

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nature of Operations

HON INDUSTRIES Inc., with its subsidiaries (the "Company"), is a provider of office furniture and hearth products. Both industries are reportable segments; however, the Company's office furniture business is its principal line of business. Refer to the Operating Segment Information note for further information. Office furniture products are sold through a national system of dealers, wholesalers, mass merchandisers, warehouse clubs, retail superstores, end-user customers, and to federal and state governments. Dealer, wholesaler, and retail superstores are the major channels based on sales. Hearth products include electric, wood-, pellet-, and gas-burning factory-built fireplaces, fireplace inserts, stoves, and gas logs. These products are sold through a national system of dealers, wholesalers, large regional contractors, and Company-owned retail outlets. The Company's products are marketed predominantly in the United States and Canada. The Company exports select products to a limited number of markets outside North America, principally Latin America and the Caribbean, through its export subsidiary; however, based on sales, these activities are not significant.

Summary of Significant Accounting Policies

PRINCIPLES OF CONSOLIDATION AND FISCAL YEAR-END

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

The Company follows a 52/53-week fiscal year which ends on the Saturday nearest December 31. Fiscal year 2003 ended on January 3, 2004; 2002 ended on December 28, 2002; and 2001 ended on December 29, 2001. The financial statements for fiscal year 2003 are based on a 53-week period; fiscal years 2002 and 2001 are on a 52-week basis.

CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and cash equivalents generally consist of cash, money market accounts, and debt securities. These securities have original maturity dates not exceeding three months from date of purchase. The Company has short-term investments with maturities of less than one year and also has investments with maturities greater than one year that are included in Other Assets on the consolidated balance sheet. 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. The specific identification method is used to determine realized gains and losses on the trade date. Short-term investments include municipal bonds, money market preferred stock, and U.S. treasury notes. Long-term investments include U.S. government securities, municipal bonds, certificates of deposit, and asset- and mortgage-backed securities.

At January 3, 2004, and December 28, 2002, cash, cash equivalents and investments consisted of the following (cost approximates market value):

| <i>(In thousands)</i> | Cash and cash equivalents | Short-term investments | Long-term investments |
|---------------------------------------|---------------------------|------------------------|-----------------------|
| YEAR-END 2003 | | | |
| <i>Held-to-maturity securities</i> | | | |
| Municipal bonds | \$ 31,000 | \$ — | \$ 2,396 |
| U.S. government securities | — | — | — |
| Certificates of deposit | — | — | 400 |
| <i>Available-for-sale securities</i> | | | |
| U.S. treasury notes | — | 4,259 | — |
| Money market preferred stock | — | — | — |
| Asset- and mortgage-backed securities | — | 60,949 | 12,835 |
| <i>Cash and money market accounts</i> | 107,982 | — | — |
| Total | \$ 138,982 | \$ 65,208 | \$ 15,631 |
| YEAR-END 2002 | | | |
| <i>Held-to-maturity securities</i> | | | |
| Municipal bonds | \$ 82,300 | \$ 1,900 | \$ 5,396 |
| U.S. government securities | — | — | 11,995 |
| Certificates of deposit | — | — | 400 |
| <i>Available-for-sale securities</i> | | | |
| U.S. treasury notes | — | 3,478 | — |
| Money market preferred stock | — | 11,000 | — |
| Asset- and mortgage-backed securities | — | — | 7,098 |
| <i>Cash and money market accounts</i> | 56,865 | — | — |
| Total | \$ 139,165 | \$ 16,378 | \$ 24,889 |

The 2001 cash and cash equivalents generally consisted of cash and commercial paper.

RECEIVABLES

Accounts receivable are presented net of an allowance for doubtful accounts of \$10,859,000, \$9,570,000, and \$16,576,000 for 2003, 2002, and 2001, respectively. The allowance for receivables is developed based on several factors including overall customer credit quality, historical write-off experience and specific account analyses that