MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion of the Company's historical results of operations and of its liquidity and capital resources should be read in conjunction with the Consolidated Financial Statements of the Company and related notes.

Overview

The Company has two reportable core operating segments: office furniture and hearth products. The Company is the second largest office furniture manufacturer in the United States and the nation's leading manufacturer and marketer of gas- and wood-burning fireplaces.

From 2000 to 2003, the office furniture industry experienced an unprecedented three-year decline due to the challenging economic environment. In 2003, this decline negatively impacted the Company's office furniture segment. In contrast, the housing market was at record high levels during 2003, which positively impacted the Company's hearth segment. The Company outperformed its peers in both segments in which it competes. The Company gained market share by providing strong brands, innovative products and services, and greater value to its end-users. Fiscal 2003 also included an extra week of activity due to the Company's 52/53-week fiscal year.

Net sales were $1.8 billion in 2003, as compared to $1.7 billion in 2002. The increase in net sales reflects the 9% increase in the hearth segment and the additional week of business activity. In 2003 and 2002, the Company recorded restructuring charges and accelerated depreciation related to the closure and consolidation of office furniture facilities totaling $15.2 million and $3.0 million, respectively. Gross margins increased to 36.4% in 2003 from 35.4% in 2002 due to benefits from restructuring initiatives and its rapid continuous improvement program, new products, and increased price realization. The Company also invested aggressively in brand building and selling initiatives in 2003. Net income was $98.1 million or $1.68 per diluted share in 2003, as compared to $91.4 million or $1.55 per diluted share in 2002.

The Company generated $141.3 million in cash flow from operating activities and increased its cash position, including short-term investments, by $48.6 million to $204.2 million. The Company paid dividends of $30.3 million and repurchased $21.5 million of its common stock, while investing $35.7 million in net capital expenditures and repaying $20.2 million of debt.

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, which have been prepared in accordance with 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 our Board of Directors. 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 that are 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.

Fiscal year end – The Company's fiscal year ends on the Saturday nearest December 31. Fiscal year 2003, the year ended January 3, 2004, contained 53 weeks, while fiscal year 2002, the year ended December 28, 2002, and fiscal year 2001, the year ended December 29, 2001, contained 52 weeks. A 53-week year occurs approximately every sixth year.

Revenue recognition – Revenue is normally recognized upon shipment of goods to customers. In certain circumstances revenue is not recognized until the goods are received by the customer or upon installation and customer acceptance based on the terms of the sale agreement. Revenue includes freight charged to customers; related