DEUTSCHE TELEKOM AG
Form 6-K
August 08, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Form 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16

UNDER THE SECURITIES EXCHANGE ACT OF 1934

For the month of August 2008

Commission file number 001-14540

DEUTSCHE TELEKOM AG

(Translation of registrant s name into English)

Friedrich-Ebert-Allee 140,

53113 Bonn,

Germany

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F x Form 40-F ¨

Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ¨ No x

This report is deemed submitted and not filed pursuant to the rules and regulations of the Securities and Exchange Commission.

T-MOBILE USA CONTINUES TO INVEST IN NETWORK

QUALITY AND REPORTS SECOND QUARTER 2008 RESULTS

$1.58 billion Operating Income Before Depreciation and Amortization (OIBDA) in the second quarter of 2008, up 14% from the second quarter of 2007

668,000 net new customers added in the second quarter of 2008, of which almost 80% were contract customers

Service revenues of $4.9 billion in the second quarter of 2008, up 16% from the second quarter of 2007

Continued focus on improving network quality with approximately $1.1 billion invested and 1,000 new cell sites built in the second quarter of 2008

Ranked highest in wireless retail sales satisfaction according to J.D. Power and Associates

BELLEVUE, Wash., August 7, 2008 T-Mobile USA, Inc. (T-Mobile USA) today reported second quarter 2008 results. At the end of the quarter, T-Mobile USA had 31.5 million customers, adding 668,000 net new customers during the second quarter, OIBDA of $1.58 billion, up 14% compared to the second quarter of 2007, and blended churn of 2.7% consistent with the second quarter of 2007. The second quarter of 2008 is the first full quarter SunCom Wireless (SunCom) has been reflected in the results of T-Mobile USA. SunCom did not have a significant impact on T-Mobile USA s first and second quarter 2008 consolidated metrics and results unless specifically stated below.

T-Mobile continues to pursue new innovations to meet the pressing needs of our customers, said Robert Dotson, President and CEO, T-Mobile USA. In the quarter we went national with T-Mobile @Home, an affordable alternative to traditional landline

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service made available at a time when customers are eager for new ways to stretch their dollars. We also introduced our new Unlimited Family Plan for customers craving to stay connected to people in ways that don t put additional stress on the family budget.

With continued double-digit dollar growth in revenues and OIBDA, T-Mobile USA continues to be one of the leading growth drivers for Deutsche Telekom, said René Obermann, Chief Executive Officer, Deutsche Telekom. We remain excited about the future growth opportunities in the U.S., especially in mobile data as we look toward a national introduction of our new 3G network later this year.

Customers

In the second quarter of 2008, T-Mobile USA added 668,000 net new customers, down from 981,000 in the first quarter of 2008, not including 1.1 million customers acquired from SunCom, and 857,000 in the second quarter of 2007.

The sequential fall in net new customers related primarily to higher contract churn, as explained below. Gross contract customer additions remained consistently strong sequentially.

Prepaid net additions (which consist of both traditional prepaid and FlexPay no-contract customers) were 143,000 in the second quarter of 2008, down from 248,000 in the first quarter of 2008 and 170,000 in the second quarter of 2007. Traditional prepaid customers fell in the second quarter of 2008 by approximately 160,000. This was more than offset by new customer additions and migrations to the FlexPay no-contract product, which continues to grow and attract large numbers of new customers. T-Mobile USA repositioned its prepaid business in the quarter, implementing new products and new dealer compensation programs.

Contract customer net additions remained proportionally strong in the second quarter of 2008 making up almost 80% of customer growth, consistent with the first quarter of 2008 and second quarter of 2007 which were 75% and 80%, respectively.

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myFaves continues to be very popular with our customers. At the end of the second quarter there were more than 6.5 million myFaves customers, up from 5.5 million at the end of the first quarter of 2008.

Contract customers comprised 83% of T-Mobile USA s total customer base at June 30, 2008. T-Mobile USA ended the quarter with 31.5 million customers.

Churn

Contract customer churn was 1.9% in the second quarter of 2008, up from 1.7% in the first quarter of 2008 and 1.8% in the second quarter of 2007.

The sequential increase in contract churn was primarily due to the anniversary of the introduction of two-year contracts in April 2006. The second quarter of 2008 was the first quarter these two-year contracts could have expired.

Blended churn, including both contract and prepaid customers, was 2.7% in the second quarter of 2008, slightly up from 2.6% in the first quarter of 2008 and in line with the second quarter of 2007.

OIBDA and Net Income

T-Mobile USA reported OIBDA of $1.58 billion in the second quarter of 2008, up from $1.44 billion in the first quarter of 2008 and $1.39 billion in the second quarter of 2007.

The sequential increase in OIBDA was primarily due to the larger customer base increasing service revenues, including the first full quarter consolidation of SunCom customers.

OIBDA margin was 32% in the second quarter of 2008, up from 31% in the first quarter of 2008 and in line with the second quarter of 2007.

Net income for the second quarter of 2008 was $452 million, consistent with $462 million in the first quarter of 2008 and up from $350 million in the second quarter of 2007.

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Revenue

Service revenues, consisting of contract, prepaid, and roaming and other service revenues, rose to $4.85 billion in the second quarter of 2008, up from $4.57 billion in the first quarter of 2008, and up from $4.20 billion in the second quarter of 2007.

The increase in service revenues year over year was primarily due to the growth in contract customers, including the first full quarter inclusion of SunCom customers in T-Mobile USA s results.

Total revenues, including service, equipment, and other revenues were $5.47 billion in the second quarter of 2008, up from $5.19 billion in the first quarter of 2008 and $4.78 billion in the second quarter of 2007.

The acquisition of SunCom, and its first full quarter consolidation in T-Mobile USA s results, contributed $209 million to total revenues in the second quarter, compared to $86 million in the first quarter of 2008.

ARPU

Blended Average Revenue Per User (ARPU as defined in note 1 to the Selected Data, below) was $52 in the second quarter of 2008, up from $51 in the first quarter and down from $53 in the second quarter of 2007.

Contract ARPU was $55 in the second quarter of 2008, in line with the first quarter of 2008 and down from $57 in the second quarter of 2007.

Prepaid ARPU was $23 in the second quarter of 2008, up from $22 in the first quarter of 2008 and up from $19 in the second quarter of 2007.

The increase in prepaid ARPU is due to the success of higher ARPU prepaid products, such as FlexPay no-contract.

Data services revenue, included in service revenues, was $810 million in the second quarter of 2008, representing 16.6% of blended ARPU, or $8.60 per customer, in line with 16.6% of blended ARPU, or $8.50 per customer in the first quarter of 2008, and 14.7% of blended ARPU, or $7.80 per customer in the second quarter of 2007. Data services revenue increased 31.5% year over year.

Growth in messaging revenue continued to be the most significant driver of data ARPU, as customers continue to move towards purchasing plans that include messaging. The total number of messages on the T-Mobile USA network increased to 41 billion in the second quarter of 2008, compared to 33 billion in the first quarter of 2008 and 18 billion in the second quarter of 2007.

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Strong GPRS / EDGE access and usage through continued growth in converged device users was another significant driver for increased data revenues.

CPGA and CCPU

The average cost of acquiring a customer, Cost Per Gross Add (CPGA as defined in note 4 to the Selected Data, below) was $320 in the second quarter of 2008, up from $300 in the first quarter of 2008 and second quarter of 2007.

The increase in CPGA compared to the first quarter of 2008 is primarily due to higher advertising expenses related to the promotion of new products released during the quarter.

The average cash cost of serving customers, Cash Cost Per User (CCPU as defined in note 3 to the Selected Data, below), was $25 per customer per month in the second quarter of 2008, the same as in both the first quarter of 2008 and second quarter of 2007.

Capital Expenditures

Cash capital expenditures (see note 7 to the Selected Data below) were $1,062 million in the second quarter of 2008, compared with $690 million in the first quarter of 2008 and $546 million in the second quarter of 2007.

The sequential increase in capital expenditures is primarily due to more cell sites being built in the quarter.

The year over year increase in capital expenditures is primarily due to the build out of T-Mobile USA s 3G (UMTS / HSDPA) network.

T-Mobile USA continued its commitment to improve coverage in the second quarter of 2008, adding approximately 1,000 GSM/GPRS/EDGE new cell sites, bringing the total number of cell sites at the end of the quarter to 42,000.

T-Mobile USA ended the quarter with more than 14,000 3G capable cell sites (included in the 42,000 above), an increase of 1,000 3G capable cell sites over the first quarter of 2008.

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Stick Together Highlights

- On July 2, T-Mobile USA launched T-Mobile @Home® nationwide. This service allows customers to keep their home phone number and save money by adding their home phone line to their T-Mobile service. Previously available in two test markets, Dallas and Seattle, T-Mobile @Home has proved to be a great solution for families looking for a way to save money without sacrificing a home phone.

- On June 5, 2008, T-Mobile USA announced a new unlimited family plan that offers unlimited nationwide calling and unlimited text, picture and instant messaging.

- T-Mobile USA received the highest ranking in overall customer care according to the J.D. Power and Associates 2008 Wireless Retail Sales Satisfaction Study℠ Volume 1 released in May 2008.

- On May 5, 2008, T-Mobile USA launched its 3G network in New York City and announced plans to launch up to 25 additional 3G markets throughout the year, including Las Vegas which launched on August 6, 2008.

This press release includes non-GAAP financial measures. The non-GAAP financial measures should be considered in addition to, but not as a substitute for, the information provided in accordance with GAAP. Reconciliations from the non-GAAP financial measures to the most directly comparable GAAP financial measures are provided below following Selected Data and the financial statements.

T-Mobile USA is the U.S. operation of Deutsche Telekom AG s (NYSE: DT) Mobile Communications Business, and is a wholly-owned subsidiary of T-Mobile International. In order to provide comparability with the results of other US wireless carriers, all financial amounts are in US dollars and are based on accounting principles generally accepted in the United States (GAAP). T-Mobile USA results are included in the consolidated results of Deutsche Telekom, but differ from the information contained herein as Deutsche Telekom reports financial results in Euros and in accordance with International Financial Reporting Standards (IFRS).

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SELECTED DATA FOR T-MOBILE USA

(thousands)	Q2 08	Q1 08	YE 07	Q4 07	Q3 07	Q2 07
Covered population[8]	284,000	284,000	284,000	284,000	283,000	282,000
Customers, end of period[2]	31,466	30,798	28,685	28,685	27,734	26,877
Thereof contract customers	26,246	25,721	23,914	23,914	23,181	22,624
Thereof prepaid customers	5,220	5,077	4,771	4,771	4,553	4,253
Net customer additions	668	981	3,644	951	857	857
Acquired customers		1,132				
Minutes of use/contract customer/month	1,170	1,150	1,130	1,120	1,130	1,150
Contract churn	1.90%	1.70%	1.90%	1.80%	2.00%	1.80%
Blended churn	2.70%	2.60%	2.80%	2.80%	2.90%	2.70%
($)						
ARPU (blended) [1], 9	52	51	52	52	53	53
ARPU (contract)	55	55	57	56	57	57
ARPU (prepaid)	23	22	19	20	18	19
Cost of serving (CCPU)[3]	25	25	25	25	26	25
Cost per gross add (CPGA)[4]	320	300	300	300	280	300
($ million)						
Total revenues	5,470	5,187	19,288	5,068	4,894	4,780
Service revenues[1], 9	4,854	4,573	16,892	4,371	4,332	4,195
OIBDA[5]	1,583	1,441	5,350	1,327	1,412	1,386
OIBDA margin [6]	32%	31%	31%	30%	32%	32%
Capital expenditures[7]	1,062	690	2,677	1,009	500	546
Cell sites on-air[10]	42,000	41,000	37,900	37,900	37,000	36,400

Since all companies do not calculate these figures in the same manner, the information contained in this press release may not be comparable to similarly titled measures reported by other companies.

1 Average Revenue Per User (ARPU) represents the average monthly service revenue we earn from our customers. ARPU is calculated by dividing service revenues for the specified period by the average customers during the period, and further dividing by the number of months in the period. We believe ARPU provides management with useful information to evaluate the recurring revenues generated from our customer base.

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Service revenues include contract, prepaid, and roaming and other service revenues, and do not include equipment sales and other revenues. Data services revenues is a component of service revenues. Within the consolidated financial statements below, other revenues include co-location rental income and wholesale revenues from the usage of our network in California, Nevada, and New York by AT&T customers, among other items, and are therefore not included in ARPU.

2 Contract customers and prepaid customers include FlexPay[SM] customers depending on the type of rate plan selected. FlexPay customers with a contract are included in contract customers, and FlexPay customers without a contract are included in prepaid customers.

3 The average cash cost of serving customers, or Cash Cost Per User (CCPU) is a non-GAAP financial measure and includes all network and general and administrative costs as well as the subsidy loss unrelated to customer acquisition. Subsidy loss unrelated to customer acquisition includes upgrade handset costs for existing customers offset by upgrade equipment revenues and other related direct costs. This measure is calculated as a per month average by dividing the total costs for the specified period by the average total customers during the period and further dividing by the number of months in the period. We believe that CCPU, which is a measure of the costs of serving a customer, provides relevant and useful information and is used by our management to evaluate the operating performance of our business.

4 Cost Per Gross Add (CPGA) is a non-GAAP financial measure and is calculated by dividing the costs of acquiring a new customer, consisting of customer acquisition costs plus the subsidy loss related to customer acquisition for the specified period, by gross customers added during the period. Subsidy loss related to customer acquisition consists primarily of the excess of handset and accessory costs over related revenues incurred to acquire new customers. We believe that CPGA, which is a measure of the cost of acquiring a customer, provides relevant and useful information and is used by our management to evaluate the operating performance of our business.

5. Operating Income Before Interest, Depreciation and Amortization (OIBDA) is a non-GAAP financial measure, which we define as operating income before depreciation and amortization. In a capital-intensive industry such as wireless telecommunications, we believe OIBDA, as well as the associated percentage margin calculation, to be meaningful measures of our operating performance. OIBDA should not be construed as an alternative to operating income or net income as determined in accordance with GAAP, as an alternative to cash flows from operating activities as determined in accordance with GAAP or as a measure of liquidity. We use OIBDA as an integral part of our planning and internal financial reporting processes, to evaluate the performance of our business by senior management and to compare our performance with that of many of our competitors. We believe that operating income is the financial measure calculated and presented in accordance with GAAP that is the most directly comparable to OIBDA.

6. OIBDA margin is a non-GAAP financial measure, which we define as OIBDA (as described in note 5 above) divided by total revenues less equipment sales.

7 Capital expenditures include amounts paid by T-Mobile USA for purchases of property, plant and equipment.

8 The covered population statistic represents T-Mobile USA s GSM / GPRS / EDGE 1900 voice and data network coverage, combined with roaming and other agreements.

9 Data ARPU is defined as total data revenues from contract customers, prepaid customers, and other data revenues, divided by average contract and prepaid customers during the period. Wi-Fi revenues are shown as a component of service revenues.

10 Cell sites are defined as the total number of sites in service at the end of the period, excluding small low power, low gain access sites. A site is in service when all equipment is installed and the site is integrated into the network.

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T-MOBILE USA

Condensed Consolidated Balance Sheets

(dollars in millions)

(unaudited)

	June 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 218	$ 64
Short-term affiliate loan receivable		1,075
Short-term investment	141	
Accounts receivable, net of allowances of $305 and $272, respectively	2,640	2,617
Accounts receivable from affiliates	20	274
Inventory	789	990
Current portion of net deferred tax assets	1,010	994
Licenses held for exchange	16	1
Other current assets	609	538
Total current assets	5,443	6,553
Property and equipment, net of accumulated depreciation of $10,277 and $9,788, respectively	11,828	11,258
Goodwill	12,011	10,701
Spectrum licenses	15,081	14,645
Other intangible assets, net of accumulated amortization of $510 and $489, respectively	265	47
Other assets	145	155
	$ 44,773	$ 43,359
LIABILITIES AND STOCKHOLDER S EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 3,457	$ 3,790
Current payables to affiliates	1,663	1,127
Other current liabilities	380	380
Total current liabilities	5,500	5,297
Long-term payables to affiliates	6,634	6,712
Deferred tax liabilities	1,786	1,622
Other long-term liabilities	1,123	915
Total long-term liabilities	9,543	9,249
Minority interest in equity of consolidated subsidiaries	92	89
Commitments and contingencies		
Stockholder s equity:		
Common stock	44,469	44,469
Accumulated deficit	(14,831)	(15,745)
Total stockholder s equity	29,638	28,724

$ 44,773	$ 43,359

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T-MOBILE USA

Condensed Consolidated Statements of Operations

(dollars in millions)

(unaudited)

	Quarter Ended June 30, 2008	Quarter Ended March 31, 2008	Quarter Ended June 30, 2007
Revenues:			
Contract	$ 4,321	$ 4,109	$ 3,814
Prepaid	359	325	232
Roaming and other service	174	139	149
Equipment sales	529	534	496
Other	87	80	89
Total revenues	5,470	5,187	4,780
Operating expenses:			
Network	1,271	1,166	1,082
Cost of equipment sales	834	832	747
General and administrative	906	887	788
Customer acquisition	876	861	777
Depreciation and amortization	667	678	659
Total operating expenses	4,554	4,424	4,053
Operating income	916	763	727
Other expense, net	(185)	(11)	(157)
Income before income taxes	731	752	570
Income tax expense	(279)	(290)	(220)
Net income	$ 452	$ 462	$ 350

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T-MOBILE USA

Condensed Consolidated Statements of Cash Flows

(dollars in millions)

(unaudited)

	Quarter Ended June 30, 2008	Quarter Ended June 30, 2007
Operating activities:		
Net income	$ 452	$ 350
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	667	659
Income tax expense	279	220
Other, net	162	110
Changes in operating assets and liabilities:		
Accounts receivable	(153)	(46)
Inventory	(4)	129
Other current and non-current assets	(21)	24
Accounts payable and accrued liabilities	143	(147)
Net cash provided by operating activities	1,525	1,299
Investing activities:		
Purchases of property and equipment	(1,062)	(546)
Purchases of intangible assets	(20)	(46)
Short-term affiliate loan receivable	(425)	(600)
Other, net	48	
Net cash used in investing activities	(1,459)	(1,192)
Financing activities:		
Repayment of bonds payable	(768)	
Long-term debt borrowings from affiliates	783	
Long-term debt repayments to affiliates	(5)	(100)
Other, net		1
Net cash provided by/(used in) financing activities	10	(99)
Change in cash and cash equivalents	76	8
Cash and cash equivalents, beginning of period	142	52
Cash and cash equivalents, end of period	$ 218	$ 60

Non-cash investing and financing activities with affiliates:

T-Mobile USA remitted $1,120 million to affiliates in the first and second quarters of 2008 and $600 million in the second quarter of 2007 as a short term receivable; the cash outflow was used in the second quarter of 2008 and 2007, respectively as settlement of debt in line with repayment schedules.

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Reconciliation of Non-GAAP Financial Measures to GAAP Financial Measures

(dollars in millions, except for CPGA and CCPU)

(unaudited)

OIBDA can be reconciled to our operating income as follows:

	Q2 2008	Q1 2008	YE 2007	Q4 2007	Q3 2007	Q2 2007
OIBDA	$ 1,583	$ 1,441	$ 5,350	$ 1,327	$ 1,412	$ 1,386
Depreciation and amortization	(667)	(678)	(2,609)	(681)	(643)	(659)
Operating income	$ 916	$ 763	$ 2,741	$ 646	$ 769	$ 727

The following schedule reflects the CPGA calculation and provides a reconciliation of cost of acquiring customers used for the CPGA calculation to customer acquisition costs reported on our condensed consolidated statements of operations:

	Q2 2008	Q1 2008	YE 2007	Q4 2007	Q3 2007	Q2 2007
Customer acquisition costs	$ 876	$ 861	$ 3,274	$ 901	$ 801	$ 777
Plus: Subsidy loss						
Equipment sales	(529)	(534)	(2,061)	(620)	(480)	(496)
Cost of equipment sales	834	832	3,120	879	733	747
Total subsidy loss	305	298	1,059	259	253	251
Less: Subsidy loss unrelated to customer acquisition	(169)	(173)	(623)	(157)	(143)	(146)
Subsidy loss related to customer acquisition	136	125	436	102	110	105
Cost of acquiring customers	$ 1,012	$ 986	$ 3,710	$ 1,003	$ 911	$ 882
CPGA ($ / new customer added)	$ 320	$ 300	$ 300	$ 300	$ 280	$ 300

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T-MOBILE USA

Reconciliation of Non-GAAP Financial Measures to GAAP Financial Measures

(dollars in millions, except for CPGA and CCPU)

(unaudited)

The following schedule reflects the CCPU calculation and provides a reconciliation of the cost of serving customers used for the CCPU calculation to total network costs plus general and administrative costs reported on our condensed consolidated statements of operations:

	Q2 2008	**Q1 2008**	**YE 2007**	**Q4 2007**	**Q3 2007**	**Q2 2007**
Network costs	$ 1,271	$ 1,166	$ 4,344	$ 1,125	$ 1,130	$ 1,082
General and administrative	906	887	3,200	836	818	788
Total network and general and administrative costs	2,177	2,053	7,544	1,961	1,948	1,870
Plus: Subsidy loss unrelated to customer acquisition	169	173	623	157	143	146
Total cost of serving customers	$ 2,346	$ 2,226	$ 8,167	$ 2,118	$ 2,091	$ 2,016
CCPU ($ / customer per month)	$ 25	$ 25	$ 25	$ 25	$ 26	$ 25

About T-Mobile USA:

Based in Bellevue, WA, T-Mobile USA, Inc. is the US operation of Deutsche Telekom AG s (NYSE: DT) Mobile Communications Business, and is a wholly-owned subsidiary of T-Mobile International.

T-Mobile USA s innovative wireless products and services help empower people to connect effortlessly to those who matter most. T-Mobile USA s GSM/GPRS/EDGE 1900 voice and data network, when combined with roaming and other agreements, reaches 284 million people in the U.S. In addition, T-Mobile USA operates one of the largest Wi-Fi (802.11b) wireless broadband (WLAN) networks in the country (including roaming sites), available in approximately 9,700 convenient public access locations nationwide. Multiple independent research studies continue to rank T-Mobile USA highest in wireless customer satisfaction, wireless call quality and wireless customer care in numerous regions throughout the U.S. For more information, visit the company website at www.t-mobile.com.

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About T-Mobile International:

T-Mobile International is one of the world s leading mobile communications businesses. As part of the Deutsche Telekom AG (NYSE: DT) group, T-Mobile International concentrates on the key markets in Europe and the United States.

By the end of the second quarter of 2008, 125 million mobile customers were served by the mobile communications segments of the Deutsche Telekom group, all over a common technology platform based on GSM, the world s most widely used digital wireless standard.

For more information about T-Mobile International please visit www.t-mobile.net. For further information on Deutsche Telekom, please visit www.telekom.de/investor-relations.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DEUTSCHE TELEKOM AG

By: /s/ Guido Kerkhoff
Name: Guido Kerkhoff
Title: Senior Executive Vice President
Chief Accounting Officer

Date: August 8, 2008

Director Sales, Kitchen Appliances, Whirlpool Corporation (2013-2014)
Jeffrey D. Lorenger

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None

President and Chief Executive Officer

2018

President, Office Furniture, HNI Corporation (2017 - 2018)
Executive Vice President, HNI Corporation (2014-2017);
President, HNI Contract Furniture Group (2014-2017);
President, Allsteel Inc. (2008-2014)
Donna D. Meade

53

None

Vice President, Member and Community Relations

2014

Vice President, Member and Community Relations, Allsteel Inc. (2009-2014)
Brandon T. Sieben

47

None

President, Allsteel, Inc.

2015

Vice President of Sales, Allsteel, Inc. (2014-2015); President, Paoli (2009-2014)
Kurt A. Tjaden

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None

President, HNI International
Senior Vice President, HNI Corporation

2017

2015

Senior Vice President and Chief Financial Officer (2015-2017);
Vice President and Chief Financial Officer (2008-2015)

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PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters, and Issuer Purchases of Equity Securities

The Corporation’s common stock is listed for trading on the New York Stock Exchange (NYSE) under the trading symbol HNI. As of year-end 2018, the Corporation had 5,639 shareholders of record.

EQ Shareowner Services, St. Paul, Minnesota, 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: EQ Shareowner Services, P.O. Box 64874, St. Paul, MN 55164-0854, or 800-468-9716.

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 53 percent of prior year earnings. Future dividends are dependent on future earnings, capital requirements, and the Corporation’s financial condition, and are declared in the sole discretion of the Corporation’s Board of Directors.

Issuer Purchases of Equity Securities:

The following is a summary of share repurchase activity during the fourth quarter of fiscal 2018:

Period	Total Number of Shares (or Units) Purchased (1)	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet be Purchased Under the Plans or Programs
09/30/18 - 10/27/18	100,000	$ 40.42	100,000	$ 59,082,846
10/28/18 - 11/24/18	95,000	$ 38.51	95,000	$ 55,424,766
11/25/18 - 12/29/18	191,399	$ 35.74	191,399	$ 48,584,890
Total	386,399		386,399	

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

The Corporation repurchases shares under previously announced plans authorized by the Board as follows:

- The Corporation's share purchase program ("Program") announced November 9, 2007, providing share repurchase authorization of $200,000,000 with no specific expiration date, with increases announced November 7, 2014 and February 13, 2019, providing additional share repurchase authorizations each of $200,000,000 with no specific expiration date.
- No repurchase plans expired or were terminated during the fourth quarter of fiscal 2018, nor do any plans exist under which the Corporation does not intend to make further purchases. The Program does not obligate the Corporation to purchase any shares and the authorization for the Program may be terminated, increased, or decreased by the Board at any time.

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Item 6. Selected Financial Data - Five Year Summary

(In thousands, except share and per share data)	2018	2017	2016	2015	2014
Operating Results					
Net Sales	$2,257,895	$2,175,882	$2,203,489	$2,304,419	$2,222,695
Gross Profit as a Percentage of Net Sales	37.0 %	36.0 %	37.9 %	36.8 %	35.3 %
Net Income Attributable to HNI Corporation	$93,377	$89,795	$85,577	$105,436	$61,471
Net Income Attributable to HNI Corporation as a Percentage of Net Sales	4.1 %	4.1 %	3.9 %	4.6 %	2.8 %
Share and Per Share Data (Basic and Dilutive)					
Net Income Attributable to HNI Corporation – basic	$2.14	$2.05	$1.93	$2.38	$1.37
Net Income Attributable to HNI Corporation – diluted	$2.11	$2.00	$1.88	$2.32	$1.35
Cash Dividends	$1.17	$1.13	$1.09	$1.045	$0.99
Average Number of Common Shares Outstanding – basic	43,639,003	43,839,004	44,413,941	44,285,298	44,759,716
Average Number of Common Shares Outstanding – diluted	44,327,602	44,839,813	45,502,219	45,440,653	45,578,872
Financial Position					
Current Assets	$531,883	$488,880	$433,041	$438,370	$455,559
Current Liabilities	$434,308	$489,703	$463,473	$435,900	$457,333
Working Capital	$97,575	$(823)	$(30,432)	$2,470	$(1,774)
Total Assets	$1,401,844	$1,391,550	$1,330,234	$1,263,925	$1,239,334
Percent Return on Beginning Assets Employed	9.2 %	5.8 %	10.6 %	13.2 %	9.9 %
Long-Term Debt and Capital Lease Obligations	$249,355	$240,000	$180,000	$185,000	$197,736
Shareholders' Equity	$562,933	$514,068	$500,603	$476,954	$414,587
Percent Return on Average Shareholders' Equity	17.3 %	17.7 %	17.5 %	23.7 %	14.4 %

2014 reflects a 53-week year.

Reflects VCG acquisition beginning in Q4 2014, OFM acquisition in Q1 2016, Artcobell divestiture in Q4 2016, and Paoli closure in Q1 2018.

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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. See "Item 1A. Risk Factors" and the Forward-Looking Statements section within "Item 1. Business" for further information.

Overview

The Corporation has two reportable segments: office furniture and hearth products. The Corporation is a leading global office furniture manufacturer and a leading manufacturer and marketer of hearth products. The Corporation utilizes a split and focus with leverage, decentralized business model to deliver value to customers via various brands and selling models. The Corporation is focused on growing its existing businesses while seeking out and developing new opportunities for growth.

Net sales for 2018 were $2,258 million, an increase of 3.8 percent, compared to net sales of $2,176 million in 2017. The change was driven by an increase in sales in both the office furniture and hearth products segments. Office furniture segment sales increased in both the supplies-driven and contract businesses which were partially offset by a $57.6 million negative net impact of closing and divesting small office furniture companies.

Net income attributable to the Corporation in 2018 was $93.4 million compared to net income of $89.8 million in 2017. The change was primarily driven by lower restructuring, transition, and impairment charges, improved price realization, productivity and cost savings, and the impact of closing and divesting small office furniture companies. These factors were partially offset by input cost inflation, the amortization and implementation costs from the Business System Transformation initiative, strategic investments, and higher incentive based compensation.

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Results of Operations

The following table presents certain key highlights from the results of operations (in thousands):

	2018	Change	2017	Change	2016
Net sales	$2,257,895	3.8%	$2,175,882	(1.3)%	$2,203,489
Cost of sales	1,422,857	2.2%	1,391,894	1.7%	1,368,476
Gross profit	835,038	6.5%	783,988	(6.1)%	835,013
Selling and administrative expenses	691,140	2.9%	671,831	0.6%	667,744
(Gain) loss on sale, disposal, and license of assets	—	(100.0)%	(1,949)	(108.6)%	22,572
Restructuring and impairment charges	15,725	(58.0)%	37,416	240.0%	11,005
Operating income	128,173	67.1%	76,690	(42.6)%	133,692
Interest expense, net	9,448	55.4%	6,078	27.1%	4,781
Income before income taxes	118,725	68.1%	70,612	(45.2)%	128,911
Income tax expense (benefit)	25,399	(231.7)%	(19,286)	(144.6)%	43,273
Net income (loss) attributable to non-controlling interest	(51)	(149.5)%	103	68.9%	61
Net income attributable to HNI Corporation	$93,377	4.0%	$89,795	4.9%	$85,577
As a Percentage of Net Sales:					
Net sales	100.0%		100.0%		100.0%
Gross profit	37.0	100 bps	36.0	-190 bps	37.9
Selling and administrative expenses	30.6	-30 bps	30.9	60 bps	30.3
(Gain) loss on sale, disposal, and license of assets	—	10 bps	(0.1)	-110 bps	1.0
Restructuring and impairment charges	0.7	-100 bps	1.7	120 bps	0.5
Operating income	5.7	220 bps	3.5	-260 bps	6.1
Income tax expense (benefit)	1.1	200 bps	(0.9)	-290 bps	2.0
Net income attributable to HNI Corporation	4.1	—	4.1	20 bps	3.9

Net Sales

Consolidated net sales for 2018 increased 3.8 percent or $82.0 million compared to the prior year. The change was driven by an increase in both the office furniture and hearth products segments. Office furniture segment sales increased in both the supplies-driven and contract businesses which were partially offset by a $57.6 million negative net impact of closing and divesting small office furniture companies. The hearth products segment saw increases in both the new construction and retail businesses.

Consolidated net sales for 2017 decreased 1.3 percent or $27.6 million compared to 2016. The change was driven by a decrease in sales in the office furniture segment, partially offset by an increase in sales in the hearth products segment. Office furniture segment sales were down due to a decline in the supplies-driven business combined with a $92.2 million negative net impact of acquisitions and divestitures of small office furniture companies. The decrease in office furniture sales was partially offset by an increase in the contract business. The hearth products segment saw an increase in both the new construction and retail businesses.

Gross Profit

Gross profit as a percentage of net sales increased 100 basis points in 2018 compared to 2017 primarily driven by lower restructuring and transition costs, improved price realization, productivity and cost savings, partially offset by input cost inflation.

Gross profit as a percentage of net sales decreased 190 basis points in 2017 compared to 2016 primarily driven by input cost inflation, unfavorable product mix, and higher restructuring and transition costs, partially offset by higher sales volume and the impact of divestitures.

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Cost of sales in 2018 included $2.3 million of transition costs related to the previously announced closures of the hearth manufacturing facilities in Paris, Kentucky and Colville, Washington, the office furniture manufacturing facility in Orleans, Indiana, and structural realignments in China. Specific items incurred include production move costs.

Cost of sales in 2017 included $10.3 million of restructuring costs and $17.0 million of transition costs related to the previously announced closures of the hearth manufacturing facilities in Paris, Kentucky and Colville, Washington and the office furniture manufacturing facility in Orleans, Indiana and structural realignments in China and between office furniture facilities in Muscatine, Iowa. Specific items incurred include accelerated depreciation and production move costs.

Cost of sales in 2016 included $5.3 million of restructuring costs and $9.3 million of transition costs related to the previously announced closures of the hearth manufacturing facility in Paris, Kentucky and the office furniture manufacturing facility in Orleans, Indiana and structural realignments in China and between office furniture facilities in Muscatine, Iowa. Specific items incurred include accelerated depreciation and production move costs.

Selling and Administrative Expenses

Selling and administrative expenses as a percentage of net sales decreased 30 basis points in 2018 compared to 2017 primarily driven by increased efficiency and the impact of closing and divesting small office furniture companies, partially offset by the amortization and implementation costs from the Business System Transformation initiative, strategic investments, and higher incentive based compensation.

Selling and administrative expenses as a percentage of net sales increased 60 basis points in 2017 compared to 2016 primarily driven by strategic investments, partially offset by lower incentive based compensation, the impact of divestitures, and the impact of stock price change on deferred compensation. In 2016, the Corporation also recorded a $2.0 million nonrecurring gain on a litigation settlement and $4.4 million of accelerated depreciation in conjunction with the charitable donation of a building.

Selling and administrative expenses include freight expense for shipments to customers, product development costs, and amortization expense of intangible assets. Refer to "Note 2. Summary of Significant Accounting Policies" and "Note 7. Goodwill and Other Intangible Assets" in the Notes to Consolidated Financial Statements for further information regarding the comparative expense levels for these items.

Gain/Loss on Sale, Disposal, and License of Assets

The Corporation recorded a net $1.9 million gain in 2017, which included a $6.0 million nonrecurring gain from the sale and license of an intangible asset, a $0.8 million gain on the sale of a closed facility, and a $4.8 million loss on the disposal of a manufacturing facility, in addition to other gains and losses incurred in the ordinary course of business. The Corporation realized a non-cash loss of $22.6 million in 2016 related to the sale of Artcobell, a K-12 education furniture company, in addition to other gains and losses incurred in the ordinary course of business.

Restructuring and Impairment Charges

Restructuring and impairment charges as a percentage of net sales decreased 100 basis points in 2018 compared to 2017 driven by lower charges incurred in connection with previously announced closures.

In 2018, the Corporation recorded $2.3 million of restructuring charges and $0.4 million of impairment charges primarily due to the previously announced closures of the hearth manufacturing facilities in Paris, Kentucky and

Colville, Washington and the office furniture manufacturing facility in Orleans, Indiana.

In 2017, the Corporation recorded $6.2 million of restructuring costs due to the previously announced closures of the hearth manufacturing facilities in Paris, Kentucky and Colville, Washington and the office furniture manufacturing facility in Orleans, Indiana.

In 2016, the Corporation recorded $5.2 million of restructuring costs due to the previously announced closures of the Paris, Kentucky hearth manufacturing facility and Orleans, Indiana office furniture manufacturing facility.

The Corporation recorded $14.9 million, $20.9 million, and $5.8 million of goodwill, intangible and long-lived asset impairments in 2018, 2017, and 2016, respectively, related to reporting units in the office furniture segment. These impairment charges are the result of current and projected market conditions and product and operational transformation. The impairment charge in 2017 also

includes the impact of closing the Paoli office furniture brand. See "Note 7. Goodwill and Other Intangible Assets" in the Notes to Consolidated Financial Statements for more information on goodwill and intangible asset impairments.

In 2017, the Corporation recorded a $10.3 million valuation allowance of a long-term note receivable. In 2018, the Corporation recovered $1.8 million against this note receivable. See "Note 5. Acquisitions and Divestitures" in the Notes to Consolidated Financial Statements for more information.

Operating Income

For 2018, operating income increased 67.1 percent or $51.5 million to $128.2 million compared to $76.7 million in 2017. The change was primarily driven by lower restructuring, transition, and impairment charges, improved price realization, productivity and cost savings, and the impact of closing and divesting small office furniture companies. These factors were partially offset by input cost inflation, the amortization and implementation costs from the Business System Transformation initiative, strategic investments, and higher incentive based compensation.

For 2017, operating income decreased 42.6 percent or $57.0 million to $76.7 million compared to $133.7 million in 2016. The change was primarily driven by the impairment charges recorded in conjunction with the closure of the Paoli office furniture brand, the valuation allowance recorded against a long-term note receivable, strategic investments, and input cost inflation, partially offset by higher sales volume, lower incentive based compensation, and the impact of stock price change on deferred compensation.

Interest Expense

Interest expense increased $3.7 million in 2018 compared to 2017. Higher interest rates and increased amortization of debt costs drove approximately $2.2 million of the increase. In 2017, the Corporation capitalized approximately $1.5 million of interest costs related to the Business Systems Transformation initiative. Capitalization of interest ceased during the third quarter of 2017, driving a relative increase in current year interest expense.

Income Taxes

The following table summarizes the Corporation's income tax provision (in thousands):

	2018	2017	2016
Income before income taxes	$118,725	$70,612	$128,911
Income tax expense (benefit)	$25,399	$(19,286)	$43,273
Effective tax rate	21.4 %	(27.3)%	33.6 %

The increase in the current year effective tax rate was primarily driven by a prior year reduction to the Corporation's deferred income taxes related to the Tax Cuts and Jobs Act enacted in December 2017 (the "Act"), which resulted in a re-measurement of the Corporation's deferred tax assets and liabilities at the new federal statutory rate of 21 percent. Excluding the effects of the Act, the Corporation's effective tax rate for 2017 would have been 36.2 percent. The decreased 2018 rate compared to the 2017 rate excluding the effect of the Act was primarily driven by the federal statutory tax rate decreasing from 35 percent to 21 percent for 2018. Additionally, the 2018 effective tax rate benefited from the release of valuation allowances on certain deferred tax assets. The effective tax rate was lower for 2017 compared to 2016 primarily driven by the re-measurement of the Corporation's deferred tax assets and liabilities as a result of the Act. The 2017 effective tax rate of 36.2 percent excluding the effect of the Act would have been higher than the 33.6 percent effective tax rate for 2016 primarily because of the establishment of valuation allowances on certain deferred tax assets in 2017, partially offset by the benefits of new treatment for equity based compensation under ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, and a permanent deduction for a charitable contribution of property. See "Note 9. Income Taxes" in the Notes to Consolidated Financial

Statements for further information relating to income taxes.

Net Income Attributable to HNI Corporation

Net income attributable to the Corporation was $93.4 million or $2.11 per diluted share in 2018 compared to $89.8 million or $2.00 per diluted share in 2017 and $85.6 million or $1.88 per diluted share in 2016.

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Office Furniture

The following table presents certain key highlights from the results of operations in the office furniture segment (in thousands):

	2018	Change	2017	Change	2016
Net sales	$1,706,092	2.7 %	$1,660,723	(2.5 %)	$1,703,885
Operating profit	$79,323	58.1%	$50,176	(57.3%)	$117,397
Operating profit %	4.6 %	160 bps	3.0 %	-390 bps	6.9 %

Net sales in 2018 for the office furniture segment increased 2.7 percent or $45.4 million compared to 2017. Sales increased in both the supplies-driven and contract businesses. The sales increase was partially offset by a decrease of $57.6 million from the impact of closing and divesting small office furniture companies.

Net sales in 2017 for the office furniture segment decreased 2.5 percent or $43.2 million compared to 2016. Sales were down due to a decline in the supplies-driven business combined with the net impact of acquisitions and divestitures of small office furniture companies, which caused a net decrease in sales of $92.2 million. This decrease was partially offset by an increase in the contract business.

Operating profit as a percentage of net sales increased 160 basis points in 2018 compared to 2017. The increase was primarily driven by lower restructuring, impairment and transition charges, along with improved price realization, productivity and cost savings, and the impact of closing and divesting small office furniture companies. These factors were partially offset by input cost inflation, amortization and implementation costs from the Business Systems Transformation initiative, and strategic investments.

Operating profit as a percentage of net sales decreased 390 basis points in 2017 compared to 2016. The decrease was primarily driven by unfavorable product and business mix, input cost inflation, strategic investments, and higher restructuring and transition costs, including the impairment of goodwill and intangible assets primarily relating to the closure of the Paoli office furniture brand. These factors were partially offset by higher sales volume, lower incentive based compensation, and the impact of divestitures.

In 2018, the office furniture segment recorded $1.5 million of restructuring costs and $1.6 million of transition costs primarily associated with the previously announced closure of the office furniture manufacturing facility in Orleans, Indiana and structural realignments in China. Specific items incurred include severance, production move costs, and final facility closing costs. Of these charges, $1.6 million was included in cost of sales. The office furniture segment also recorded impairments of $14.9 million of goodwill and long-lived assets related to reporting units in the segment.

In 2017, the office furniture segment recorded $11.6 million of restructuring costs and $13.7 million of transition costs associated with the previously announced closure of the office furniture manufacturing facility in Orleans, Indiana and structural realignments in China and between office furniture facilities in Muscatine, Iowa. Specific items incurred include severance, accelerated depreciation, and production move costs. Of these charges, $21.5 million was included in cost of sales. The office furniture segment also recorded a loss of $4.8 million related to the disposal of a manufacturing facility and $20.9 million of goodwill and intangible asset impairments related to reporting units in the office furniture segment, of which $16.1 million of the goodwill and intangible asset impairment charges related to the closure of the Paoli office furniture brand.

In 2016, the office furniture segment recorded $5.1 million of restructuring costs and $7.1 million of transition costs associated with the previously announced closure of the office furniture manufacturing facility in Orleans, Indiana and structural realignments in China and between office furniture facilities in Muscatine, Iowa. Specific items incurred include accelerated depreciation and production move costs. Of these charges, $9.2 million was included in cost of

sales. The office furniture segment also recorded a non-cash loss of $22.6 million related to the sale of Artcobell, a K-12 education furniture company, and $5.8 million of goodwill and intangible impairments related to a reporting unit in the office furniture segment.

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Hearth Products

The following table presents certain key highlights from the results of operations in the hearth products segment (in thousands):

	2018	Change	2017	Change	2016
Net sales	$551,803	7.1%	$515,159	3.1 %	$499,604
Operating profit	$91,367	9.2%	$83,649	19.6%	$69,960
Operating profit %	16.6 %	40 bps	16.2 %	220 bps	14.0 %

Net sales in 2018 for the hearth products segment increased 7.1 percent or $36.6 million compared to 2017. The change was driven by an increase in both the new construction and retail businesses.

Net sales in 2017 for the hearth products segment increased 3.1 percent or $15.6 million compared to 2016. The change was driven by an increase in both the new construction and retail businesses.

Operating profit as a percentage of net sales increased 40 basis points in 2018 compared to 2017. The increase in operating profit was primarily driven by higher volume, productivity and cost savings, and improved price realization. These factors were partially offset by input cost inflation and higher incentive based compensation.

Operating profit as a percentage of net sales increased 220 basis points in 2017 compared to 2016 primarily driven by structural cost reductions, higher volume, and nonrecurring gains. These factors were partially offset by higher restructuring and transition costs.

In 2018, the hearth products segment recorded $0.8 million of restructuring and $0.4 million of impairment charges along with $0.6 million of transition costs associated with the previously announced closures of the hearth manufacturing facilities in Paris, Kentucky and Colville, Washington. Specific items incurred include an impairment charge from the sales of the closed manufacturing facility in Paris, Kentucky, severance, production move costs, and final facility closing costs. Of these charges, $0.6 million was included in cost of sales.

In 2017, the hearth products segment recorded $4.9 million of restructuring costs and $3.3 million of transition costs associated with the previously announced closures of the hearth manufacturing facilities in Paris, Kentucky and Colville, Washington. Specific items incurred include severance, accelerated depreciation, and production move costs. Of these charges, $5.8 million was included in cost of sales. The hearth products segment also recorded a $6.0 million nonrecurring gain from the sale and license of an intangible asset and a $0.8 million gain on the sale of a closed facility.

In 2016, the hearth products segment recorded $5.5 million of restructuring costs and $2.2 million of transition costs associated with the previously announced closure of the Paris, Kentucky hearth manufacturing facility. Specific items incurred include severance, accelerated depreciation, and production move costs. Of these charges, $5.5 million was included in cost of sales.

Liquidity and Capital Resources

Cash Flow – Operating Activities
Operating activities were a source of $186.4 million of cash in 2018 compared to a source of $133.1 million cash in 2017. The higher cash generation compared to the prior year was primarily due to improved earnings and changes in working capital timing, driven by lower accounts receivable and higher accrued expenses. Changes in working capital balances resulted in a $10.7 million use of cash in 2018 compared to a $29.4 million use of cash in the prior year. Cash generated from operating activities in 2016 totaled $223.4 million and changes in working capital balances

resulted in a $17.4 million source of cash.

The use of cash related to working capital changes in 2018 was primarily driven by timing of accounts payable balances at year end.

The use of cash related to working capital changes in 2017 was primarily driven by strategic investments in inventory and lower incentive compensation accruals.

The Corporation places special emphasis on management and control of working capital, including accounts receivable and inventory. Management believes recorded trade receivable valuation allowances at the end of 2018 are adequate to cover the risk of potential bad debts. Allowances for non-collectible trade receivables, as a percent of gross trade receivables, totaled 1.5 percent, 0.7 percent, and 0.9 percent at the end of fiscal years 2018, 2017, and 2016, respectively. The Corporation’s inventory turns were 9.1, 8.9, and 11.6, for fiscal years 2018, 2017, and 2016, respectively.

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Cash Flow – Investing Activities
Capital expenditures, including capitalized software, were $63.7 million in 2018, $127.4 million in 2017, and $119.6 million in 2016. These expenditures are primarily focused on machinery, equipment, and tooling required to support new products, continuous improvements, and cost savings initiatives in manufacturing processes. The decline compared to the prior year is primarily due to the completion of the Corporation's operational transformations and the launch of Business Systems Transformation initiative which included an integrated information system. The Corporation anticipates capital expenditures for 2019 of $65 million to $75 million, primarily related to new products and operational process improvements driven by rapid continuous improvement.

Real Estate Transaction – In the first quarter of 2018, the Corporation entered into a sale-leaseback transaction, selling a manufacturing facility and subsequently leasing back a portion of the facility for a term of 10 years. The net proceeds from the sale of the facility of $16.9 million are reflected in "Proceeds from sale and license of property, plant, equipment, and intangibles" in the Consolidated Statements of Cash Flows. In accordance with ASC 840, Leases, the gain on sale of the facility is deferred and will be amortized as a reduction to rent expense evenly over the term of the lease. See "Note 4. Restructuring and Impairment Charges" in the Notes to Consolidated Financial Statements for further information.

In 2016, the investing activities reflected a net cash outflow of $34.3 million related to the acquisition of OFM, an office furniture company, and also a small office furniture dealership that offered strategic value to the Corporation.

Cash Flow – Financing Activities
Long-Term Debt - The Corporation maintains a revolving credit facility as the primary source of committed funding from which the Corporation finances its planned capital expenditures, strategic initiatives, and seasonal working capital needs. Cash flows included in financing activities represent periodic borrowings and repayments under the revolving credit facility. During the second quarter of 2018, the Corporation issued $100 million of private placement notes. The proceeds were used to repay outstanding borrowings under the revolving credit facility. See "Note 8. Long-Term Debt" in the Notes to Consolidated Financial Statements for further information.

Dividend - The Corporation is committed to maintaining or modestly growing the quarterly dividend. Cash dividends declared and paid per share are as follows (in dollars):

	2018	2017	2016
Common shares	$1.17	$1.13	$1.09

The last quarterly dividend increase was from $0.285 to $0.295 per common share effective with the June 1, 2018 dividend payment for shareholders of record at the close of business on May 18, 2018. The average dividend payout percentage for the most recent three-year period has been 53 percent of prior year earnings or 28 percent of prior year cash flow from operating activities.

Stock Repurchase - The Corporation’s capital strategy related to stock repurchase is focused on offsetting the dilutive impact of issuances for various compensation related matters. The Corporation may elect to opportunistically purchase additional shares based on excess cash generation and/or share price considerations. The Board authorized $200 million on November 9, 2007 and an additional $200 million each on November 7, 2014 and February 13, 2019 for repurchases of the Corporation’s common stock. As of December 29, 2018, approximately $48.6 million of this authorized amount remained unspent. The following table summarizes shares repurchased and settled by the Corporation (in thousands, except share and per share data):

	2018	2017	2016
Shares repurchased	755,221	1,462,936	1,082,938
Average price per share	$38.96	$40.25	51.55

Cash purchase price	$(29,424)	$(58,887)	$(55,825)
Purchases unsettled as of quarter end	354	1,382	—
Prior year purchases settled in current year	(1,382)	—	—
Shares repurchased per cash flow	$(30,452)	$(57,505)	$(55,825)

Cash, cash equivalents, and short-term investments totaled $78.1 million at the end of 2018 compared to $25.4 million at the end of 2017 and $38.6 million at the end of 2016. These funds, coupled with cash flow from future operations, borrowing capacity under the existing credit agreement, and the ability to access capital markets, are expected to be adequate to fund operations and satisfy

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cash flow needs for at least the next twelve months. Additionally, based on current earnings before interest, taxes, depreciation and amortization generation, the Corporation can access the full remaining $300 million of borrowing capacity available under the revolving credit facility and maintain compliance with applicable covenants. As of the end of 2018, $9.3 million of cash was held overseas and considered permanently reinvested. If such amounts were repatriated, it could result in additional foreign withholding and state tax expense to the Corporation. The Corporation does not believe treating this cash as permanently reinvested will have any impact on the ability of the Corporation to meet its obligations as they come due.

Contractual Obligations

The following table discloses the Corporation's obligations and commitments to make future payments, by period, under contracts (in thousands):

	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years	Total
Long-term debt obligations, including estimated interest (1)	$10,332	$19,165	$165,515	$112,706	$307,718
Operating lease obligations	24,387	31,574	15,310	10,469	81,740
Purchase obligations (2)	66,592	7,792	3,924	3,633	81,941
Other long-term obligations (3)	4,764	7,486	3,462	19,482	35,194
Total	$106,075	$66,017	$188,211	$146,290	$506,593

(1) Interest has been included for all debt at the fixed or variable rate in effect as of December 29, 2018, as applicable. See "Note 8. Long-Term Debt" in the Notes to Consolidated Financial Statements for further information.

(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 obligations represent payments due to members who are participants in the Corporation’s deferred and long-term incentive compensation programs, liability for unrecognized tax liabilities, and contribution and benefit payments expected to be made pursuant to the Corporation’s post-retirement benefit plans. It should be noted 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. Other long-term obligations of $42.3 million, primarily insurance allowances and long-term warranty, are not included in the table above due to the Corporation's inability to predict their timing.

Litigation and Uncertainties

See "Note 16. Guarantees, Commitments, and Contingencies" in the Notes to Consolidated Financial Statements for further information.

Looking Ahead

Management remains optimistic about the long-term prospects in the office furniture and hearth markets. Management believes the Corporation continues to compete well and remains confident the investments made in the business will continue to generate strong returns for shareholders.

Off-Balance Sheet Arrangements

The Corporation does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on the Corporation's financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

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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, 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 the Board. 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 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.

Goodwill and Other Intangibles
The Corporation evaluates its goodwill for impairment on an annual basis during the fourth quarter or whenever indicators of impairment exist. Asset impairment charges associated with the Corporation's goodwill impairment testing are discussed in "Note 7. Goodwill and Other Intangible Assets" in the Notes to Consolidated Financial Statements.

The Corporation reviews goodwill at the reporting unit level within its office furniture and hearth products operating segments. These reporting units constitute components for which discrete financial information is available and regularly reviewed by segment management. The accounting standards for goodwill permit entities to first assess qualitative factors to determine whether it is more likely than not the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform a quantitative goodwill impairment test. If the quantitative test is required, the Corporation estimates the fair value of its reporting units. In estimating the fair value, the Corporation relies on an average of the income approach and the market approach. In the income approach, the estimate of fair value of each reporting unit is based on management's projection of revenues, gross margin, operating costs, and cash flows considering historical and estimated future results, general economic and market conditions, as well as the impact of planned business and operational strategies. The valuations employ present value techniques to measure fair value and consider market factors. In the market approach, the Corporation utilizes the guideline company method, which involves calculating valuation multiples based on operating data from guideline publicly-traded companies. These multiples are then applied to the operating data for the reporting units and adjusted for factors similar to those used in the discounted cash flow analysis. Management believes the assumptions used for the impairment test are consistent with those utilized by a market participant in performing similar valuations of its reporting units. Management bases its fair value estimates on assumptions they believe to be reasonable at the time, but such assumptions are subject to inherent uncertainty. Actual results may differ from those estimates. Additionally, the Corporation compares the estimated aggregate fair value of its reporting units to its overall market capitalization.

Assessing the fair value of goodwill includes, among other things, making key assumptions for estimating future cash flows and appropriate market multiples. These assumptions are subject to a high degree of judgment and complexity. The Corporation makes every effort to estimate future cash flows as accurately as possible with the information available at the time the forecast is developed. However, changes in assumptions and estimates may affect the estimated fair value of the reporting unit, and could result in an impairment charge in future periods. Factors that have

the potential to create variances in the estimated fair value of the reporting unit include, but are not limited to, economic conditions in the U.S. and other countries where the Corporation has a presence, competitor behavior, the mix of product sales, commodity costs, wage rates, the level of manufacturing capacity, the pricing environment, and currency exchange fluctuations. In addition, estimates of fair value are impacted by estimates of the market-participant derived weighted average cost of capital.

The Corporation also evaluates the fair value of indefinite-lived trade names on an annual basis during the fourth quarter or whenever an indication of impairment exists. The estimate of the fair value of the trade names is based on a discounted cash flow model using inputs which include: projected revenues from management's long-term plan, assumed royalty rates that could be payable if the trade names were not owned, and a discount rate.

The Corporation has definite-lived intangibles that are amortized over their estimated useful lives. Impairment losses are recognized if the carrying amount of an intangible, subject to amortization, is not recoverable from expected future cash flows and its carrying amount exceeds its fair value.

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The key to recoverability of goodwill, indefinite-lived intangibles, and long-lived assets is the forecast of economic conditions and its impact on future revenues, operating profit, and cash flows. Management's projection for the U.S. office furniture and domestic hearth markets and global economic conditions is inherently subject to a number of uncertain factors, such as global economic improvement, the U.S housing market, credit availability and borrowing rates, and overall consumer confidence. In the near term, as management monitors the above factors, it is possible it may change the revenue and cash flow projections of certain reporting units, which may require the recording of additional asset impairment charges.

Long-Lived Assets

The Corporation reviews long-lived assets for impairment as events or changes in circumstances occur indicating 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. Any asset impairment charges associated with the Corporation's restructuring activities are discussed in "Note 4. Restructuring and Impairment Charges" in the Notes to Consolidated Financial Statements.

Self-Insurance

The Corporation is primarily 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 and the related liabilities are included in the Consolidated Balance Sheets. Certain risk exposures are mitigated through the use of independent third party stop loss insurance coverages. 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 the number or severity of claims, medical cost inflation, and magnitude of change in actual experience development could cause these estimates to change in the near term.

Recently Issued Accounting Standards Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02, Leases. The new standard requires lessees to recognize most leases, including operating leases, on-balance sheet via a right of use asset and lease liability. Changes to the lessee accounting model may change key balance sheet measures and ratios, potentially affecting analyst expectations. The new standard becomes effective for the Corporation in fiscal 2019 and requires a modified-retrospective transition approach. The Corporation has selected a technology tool to assist with the accounting and disclosure requirements of the new standard. The Corporation will adopt the standard in fiscal 2019 using the modified-retrospective transition approach. All necessary changes required by the new standard, including those to the Corporation's accounting policies, business process, systems, controls, and disclosures, have been identified and are in process of implementation as of the beginning of fiscal 2019. The Corporation expects to select practical expedients. The Corporation is in process of completing a review of the impact of the new standard and estimates the right of use assets and lease liabilities to increase the assets and liabilities on the Consolidated Balance Sheets. The impact of the new standard will also recognize the gain on the sale leaseback directly to the cumulative effect. The net cumulative effect adjustment will be recorded upon adoption in 2019.

In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments. The new standard replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses by requiring consideration of a broader range of reasonable and supportable information and is intended to provide financial statement users with more useful information about expected credit losses on financial

instruments. The new standard becomes effective for the Corporation in fiscal 2020 and requires a cumulative effect adjustment in retained earnings as of the beginning of the year of adoption. The Corporation is currently evaluating the effect the standard will have on consolidated financial statements and related disclosures.

In August 2017, the FASB issued ASU No. 2017-12, Targeted Improvements to Accounting for Hedging Activities. The new standard improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements and make certain targeted improvements to simplify the application of the hedge accounting guidance through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The new standard becomes effective for the Corporation in fiscal 2019. For cash flow and net investment hedges existing at the date of adoption, entities will apply the new guidance using a modified retrospective approach by recording a cumulative effect adjustment in retained earnings as of the beginning of the year of adoption. Presentation and disclosure requirements are applied prospectively. The Corporation anticipates the standard will not have a material effect on consolidated financial statements and related disclosures.

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In February 2018, the FASB issued ASU No. 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The new standard allows entities to reclassify certain stranded tax effects from accumulated other comprehensive income to retained earnings resulting from the Act. The standard also requires certain disclosures about stranded tax effects. The new standard becomes effective for the Corporation in fiscal 2019. The standard should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Act is recognized. The Corporation anticipates the standard will not have a material effect on consolidated financial statements and related disclosures.

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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 variable interest debt obligations. The interest rate swap derivative instrument is held and used by the Corporation as a tool for managing interest rate risk. It is not used for trading or speculative purposes.

As of December 29, 2018, the Corporation had $150 million of debt outstanding under the Corporation's $450 million revolving credit facility, which bore variable interest based on one month LIBOR. As of December 29, 2018, the Corporation had an interest rate swap agreement in place to fix the interest rate on $150 million of the Corporation's revolving credit facility. As of December 29, 2018 the Corporation had no borrowings on the revolving credit facility in excess of the amount covered by the interest rate swap agreement. The Corporation expects to utilize additional borrowings over the course of the year which will be subject to the variable borrowings rate as defined.

The Corporation monitors market interest rate risk exposures. As the Corporation holds no borrowings subject to variable interest rate exposure as of December 29, 2018 there is not current exposure given the current borrowings outstanding. The impacts of any hypothetical changes in interest rates will be directly correlated to any necessary future borrowings above the current levels outstanding.

For information related to the Corporation’s long-term debt, refer to "Note 8. Long-Term Debt" in the Notes to Consolidated Financial Statements. For information related to the Corporation's interest rate swap, refer to "Note 11. Accumulated Other Comprehensive Income (Loss) and Shareholders’ Equity" in the Notes to Consolidated Financial Statements.

The Corporation currently does not have any significant foreign currency exposure.

The Corporation is exposed to risks arising from price changes and/or tariffs for certain direct materials and assembly components used in its operations. The most significant material purchases and cost for the Corporation are for steel, plastics, textiles, wood particleboard, and cartoning. The market price of plastics and textiles, in particular, are sensitive to the cost of oil and natural gas. The cost of wood particleboard has been impacted by continued industry downsizing of production capacity as well as increased volatility in input and transportation costs. All of these materials are impacted increasingly by global market pressure. The Corporation works to offset these increased costs through global sourcing initiatives, product re-engineering, and price increases on its products. Margins have been negatively impacted in the past 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 a 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 and are incorporated herein by reference.

The Summary of Quarterly Results of Operations (Unaudited) follows the Notes to Consolidated Financial Statements filed as part of this report and are incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

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Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Corporation in the reports it files or submits under the Securities Exchange Act of 1934 (the "Exchange Act") 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 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.

Under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer of the Corporation, the Corporation's management carried out an evaluation of the Corporation’s disclosure controls and procedures pursuant to Exchange Act Rules 13a – 15(e) and 15d – 15(e) as of the end of the period covered by this Annual Report on Form 10-K. As of December 29, 2018, based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded these disclosure controls and procedures are effective.

Changes in Internal Controls

The Corporation has been engaged in a multi-year, broad-based program, which is referred to as business systems transformation ("BST"). The BST initiative includes the introduction of a new software system along with related process changes intended to simplify and streamline the Corporation's business processes. In the first quarter of 2018, the Corporation implemented BST in the majority of the domestic office furniture operations. The implementation resulted in business and operational changes in areas including order management, production scheduling, pricing, shipping, purchasing, and general accounting. These changes required some modifications to the Corporation's internal control over financial reporting during fiscal year 2018. Except for the BST implementation, there have been no changes in the Corporation’s internal control over financial reporting during the fiscal year ended December 29, 2018 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

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. Exhibits, Financial Statement Schedules of this report under the headings "Management Report on Internal Control Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm," respectively, and management's annual report is incorporated herein by reference.

Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers, and Corporate Governance

The information under the caption "Proposal No. 1 - Election of Directors" of the Corporation's Definitive Proxy Statement on Schedule 14A for the Annual Meeting of Shareholders to be held on May 7, 2019 (the "2019 Proxy Statement") is incorporated herein by reference. For information with respect to executive officers of the Corporation, see "Table I - Executive Officers of the Registrant" included in Part I of this report.

Information relating to the identification of the audit committee and audit committee financial expert of the Corporation is contained under the caption "Board Committees" of the 2019 Proxy Statement and is incorporated herein by reference.

Code of Ethics

The information under the caption "Code of Business Conduct and Ethics" of the 2019 Proxy Statement is incorporated herein by reference.

Compliance with Section 16(a) of the Exchange Act

The information under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" of the 2019 Proxy Statement is incorporated herein by reference.

Item 11. Executive Compensation

The information under the captions "Executive Compensation" and "Director Compensation" of the 2019 Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The information under the captions "Security Ownership" and "Equity Compensation Plan Information" of the 2019 Proxy Statement is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information under the captions "Corporate Governance and Board Matters" and "Policy for Review of Related Person Transactions" of the 2019 Proxy Statement is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information under the caption "Fees Incurred for KPMG LLP" of the 2019 Proxy Statement 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 2018 Annual Report on Form 10-K 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 Comprehensive Income for the Years Ended December 29, 2018, December 30, 2017, and December 31, 2016	41
Consolidated Balance Sheets - December 29, 2018 and December 30, 2017	42
Consolidated Statements of Equity for the Years Ended December 29, 2018, December 30, 2017, and December 31, 2016	44
Consolidated Statements of Cash Flows for the Years Ended December 29, 2018, December 30, 2017, and December 31, 2016	45
Notes to Consolidated Financial Statements	46
Summary of Quarterly Results of Operations (Unaudited)	74

(2) Financial Statement Schedules

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

(b)Exhibits

(3.1)	Amended and Restated Articles of Incorporation of HNI Corporation (incorporated by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-K for the year ended January 2, 2010)
(3.2)	Second Amended and Restated By-laws of HNI Corporation (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed August 7, 2018)
(10.1)	Third Amended and Restated Credit Agreement, dated April 20, 2018, among HNI Corporation, as borrower, certain domestic subsidiaries of HNI Corporation, as guarantors, certain lenders and Wells Fargo Bank, National Association, as administrative agent (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed April 24, 2018)
(10.2)	Note Purchase Agreement, dated May 31, 2018, among HNI Corporation and the purchasers named therein (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed May 31, 2018)
(10.3)	Guaranty Agreement, dated May 31, 2018, made by each of the guarantors named therein (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed May 31, 2018)
(10.4)	HNI Corporation 2007 Stock-Based Compensation Plan, as amended (incorporated by reference to Appendix A to the Corporation's Definitive Proxy Statement filed with the SEC March 23, 2015)*
(10.5)	Amended Form of HNI Corporation 2007 Stock-Based Compensation Plan Stock Option Award Agreement (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed March 22, 2018)*

(10.6)	Form of HNI Corporation 2007 Stock-Based Compensation Plan Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 3, 2010)*
(10.7)	HNI Corporation 2017 Stock-Based Compensation Plan (incorporated by reference to Exhibit 4.3 to the Corporation's Form S-8 filed May 9, 2017)*
(10.8)	Amended form of HNI Corporation 2017 Stock-Based Compensation Plan Stock Option Award Agreement (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed March 22, 2018)*

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(10.9)	Form of HNI Corporation 2017 Stock-Based Compensation Plan Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.2 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2017)*
(10.10)	2017 Equity Plan for Non-Employee Directors of HNI Corporation (incorporated by reference to Exhibit 4.4 to the Registrant’s Form S-8 filed May 9, 2017)*
(10.11)	Form of 2017 Equity Plan for Non-Employee Directors of HNI Corporation Participation Agreement (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017)*
(10.12)	Form of HNI Corporation Change In Control Employment Agreement (incorporated by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed June 29, 2018)*
(10.13)	Form of HNI Corporation Amended and Restated Indemnity Agreement (incorporated by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed November 14, 2007)*
(10.14)	HNI Corporation Supplemental Income Plan (f/k/a HNI Corporation ERISA Supplemental Retirement Plan), as amended and restated (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed February 22, 2010)*
(10.15)	HNI Annual Incentive Plan, as amended (incorporated by reference to Appendix B to the Corporation's Definitive Proxy Statement filed with the SEC March 23, 2015)*
(10.16)	HNI Corporation Long-Term Performance Plan, as amended (incorporated by reference to Appendix C to the Corporation’s Definitive Proxy Statement filed with the SEC March 23, 2015)*
(10.17)	HNI Corporation Executive Deferred Compensation Plan, as amended (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 4, 2015)*
(10.18)	Form of HNI Corporation Executive Deferred Compensation Plan Deferral Election Agreement (incorporated by reference to Exhibit 10.25 to the Registrant's Annual Report on Form 10-K for the year ended January 2, 2010)*
(10.19)	HNI Corporation Directors Deferred Compensation Plan, as amended (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 4, 2015)*
(10.20)	Form of HNI Corporation Directors Deferred Compensation Plan Deferral Election Agreement (incorporated by reference to Exhibit 10.6 to the Registrant's Annual Report on Form 10-K for the year ended January 2, 2010)*
(10.21)	Consulting Agreement between HNI Corporation and Quiet Trail Investments, LLC, dated November 7, 2018 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed November 9, 2018)*

(21)	Subsidiaries of the Registrant+
(23.1)	Consent of Independent Registered Public Accounting Firm+
(31.1)	Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002+
(31.2)	Certification of 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+
101	The following materials from HNI Corporation's Annual Report on Form 10-K for the fiscal year ended December 29, 2018 are formatted in XBRL (eXtensible Business Reporting Language) and filed electronically herewith: (i) Consolidated Statements of Comprehensive Income; (ii) Consolidated Balance Sheets; (iii) Consolidated Statements of Equity; (iv) Consolidated Statements of Cash Flows; and (v) Notes to Consolidated

Financial Statements

* Indicates management contract or compensatory plan.
\+ Filed or furnished herewith.

Item 16. Form 10-K Summary

None.

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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, 2019 By: /s/ Jeffrey D. Lorenger
Name: Jeffrey D. Lorenger
Title: President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below 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 Jeffrey D. Lorenger 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/ Jeffrey D. Lorenger Jeffrey D. Lorenger	President and CEO, Principal Executive Officer, and Director	February 26, 2019
/s/ Marshall H. Bridges Marshall H. Bridges	Senior Vice President and Chief Financial Officer, Principal Financial Officer, and Principal Accounting Officer	February 26, 2019
/s/ Mary A. Bell Mary A. Bell	Director	February 26, 2019
/s/ Miguel M. Calado Miguel M. Calado	Director	February 26, 2019
/s/ Cheryl A. Francis Cheryl A. Francis	Director	February 26, 2019
/s/ Mary K. W. Jones Mary K. W. Jones	Director	February 26, 2019
/s/ John R. Hartnett John R. Hartnett	Director	February 26, 2019
/s/ Larry B. Porcellato Larry B. Porcellato	Chairman	February 26, 2019

/s/ Abbie J. Smith Abbie J. Smith	Director	February 26, 2019
/s/ Brian E. Stern Brian E. Stern	Director	February 26, 2019
/s/ Ronald V. Waters, III Ronald V. Waters, III	Director	February 26, 2019

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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. HNI 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 controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of HNI Corporation's internal control over financial reporting as of December 29, 2018. Management based this assessment on criteria for effective internal control over financial reporting described in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of the design of HNI Corporation's internal control over financial reporting and testing of operational effectiveness of HNI Corporation's internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of the Board of Directors.

Based on this assessment, management determined, as of December 29, 2018, HNI Corporation maintained effective internal control over financial reporting.

The effectiveness of HNI Corporation's internal control over financial reporting as of December 29, 2018 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in its report which appears herein.

February 26, 2019

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
HNI Corporation:

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheets of HNI Corporation and subsidiaries (the "Company") as of December 29, 2018 and December 30, 2017, the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the years in the three-year period ended December 29, 2018, and the related notes (collectively, the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 29, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 29, 2018 and December 30, 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 29, 2018, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 29, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Change in Accounting Principle

As discussed in Note 2. to the consolidated financial statements, the Company has changed its method of accounting for revenue recognition in 2018 due to the adoption of ASU No. 2014-09, "Revenue from Contracts with Customers".

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance

with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance

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regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

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

/s/ KPMG LLP

We have served as the Company's auditor since 2015.

Chicago, Illinois

February 26, 2019

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Financial Statements

HNI Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
(In thousands, except share and per share data)

	Year Ended 2018	2017	2016
Net sales	$ 2,257,895	$ 2,175,882	$ 2,203,489
Cost of sales	1,422,857	1,391,894	1,368,476
Gross profit	835,038	783,988	835,013
Selling and administrative expenses	691,140	671,831	667,744
(Gain) loss on sale, disposal, and license of assets	—	(1,949)	22,572
Restructuring and impairment charges	15,725	37,416	11,005
Operating income	128,173	76,690	133,692
Interest income	579	297	305
Interest expense	10,027	6,375	5,086
Income before income taxes	118,725	70,612	128,911
Income tax expense (benefit)	25,399	(19,286)	43,273
Net income	93,326	89,898	85,638
Less: Net income (loss) attributable to non-controlling interest	(51)	103	61
Net income attributable to HNI Corporation	$ 93,377	$ 89,795	$ 85,577
Average number of common shares outstanding – basic	43,639,003	43,839,004	44,413,941
Net income attributable to HNI Corporation per common share – basic	$ 2.14	$ 2.05	$ 1.93
Average number of common shares outstanding – diluted	44,327,602	44,839,813	45,502,219
Net income attributable to HNI Corporation per	$ 2.11	$ 2.00	$ 1.88

common share – diluted

Foreign currency translation adjustments	$ (3,004)	$ 1,219	$ (1,510)
Change in unrealized gains (losses) on marketable securities, net of tax	(24)	(27)	(103)
Change in pension and post-retirement liability, net of tax	2,701	(463)	339
Change in derivative financial instruments, net of tax	339	660	1,460
Other comprehensive income (loss), net of tax	12	1,389	186
Comprehensive income	93,338	91,287	85,824
Less: Comprehensive income (loss) attributable to non-controlling interest	(51)	103	61
Comprehensive income attributable to HNI Corporation	$ 93,389	$ 91,184	$ 85,763

The accompanying notes are an integral part of the consolidated financial statements.

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HNI Corporation and Subsidiaries
Consolidated Balance Sheets
(In thousands)

	December 29, 2018	December 30, 2017
Assets		
Current Assets:		
Cash and cash equivalents	$76,819	$23,348
Short-term investments	1,327	2,015
Receivables	255,207	258,551
Inventories	157,178	155,683
Prepaid expenses and other current assets	41,352	49,283
Total Current Assets	531,883	488,880
Property, Plant, and Equipment:		
Land and land improvements	28,377	28,593
Buildings	290,263	306,137
Machinery and equipment	565,884	556,571
Construction in progress	28,443	39,788
	912,967	931,089
Less accumulated depreciation	528,034	540,768
Net Property, Plant, and Equipment	384,933	390,321
Goodwill and Other Intangible Assets	463,290	490,892
Deferred Income Taxes	1,569	193
Other Assets	20,169	21,264
Total Assets	$1,401,844	$1,391,550

The accompanying notes are an integral part of the consolidated financial statements.

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HNI Corporation and Subsidiaries
Consolidated Balance Sheets
(In thousands, except par value)

	December 29, 2018	December 30, 2017
Liabilities and Equity		
Current Liabilities:		
Accounts payable and accrued expenses	$428,865	$450,128
Current maturities of long-term debt	679	36,648
Current maturities of other long-term obligations	4,764	2,927
Total Current Liabilities	434,308	489,703
Long-Term Debt	249,355	240,000
Other Long-Term Liabilities	72,767	70,409
Deferred Income Taxes	82,155	76,861
Equity:		
HNI Corporation shareholders' equity:		
Capital Stock:		
Preferred stock - $1 par value, authorized 2,000 shares, no shares outstanding	—	—
Common stock - $1 par value, authorized 200,000 shares, outstanding:		
December 29, 2018 - 43,582 shares		
December 30, 2017 - 43,354 shares	43,582	43,354
Additional paid-in capital	18,041	7,029
Retained earnings	504,909	467,296
Accumulated other comprehensive income (loss)	(3,599)	(3,611)
Total HNI Corporation shareholders' equity	562,933	514,068
Non-controlling interest	326	509
Total Equity	563,259	514,577
Total Liabilities and Equity	$1,401,844	$1,391,550

The accompanying notes are an integral part of the consolidated financial statements.

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HNI Corporation and Subsidiaries
Consolidated Statements of Equity
(In thousands, except per share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total Shareholders' Equity
Balance, January 2, 2016	$44,158	$4,407	$433,575	$ (5,186)	$ 345	$ 477,299
Comprehensive income:						
Net income (loss)	—	—	85,577	—	61	85,638
Other comprehensive income (loss), net of tax	—	—	—	186	—	186
Change in ownership of non-controlling interest	—	—	(89)	—	—	(89)
Cash dividends; $1.090 per share	—	—	(48,495)	—	—	(48,495)
Common shares – treasury:						
Shares purchased	(1,082)	(45,699)	(9,044)	—	—	(55,825)
Shares issued under Members' Stock Purchase Plan and stock awards, net of tax	1,003	41,292	—	—	—	42,295
Balance, December 31, 2016	$44,079	$—	$461,524	$ (5,000)	$ 406	$ 501,009
Comprehensive income:						
Net income (loss)	—	—	89,795	—	103	89,898
Other comprehensive income (loss), net of tax	—	—	—	1,389	—	1,389
Change in ownership of non-controlling interest	—	—	—	—	—	—
Cash dividends; $1.130 per share	—	—	(49,557)	—	—	(49,557)
Common shares – treasury:						
Shares purchased	(1,463)	(22,958)	(34,466)	—	—	(58,887)
Shares issued under Members' Stock Purchase Plan and stock awards, net of tax	738	29,987	—	—	—	30,725
Balance, December 30, 2017	$43,354	$7,029	$467,296	$ (3,611)	$ 509	$ 514,577
Comprehensive income:						
Net income (loss)	—	—	93,377	—	(51)	93,326
Other comprehensive income (loss), net of tax	—	—	—	12	—	12
Change in ownership of non-controlling interest	—	—	(43)	—	(132)	(175)
Cash dividends; $1.170 per share	—	—	(51,085)	—	—	(51,085)
Common shares – treasury:						
Shares purchased	(755)	(24,033)	(4,636)	—	—	(29,424)
Shares issued under Members' Stock Purchase Plan and stock awards, net of tax	983	35,045	—	—	—	36,028
Balance, December 29, 2018	$43,582	$18,041	$504,909	$ (3,599)	$ 326	$ 563,259

The accompanying notes are an integral part of the consolidated financial statements.

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HNI Corporation and Subsidiaries
Consolidated Statements of Cash Flows
(In thousands)

	2018	2017	2016
Net Cash Flows From (To) Operating Activities:			
Net income	$93,326	$89,898	$85,638
Non-cash items included in net income:			
Depreciation and amortization	74,788	72,872	68,947
Other post-retirement and post-employment benefits	1,767	1,592	1,643
Stock-based compensation	7,317	7,750	8,141
Excess tax benefits from stock-based compensation	—	—	(2,713)
Deferred income taxes	3,197	(33,606)	20,495
(Gain) loss on sale, retirement, license, and impairment of long-lived assets and intangibles, net	16,264	30,892	28,868
Amortization of deferred gain on sale leaseback transaction	(400)	—	—
Other – net	(1,336)	(1,949)	4,523
Net increase (decrease) in operating assets and liabilities, net of acquisitions and divestitures	(10,729)	(29,409)	17,430
Increase (decrease) in other liabilities	2,236	(4,891)	(9,610)
Net cash flows from (to) operating activities	186,430	133,149	223,362
Net Cash Flows From (To) Investing Activities:			
Capital expenditures	(55,648)	(109,243)	(93,425)
Proceeds from sale and license of property, plant, equipment, and intangibles	23,767	9,009	1,055
Capitalized software	(8,048)	(18,148)	(26,159)
Acquisition spending, net of cash acquired	(2,850)	(898)	(34,302)
Purchase of investments	(2,676)	(3,451)	(8,724)
Sales or maturities of investments	3,100	3,197	8,619
Other – net	1,135	1,510	(90)
Net cash flows from (to) investing activities	(41,220)	(118,024)	(153,026)
Net Cash Flows From (To) Financing Activities:			
Payments of note and long-term debt and other financing	(352,727)	(274,343)	(594,547)
Proceeds from long-term debt	323,075	339,337	611,986
Dividends paid	(51,085)	(49,557)	(48,495)
Purchase of HNI Corporation common stock	(30,452)	(57,505)	(55,825)
Proceeds from sales of HNI Corporation common stock	19,606	14,224	21,596
Withholding related to net share settlements of equity based awards	(156)	(245)	—
Excess tax benefits from stock-based compensation	—	—	2,713
Net cash flows from (to) financing activities	(91,739)	(28,089)	(62,572)
Net increase (decrease) in cash and cash equivalents	53,471	(12,964)	7,764
Cash and cash equivalents at beginning of year	23,348	36,312	28,548
Cash and cash equivalents at end of year	$76,819	$23,348	$36,312

The accompanying notes are an integral part of the consolidated financial statements.

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HNI Corporation and Subsidiaries

Notes to Consolidated Financial Statements
December 29, 2018

Note 1. Nature of Operations

HNI Corporation with its subsidiaries (the "Corporation") is a provider of office furniture and hearth products. Both industries are reportable segments; however, the Corporation's office furniture business is its principal line of business. Refer to "Note 17. Reportable Segment Information" in the Notes to Consolidated Financial Statements for further information. Office furniture products include panel-based and freestanding furniture systems, seating, storage, and tables. These products are sold primarily through a national system of independent dealers, wholesalers, and office product distributors but also directly to end-user customers and federal, state, and local governments. Hearth products include a full array of gas, wood, and pellet burning fireplaces, inserts, stoves, facings, and accessories. These products are sold through a national system of independent dealers and distributors, as well as Corporation-owned distribution and retail outlets. The Corporation's products are marketed predominantly in the United States and Canada. The Corporation exports select products through its export subsidiary to a limited number of markets outside North America, principally the Middle East, Mexico, Latin America, and the Caribbean. The Corporation also manufactures and markets office furniture in Asia, primarily China and India.

Fiscal year-end – The Corporation follows a 52/53-week fiscal year, which ends on the Saturday nearest December 31. Fiscal year 2018 ended on December 29, 2018, fiscal year 2017 ended on December 30, 2017, and fiscal year 2016 ended on December 31, 2016. The financial statements for fiscal years 2018, 2017, and 2016 are on a 52-week basis. A 53-week year occurs approximately every sixth year.

Note 2. Summary of Significant Accounting Policies

Principles of Consolidation
The consolidated financial statements include the accounts and transactions of the Corporation and its subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

Cash, Cash Equivalents, and Investments
Cash and cash equivalents generally consist of cash and money market accounts. The fair value approximates the carrying value due to the short duration of the securities. These securities have original maturity dates not exceeding three months. The Corporation has short-term investments with maturities of less than one year and investments with maturities greater than one year included in "Other Assets" in the Consolidated Balance Sheets. Management classifies investments in marketable securities at the time of purchase and reevaluates such classification at each balance sheet date. Debt securities, including government and corporate bonds, are classified as available-for-sale and stated at current market value with unrealized gains and losses included as a separate component of equity, net of any related tax effect. The specific identification method is used to determine realized gains and losses on the trade date.

Cash, cash equivalents, and investments consisted of the following (in thousands):

	December 29, 2018			December 30, 2017		
	Cash and cash equivalents	Short-term investments	Long-term investments	Cash and cash equivalents	Short-term investments	Long-term investments
Available-for-sale securities:						
Debt securities	—	1,327	10,677	—	2,015	10,479

Cash and money market accounts	76,819	—	—	23,348	—	—
Total	$76,819	$ 1,327	$ 10,677	$23,348	$ 2,015	$ 10,479

The following table summarizes the amortized cost basis of the debt securities (in thousands):

	December 29, 2018	December 30, 2017
Amortized cost basis of debt securities	$ 12,202	$ 12,660

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Immaterial unrealized gains and losses are recorded in "Accumulated other comprehensive income (loss)" in the Consolidated Balance Sheets for these debt securities.

Receivables

The allowance for doubtful accounts is developed based on several factors including overall customer credit quality, historical write-off experience, and specific account analyses projecting the ultimate collectability of the account. As such, these factors may change over time causing the allowance level to adjust accordingly. The following table summarizes the change in the allowance for doubtful accounts (in thousands):

	Balance at beginning of period	Adjustments to allowance	Amounts written off, net of recoveries and other adjustments	Divestitures	Balance at end of period
Year ended December 29, 2018	$ 1,904	$ 2,440	$ 477	$ —	$ 3,867
Year ended December 30, 2017	$ 2,140	$ 846	$ 1,082	$ —	$ 1,904
Year ended December 31, 2016	$ 4,287	$ (357)	$ 1,598	$ 192	$ 2,140

Inventories

The Corporation values its inventory at the lower of cost or net realizable value. Inventories included in the Consolidated Balance Sheets consisted of the following (in thousands):

	December 29, 2018	December 30, 2017
Finished products	$ 97,398	$ 101,715
Materials and work in process	94,161	81,202
Last-in,first-out ("LIFO") allowance	(34,381)	(27,234)
Total inventories	$ 157,178	$ 155,683
Inventory valued by the LIFO costing method	81.40 %	83.36 %

During 2018, inventory quantities were reduced at certain reporting units. This reduction resulted in a liquidation of LIFO inventory quantities carried at higher or lower costs prevailing in prior years as compared with the cost of current year purchases, the effect of which decreased cost of goods sold by approximately $0.5 million in 2018. There was no LIFO decrement in 2017. If the FIFO method had been in use, inventories would have been $34.4 million and $27.2 million higher than reported as of December 29, 2018 and December 30, 2017, respectively.

Property, Plant, and Equipment

Property, plant, and equipment are carried at cost. Expenditures for repairs and maintenance are expensed as incurred. Major improvements that materially extend the useful lives of the assets are capitalized. Depreciation has been computed using the straight-line method over estimated useful lives: land improvements, 10 – 20 years; buildings, 10 – 40 years; and machinery and equipment, 3 – 12 years. Total depreciation expense was as follows (in thousands):

	2018	2017	2016
Depreciation expense	$51,063	$56,494	$57,171

Long-Lived Assets

The Corporation evaluates long-lived assets for indicators of impairment as events or changes in circumstances occur indicating that an impairment risk may be present. The judgments regarding the existence of impairment are based on business and market conditions, operational performance, and estimated future cash flows. If the carrying value of a

long-lived asset is considered impaired, an impairment charge is recorded to adjust the asset to its estimated fair value. Asset impairment charges associated with the Corporation’s long-lived assets are discussed in "Note 4. Restructuring and Impairment Charges" in the Notes to Consolidated Financial Statements.

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Goodwill and Other Intangible Assets
The Corporation evaluates its goodwill for impairment on an annual basis during the fourth quarter or whenever indicators of impairment exist. Asset impairment charges associated with the Corporation's goodwill impairment testing are discussed in "Note 7. Goodwill and Other Intangible Assets" in the Notes to Consolidated Financial Statements.

The Corporation reviews goodwill at the reporting unit level within its office furniture and hearth products operating segments. These reporting units constitute components for which discrete financial information is available and regularly reviewed by segment management. The accounting standards for goodwill permit entities to first assess qualitative factors to determine whether it is more likely than not the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform a quantitative goodwill impairment test. If the quantitative test is required, the Corporation estimates the fair value of its reporting units. In estimating the fair value, the Corporation relies on an average of the income approach and the market approach. This estimated fair value is compared to the carrying value of the reporting unit and an impairment is recorded if the estimate is less than the carrying value. In the income approach, the estimate of fair value of each reporting unit is based on management's projection of revenues, gross margin, operating costs, and cash flows considering historical and estimated future results, general economic and market conditions, as well as the impact of planned business and operational strategies. The valuations employ present value techniques to measure fair value and consider market factors. In the market approach, the Corporation utilizes the guideline company method, which involves calculating valuation multiples based on operating data from guideline publicly-traded companies. These multiples are then applied to the operating data for the reporting units and adjusted for factors similar to those used in the discounted cash flow analysis. Management believes the assumptions used for the impairment test are consistent with those utilized by a market participant in performing similar valuations of its reporting units. Management bases its fair value estimates on assumptions they believe to be reasonable at the time, but such assumptions are subject to inherent uncertainty. Actual results may differ from those estimates.

Accounts Payable and Accrued Expenses
Accounts payable and accrued expenses are reflected in the Consolidated Balance Sheets and were as follows (in thousands):

	December 29, 2018	December 30, 2017
Trade accounts payable	$ 221,395	$ 235,577
Compensation	52,227	47,277
Profit sharing and retirement expense	28,300	30,884
Marketing expenses	36,529	41,751
Freight	13,892	13,121
Other accrued expenses	76,522	81,518
	$ 428,865	$ 450,128

Product Warranties
The Corporation issues certain warranty policies on its office furniture and hearth products that provide for repair or replacement of any covered product or component that fails during normal use because of a defect in design, materials, or workmanship. Allowances have been established for the anticipated future costs associated with the Corporation's warranty programs.

A warranty allowance is determined by recording a specific allowance for known warranty issues and an additional allowance for unknown claims expected to be incurred based on historical claims experience. Actual claims incurred could differ from the original estimates, requiring adjustments to the allowance. Activity associated with warranty obligations was as follows (in thousands):

	2018	2017	2016
Balance at beginning of period	$15,388	$15,250	$16,227
Accruals settled from divestiture	—	—	(538)
Accruals for warranties issued during period	22,697	20,075	20,055
Adjustments related to pre-existing warranties	233	194	604
Settlements made during the period	(22,868)	(20,131)	(21,098)
Balance at end of period	$15,450	$15,388	$15,250

The current and long-term portions of the allowance for the estimated settlements are included within "Accounts payable and accrued expenses" and "Other Long-Term Liabilities", respectively, in the Consolidated Balance Sheets.

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The following table summarizes when these estimated settlements are expected to be paid (in thousands):

	December 29, 2018	December 30, 2017
Current - in the next twelve months	$ 9,455	$ 9,524
Long-term - beyond one year	5,995	5,864
	$ 15,450	$ 15,388

Revenue Recognition

The Corporation implemented ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), at the beginning of fiscal 2018 using the modified-retrospective method, which required the new guidance to be applied prospectively to revenue transactions completed on or after the effective date. Given the nature of the Corporation's revenue transactions, the new guidance did not have a material impact on the Corporation's results of operations or financial position. All necessary changes required by the new standard, including those to the Corporation's accounting policies, controls, and disclosures, have been identified and implemented as of the beginning of fiscal 2018. See "Note 3. Revenue from Contracts with Customers" in the Notes to Consolidated Financial Statements for policy elections and further information.

Product Development Costs

Product development costs relating to development of new products and processes, including significant improvements and refinements to existing products, are expensed as incurred. These costs include salaries, contractor fees, building costs, and administrative fees. The amounts charged against income and recorded in "Selling and administrative expenses" on the Consolidated Statements of Comprehensive Income were as follows (in thousands):

	2018	2017	2016
Product development costs	$33,420	$31,846	$28,089

Freight Expense

Freight expense on shipments to customers were recorded in "Selling and administrative expenses" on the Consolidated Statements of Comprehensive Income as follows (in thousands):

	2018	2017	2016
Freight expense	$134,190	$119,096	$115,157

Stock-Based Compensation

The Corporation measures the cost of employee services in exchange for an award of equity instruments based on the grant-date fair value of the award and recognizes cost over the requisite service period. See "Note 12. Stock-Based Compensation" in the Notes to Consolidated Financial Statements for further information.

Income Taxes

The Corporation uses an asset and liability approach that takes into account guidance related to uncertain tax positions and requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Corporation’s financial statements or tax returns. Deferred income taxes are provided to reflect differences between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law, making significant changes to the Internal Revenue Code. In January 2018, the FASB released guidance on the accounting for tax on the global intangible low-taxed income ("GILTI") provisions of the Act. The GILTI provisions impose a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. The guidance indicates that either accounting for deferred taxes related to GILTI inclusions or treating any taxes on GILTI inclusions as a period cost are both acceptable methods subject to an accounting policy election. Effective in the first quarter of fiscal 2018, the

Corporation elected to treat any potential GILTI inclusions as a period cost, as no material impact is projected from GILTI inclusions and any deferred taxes related to any inclusion would not be material. Also under the Act, a corporation's foreign earnings accumulated under legacy tax laws are deemed repatriated. The Corporation will continue to evaluate its ability to assert indefinite reinvestment to determine recognition of a deferred tax liability for other items such as Section 986(c) currency gain/loss, foreign withholding, and state taxes. There were approximately $34.5 million of accumulated earnings considered permanently reinvested in China, Hong Kong, Singapore, and Canada as of December 29, 2018. The Corporation believes the tax costs on accumulated unremitted foreign earnings would be approximately $0.02 million if the amounts were not considered permanently reinvested. See "Note 9. Income Taxes" in the Notes to Consolidated Financial Statements for further information.

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Earnings Per Share

Basic earnings per share are based on the weighted-average number of common shares outstanding during the year. Shares potentially issuable under stock options, restricted stock units, and common stock equivalents under the Corporation's deferred compensation plans have been considered outstanding for purposes of the diluted earnings per share calculation. 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):

	2018	2017	2016
Numerator:			
Numerator for both basic and diluted EPS attributable to HNI Corporation net income	$93,377	$89,795	$85,577
Denominators:			
Denominator for basic EPS weighted-average common shares outstanding	43,639	43,839	44,414
Potentially dilutive shares from stock-based compensation plans	689	1,001	1,088
Denominator for diluted EPS	44,328	44,840	45,502
Earnings per share – basic	$2.14	$2.05	$1.93
Earnings per share – diluted	$2.11	$2.00	$1.88

The weighted-average common stock equivalents presented above do not include the effect of the common stock equivalents in the table below because their inclusion would be anti-dilutive.

	2018	2017	2016
Common stock equivalents excluded because their inclusion would be anti-dilutive	1,507,870	809,420	416,142

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The critical areas requiring use of management estimates relate to goodwill and intangibles, accruals for self-insured medical claims, workers' compensation, legal contingencies, general liability and auto insurance claims, valuation of long-lived assets, and estimates of income taxes. Other significant areas requiring use of management estimates relate to allowance for doubtful accounts, inventory allowances, marketing program accruals, warranty accruals, and useful lives for depreciation and amortization. Actual results could differ from those estimates.

Self-Insurance

The Corporation is primarily self-insured for general, auto, and product liability, workers' compensation, and certain employee health benefits. Certain risk exposures are mitigated through the use of independent third party stop loss insurance coverages. The general, auto, product, and workers' compensation liabilities are managed using a wholly-owned insurance captive and the related liabilities are included in the Consolidated Balance Sheets as follows (in thousands):

	December 29, 2018	December 30, 2017
General, auto, product, and workers' compensation liabilities	$ 30,227	$ 27,591

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 legal actions, medical cost inflation, and magnitude of change in actual experience development could cause these estimates to change in the future.

Foreign Currency Translations

Foreign currency financial statements of foreign operations, where the local currency is the functional currency, are translated using exchange rates in effect at period end for assets and liabilities and average exchange rates during the

period for results of operations. Related translation adjustments are reported as a component of Shareholders' Equity. Gains and losses on foreign currency transactions are included in "Selling and administrative expenses" in the Consolidated Statements of Comprehensive Income.

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Reclassifications
Certain reclassifications have been made within the financial statements to conform to the current year presentation.

Recently Adopted Accounting Standards
In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The new standard replaces most existing revenue recognition guidance in U.S. GAAP. The core principle of the ASU requires companies to reevaluate when revenue is recorded on a transaction based upon newly defined criteria, either at a point in time or over time as goods or services are delivered. The ASU requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and estimates, and changes in those estimates. The FASB has issued ASU No. 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations, ASU No. 2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing, and ASU No. 2016-12, Revenue from Contracts with Customers: Narrow Scope Improvements and Practical Expedients to provide further clarification and guidance. The Corporation implemented the new standard in the first quarter of fiscal 2018 using the modified-retrospective method, which required the new guidance to be applied prospectively to revenue transactions completed on or after the effective date. Given the nature of the Corporation's revenue transactions, the new guidance did not have a material impact on the Corporation's results of operations or financial position. All necessary changes required by the new standard, including those to the Corporation's accounting policies, controls, and disclosures, have been identified and implemented as of the beginning of fiscal 2018. See "Note 3. Revenue from Contracts with Customers" in the Notes to Consolidated Financial Statements for further information.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments. The new standard provides classification guidance on eight cash flow issues including debt prepayment, settlement of zero-coupon bonds, contingent consideration payments made after a business combination, proceeds from the settlements of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, and distributions received from equity method investees. The Corporation implemented the new standard in the first quarter of fiscal 2018. This standard did not have a material effect on the consolidated financial statements or related disclosures.

In October 2016, the FASB issued ASU No. 2016-16, Intra-Entity Transfers of Assets Other Than Inventory. The new standard requires an entity to recognize the income tax consequences of intra-entity transfers of assets other than inventory when the transfer occurs. The Corporation implemented the new standard in the first quarter of fiscal 2018. This standard did not have a material effect on the consolidated financial statements or related disclosures.

In January 2017, the FASB issued ASU No. 2017-01, Clarifying the Definition of a Business. The new standard amends ASC 805, Business Combinations. This ASU provides a new framework for determining whether transactions should be accounted for as acquisitions (or disposals) of a group of assets or of a business. The Corporation implemented the new standard in the first quarter of fiscal 2018 on a prospective basis. The standard did not have a material effect on the consolidated financial statements or related disclosures.

In March 2017, the FASB issued ASU No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The new standard requires an entity with defined benefit and post-retirement benefit plans to present the service cost component of the net periodic benefit cost in the same income statement line item or items as other compensation costs arising from services rendered by employees during the period. All other components of net periodic benefit cost will be presented outside of operating income, if a subtotal is presented. The Corporation implemented the new standard in the first quarter of fiscal 2018 and it was applied retrospectively to each period presented. This standard did not have a material effect on the consolidated financial statements or related disclosures.

Note 3. Revenue from Contracts with Customers

The Corporation implemented ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), at the beginning of fiscal 2018 using the modified-retrospective method, which required the new guidance to be applied prospectively to revenue transactions completed on or after the effective date. Given the nature of the Corporation's revenue transactions, the new guidance did not have a material impact on the Corporation's results of operations or financial position. All necessary changes required by the new standard, including those to the Corporation's accounting policies, controls, and disclosures, have been identified and implemented as of the beginning of fiscal 2018.

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Disaggregation of Revenue

Revenue from contracts with customers disaggregated by sales channel and by segment is as follows (in thousands):

	Segment	December 29, 2018	December 30, 2017
Supplies-driven channel	Office Furniture	$904,292	$836,733
Contract channel	Office Furniture	801,800	823,990
Hearth	Hearth Products	551,803	515,159
Net sales		$2,257,895	$2,175,882

The majority of revenue presented as "Net sales" in the Consolidated Statements of Comprehensive Income is the result of contracts with customers. All other sources of revenue are not material to the Corporation's results of operations.

Sales by channel type are subject to similar economic factors and market conditions regardless of the channel under which the product is sold. See “Note 17. Reportable Segment Information” in the Notes to Consolidated Financial Statements for further information about operating segments.

Contract Assets and Contract Liabilities

In addition to trade receivables, the Corporation has contract assets consisting of funds paid to certain office furniture dealers in exchange for their multi-year commitment to market and sell the Corporation’s product. These dealer investments are amortized over the term of the contracts and recognized as a reduction of revenue. For contracts less than one year, the Corporation has elected the practical expedient to recognize incremental costs to obtain a contract as an expense when incurred. The Corporation has contract liabilities consisting of deferred revenue and rebate and marketing program liabilities.

Contract assets and liabilities were as follows (in thousands):

	December 29, 2018	December 30, 2017
Trade receivables (1)	$ 259,075	$ 260,455
Contract assets (current) (2)	$ 529	$ 300
Contract assets (long-term) (3)	$ 2,188	$ 2,350
Contract liabilities (4)	$ 44,858	$ 54,527

The index below indicates the line item in the Consolidated Balance Sheets where contract assets and contract liabilities are reported:

(1) "Receivables"
(2) "Prepaid expenses and other current assets"
(3) "Other Assets"
(4) "Accounts payable and accrued expenses"

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Changes in contract asset and contract liability balances during the year ended December 29, 2018 were as follows (in thousands):

	Contract assets increase (decrease)	Contract liabilities (increase) decrease
Contract assets recognized	$ 2,100	$ —
Reclassification of contract assets to contra revenue	(483)	—
Contract asset impairment	(1,550)	—
Contract liabilities recognized and recorded to contra revenue as a result of performance obligations satisfied	—	(127,454)
Contract liabilities paid	—	132,909
Cash received in advance and not recognized as revenue	—	(54,167)
Reclassification of cash received in advance to revenue as a result of performance obligations satisfied	—	58,304
Impact of business combination	—	77
Net change	$ 67	$ 9,669

Due to the short term nature of our contract liabilities, all contract liabilities as of December 30, 2017 were recognized as revenue during the three months ended March 31, 2018. For the full year ended December 29, 2018, the Corporation recognized revenue of $12.5 million in the Consolidated Statements of Comprehensive Income related to contract liabilities as of December 30, 2017.

Performance Obligations

The Corporation recognizes revenue for sales of office furniture and hearth products at a point in time following the transfer of control of such products to the customer, which typically occurs upon shipment of the product. In certain circumstances, transfer of control to the customer does not occur until the goods are received by the customer or upon installation and/or customer acceptance, depending on the terms of the underlying contracts. Contracts typically have a duration of less than one year and normally do not include a significant financing component. Generally, payment is due within 30 days of invoicing.

Significant Judgments

The Corporation uses significant judgment throughout the year in estimating the reduction in net sales driven by rebate and marketing programs. Judgments made include expected sales levels and utilization of funds. However, this judgment factor is significantly reduced at the end of each year when sales volumes and the impact to rebate and marketing programs are known and recorded as the programs typically don't extend multiple years.

Accounting Policies and Practical Expedients Elected

The Corporation elected to use the modified-retrospective method of adopting the new standard on revenue recognition. The new standard has been applied to all contracts not completed as of December 30, 2017, the end of the Corporation’s fiscal 2017. The impact of the Corporation's transition adjustment for the new revenue recognition guidance was not material to the Corporation's results of operations or financial position. The additional disclosures required as a result of adopting the new revenue recognition guidance were material to the Corporation's financial statements.

The Corporation elected the following accounting policies as a result of adopting the new standard on revenue recognition:

Shipping and Handling Activities - The Corporation has elected to apply the accounting policy election permitted in ASC 606-10-25-18B, which allows an entity to account for shipping and handling activities that occur after control is transferred as fulfillment activities. The Corporation accrues for shipping and handling costs at the same time revenue is recognized, which is in accordance with the policy election. When shipping and handling activities occur prior to the customer obtaining control of the good(s), they are considered fulfillment activities rather than a performance obligation and the costs are accrued for as incurred.

Sales Taxes - The Corporation has elected to apply the accounting policy election permitted in ASC 606-10-32-2A, which allows an entity to exclude from the measurement of the transaction price all taxes assessed by a governmental authority associated with the transaction, including sales, use, excise, value-added, and franchise taxes (collectively referred to as sales taxes). This allows the Corporation to present revenue net of these certain types of taxes.

These policies have been applied consistently to all revenue transactions.

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The Corporation has elected the following practical expedients as a result of adopting the new standard on revenue recognition:

Incremental Costs of Obtaining a Contract - The Corporation has elected the practical expedient permitted in ASC 340-40-25-4, which permits an entity to recognize incremental costs to obtain a contract as an expense when incurred if the amortization period will be less than one year. The Corporation will apply this practical expedient when the requirements to apply it are met.

Significant Financing Component - The Corporation has elected the practical expedient permitted in ASC 606-10-32-18, which allows an entity to not adjust the promised amount of consideration for the effects of a significant financing component if a contract has a duration of one year or less. As the Corporation's contracts are typically less than one year in length, consideration will not be adjusted.

Remaining Performance Obligation - The Corporation's backlog orders are typically cancelable for a period of time and almost all of our contracts have an original duration of one year or less. As a result, we have elected the practical expedient not to disclose our remaining performance obligation. The backlog disclosed is typically fulfilled within one or two quarters.

These accounting policies and practical expedients have been applied consistently to all revenue transactions.

Note 4. Restructuring and Impairment Charges

Restructuring costs, goodwill and long-lived asset impairments, and a valuation allowance recorded in the Consolidated Statements of Comprehensive Income are as follows (in thousands):

	2018	2017	2016
Cost of sales - accelerated depreciation	$—	$10,327	$5,302
Restructuring charges	$2,325	$6,205	$5,229
Goodwill and long-lived asset impairments	15,200	20,947	5,776
Valuation allowance of long-term note receivable	(1,800)	10,264	—
Restructuring and impairment charges	$15,725	$37,416	$11,005

Restructuring costs in 2018 were primarily incurred as part of the previously announced closures of the hearth manufacturing facilities in Paris, Kentucky and Colville, Washington and the office furniture manufacturing facility in Orleans, Indiana. Impairment charges include the impairment of goodwill and long-lived assets for office furniture companies and an impairment charge from the sale of the closed manufacturing facility in Paris, Kentucky. The Corporation also recovered a portion of a long-term note receivable previously impaired.

Restructuring costs in 2017, which include accelerated depreciation recorded in "Cost of sales" in the Consolidated Statements of Comprehensive Income, were primarily incurred as part of the previously announced closures of the hearth manufacturing facilities in Paris, Kentucky and Colville, Washington and the office furniture manufacturing facility in Orleans, Indiana. As of December 30, 2017, the estimated fair value of the Paris, Kentucky hearth manufacturing facility of $4.6 million was classified as held for sale and is included in "Prepaid expenses and other current assets" in the Consolidated Balance Sheets.

Restructuring costs in 2016, which include accelerated depreciation recorded in "Cost of sales" in the Consolidated Statements of Comprehensive Income, were primarily incurred as part of the previously announced closures of the Paris, Kentucky hearth manufacturing facility and the Orleans, Indiana office furniture manufacturing facility.

See "Note 7. Goodwill and Other Intangible Assets" in the Notes to Consolidated Financial Statements for more information on goodwill and long-lived asset impairments.

See "Note 5. Acquisitions and Divestitures" in the Notes to Consolidated Financial Statements for more information on the valuation allowance of a long-term note receivable.

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The accrued restructuring expenses are expected to be paid in the next twelve months and are included in "Accounts payable and accrued expenses" in the Consolidated Balance Sheets. The following is a summary of changes in restructuring accruals (in thousands):

	Severance Costs	Facility Exit Costs & Other	Total
Restructuring allowance as of January 2, 2016	$ 206	$ 15	$ 221
Restructuring charges	3,883	1,346	5,229
Cash payments	(1,385)	(1,361)	(2,746)
Restructuring allowance as of December 31, 2016	2,704	—	2,704
Restructuring charges	1,436	4,769	6,205
Cash payments	(2,797)	(4,253)	(7,050)
Restructuring allowance as of December 30, 2017	1,343	516	1,859
Restructuring charges	355	1,970	2,325
Cash payments	(1,562)	(2,336)	(3,898)
Restructuring allowance as of December 29, 2018	$ 136	$ 150	$ 286

Real Estate Transaction

As part of the Corporation's continued efforts to drive efficiency and simplification, the Corporation entered into a sale-leaseback transaction in the first quarter of 2018, selling a manufacturing facility and subsequently leasing back a portion of the facility for a term of 10 years. The net proceeds from the sale of the facility of $16.9 million are reflected in "Proceeds from sale and license of property, plant, equipment, and intangibles" in the Consolidated Statements of Cash Flows. In accordance with ASC 840, Leases, the $5.1 million gain on the sale of the facility was deferred and is being amortized as a reduction to rent expense evenly over the term of the lease. As of December 29, 2018, the current portion of the deferred gain is $0.5 million and included within "Accounts payable and accrued expenses" and the long-term portion of the deferred gain is $4.2 million and included within "Other Long-Term Liabilities" in the Consolidated Balance Sheets. The transaction did not have a material impact to the Consolidated Statements of Comprehensive Income.

Note 5. Acquisitions and Divestitures

In the third quarter of 2018, the Corporation acquired a small hearth products company resulting in a preliminary goodwill valuation of $3.4 million. The remaining assets and liabilities recorded in the third quarter of 2018 were not material to the Corporation's financial statements. The Corporation will finalize the allocation of the purchase price over the next few quarters based on the final purchase price and fair value adjustments.

OFM

On January 29, 2016, the Corporation acquired OFM, an office furniture company, with annual sales of approximately $30 million at a purchase price of $34.1 million, net of cash acquired, in an all cash transaction. The Corporation finalized the allocation of the purchase price during fourth quarter 2016. There were $15 million of intangible assets other than goodwill associated with this acquisition with estimated useful lives ranging from three to 10 years with amortization recorded on a straight-line basis based on the projected cash flow associated with the respective intangible assets. There was $14 million of goodwill associated with this acquisition. The goodwill is deductible for income tax purposes.

Office Furniture Dealerships

As part of the Corporation's ongoing business strategy, it continues to acquire and divest small office furniture dealerships, for which impact is not material to the Corporation's financial statements.

Artcobell

The Corporation completed the sale of substantially all the assets of ArtcoBell Corporation ("Artcobell"), a K-12 education furniture business, on December 31, 2016. A pre-tax non-cash charge of approximately $23 million and a $10 million long-term note receivable, which was included in "Other Assets" in the Corporation's Consolidated Balance Sheets in Form 10-K for the fiscal year ended December 31, 2016, were recorded in relation to the sale. Artcobell had been included as part of the Corporation's office furniture segment. As of December 30, 2017, a valuation allowance was recorded against the long-term note receivable. The Corporation is not required to make any payments and recorded an immaterial recovery in the fourth quarter of 2018.

Note 6. Supplemental Cash Flow Information

The Corporation's cash payments for interest, income taxes, and non-cash investing and financing activities are as follows (in thousands):

	2018	2017	2016
Cash paid for:			
Interest paid, net of capitalized interest	$9,882	$6,236	$6,644
Income taxes paid	$11,465	$13,733	$23,120
Changes in accrued expenses due to:			
Purchases of property and equipment	$5,895	$(10,370)	$3,599
Purchases of capitalized software	$(2,497)	$(237)	$603

Note 7. Goodwill and Other Intangible Assets

Goodwill and other intangible assets included in the Consolidated Balance Sheets consisted of the following (in thousands):

	December 29, 2018	December 30, 2017
Goodwill	$270,788	$279,505
Definite-lived intangible assets	163,714	182,186
Indefinite-lived intangible assets	28,788	29,201
Total goodwill and other intangible assets	$463,290	$490,892

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Goodwill

The changes in the carrying amount of goodwill, by reporting segment, are as follows (in thousands):

	Office Furniture	Hearth Products	Total
Balance as of December 31, 2016			
Goodwill	$137,889	$183,199	$321,088
Accumulated impairment losses	(30,246)	(143)	(30,389)
Net goodwill balance as of December 31, 2016	107,643	183,056	290,699
Impairment losses	(4,838)	—	(4,838)
Foreign currency translation adjustment	(44)	—	(44)
Impairment loss due to closure of an office furniture brand	(6,312)	—	(6,312)
Balance as of December 30, 2017			
Goodwill	128,657	183,199	311,856
Accumulated impairment losses	(32,208)	(143)	(32,351)
Net goodwill balance as of December 30, 2017	96,449	183,056	279,505
Goodwill acquired during the year	—	3,463	3,463
Impairment losses	(12,168)	—	(12,168)
Foreign currency translation adjustment	(12)	—	(12)
Balance as of December 29, 2018			
Goodwill	128,645	186,662	315,307
Accumulated impairment losses	(44,376)	(143)	(44,519)
Net goodwill balance as of December 29, 2018	$84,269	$186,519	$270,788

The increases in goodwill relate to completed acquisitions. See "Note 5. Acquisitions and Divestitures" in the Notes to Consolidated Financial Statements for further information. The decreases in goodwill in the office furniture segment were due to impairment charges, which are described below.

Definite-lived intangible assets

The table below summarizes amortizable definite-lived intangible assets, which are reflected in "Goodwill and Other Intangible Assets" in the Corporation’s Consolidated Balance Sheets (in thousands):

	December 29, 2018			December 30, 2017		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Patents	$40	$ 34	$6	$40	$ 26	$14
Software	170,274	49,561	120,713	167,105	34,792	132,313
Trademarks and trade names	7,564	2,721	4,843	7,564	2,061	5,503
Customer lists and other	103,840	65,688	38,152	106,090	61,734	44,356
Net definite-lived intangible assets	$281,718	$ 118,004	$163,714	$280,799	$ 98,613	$182,186

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Amortization expense is reflected in "Selling and administrative expenses" in the Consolidated Statements of Comprehensive Income and was as follows (in thousands):

	2018	2017	2016
Capitalized software	$17,109	$9,389	$4,722
Other definite-lived intangibles	$6,615	$6,989	$7,055

The occurrence of events such as acquisitions, dispositions, or impairments may impact future amortization expense. Based on the current amount of intangible assets subject to amortization, the estimated amortization expense for each of the following five fiscal years is as follows (in millions):

	2019	2020	2021	2022	2023
Amortization expense	$23.8	$22.9	$21.6	$19.2	$16.9

Indefinite-lived intangible assets
The Corporation also owns certain intangible assets, which are deemed to have indefinite useful lives because they are expected to generate cash flows indefinitely. These indefinite-lived intangible assets are reflected in "Goodwill and Other Intangible Assets" in the Consolidated Balance Sheets (in thousands):

	December 29, 2018	December 30, 2017
Trademarks and trade names	$ 28,788	$ 29,201

As a result of the required annual impairment assessment performed in the fourth quarter of 2018, the Corporation did not record any impairment charges related to indefinite-lived intangible assets.

Sale and License of an Intangible Asset
In the third quarter of 2017, the Corporation recorded a $6.0 million nonrecurring gain from the sale and license of an intangible asset, which had a zero carrying value. This nonrecurring gain is reflected in "(Gain) loss on sale, disposal, and license of assets" in the Consolidated Statements of Comprehensive Income.

Impairment Analysis
As a result of the required annual impairment assessment performed in the fourth quarter of 2018, the Corporation determined the fair value of a reporting unit within the office furniture segment was below its carrying value. This reporting unit had triggering events in both the second and third quarters of 2018 due to lower projected operating results, and was tested with interim quantitative impairment tests that resulted in no impairment either time. In the fourth quarter of 2018, a further decline in the estimated fair value of this reporting unit was primarily driven by reduced long-term margin expectations and resulted in an impairment. The projections used in the impairment model reflected management's assumptions regarding revenue growth rates, economic and market trends, cost structure, investments required for product enhancements, and other expectations about the anticipated short-term and long-term operating results of the reporting unit. The Corporation assumed a discount rate of 14 percent, near term growth rates ranging from 1 percent to 6 percent, and a terminal growth rate of 3 percent. Based on the quantitative analysis, the Corporation recorded a $12.2 million goodwill impairment charge in 2018, which is reflected in "Goodwill and Other Intangible Assets" in the Corporation's Consolidated Balance Sheets. There was $7.5 million net goodwill remaining in the reporting unit as of December 29, 2018. Holding other assumptions constant, a 100 basis point increase in the discount rate would result in a $2.3 million decrease in the estimated fair value of the reporting unit. Holding other assumptions constant, a 50 basis point decrease in the long-term growth rate would result in a $0.5 million decrease in the estimated fair value of the reporting unit.

Prior to the goodwill impairment assessment, the Corporation completed a qualitative review of long-lived assets for all asset groups to determine if events or changes in circumstances indicated that the carrying amount of each asset group may not be recoverable (if a "triggering event" existed). Based on this review, the Corporation tested the

recoverability of the long-lived assets, other than goodwill and indefinite-lived intangible assets, in a certain asset groups where a triggering events existed, and found no impairments. Trigger events were noted in these certain asset groups in the second and third quarters of 2018 and no impairments were found.

Based on the results of the annual impairment test, the Corporation concluded that no other goodwill impairment existed apart from the impairment charges discussed above. For all other reporting units included in the annual quantitative impairment test, the estimated fair value is significantly in excess of the carrying value.

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Note 8. Long-Term Debt

Long-term debt is as follows (in thousands):

	2018	2017
Revolving credit facility with interest at a variable rate (December 29, 2018 - 3.5%; December 30, 2017 - 2.7%)	$150,000	$267,500
Fixed rate notes due in 2025 with an interest rate of 4.22%	50,000	—
Fixed rate notes due in 2028 with an interest rate of 4.40%	50,000	—
Other amounts	679	9,148
Deferred debt issuance costs	(645)	—
Total debt	250,034	276,648
Less: Current maturities of long-term debt	679	36,648
Long-term debt	$249,355	$240,000

Aggregate maturities of long-term debt are as follows (in thousands):

	2019	2020	2021	2022	2023	Thereafter
Maturities of long-term debt	$679	$ —	$ —	$ —	$150,000	$100,000

As of December 29, 2018, the Corporation’s revolving credit facility borrowings were under the credit agreement entered into on April 20, 2018 with a scheduled maturity of April 20, 2023. This Third Amended and Restated Credit Agreement replaces the previously executed Second Amended and Restated Credit Agreement dated January 6, 2016. The Corporation deferred the debt issuance costs related to the credit agreement, which are classified as assets, and is amortizing them over the term of the credit agreement. The current portion of $0.4 million is the amount to be amortized over the next twelve months based on the current credit agreement and is reflected in "Prepaid expenses and other current assets" in the Consolidated Balance Sheets. The long-term portion of $1.5 million is reflected in "Other Assets" in the Consolidated Balance Sheets.

As of December 29, 2018, there was $150 million outstanding under the $450 million revolving credit facility. The entire amount drawn under the revolving credit facility is considered long-term as the Corporation assumes no obligation to repay any of the amounts borrowed in the next twelve months.

In addition to cash flows from operations, the revolving credit facility under the credit agreement is the primary source of daily operating capital for the Corporation and provides additional financial capacity for capital expenditures and strategic initiatives, such as acquisitions and repurchases of common stock.

In addition to the revolving credit facility, the Corporation also has $100 million of borrowings outstanding under private placement note agreements entered into on May 31, 2018. Under the agreements, the Corporation issued $50 million of seven-year fixed rate notes with an interest rate of 4.22 percent, due May 31, 2025, and $50 million of ten-year fixed rate notes with an interest rate of 4.40 percent, due May 31, 2028. The Corporation deferred the debt issuance costs related to the private placement note agreements, which are classified as a reduction of long-term debt in accordance with ASU No. 2015-03, and is amortizing them over the terms of the private placement note agreements. The deferred debt issuance costs do not reduce the amount owed by the Corporation under the terms of the private placement note agreements. As of December 29, 2018 the debt issuance costs balance of $0.6 million is reflected in "Long-Term Debt" in the Consolidated Balance Sheets.

The credit agreement and private placement notes both contain financial and non-financial covenants. The covenants under both are substantially the same. Non-compliance with covenants under the agreements could prevent the Corporation from being able to access further borrowings, require immediate repayment of all amounts outstanding, and/or increase the cost of borrowing.

Covenants require maintenance of financial ratios as of the end of any fiscal quarter, including:

- a consolidated interest coverage ratio (as defined in the credit agreement) of not less than 4.0 to 1.0, based upon the ratio of (a) consolidated EBITDA for the last four fiscal quarters to (b) the sum of consolidated interest charges; and
- a consolidated leverage ratio (as defined in the credit agreement) of not greater than 3.5 to 1.0, based upon the ratio of (a) the quarter-end consolidated funded indebtedness to (b) consolidated EBITDA for the last four fiscal quarters.

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The most restrictive of the financial covenants is the consolidated leverage ratio requirement of 3.5 to 1.0. Under the credit agreement, consolidated EBITDA is defined as consolidated net income before interest expense, income taxes, and depreciation and amortization of intangibles, as well as non-cash items that increase or decrease net income. As of December 29, 2018, the Corporation was below the maximum allowable ratio and was in compliance with all of the covenants and other restrictions in the credit agreement. The Corporation expects to remain in compliance with all of the covenants and other restrictions in the credit agreement over the next twelve months.

Note 9. Income Taxes

Significant components of the provision for income taxes, including those related to non-controlling interest, are as follows (in thousands):

	2018	2017	2016
Current:			
Federal	$15,663	$9,501	$18,963
State	4,877	3,408	3,740
Foreign	936	789	1,450
Current provision	21,476	13,698	24,153
Deferred:			
Federal	4,002	(35,914)	18,167
State	1,320	2,552	2,533
Foreign	(1,399)	378	(1,580)
Deferred provision	3,923	(32,984)	19,120
Total income tax expense	$25,399	$(19,286)	$43,273

The differences between the actual tax expense and tax expense computed at the statutory U.S. federal tax rate are explained as follows (in thousands):

	2018	2017	2016
Federal statutory tax expense	$24,943	$24,678	$45,098
State taxes, net of federal tax effect	3,997	2,197	3,874
Credit for increasing research activities	(3,950)	(3,407)	(3,808)
Deduction related to domestic production activities	—	(1,537)	(2,243)
Valuation allowance	(1,141)	4,232	231
Federal rate adjustment to deferred taxes	—	(45,386)	—
Equity based compensation	(666)	(1,544)	—
Change in uncertain tax positions	766	(163)	117
Foreign income tax rate differential	124	2,094	845
Other – net	1,326	(450)	(841)
Total income tax expense	$25,399	$(19,286)	$43,273

On December 22, 2017, the Act was signed into law, making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 35 percent to 21 percent effective for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017.

Staff Accounting Bulletin No. 118 ("SAB 118") was issued to address the application of U.S. GAAP in the reporting period that includes December 22, 2017 in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain

income tax effects of the Act. In accordance with SAB 118, the Corporation determined as of the end of fiscal 2017, the $45.4 million of the deferred tax benefit recorded in connection with the remeasurement of certain deferred tax assets and liabilities and the $0.1 million of current tax expense recorded in connection with the transition tax on the mandatory deemed repatriation of foreign earnings was a provisional amount and a

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reasonable estimate as of December 30, 2017. Additional work was necessary to complete a more detailed analysis of historical foreign earnings as well as potential correlative adjustments. Subsequent adjustments to these amounts, which were not material, were recorded to current tax expense in the third quarter of 2018 when the analysis was completed.

During the third quarter of 2018, the 2017 federal income tax return was completed resulting in a $0.5 million detriment related to the reversal of net deferred tax liabilities based on the rates at which they are expected to reverse in the future as a result of tax reform rate changes. The Corporation finalized its calculation of the full impact of the Act on its 2017 federal income tax return during the third quarter of 2018.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the Corporation's deferred tax liabilities and assets are as follows (in thousands):

	2018	2017
Deferred Taxes		
Allowance for doubtful accounts	$897	$2,679
Compensation	6,419	5,618
Inventory differences	2,498	2,541
Marketing accrual	1,260	1,653
Stock-based compensation	8,456	8,224
Accrued post-retirement benefit obligations	5,500	6,896
Vacation accrual	2,783	2,577
Warranty accrual	3,761	3,737
Net operating loss carryforward	4,790	6,534
Charitable contributions carryforward	712	2,839
Other – net	12,702	6,372
Total deferred tax assets	$49,778	$49,670
Deferred income	(4,707)	(4,330)
Goodwill and other intangible assets	(52,468)	(53,255)
Prepaids	(6,536)	(5,862)
Tax over book depreciation	(59,500)	(54,227)
Total deferred tax liabilities	$(123,211)	$(117,674)
Valuation allowance	(7,153)	(8,664)
Total net deferred tax liabilities	$(80,586)	$(76,668)
Long-term net deferred tax assets	1,569	193
Long-term net deferred tax liabilities	(82,155)	(76,861)
Total net deferred tax liabilities	$(80,586)	$(76,668)

The valuation allowance for deferred tax assets is as follows (in thousands):

	Balance at beginning of period	Charged to expenses	Adjustments to balance sheet	Balance at end of period
Year ended December 29, 2018	$ 8,664	(839)	(672)	$7,153
Year ended December 30, 2017	$ 4,159	4,505	—	$8,664
Year ended December 31, 2016	$ 3,978	$ 231	$ (50)	$4,159

The current year decrease in the valuation allowance of $1.5 million primarily relates to a partial release of valuation allowances related to a foreign net operating loss utilization, an increase of other foreign tax net operating loss and a partial release of a previously

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recorded domestic deferred tax asset recorded that would give rise to a capital loss. The adjustment to the balance sheet relates to a change in foreign tax rate on certain foreign deferred tax assets.

As of December 29, 2018, the Corporation had approximately $0.5 million of U.S. state tax net operating losses and $2.2 million of U.S. state tax credits, which expire over the next twenty years.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	2018	2017
Balance at beginning of period	$2,524	$3,043
Increases in positions taken in a prior period	262	—
Decreases in positions taken in a prior period	—	(45)
New positions taken in a current period	529	569
Decrease due to settlements	(9)	(363)
Decrease due to lapse of statute of limitations	(369)	(680)
Balance at end of period	$2,937	$2,524

The amount of unrecognized tax benefits, which would impact the Corporation's effective tax rate, if recognized, was $2.9 million as of December 29, 2018 and $2.5 million as of December 30, 2017.

As of December 29, 2018, it is reasonably possible the amount of unrecognized tax benefits may increase or decrease within the twelve months following the reporting date. These increases or decreases in the unrecognized tax benefits would be due to new positions that may be taken on income tax returns, settlement of tax positions, and the closing of statutes of limitation. It is not expected any of the changes will be material individually, or in total, to the results or financial position of the Corporation.

The Corporation recognized interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses consistent with the recognition of these items in prior reporting periods. Interest, penalties, and benefits recognized in the Consolidated Statements of Comprehensive Income were as follows (in thousands):

	December 29, 2018	December 30, 2017	December 31, 2016
Interest, penalties, and (benefits)	$ 92	$ (25)	$ 70

The Corporation recorded a liability for interest and penalties related to unrecognized tax benefits in the Consolidated Statements of Comprehensive Income as follows (in thousands):

	December 29, 2018	December 30, 2017
Liability related to unrecognized tax benefits	$ 275	$ 183

Tax years 2015 through 2017 remain open for examination by the Internal Revenue Service ("IRS"). The Corporation is currently under examination in various state jurisdictions, of which years 2014 through 2017 remain open to examination.

Deferred income taxes are provided to reflect differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. Under the Act, a corporation’s foreign earnings accumulated under legacy tax laws are deemed repatriated. The tax on those deemed repatriated earnings is no longer indefinitely deferred but may be paid over eight years. This is a one-time transition tax. There were approximately $34.5 million of accumulated earnings considered permanently reinvested in China, Hong Kong, Singapore, and Canada as of December 29, 2018. The Corporation believes the tax costs on accumulated unremitted foreign earnings would be approximately $0.02 million if the amounts were not considered permanently reinvested.

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Note 10. Fair Value Measurements of Financial Instruments

For recognition purposes, on a recurring basis, the Corporation is required to measure at fair value its marketable securities, derivative financial instruments, variable-rate and fixed-rate debt obligations, and deferred stock-based compensation. The marketable securities are comprised of money market funds, government securities, and corporate bonds. When available, the Corporation uses quoted market prices to determine fair value and classifies such measurements within Level 1. Where market prices are not available, the Corporation makes use of observable market-based inputs (prices or quotes from published exchanges and indexes) to calculate fair value using the market approach, in which case the measurements are classified within Level 2.

Financial instruments measured at fair value were as follows (in thousands):

	Fair value as of measurement date	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Balance as of December 29, 2018				
Cash and cash equivalents (including money market funds) (1)	$ 76,819	$ 76,819	$ —	$ —
Government securities (2)	$ 7,384	$ —	$ 7,384	$ —
Corporate bonds (2)	$ 4,620	$ —	$ 4,620	$ —
Derivative financial instruments (3)	$ 3,797	$ —	$ 3,797	$ —
Variable-rate debt obligations (4)	$ 150,000	$ —	$ 150,000	$ —
Fixed-rate debt obligations (4)	$ 100,000	$ —	$ 100,000	$ —
Deferred stock-based compensation (5)	$ 7,857	$ —	$ 7,857	$ —
Balance as of December 30, 2017				
Cash and cash equivalents (including money market funds) (1)	$ 23,348	$ 23,348	$ —	$ —
Government securities (2)	$ 6,345	$ —	$ 6,345	$ —
Corporate bonds (2)	$ 6,149	$ —	$ 6,149	$ —
Derivative financial instruments (3)	$ 3,354	$ —	$ 3,354	$ —
Variable-rate debt obligations (4)	$ 267,500	$ —	$ 267,500	$ —
Deferred stock-based compensation (5)	$ 8,885	$ —	$ 8,885	$ —

The index below indicates the line item in the Consolidated Balance Sheets where the financial instruments are reported:

(1) "Cash and cash equivalents"
(2) Current portion - "Short-term investments"; Long-term portion - "Other Assets"
(3) Current portion - "Prepaid expenses and other current assets"; Long-term portion - "Other Assets"
(4) Current portion - "Current maturities of long-term debt"; Long-term portion - "Long-Term Debt"
(5) Current portion - "Current maturities of other long-term obligations"; Long-term portion - "Other Long-Term Liabilities"

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Note 11. Accumulated Other Comprehensive Income (Loss) and Shareholders' Equity

The following table summarizes the components of accumulated other comprehensive income (loss) and the changes in accumulated other comprehensive income (loss), net of tax, as applicable (in thousands):

	Foreign Currency Translation Adjustment	Unrealized Gains (Losses) on Marketable Securities	Pension and Post-retirement Liabilities	Derivative Financial Instruments	Accumulated Other Comprehensive Income (Loss)
Balance as of January 2, 2016	$ 322	$ (2)	$ (5,506)	$ —	$ (5,186)
Other comprehensive income (loss) before reclassifications	(1,510)	(158)	499	1,317	148
Tax (expense) or benefit	—	55	(160)	(485)	(590)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	—	—	—	628	628
Balance as of December 31, 2016	$ (1,188)	$ (105)	$ (5,167)	$ 1,460	$ (5,000)
Other comprehensive income (loss) before reclassifications	1,219	(6)	(733)	714	1,194
Tax (expense) or benefit	—	(21)	270	(263)	(14)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	—	—	—	209	209
Balance as of December 30, 2017	$ 31	$ (132)	$ (5,630)	$ 2,120	$ (3,611)
Other comprehensive income (loss) before reclassifications	(3,004)	(31)	3,531	1,488	1,984
Tax (expense) or benefit	—	7	(830)	(350)	(1,173)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	—	—	—	(799)	(799)
Balance as of December 29, 2018	$ (2,973)	$ (156)	$ (2,929)	$ 2,459	$ (3,599)

Amounts in parentheses indicate reductions to equity.

Interest Rate Swap

In March 2016, the Corporation entered in to an interest rate swap transaction to hedge $150 million of outstanding variable rate revolver borrowings against future interest rate volatility. Under the terms of the interest rate swap, the Corporation pays a fixed rate of 1.29 percent and receives one month LIBOR on a $150 million notational value expiring January 2021. As of December 29, 2018, the fair value of the Corporation's interest rate swap was an asset of $3.8 million, which is reflected in "Other Assets" in the Consolidated Balance Sheets. The unrecognized change in value of the interest rate swap is reported net of tax as $2.5 million in "Accumulated other comprehensive income (loss)" in the Consolidated Balance Sheets.

The following table details the reclassifications from accumulated other comprehensive income (loss) (in thousands):

Details about Accumulated Other Comprehensive Income (Loss) Components	Affected Line Item in the Statement Where Net Income is Presented	2018	2017	2016
Derivative financial instruments				
Interest rate swap	Interest (expense) or income	$1,045	$(330)	$(993)
	Tax (expense) or benefit	(246)	121	365
	Net of tax	$799	$(209)	$(628)

Amounts in parentheses indicate reductions to profit.

In May 2017, the Corporation registered 300,000 shares of its common stock under its 2017 Equity Plan for Non-Employee Directors of HNI Corporation (the "2017 Director Plan"). The 2017 Director Plan replaced the 2007 Equity Plan for Non-Employee Directors of HNI Corporation (the "2007 Director Plan" and together with the 2017 Director Plan, the "Director Plans"). After approval of the 2017 Director Plan, no awards were granted under the 2007 Director Plan. The 2017 Director Plan permits the Corporation to issue to its non-employee directors options to purchase shares of Corporation common stock, restricted stock or restricted stock units of the Corporation, and awards of Corporation common stock. The 2017 Director Plan also permits non-employee directors to elect to receive all or a portion of their annual retainers and other compensation in the form of shares of Corporation common stock.

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Common stock was issued under the Director Plans as follows:

	2018	2017	2016
Director Plan issued shares of common stock	27,745	27,196	24,352

Dividend

Cash dividends declared and paid per share for each year were as follows (in dollars):

	2018	2017	2016
Common shares	$1.17	$1.13	$1.09

During 2017, shareholders approved the HNI Corporation Members' Stock Purchase Plan (the "2017 MSPP") to replace the expired 2007 Members' Stock Purchase Plan (the "2007 MSPP" and together with the 2017 MSPP, the "MSPPs"). Under the 2017 MSPP, 800,000 shares of common stock were registered for issuance to participating members. After approval of the 2017 MSPP, no awards were granted under the 2007 MSPP. Under the 2017 MSPP, rights to purchase stock are granted on a quarterly basis to all participating members who customarily work 20 hours or more per week and for five months or more in any calendar year. The price of the stock purchased under the MSPP is 85 percent of the closing price on the exercise date. No member may purchase stock under the MSPP in an amount which exceeds a maximum fair value of $25,000 in any calendar year. The following table provides the details of stock under the MSPPs:

	2018	2017	2016
Shares of common stock issued	74,020	74,694	75,098
Average price per share	$32.19	$35.22	$37.77

An additional 673,013 shares were available for issuance under the 2017 MSPP as of December 29, 2018.

The Corporation has entered into change in control employment agreements with certain officers. According to the agreements, a change in control occurs when a third person or entity becomes the beneficial owner of 20 percent or more of the Corporation’s common stock, when more than one-third of the Board is composed of persons not recommended by at least three-fourths of the incumbent Board, upon certain business combinations involving the Corporation, or upon approval by the Corporation’s shareholders of a complete liquidation or dissolution. Upon a change in control, a key member is deemed to have a two-year employment agreement with the Corporation, and all of his or her benefits vest under the Corporation’s compensation plans. If, at any time within two years of the change in control, his or her employment is terminated by the Corporation for any reason other than cause or disability, or by the key member for good reason, as such terms are defined in the agreement, then the key member is entitled to receive, among other benefits, a severance payment equal to two times (three times for the Corporation’s President and CEO) annual salary and the average of the prior two years’ bonuses.

Stock Repurchase

The par value method of accounting is used for common stock repurchases. The following table summarizes shares repurchased and settled by the Corporation (in thousands, except share and per share data):

	2018	2017	2016
Shares repurchased	755,221	1,462,936	1,082,938
Average price per share	$38.96	$40.25	51.55
Cash purchase price	$(29,424)	$(58,887)	$(55,825)
Purchases unsettled as of quarter end	354	1,382	—
Prior year purchases settled in current year	(1,382)	—	—
Shares repurchased per cash flow	$(30,452)	$(57,505)	$(55,825)

As of December 29, 2018, approximately $48.6 million of the Corporation's Board of Directors' current repurchase authorization remained unspent.

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Note 12. Stock-Based Compensation

Under the Corporation's 2017 Stock-Based Compensation Plan (the "Plan"), effective May 9, 2017, the Corporation may award options to purchase shares of the Corporation's common stock and grant other stock awards to executives, managers, and key personnel. Upon shareholder approval of the Plan in May 2017, no future awards were granted under the Corporation's 2007 Stock-Based Compensation Plan, but all outstanding awards previously granted under that plan shall remain outstanding in accordance with their terms. As of December 29, 2018, there were approximately 2.6 million shares available for future issuance under the Plan. The Plan is administered by the Human Resources and Compensation Committee of the Board. Restricted stock units awarded under the Plan are expensed ratably over the vesting period of the awards. Stock options awarded to members under the Plan must be at exercise prices equal to or exceeding the fair market value of the Corporation's common stock on the date of grant. Stock options are generally subject to four-year cliff vesting and must be exercised within 10 years from the date of grant.

The Corporation measures stock-based compensation expense at grant date, based on the fair value of the award, and recognizes expense over the employees' requisite service periods. Stock-based compensation expense is the cost of stock options and time-based restricted stock units issued under the shareholder approved stock-based compensation plans and shares issued under the shareholder approved member stock purchase plans.

Compensation cost charged against operations for the Plan and the 2017 MSPP described in "Note 11. Accumulated Other Comprehensive Income (Loss) and Shareholders' Equity" in the Notes to Consolidated Financial Statements was as follows (in thousands):

	December 29, 2018	December 30, 2017	December 31, 2016
Compensation cost	$ 7,317	$ 7,750	$ 8,141

The total income tax benefit recognized in the income statement for share-based compensation arrangements was as follows (in thousands):

	December 29, 2018	December 30, 2017	December 31, 2016
Income tax benefit	$ 1,582	$ 2,581	$ 2,809

The stock-based compensation expense for the following year-end dates were estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions by grant year:

	December 29, 2018	December 30, 2017	December 31, 2016
Expected term	5 years	6 years	6 years
Expected volatility (weighted-average)	34.12 %	38.07 %	38.96 %
Expected dividend yield (weighted-average)	2.97 %	2.36 %	3.30 %
Risk-free interest rate (weighted-average)	2.66 %	2.17 %	1.41 %

Expected volatilities were based on historical volatility as the Corporation does not feel that future volatility over the expected term of the options is likely to differ from the past. The Corporation used a calculation method based on the historical daily frequency for a period of time equal to the expected term. The Corporation used the current dividend yield as there are no plans to substantially increase or decrease its dividends. The Corporation used historical exercise experience to determine the expected term. The risk-free interest rate was selected based on yields from treasury securities as published by the Federal Reserve equal to the expected term of the options.

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The following table summarizes the changes in outstanding stock options:

	Number of Shares	Weighted Average Exercise Price
Outstanding as of January 2, 2016	3,358,323	$ 32.09
Granted	877,277	32.18
Exercised	(609,663)	30.52
Forfeited or Expired	(121,602)	52.24
Outstanding as of December 31, 2016	3,504,335	$ 31.68
Granted	537,795	46.61
Exercised	(446,817)	25.55
Forfeited or Expired	(33,029)	40.81
Outstanding as of December 30, 2017	3,562,284	$ 34.63
Granted	788,301	38.53
Exercised	(647,759)	26.28
Forfeited or Expired	(75,821)	38.36
Outstanding as of December 29, 2018	3,627,005	$ 36.89

A summary of the Corporation's non-vested stock options and changes during the year are presented below:

	Number of Shares	Weighted Average Grant-Date Fair Value
Non-vested as of December 30, 2017	1,935,838	$ 12.05
Granted	788,301	9.72
Vested	(646,900)	11.14
Forfeited	(75,821)	11.19
Non-vested as of December 29, 2018	2,001,418	$ 11.46

As of December 29, 2018, there was $3.8 million of unrecognized compensation cost related to non-vested stock option awards, which the Corporation expects to recognize over a weighted-average period of 1.1 years. Information about stock options expected to vest or currently exercisable is as follows:

	December 29, 2018			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Exercisable Period (years)	Aggregate Intrinsic Value ($000s)
Expected to vest	1,864,724	$ 39.92	8.0	$ 1,779
Exercisable	1,625,587	$ 33.21	4.4	$ 5,893

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Other information for the last three years is as follows (in thousands):

	December 29, 2018	December 30, 2017	December 31, 2016
Total fair value of shares vested	$ 7,204	$ 8,057	$ 7,206
Total intrinsic value of options exercised	$ 8,917	$ 7,270	$ 11,985
Cash received from exercise of stock options	$ 17,021	$ 11,418	$ 18,609
Tax benefit realized from exercise of stock options	$ 1,928	$ 2,423	$ 4,142
Weighted-average grant-date fair value of options granted	$ 9.72	$ 14.41	$ 8.80

The Corporation has occasionally issued restricted stock units ("RSUs") to executives, managers, and key personnel. The RSUs vest at the end of three years after the grant date. No dividends are accrued on the RSUs. The share-based compensation expense associated with the RSUs is based on the quoted market price of HNI Corporation shares on the date of grant less the discounted present value of dividends not received on the shares and is amortized using the straight-line method from the grant date through the vesting date.

The following table summarizes the changes in outstanding RSUs:

	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding as of January 2, 2016	38,500	$ 43.77
Granted	25,000	32.06
Vested	—	—
Forfeited	(3,000)	51.54
Outstanding as of December 31, 2016	60,500	$ 38.54
Granted	—	—
Vested	(18,500)	35.36
Forfeited	(5,000)	51.54
Outstanding as of December 30, 2017	37,000	$ 38.38
Granted	23,224	40.44
Vested	(12,000)	51.54
Forfeited	(2,500)	28.90
Outstanding as of December 29, 2018	45,724	$ 36.49

As of December 29, 2018, there was $0.8 million of unrecognized compensation cost related to RSUs, which the Corporation expects to recognize over a weighted-average period of 1.0 year. The total value of shares vested was as follows (in thousands):

	2018	2017	2016
Value of shares vested	$618	$654	$ —

The following table details deferred compensation, which is a combination of cash and stock, and the affected line item in the Consolidated Balance Sheets where deferred compensation is presented (in thousands):

	December 29, 2018	December 30, 2017
Current maturities of other long-term obligations	$ 2,356	$ 719
Other long-term liabilities	8,729	11,581
Total deferred compensation	$ 11,085	$ 12,300
Total fair-market value of deferred compensation	$ 7,857	$ 8,885

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Note 13. Retirement Benefits

The Corporation has a defined contribution retirement plan covering substantially all employees.

The Corporation's annual contribution to the plan is based on employee eligible earnings. A portion of the contribution is also based on results of operations, and a portion is contributed in the form of common stock of the Corporation. The following table reconciles the annual contribution (in thousands):

	2018	2017	2016
Stock contribution	$7,174	$7,327	$7,170
Cash contribution	21,413	23,834	25,349
Total annual contribution	$28,587	$31,161	$32,519

Note 14. Post-Retirement Health Care

The Corporation offers a fixed subsidy to certain retirees who choose to participate in a third party insurance plan selected by the Corporation. Guidance on employers’ accounting for other post-retirement plans requires recognition of the overfunded or underfunded status on the balance sheet. Under this guidance, gains and losses, prior service costs and credits, and any remaining transition amounts under previous guidance not yet recognized through net periodic benefit cost are recognized in accumulated other comprehensive income (loss), net of tax effects, until they are amortized as a component of net periodic benefit cost. Also, the measurement date – the date at which the benefit obligation and plan assets are measured – is required to be the Corporation’s fiscal year-end.

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The following table sets forth the activity and reporting location of the benefit obligation and plan assets (in thousands):

	2018	2017
Change in benefit obligation		
Benefit obligation at beginning of year	$22,933	$21,153
Service cost	853	741
Interest cost	789	825
Benefits paid	(1,570)	(1,003)
Actuarial (gain) loss	(3,453)	1,217
Benefit obligation at end of year	$19,552	$22,933
Change in plan assets		
Fair value at beginning of year	$—	$—
Actual return on assets	—	—
Employer contribution	1,570	1,003
Transferred out	—	—
Benefits paid	(1,570)	(1,003)
Fair value at end of year	$—	$—
Funded Status of Plan	$(19,552)	$(22,933)
Amounts recognized in the Statement of Financial Position consist of:		
Current liabilities	$1,057	$1,050
Non-current liabilities	$18,495	$21,883
Amounts recognized in Accumulated Other Comprehensive Income (before tax) consist of:		
Actuarial (gain) loss	$(14)	$3,565
Change in Accumulated Other Comprehensive Income (before tax):		
Amount disclosed at beginning of year	$3,565	$2,373
Actuarial (gain) loss	(3,453)	1,217
Amortization of transition amount	(126)	(25)
Amount disclosed at end of year	$(14)	$3,565

Estimated future benefit payments are as follows (in thousands):

Fiscal 2019	$1,056
Fiscal 2020	$1,053
Fiscal 2021	$1,051
Fiscal 2022	$1,065
Fiscal 2023	$1,085
Fiscal 2024 – 2028	$5,885

Expected contributions are as follows (in thousands):

Fiscal 2019	$1,056

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The discount rate is set at the measurement date to reflect the yield of a portfolio of high quality, fixed income debt instruments. The discount rate used was as follows:

	2018	2017	2016
Discount rate	4.2 %	3.5 %	4.0 %

The Corporation's payment for these benefits is a fixed subsidy per the plan; therefore, healthcare trend rates have no impact on the Corporation's cost. There were no funds designated as plan assets. A discount rate of 4.2 percent was used to determine net periodic benefit costs for 2019. The following table sets forth the components of net periodic benefit costs (in thousands):

	2019
Service cost	$680
Interest cost	795
Amortization of net (gain) loss	—
Net periodic post-retirement benefit cost	$1,475

Note 15. Leases

The Corporation leases certain showrooms, office space, warehouse and plant facilities and equipment. Commitments for minimum rentals under non-cancelable leases are as follows (in thousands):

	Operating Leases
2019	$ 24,387
2020	18,250
2021	13,324
2022	9,082
2023	6,228
Thereafter	10,469
Total minimum lease payments	$ 81,740

There are no capitalized leases as of December 29, 2018 and December 30, 2017.

Rent expense was as follows (in thousands):

	2018	2017	2016
Rent expense	$31,027	$32,158	$35,288

There was no contingent rent expense under operating leases for the years 2018, 2017, and 2016.

As part of the Corporation's continued efforts to drive efficiency and simplification, the Corporation entered into a sale-leaseback transaction in the first quarter of 2018, selling a manufacturing facility and subsequently leasing back a portion of the facility for a term of 10 years. The net proceeds from the sale of the facility of $16.9 million are reflected in "Proceeds from sale and license of property, plant, equipment, and intangibles" in the Consolidated Statements of Cash Flows. In accordance with ASC 840, Leases, the $5.1 million gain on the sale of the facility was deferred and is being amortized as a reduction to rent expense evenly over the term of the lease. As of December 29, 2018, the current portion of the deferred gain is $0.5 million and included within "Accounts payable and accrued expenses" and the long-term portion of the deferred gain is $4.2 million and included within "Other Long-Term Liabilities" in the Consolidated Balance Sheets. The transaction did not have a material impact to the Consolidated Statements of Comprehensive Income.

Note 16. Guarantees, Commitments, and Contingencies

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The Corporation utilizes letters of credit and surety bonds in the amount of $24 million to back certain insurance policies and payment obligations. The Corporation utilizes trade letters of credit and banker's acceptances in the amount of $2 million to guarantee certain payments to overseas suppliers. The letters of credit, bonds, and banker's acceptances reflect fair value as a condition of their underlying purpose and are subject to competitively determined fees.

The Corporation initiated litigation in Iowa on August 15, 2017 against the purchasers of Artcobell for amounts owed in connection with the sale of Artcobell. Artcobell initiated litigation against the Corporation in Texas on June 14, 2017 regarding a dispute arising after the sale of Artcobell. On October 9, 2018, the Corporation resolved all claims related to the disputes. The Corporation is not required to make any payments and recorded an immaterial recovery in the fourth quarter of 2018.

The Corporation has contingent liabilities which have arisen in the ordinary course of its business, including liabilities relating to pending litigation, environmental remediation, taxes, and other claims. It is the Corporation's opinion, after consultation with legal counsel, that liabilities, if any, resulting from these matters are not expected to have a material adverse effect on the Corporation's financial condition, cash flows, or on the Corporation's quarterly or annual operating results when resolved in a future period.

Note 17. Reportable Segment Information

Management views the Corporation as being in two reportable segments based on industries: office furniture and hearth products, with the former being the principal segment.

The aggregated office furniture segment manufactures and markets a broad line of commercial and home office furniture which includes storage products, desks, credenzas, chairs, tables, bookcases, freestanding office partitions and panel systems, and other related products. The hearth products segment manufactures and markets a broad line of gas, electric, wood, and biomass burning fireplaces, inserts, stoves, facings, and accessories, principally for the home.

For purposes of segment reporting, intercompany sales between segments are not material, and operating profit is income before income taxes exclusive of certain unallocated corporate expenses. These unallocated general corporate expenses include the net costs of the Corporation’s corporate operations. Management views interest income and expense as corporate financing costs and not as a reportable segment cost. In addition, management applies an effective income tax rate to its consolidated income before income taxes so income taxes are not reported or viewed internally on a segment basis. Identifiable assets by segment are those assets applicable to the respective industry segments. Corporate assets consist principally of cash and cash equivalents, short-term investments, long-term investments, IT infrastructure, and corporate office real estate and related equipment.

No geographic information for revenues from external customers or for long-lived assets is disclosed since the Corporation’s primary market and capital investments are concentrated in the United States.

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Reportable segment data reconciled to the Corporation's consolidated financial statements was as follows (in thousands):

	2018	2017	2016
Net Sales:			
Office furniture	$1,706,092	$1,660,723	$1,703,885
Hearth products	551,803	515,159	499,604
Total	$2,257,895	$2,175,882	$2,203,489
Income Before Income Taxes:			
Office furniture [(a)]	$79,323	$50,176	$117,397
Hearth products [(b)]	91,367	83,649	69,960
General corporate	(42,517)	(57,135)	(53,665)
Operating income	128,173	76,690	133,692
Interest expense, net	9,448	6,078	4,781
Total	$118,725	$70,612	$128,911
Depreciation and Amortization Expense:			
Office furniture	$44,303	$48,435	$45,088
Hearth products	8,171	10,109	12,486
General corporate	22,314	14,328	11,373
Total	$74,788	$72,872	$68,947
Capital Expenditures (including capitalized software):			
Office furniture	$47,860	$79,458	$65,944
Hearth products	8,854	17,356	11,217
General corporate	6,982	30,577	42,423
Total	$63,696	$127,391	$119,584
Identifiable Assets:			
Office furniture	$797,574	$821,767	$749,145
Hearth products	352,060	347,189	340,494
General corporate	252,210	222,594	240,595
Total	$1,401,844	$1,391,550	$1,330,234

(a) Included in operating profit for the office furniture segment are pretax charges of $16.4 million, $32.5 million, and $10.9 million, for closing of facilities and impairment charges in 2018, 2017, and 2016, respectively.

(b) Included in operating profit for the hearth products segment are pretax charges of $1.2 million and $4.9 million for closing facilities in 2018 and 2017, and $5.5 million related to exiting a line of business in 2016.

The Corporation's net sales by product category were as follows (in thousands):

	2018	2017	2016
Systems and storage	$1,015,900	$1,069,518	$1,072,518
Seating	598,722	536,501	539,839
Other	91,470	54,704	91,528
Hearth products	551,803	515,159	499,604
	$2,257,895	$2,175,882	$2,203,489

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Summary of Quarterly Results of Operations (Unaudited)

In the opinion of the Corporation's management, the following information has been prepared on the same basis as the consolidated financial statements appearing elsewhere in this report and includes all adjustments (consisting only of normal recurring accruals) necessary to state fairly the financial results set forth herein. Results of operations for any previous quarter are not necessarily indicative of results for any future period.

The following tables present certain unaudited quarterly financial information for each of the past 8 quarters (in thousands, except per share data):

	2018 First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$505,069	$543,614	$611,120	$598,092
Cost of sales	328,150	342,744	377,789	374,174
Gross profit	176,919	200,870	233,331	223,918
Selling and administrative expenses	171,895	172,973	179,577	166,695
(Gain) loss on sale, disposal, and license of assets	—	—	—	—
Restructuring and impairment charges	1,338	837	128	13,422
Operating income (loss)	3,686	27,060	53,626	43,801
Interest income	113	89	80	297
Interest expense	2,337	2,718	2,602	2,370
Income (loss) before income taxes	1,462	24,431	51,104	41,728
Income tax expense (benefit)	(999)	5,835	11,197	9,366
Net income	2,461	18,596	39,907	32,362
Less: Net income (loss) attributable to non-controlling interest	(49)	(1)	—	(1)
Net income attributable to HNI Corporation	$2,510	$18,597	$39,907	$32,363
Average number of common shares outstanding - basic	43,359,971	43,665,411	43,822,757	43,707,873
Net income attributable to HNI Corporation per common share – basic	$0.06	$0.43	$0.91	$0.74
Average number of common shares outstanding - diluted	44,134,142	44,289,662	44,678,824	44,310,574
Net income attributable to HNI Corporation per common share – diluted	$0.06	$0.42	$0.89	$0.73
As a Percentage of Net Sales:				
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Gross profit	35.0	37.0	38.2	37.4
Selling and administrative expenses	34.0	31.8	29.4	27.9
(Gain) loss on sale, disposal, and license of assets	—	—	—	—
Restructuring and impairment charges	0.3	0.2	—	2.2
Operating income (loss)	0.7	5.0	8.8	7.3
Income tax expense (benefit)	(0.2)	1.1	1.8	1.6
Net income attributable to HNI Corporation	0.5	3.4	6.5	5.4

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	2017 First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$477,667	$514,485	$599,455	$584,275
Cost of sales	303,944	329,733	378,211	380,006
Gross profit	173,723	184,752	221,244	204,269
Selling and administrative expenses	163,666	162,684	169,547	175,934
(Gain) loss on sale of assets	—	—	(6,805)	4,856
Restructuring and impairment charges	2,123	419	783	34,091
Operating income	7,934	21,649	57,719	(10,612)
Interest income	71	325	71	(170)
Interest expense	1,046	1,347	1,835	2,147
Income before income taxes	6,959	20,627	55,955	(12,929)
Income taxes	2,178	6,771	18,624	(46,859)
Net income	4,781	13,856	37,331	33,930
Less: Net income (loss) attributable to non-controlling interest	(56)	8	60	91
Net income attributable to HNI Corporation	$4,837	$13,848	$37,271	$33,839
Average number of common shares outstanding - basic	44,050,040	44,178,287	43,682,805	43,444,885
Net income attributable to HNI Corporation per common share – basic	$0.11	$0.31	$0.85	$0.78
Average number of common shares outstanding - diluted	45,452,664	45,305,547	44,479,117	44,153,300
Net income attributable to HNI Corporation per common share – diluted	$0.11	$0.31	$0.84	$0.77
As a Percentage of Net Sales:				
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Gross profit	36.4	35.9	36.9	35.0
Selling and administrative expenses	34.3	31.6	28.3	30.1
(Gain) loss on sale of assets	—	—	(1.1)	0.8
Restructuring and impairment charges	0.4	0.1	0.1	5.8
Operating income	1.7	4.2	9.6	(1.8)
Income taxes	0.5	1.3	3.1	(8.0)
Net income attributable to HNI Corporation	1.0	2.7	6.2	5.8