OFFICE FURNITURE

Office furniture comprised 74% of consolidated net sales for 2003 and 76% of consolidated net sales for 2002 and 2001. Net sales for office furniture increased 2% in 2003 and decreased 6% in 2002. The increase in 2003 is due to the increased week from the Company's 52/53-week fiscal year. The office furniture industry has experienced an unprecedented three-year decline in shipments. The Business and Institutional Furniture Manufacturer's Association (BIFMA) reported 2003 shipments down over 5% and 2002 shipments down 19%. The Company's estimated share of the market based on reported office furniture shipments increased to 15.3% in 2003 compared to 14.4% in 2002 and 12.4% in 2001. This increase was achieved by providing strong brands, innovative products and services, and greater value to end-users.

Operating profit as a percent of sales was 10.0% in 2003, 10.2% in 2002, and 8.2% in 2001. Included in 2003 were $15.2 million of net pretax charges related to the closure of two office furniture facilities, which impacted operating margins by 1.1 percentage points. Included in 2002 were $3.0 million of restructuring charges, which impacted operating margins by 0.2 percentage points, and 2001 included $22.5 million of restructuring charges, which impacted operating margins by 1.7 percentage points. The increase in operating margins is due to increased gross profit from the benefits of restructuring initiatives, rapid continuous improvement programs, and increased price realization, offset by additional investments in brand building and selling initiatives and increased freight expense.

HEARTH PRODUCTS

Hearth products sales increased 9% in 2003 and decreased 3% in 2002, respectively. The growth in 2003 was attributable to strong housing starts, growth in market share in both the new construction and retail channels, strengthening alliances with key distributors and dealers, as well as focused new product introductions. The decrease in 2002 was mainly due to pruning out less profitable product lines.

Operating profit as a percent of sales in 2003 was 12.1% compared to 10.8% and 9.2% in 2002 and 2001, respectively. The improved profitability in 2003 was the result of leveraging fixed costs over a higher sales volume and increased sales through company-owned distribution offset by increased freight costs and higher labor costs from increased use of overtime and temporary labor to meet record levels of demand. The increase in 2002 was mainly due to discontinuance of goodwill and indefinite-lived intangible amortization of approximately $7 million due to the adoption of SFAS 142.

Liquidity and Capital Resources

During 2003, cash flow from operations was $141.3 million, which along with funds from stock option exercises under employee stock plans, provided the funds necessary to meet working capital needs, invest in capital improvements, repay long-term debt, repurchase common stock, and pay increased dividends.

Cash, cash equivalents, and short-term investments totaled $204.2 million at the end of 2003 compared to $155.5 million at the end of 2002 and $78.8 million at the end of 2001. The Company used approximately $80 million of cash to acquire Paoli Inc. on January 5, 2004. These remaining funds, coupled with cash from future operations and additional long-term debt, if needed, are expected to be adequate to finance operations, planned improvements, and internal growth. The Company is not aware of any known trends or demands, commitments, events, or uncertainties that are reasonably likely to result in its liquidity increasing or decreasing in any material way.

The Company places special emphasis on the management and reduction of its working capital with a particular focus on trade receivables and inventory levels. The success achieved in managing receivables is in large part a result of doing business with quality customers and maintaining close communication with them. Trade receivables at year-end 2003 were virtually unchanged from the prior year. Trade receivable days outstanding have averaged approximately 37 to 38 days over the past three years. The Company's inventory turns were 23, 23, and 18 for 2003, 2002, and 2001, respectively. Increased imports of raw materials and finished goods may negatively affect inventory turns in the future but the Company is constantly looking for ways to add efficiency to its supply chain. The decrease in accounts payable and accrued expenses is due to timing of vendor and marketing program payments and the payment of additional purchase consideration and debenture earn out related to a prior acquisition. The Company also funded the retiree medical portion of its postretirement benefit obligation in 2003.

INVESTMENTS

The Company has investments in investment grade equity and debt securities. Management classifies investments in marketable securities at the time of purchase and reevaluates such classification at each balance sheet date. Equity securities are classified as available-for-sale and are stated at current market value with unrealized gains and losses included as a separate component of equity, net of any related tax effect. Debt securities are classified as held-to-maturity and are stated at amortized cost. A table of holdings as of year-end 2003 and 2002 is