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		Nine Months Ended	
	October 1, 2011	October 2, 2010	October 1, 2011	October 2, 2010
Numerators:				
Numerator for both basic and diluted EPS attributable to Parent Company net income	\$24,947	\$15,681	\$27,849	\$14,398
Denominators:				
Denominator for basic EPS weighted-average common shares outstanding	44,787	44,801	44,795	45,054
Potentially dilutive shares from stock-based compensation plans	850	800	889	777
Denominator for diluted EPS	45,637	45,601	45,684	45,831
Earnings per share – basic	\$0.56	\$0.35	\$0.62	\$0.32
Earnings per share – diluted	\$0.55	\$0.34	\$0.61	\$0.31

Certain exercisable and non-exercisable stock options were not included in the computation of diluted EPS at October 1, 2011 and October 2, 2010, because their inclusion would have been anti-dilutive. The number of stock options which met this anti-dilutive criterion for the three and nine months ended October 1, 2011 was 2,210,257 and 1,815,085, respectively. The number of stock options outstanding which met this anti-dilutive criterion for the three and nine months ended October 2, 2010 was 1,763,464 and 1,738,464, respectively.

Note F. Restructuring Reserve and Plant Closures

As a result of the Corporation's ongoing business simplification and cost reduction strategies, management made the decision in the third quarter of 2011 to transition out of its Lithia Springs, Georgia office furniture distribution center. The distribution center is operated by a third-party logistics provider. The Corporation will add distribution capacity to its Cedartown, Georgia office furniture manufacturing facility and distribution center to make up for the loss of the Lithia Springs distribution center. To make room for the additional distribution capacity, the Corporation will consolidate some office furniture manufacturing production from the Cedartown facility into existing office furniture manufacturing facilities in Muscatine, Iowa. In connection with the closure, consolidation and realignment, the Corporation recorded \$0.8 million of charges during the quarter ended October 1, 2011 which included \$0.3 million of severance costs for four members, \$0.3 million of facility exit costs and \$0.2 million of accelerated depreciation recorded in cost of sales. The Corporation anticipates the closure, consolidation and realignment to be substantially completed by the end of first quarter of 2012.

In connection with other office furniture plant closures announced in 2010 and 2009, the Corporation recorded a \$0.3 million reduction in restructuring costs. During the third quarter of 2011 the Corporation reduced a previously recorded accrual related to a withdrawal liability associated with a multi-employer pension plan due to an increase in the market value of the plan assets.

The following is a summary of changes in restructuring accruals during the nine months ended October 1, 2011.

(In thousands)	Severance	Facility Exit Costs & Other	Total
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Balance as of January 1, 2011	\$2,389	\$243	\$2,632	
Restructuring charges	97	2,033	2,130	
Cash payments	(1,060) (2,232) (3,292)
Balance as of October 1, 2011	\$1,426	\$44	\$1,470	

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Note G. Discontinued Operations

The Corporation completed the sale of a small, non-core business in the office furniture segment and a small non-core component of its hearth products segment during 2010. Revenues and expenses associated with these business operations are presented as discontinued operations for all periods presented in the financial statements.

Summarized financial information for discontinued operations is as follows:

(In thousands)	Three Months Ended	Nine Months Ended
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