

KNOLL INC  
Form 10-Q  
November 12, 2013  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 001-12907

KNOLL, INC.

A Delaware Corporation

I.R.S. Employer No. 13-3873847

1235 Water Street  
East Greenville, PA 18041  
Telephone Number (215) 679-7991

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer , Accelerated filer , Non-accelerated filer , Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes  No

Edgar Filing: KNOLL INC - Form 10-Q

As of November 7, 2013, there were 48,275,175 shares (including 1,108,488 shares of non-voting restricted shares) of the Registrant's common stock, par value \$0.01 per share, outstanding.

---

Table of Contents

KNOLL, INC.

TABLE OF CONTENTS FOR FORM 10-Q

Item	Page
<u>PART I — FINANCIAL INFORMATION</u>	
1. <u>Condensed Consolidated Financial Statements:</u>	
<u>Condensed Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations and Comprehensive Income for the three and nine months ended September 30, 2013 and 2012</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and 2012</u>	<u>5</u>
<u>Notes to the Condensed Consolidated Financial Statements</u>	<u>6</u>
2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>13</u>
3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>20</u>
4. <u>Controls and Procedures</u>	<u>21</u>
<u>PART II — OTHER INFORMATION</u>	
1. <u>Legal Proceedings</u>	<u>22</u>
1A. <u>Risk Factors</u>	<u>22</u>
2. <u>Unregistered Sales of Equity Securities and The Use of Proceeds</u>	<u>22</u>
6. <u>Exhibits</u>	<u>23</u>
<u>Signatures</u>	<u>24</u>

Table of Contents

## PART I - FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## KNOLL, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(dollars in thousands, except per share data)

	September 30, 2013	December 31, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$13,513	\$29,956
Customer receivables, net	90,511	105,877
Inventories	94,102	98,195
Deferred income taxes	14,066	13,061
Prepaid and other current assets	16,349	11,433
Total current assets	228,541	258,522
Property, plant, and equipment, net	133,281	124,838
Goodwill	80,250	80,332
Intangible assets, net	222,203	222,498
Other non-trade receivables	4,458	3,700
Other noncurrent assets	4,637	5,163
Total Assets	\$673,370	\$695,053
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$75,840	\$83,600
Income taxes payable	1,963	6,327
Other current liabilities	67,635	86,018
Total current liabilities	145,438	175,945
Long-term debt	183,000	193,000
Deferred income taxes	60,504	51,382
Postretirement benefits other than pensions	10,377	10,005
Pension liability	57,851	64,836
Other noncurrent liabilities	15,543	11,785
Total liabilities	472,713	506,953
Commitments and contingent liabilities		
Stockholders' equity:		
Common stock, \$0.01 par value; 200,000,000 shares authorized; 62,775,725 shares issued and 48,178,298 shares outstanding (net of 14,597,427 treasury shares) at September 30, 2013 and 62,266,755 shares issued and 47,840,562 shares outstanding (net of 14,426,193 treasury shares) at December 31, 2012	482	479
Additional paid-in capital	35,510	27,751
Retained earnings	189,927	184,750
Accumulated other comprehensive income (loss)	(25,262)	(24,880)
Total stockholders' equity	200,657	188,100
Total Liabilities and Stockholders' Equity	\$673,370	\$695,053

See accompanying notes to the condensed consolidated financial statements.

3

---

Table of Contents

KNOLL, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited)

(dollars in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Net Sales	\$216,898	\$219,794	\$631,796	\$637,473
Cost of sales	144,559	145,578	425,949	425,798
Gross profit	72,339	74,216	205,847	211,675
Selling, general, and administrative expenses	55,288	50,694	166,094	151,899
Operating profit	17,051	23,522	39,753	59,776
Interest expense	1,484	1,635	4,496	4,778
Other expense (income), net	2,224	2,786	(1,273)	) 3,723
Income before income tax expense	13,343	19,101	36,530	51,275
Income tax expense	4,793	6,904	14,018	18,766
Net income	\$8,550	\$12,197	\$22,512	\$32,509
Net earnings per share:				
Basic	\$0.18	\$0.26	\$0.48	\$0.70
Diluted	\$0.18	\$0.26	\$0.47	\$0.69
Dividends per share	\$0.12	\$0.12	\$0.36	\$0.32
Weighted-average number of common shares outstanding:				
Basic	46,915,660	46,667,359	46,882,362	46,595,066
Diluted	47,679,422	47,038,785	47,615,305	47,051,004
Net income	\$8,550	\$12,197	\$22,512	\$32,509
Other comprehensive income (loss)				
Foreign currency translation adjustment	4,047	4,586	(3,164)	) 2,076
Pension and other post-retirement liability adjustment, net of tax	913	—	2,782	—
Total other comprehensive income (loss), net of tax	4,960	4,586	(382)	) 2,076
Total comprehensive income	\$13,510	\$16,783	\$22,130	\$34,585

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

KNOLL, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)  
 (dollars in thousands)

	Nine Months Ended September 30, 2013	
	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$22,512	\$32,509
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	11,176	10,832
Amortization expense (including deferred financing fees)	1,064	1,257
Loss (gain) on disposal of property, plant, and equipment	126	(483)
Write-off of deferred financing fees	—	477
Unrealized foreign currency (gains) losses	(2,177)	) 1,997
Stock-based compensation	8,011	7,841
Other non-cash items	22	22
Changes in assets and liabilities net of effects of acquisitions:		
Customer receivables	15,259	26,247
Inventories	3,878	(11,375)
Accounts payable	(9,646)	) (10,317)
Current and deferred income taxes	(2,241)	) (12,327)
Prepaid and other current assets	532	(3,694)
Other current liabilities	(16,570)	) (11,615)
Other noncurrent assets and liabilities	(597)	) (2,316)
Cash provided by operating activities	31,349	29,055
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures, net	(20,486)	) (10,088)
Purchase of business, net of cash acquired	—	(5,968)
Purchase of intangibles	(275)	) (488)
Cash used in investing activities	(20,761)	) (16,544)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from revolving credit facility	206,000	491,000
Repayment of revolving credit facility	(216,000)	) (500,000)
Payment of financing fees	(13)	) (2,846)
Payment of dividends	(16,888)	) (14,925)
Proceeds from the issuance of common stock	2,234	886
Purchase of common stock for treasury	(2,729)	) (3,465)
Tax benefit from the exercise of stock options and vesting of equity awards	246	126
Cash used in financing activities	(27,150)	) (29,224)
Effect of exchange rate changes on cash and cash equivalents	119	(860)
Decrease in cash and cash equivalents	(16,443)	) (17,573)
Cash and cash equivalents at beginning of period	29,956	28,263
Cash and cash equivalents at end of period	\$13,513	\$10,690

See accompanying notes to the condensed consolidated financial statements.





Table of Contents

KNOLL, INC.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Knoll, Inc. (the “Company”) have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) have been condensed or omitted pursuant to such rules and regulations. The consolidated balance sheet of the Company, as of December 31, 2012, was derived from the Company’s audited consolidated balance sheet as of that date. All other condensed consolidated financial statements contained herein are unaudited and reflect all adjustments which are, in the opinion of management, necessary to summarize fairly the financial position of the Company and the results of the Company’s operations and cash flows for the periods presented. All of these adjustments are of a normal recurring nature. All intercompany balances and transactions have been eliminated in consolidation. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company’s Form 10-K for the year ended December 31, 2012.

## NOTE 2. NEW ACCOUNTING PRONOUNCEMENTS

In February 2013, the Financial Accounting Standards Board (FASB) issued ASU 2013-02, “Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income.” This ASU amended ASC 220 to require companies to report, in one place, information about reclassifications out of Accumulated Other Comprehensive Income (AOCI). The ASU allows companies to present this information on the face of the financial statements, if certain requirements are met. Otherwise, the information must be presented in the notes. If a company is unable to identify the line item of net income affected by any significant amount reclassified out of AOCI during a reporting period (including when all reclassifications for the period are not to net income in their entirety), the information must be reported in the notes. The ASU requires information about the effect (i.e., amount) of significant reclassification items on the line items of net income by component of Other Comprehensive Income (OCI). For items of AOCI that are not reclassified to net income in their entirety (e.g., amounts that are capitalized in inventory), companies must cross-reference the note where additional details about the effects of the reclassification are disclosed. In addition, the ASU requires detailed reporting about changes in AOCI balances. It requires companies to present details of current-period changes in AOCI (i.e., reclassifications and other amounts of current-period OCI) for each component of OCI on the face of the financial statements or in the notes. The Company adopted ASU 2013-02 as of January 1, 2013, as required. The adoption of ASU 2013-02 did not have a material impact on the Company’s condensed consolidated financial statements.

## NOTE 3. INVENTORIES

	September 30, 2013	December 31, 2012
	(in thousands)	
Raw materials	49,667	50,159
Work-in-process	7,018	7,626
Finished goods	37,417	40,410
	94,102	98,195

Inventory reserves for obsolescence and other estimated losses were \$6.3 million and \$6.9 million at September 30, 2013 and December 31, 2012, respectively, and have been included in the amounts above.

Table of Contents

KNOLL, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 4. INCOME TAXES

The Company's income tax provision consists of federal, state and foreign income taxes. The tax provisions for the three and nine months ended September 30, 2013 and 2012 were based on the estimated effective tax rates applicable for the full years ending December 31, 2013 and 2012, after giving effect to items specifically related to the interim periods. The Company's effective tax rate was 35.9% for the three months ended September 30, 2013 and 36.1% for the three months ended September 30, 2012. The Company's effective tax rate was 38.4% for the nine months ended September 30, 2013 and 36.6% for the nine months ended September 30, 2012. The increase in the Company's effective tax rate for the nine months ended September 30, 2013, was primarily a result of certain non-deductible items and the geographic mix of pretax income and the different tax rates of these jurisdictions.

As of September 30, 2013 and December 31, 2012, the Company had unrecognized tax benefits of approximately \$0.8 million and \$1.2 million, respectively. These unrecognized tax benefits amounts would affect the effective tax rate if recognized. As of September 30, 2013, the Company is subject to U.S. Federal income tax examinations for the tax years 2009 through 2012, and to non-U.S. income tax examinations for the tax years 2004 through 2012. In addition, the Company is subject to state and local income tax examinations for the tax years 2004 through 2012.

NOTE 5. DERIVATIVE FINANCIAL INSTRUMENTS

Foreign Currency Contracts

From time to time, the Company enters into foreign currency forward exchange contracts and foreign currency option contracts to manage its exposure to foreign exchange rates associated with short-term operating receivables of a Canadian subsidiary that are payable by the U.S. operations. The terms of these contracts are generally less than a year. Changes in the fair value of such contracts are reported in earnings as a component of "Other expense (income), net."

The Company entered into two foreign currency contracts during the nine months ended September 30, 2013. No amount was paid or received as a result of these contracts. The Company did not enter into any foreign currency contracts during the nine months ended September 30, 2012. There were no outstanding derivative contracts as of September 30, 2013 and December 31, 2012.

NOTE 6. CONTINGENT LIABILITIES AND COMMITMENTS

Litigation

The Company is currently involved in matters of litigation, including environmental contingencies, arising in the ordinary course of business. The Company accrues for such matters when expenditures are probable and reasonably estimable. Based upon information presently known, management is of the opinion that such litigation, either individually or in the aggregate, will not have a material adverse effect on the Company's financial position, results of operations, or cash flows.

Collective Bargaining

At September 30, 2013, the Company employed a total of 3,175 people. Approximately 12.1% of the employees are represented by unions. The Grand Rapids, Michigan plant is the only unionized plant within the U.S. and has an agreement with the Carpenters Union, Local 1615, of the United Brotherhood of Carpenters and Joiners of America, Affiliate of the Carpenters Industrial Council, covering approximately 185 hourly employees. The Collective Bargaining Agreement expires April 30, 2015. Approximately 200 workers in Italy are also represented by unions. The union contracts under which these Italian workers are represented expire in 2015 and 2016.

Table of Contents

KNOLL, INC.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## NOTE 6. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

## Warranty

The Company offers a warranty for all of its products. The specific terms and conditions of those warranties vary depending upon the product. The Company estimates the costs that may be incurred under its warranties and records a liability in the amount of such costs at the time product revenue is recognized. Factors that affect the Company's liability include historical product-failure experience and estimated repair costs for identified matters for each specific product category. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

Changes in the warranty reserve are as follows (in thousands):

Balance, as of December 31, 2012	\$7,852	
Provision for warranty claims	5,120	
Warranty claims paid	(4,801	)
Foreign currency translation adjustment	(8	)
Balance, as of September 30, 2013	\$8,163	

Warranty expense for the three months ended September 30, 2013 and 2012 was \$1.6 million and \$1.6 million, respectively. Warranty expense for the nine months ended September 30, 2013 and 2012 was \$5.1 million and \$4.7 million, respectively.

## NOTE 7. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table summarizes the changes in accumulated other comprehensive income (loss) by component for the nine months ended September 30, 2013 (in thousands):

	Foreign Currency Translation Adjustment	Pension and Other Post- Retirement Liability Adjustment	Total
Balance, as of December 31, 2012	\$21,078	\$(45,958	) \$(24,880
Other comprehensive income (loss) before reclassifications	(3,164	) 43	(3,121
Amounts reclassified from accumulated other comprehensive income (loss)	—	2,739	2,739
Balance, as of September 30, 2013	\$17,914	\$(43,176	) \$(25,262



Table of Contents  
KNOLL, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 7. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (continued)

The following reclassifications were made from accumulated other comprehensive income (loss) to the statement of operations for the three months ended September 30, 2013 (in thousands):

	Amounts reclassified from accumulated other comprehensive income (loss)	Affected line item in the condensed consolidated statement of operations and comprehensive income
Amortization of pension and other post-retirement liability adjustments		
Prior Service Costs	\$ 840	(1)
Actuarial Losses	(2,348	) (1)
Total Before Tax	(1,508	)
Tax Benefit	595	
Net of Tax	\$ (913	)

(1) These accumulated other comprehensive income (loss) components are included in the computation of net period pension costs. See Note 8 for additional information.

The following reclassifications were made from accumulated other comprehensive income (loss) to the statement of operations for the nine months ended September 30, 2013 (in thousands):

	Amount reclassified from accumulated other comprehensive income (loss)	Affected line item in the condensed consolidated statement of operations and comprehensive income
Amortization of pension and other post-retirement liability adjustments		
Prior Service Costs	\$ 2,520	(1)
Actuarial Losses	(7,044	) (1)
Total Before Tax	(4,524	)
Tax Benefit	1,785	
Net of Tax	\$ (2,739	)

(1) These accumulated other comprehensive income (loss) components are included in the computation of net period pension costs. See Note 8 for additional information.

Table of Contents  
KNOLL, INC.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

## NOTE 8. PENSIONS AND OTHER POST-RETIREMENT BENEFITS

The following tables summarize the costs of the Company's employee pension and other post-retirement benefit plans for the periods indicated (in thousands):

	Pension Benefits		Other Benefits	
	Three months ended		Three months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Service cost	\$2,002	\$1,802	\$9	\$12
Interest cost	3,016	2,955	81	114
Expected return on plan assets	(3,478	) (3,131	) —	—
Amortization of prior service cost	4	4	(844	) (844
Recognized actuarial loss	2,156	1,027	192	246
Net periodic benefit cost	\$3,700	\$2,657	\$(562	) \$(472

For the three months ended September 30, 2013, \$2.2 million of pension expense was incurred in cost of sales and \$1.5 million was incurred in selling, general, and administrative expenses.

	Pension Benefits		Other Benefits	
	Nine months ended		Nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Service cost	\$6,006	\$5,406	\$27	\$36
Interest cost	9,048	8,865	243	342
Expected return on plan assets	(10,434	) (9,393	) —	—
Amortization of prior service cost	12	12	(2,532	) (2,532
Recognized actuarial loss	6,468	3,081	576	738
Net periodic benefit cost	\$11,100	\$7,971	\$(1,686	) \$(1,416

For the nine months ended September 30, 2013, \$6.7 million of pension expense was incurred in cost of sales and \$4.4 million was incurred in selling, general, and administrative expenses.



Table of Contents  
KNOLL, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 9. COMMON STOCK AND EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding for the period (excluding unvested restricted shares). Diluted earnings per share reflects the additional dilution for all shares and potential shares issued under the stock incentive plans (including unvested restricted shares).

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	(in thousands)			
Weighted-average number of common shares outstanding - basic	46,916	46,667	46,882	46,595
Potentially dilutive shares resulting from stock plans	763	372	733	456
Weighted-average number of common shares outstanding - diluted	47,679	47,039	47,615	47,051
Antidilutive equity awards number not included in the weighted-average common shares - diluted	164	606	164	438

Common stock activity for the nine months ended September 30, 2013 and 2012 included the repurchase of 158,234 shares for \$2.7 million and 224,459 shares for \$3.5 million, respectively. Common stock activity for the first nine months of 2013 also included the exercise of 190,036 options for \$2.2 million and the vesting of 111,630 restricted shares. Common stock activity for the first nine months of 2012 also included the exercise of 75,089 options for \$0.9 million and the vesting of 467,927 restricted shares.

NOTE 10. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting Standards Codification 820, "Fair Value Measurements and Disclosures," established a hierarchy that prioritizes fair value measurements based on types of inputs used for the various valuation techniques (market approach, income approach, and cost approach). The hierarchy is intended to increase consistency and comparability in fair value measurements and related disclosures. The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair value that are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity's pricing based upon its own market assumptions. The Company uses the following valuation techniques to measure fair value for its financial assets and financial liabilities:

- Level 1: Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs are quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable and market-corroborated inputs which are derived principally from or corroborated by observable market

data.  
· Level 3: Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

#### Financial Instruments

The fair value of the Company's cash and cash equivalents, accounts receivable and accounts payable approximate carrying value due to their short maturities.

The fair value of the Company's long-term debt approximates its carrying value, as it is variable rate debt and the terms are comparable to market terms as of the balance sheet dates, and are classified as Level 2.

Table of Contents  
KNOLL, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 11. SEGMENT INFORMATION

Accounting Standards Codification 280, “Segment Reporting,” defines that a segment for reporting purposes is based on the financial performance measures that are regularly reviewed by the “Chief Operating Decision Maker” to assess segment performance and to make decisions about a public entity’s allocation of resources. Based on this guidance, the Company reports its segment results based on the following reportable segments: (i) Office; (ii) Studio; and (iii) Coverings. The Office segment serves corporate, government, healthcare, retail and other customers in the United States and Canada providing a portfolio of office furnishing solutions including systems, seating, storage, and KnollExtra® ergonomic accessories, and other products. The Studio segment includes KnollStudio®, Knoll Europe which sells primarily KnollStudio products, and Richard Schultz® Design. The KnollStudio portfolio includes a range of lounge seating; side, cafe and dining chairs; barstools; and conference, dining and occasional tables. Richard Schultz Design provides high-quality outdoor furniture. The Coverings segment includes, KnollTextiles®, Spinneybeck®, Edelman Leather® and Filzfelt™. These businesses serve a wide range of customers offering high-quality textiles, felt, and leather.

The following information below categorizes certain financial information into the above-noted segments for the three and nine months ended September 30, 2013 and 2012:

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
	(in thousands)			
<b>NET SALES</b>				
Office	\$150,545	\$160,032	\$436,095	\$452,220
Studio	37,701	33,035	113,370	105,403
Coverings	28,652	26,727	82,331	79,850
Total	\$216,898	\$219,794	\$631,796	\$637,473
<b>INTERSEGMENT SALES</b>				
Office	\$458	\$277	\$1,314	\$1,447
Studio	1,803	1,359	4,823	3,777
Coverings	2,578	1,949	7,343	6,425
Total	\$4,839	\$3,585	\$13,480	\$11,649
<b>OPERATING PROFIT (1)</b>				
Office	\$5,677	\$12,974	\$11,111	\$28,629
Studio	5,291	5,200	12,707	15,598
Coverings	6,083	5,348	15,935	15,549
Total	\$17,051	\$23,522	\$39,753	\$59,776

(1) The Company does not allocate interest expense or other expense (income), net to the reportable segments.

NOTE 12. SUBSEQUENT EVENTS

The Company evaluated all subsequent events through the date that the condensed consolidated financial statements were issued. No material subsequent events have occurred since September 30, 2013 that required recognition or disclosure in the condensed consolidated financial statements.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis of financial condition and results of operations provides an account of our financial performance and financial condition that should be read in conjunction with the accompanying unaudited condensed consolidated financial statements.

Forward-looking Statements

This Quarterly report on Form 10-Q contains forward-looking statements, principally in the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Quantitative and Qualitative Disclosures About Market Risk." Statements and financial discussion and analysis contained in this Form 10-Q that are not historical facts are forward-looking statements. These statements discuss goals, intentions and expectations as to future trends, plans, events, results of operations or financial condition, or state other information relating to us, based on our current beliefs as well as assumptions made by us and information currently available to us. Forward-looking statements generally will be accompanied by words such as "anticipate," "believe," "could," "estimate," "expect," "forecast," "intend," "may," "possible," "potential," "predict," "project," or other similar words, phrases or expressions. This section includes, without limitation, our statements and expectations regarding any current or future recovery in our industry and publicly announced plans for increased capital and investment spending to achieve our long-term revenue and profitability growth goals. Although we believe these forward-looking statements are reasonable, they are based upon a number of assumptions concerning future conditions, any or all of which may ultimately prove to be inaccurate. Important factors that could cause actual results to differ materially from the forward-looking statements include, without limitation: the risks described in Item 1A and Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2012; changes in the financial stability of our clients or the overall economic environment, resulting in decreased corporate spending and service sector employment; changes in relationships with clients; the mix of products sold and of clients purchasing our products; the success of new technology initiatives; changes in business strategies and decisions; competition from our competitors; our ability to recruit and retain an experienced management team; changes in raw material and commodity prices and availability; restrictions on government spending resulting in fewer sales to the U.S. government, one of our largest customers; our debt restrictions on spending; our ability to protect our patents, copyrights and trademarks; our reliance on furniture dealers to produce sales; lawsuits arising from patents, copyrights and trademark infringements; violations of environmental laws and regulations; potential labor disruptions; adequacy of our insurance policies; the availability of future capital; the overall strength and stability of our dealers, suppliers, and customers; access to necessary capital; and currency rate fluctuations. The factors identified above are believed to be important factors (but not necessarily all of the important factors) that could cause actual results to differ materially from those expressed in any forward-looking statement. Unpredictable or unknown factors could also have material adverse effects on us. All forward-looking statements included in this Form 10-Q are expressly qualified in their entirety by the foregoing cautionary statements. Except as required under the Federal securities laws and rules and regulations of the SEC, we undertake no obligation to update, amend, or clarify forward-looking statements, whether as a result of new information, future events, or otherwise.

Critical Accounting Policies

The preparation of the condensed consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires us to make estimates and assumptions that affect the reported amounts and disclosures in the condensed consolidated financial statements. Actual results may differ from such estimates. On an ongoing basis, we review our accounting policies and procedures. A more detailed review of our critical accounting policies is contained in our Annual Report on Form 10-K for the year ended December 31, 2012.



Table of Contents

Overview

Net sales during the third quarter of 2013 were \$216.9 million, a decrease of \$2.9 million, or 1.3%, over the third quarter of 2012. Sales to governmental agencies continued to decline on a year-over-year basis which drove the overall decline in sales in the Office segment. Office segment sales decreased 5.9% during the third quarter of 2013 when compared with the prior year. The Studio and Coverings segments, however, both experienced growth during the quarter. Studio segment sales increased 14.2% while the Coverings segment experienced 7.5% growth. In the Studio segment, growth in Europe outpaced the growth in North America during the third quarter of 2013 when compared with the prior year. In the Coverings segment, both our leather and textiles subsidiaries experienced growth during the quarter.

For the third quarter of 2013, gross profit as a percentage of net sales decreased 40 basis points to 33.4% versus the comparable quarter of the prior year. The decrease in gross margin from the third quarter of 2012 largely resulted from the impact on fixed cost absorption as a result of our lower sales as well as pricing pressures in the Office segment. Continuous improvement projects in our factories helped to offset some of this decline. Sequentially, gross profit as a percentage of net sales increased 80 basis points when compared with the second quarter of 2013.

Operating expenses for the third quarter of 2013 were \$55.3 million, or 25.5% of net sales, compared to \$50.7 million, or 23.1% of net sales, for the third quarter of 2012. The increase in operating expenses during the third quarter of 2013 primarily resulted from our previously announced strategic initiatives partially offset by lowered levels of incentive compensation accruals.

Operating profit for the third quarter of 2013 was \$17.1 million, a decrease of 27.2% from the third quarter of 2012. The decrease in operating profit during the third quarter of 2013 is mainly attributable to increased spending associated with our announced strategic investment initiatives and our lower sales.

Net income was \$8.6 million during the third quarter of 2013 compared to \$12.2 million during the third quarter of 2012. Diluted earnings per share was \$0.18 for the third quarter of 2013 and \$0.26 for the third quarter of 2012. During the third quarter of 2013, non-cash charges relating to foreign exchange losses decreased earnings approximately \$0.03 per share.

During the third quarter of 2013, we paid a quarterly dividend of \$5.6 million or \$0.12 per share. Capital expenditures decreased \$0.3 million during the third quarter of 2013 to \$3.3 million, when compared with the same period in the prior year. During the quarter, we reduced our outstanding debt by an additional \$5.0 million bringing our total outstanding debt under our revolving credit facility to \$183.0 million at September 30, 2013. During the last twelve months, we have reduced our outstanding debt by \$20.0 million.

This quarter we saw improvement in our Studio and Coverings segments. The Office segment, however, continues to be challenged by mediocre growth in part as a result of declining federal government sales. During the quarter, we experienced an improvement in our internal leading indicators such as client visits and mock-ups that is very encouraging. However, we expect the fourth quarter will continue to be pressured by the reduced government demand and the delay of some larger projects.





Table of Contents

## Results of Operations

## Comparison of Three and Nine Months ended September 30, 2013 and 2012

	Three Months Ended		Nine Months Ended					
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012				
(in thousands)								
Condensed Consolidated Statement of Operations Data:								
Net sales	\$216,898	\$219,794	\$631,796	\$637,473				
Gross profit	72,339	74,216	205,847	211,675				
Operating profit	17,051	23,522	39,753	59,776				
Interest expense	1,484	1,635	4,496	4,778				
Other expense (income), net	2,224	2,786	(1,273)	3,723				
Income tax expense	4,793	6,904	14,018	18,766				
Net income	8,550	12,197	22,512	32,509				
Statistical and Other Data:								
Sales decline from comparable prior year	(1.3	)%	(8.2	)%	(0.9	)%	(8.8	)%
Gross profit margin	33.4	33.8	32.6	33.2				

## Net Sales

Net sales for the third quarter of 2013 were \$216.9 million, a decrease of \$2.9 million, or 1.3%, from net sales of \$219.8 million for the same period in the prior year. Net sales for the nine months ended September 30, 2013 were \$631.8 million, a decrease of \$5.7 million, or 0.9%, from net sales of \$637.5 million for the same period in the prior year. The decrease in net sales for the three and nine months ended September 30, 2013 was mainly due to lower governmental purchases and some price erosion in the Office segment.

A continued decline in our government business negatively impacted our sales performance, particularly in the Office segment, during the first nine months of 2013, and we expect will negatively impact sales for the remainder of 2013. During the nine months ended September 30, 2013 and 2012, approximately 13.1% and 16.0%, respectively, of our sales were to U.S., state, and local governmental agencies.

## Gross Profit and Operating Profit

Gross profit for the third quarter of 2013 was \$72.3 million, a decrease of \$1.9 million, or 2.6%, from gross profit of \$74.2 million for the same period in the prior year. Gross profit for the nine months ended September 30, 2013 was \$205.8 million, a decrease of \$5.9 million, or 2.8%, from gross profit of \$211.7 million for the same period in the prior year. As a percentage of net sales, gross profit decreased from 33.8% for the third quarter of 2012 to 33.4% for the third quarter of 2013. As a percentage of net sales, gross profit decreased from 33.2% for the nine months ended September 30, 2012 to 32.6% for the nine months ended September 30, 2013. The decrease in gross profit margin in the three and nine months ended September 30, 2013 is primarily a result of price erosion in the Office segment and lower absorption of our fixed costs as a result of our lower sales.

Operating profit for the third quarter of 2013 was \$17.1 million, a decrease of \$6.4 million, or 27.2%, from operating profit of \$23.5 million for the same period in the prior year. Operating profit for the nine months ended September 30, 2013 was \$39.8 million, a decrease of \$20.0 million, or 33.4%, from operating profit of \$59.8 million for the same

period in the prior year. Operating profit as a percentage of net sales decreased from 10.7% in the third quarter of 2012 to 7.9% for the same period of 2013. Operating profit as a percentage of net sales decreased from 9.4% for the nine months ended September 30, 2012 to 6.3% in the same period for 2013. This decrease in operating profit during the three and nine months ended September 30, 2013 was primarily driven by an increase in operating expenses associated with our previously announced strategic investments partially offset by lower incentive accruals.

Table of Contents

## Interest Expense

Interest expense for the three and nine months ended September 30, 2013 was \$1.5 million and \$4.5 million, respectively, a decrease of \$0.1 million and \$0.3 million from the same periods in the prior year. The weighted-average interest rate for the third quarter of 2013 was 2.7%. The weighted-average interest rate for the same period of 2012 was 2.6%. The weighted-average interest rate for the nine months ended September 30, 2013 and September 30, 2012 was 2.6% and 2.4%, respectively.

## Other Expense (Income), net

Other expense (income), net for the third quarter of 2013 consisted of expense of \$2.2 million related to foreign exchange losses. Other expense (income), net for the third quarter of 2012 consisted of expense of \$2.9 million primarily related to foreign exchange losses offset by \$0.1 million of miscellaneous income. Other expense (income), net for the nine months ended September 30, 2013 consisted of income of \$1.3 million related to foreign exchange gains. Other expense (income), net for the nine months ended September 30, 2012 consisted of expense of \$3.4 million of foreign exchange losses and \$0.5 million related to the write-off of deferred financing fees offset by \$0.2 million of miscellaneous income.

## Income Tax Expense

The effective tax rate was 35.9% for the third quarter of 2013, as compared to 36.1% for the same period in 2012. The effective tax rate was 38.4% for the nine months ended September 30, 2013, as compared to 36.6% for the same period in 2012. The increase in the effective tax rate for the nine months ended September 30, 2013 when compared to the same period in the prior year was due to certain non-deductible items and the mix of pretax income and the varying tax rates in the countries in which we operate.

## Business Segment Analysis

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	2013	2012	2013	2012
	(in thousands)			
NET SALES				
Office	\$150,545	\$160,032	\$436,095	\$452,220
Studio	37,701	33,035	113,370	105,403
Coverings	28,652	26,727	82,331	79,850
Total	\$216,898	\$219,794	\$631,796	\$637,473
OPERATING PROFIT (1)				
Office	\$5,677	\$12,974	\$11,111	\$28,629
Studio	5,291	5,200	12,707	15,598
Coverings	6,083	5,348	15,935	15,549
Total	\$17,051	\$23,522	\$39,753	\$59,776

(1) The Company does not allocate interest expense or other expense (income), net to the reportable segments.

Table of Contents

Office:

Net sales for the Office segment for the third quarter of 2013 were \$150.5 million, a decrease of \$9.5 million, or 5.9%, when compared with the same period in 2012. Net sales for the Office segment for the nine months ended September 30, 2013 were \$436.1 million, a decrease of \$16.1 million, or 3.6%, when compared with the same period in 2012. The decrease in federal government purchases continues to impact the Office segment. Office segment net sales for the three and nine months ended September 30, 2013 were also negatively impacted by \$0.5 million and \$0.6 million, respectively, due to changes in foreign exchange rates when compared to the same periods in the prior year.

Operating profit for the third quarter of 2013 for the Office segment was \$5.7 million, a decrease of \$7.3 million, or 56.2%, when compared with the same period in 2012. Operating profit for the nine months ended September 30, 2013 for the Office segment was \$11.1 million, a decrease of \$17.5 million, or 61.2%, when compared with the same period in 2012. The decrease in operating profit for the three and nine months ended September 30, 2013 was mainly attributed to increased spending associated with our announced strategic investment plans, price erosion in the Office segment, and lower sales. As a percentage of net sales, the Office segment operating profit for the three and nine months ended September 30, 2013 was 3.8% and 2.5%, respectively. As a percentage of net sales, the Office segment operating profit for the three and nine months ended September 30, 2012 was 8.1% and 6.3%, respectively.

Studio:

Net sales for the Studio segment for the third quarter of 2013 were \$37.7 million, an increase of \$4.7 million, or 14.2%, when compared with the same period in 2012. Net sales for the Studio segment for the nine months ended September 30, 2013 were \$113.4 million, an increase of \$8.0 million, or 7.6%, when compared with the same period in 2012. The increase in net sales for the Studio segment for the three months ended September 30, 2013 was mainly the result of increased sales in Europe. The increase in net sales for the Studio segment for the nine months ended September 30, 2013 was mainly the result of increased sales in North America. Studio segment net sales for the three and nine months ended September 30, 2013 were positively impacted by \$0.4 million and \$0.3 million, respectively, due to changes in foreign exchange rates when compared to the same periods in the prior year.

Operating profit for the third quarter of 2013 for the Studio segment was \$5.3 million, an increase of \$0.1 million, or 1.9%, when compared with the same period in 2012. Operating profit for the nine months ended September 30, 2013 for the Studio segment was \$12.7 million, a decrease of \$2.9 million, or 18.6%, when compared with the same period in 2012. As a percentage of net sales, the Studio segment operating profit was 14.1% for the third quarter ended September 30, 2013, down from 15.8% for the third quarter ended September 30, 2012. As a percentage of net sales, the Studio segment operating profit was 11.2% for the nine months ended September 30, 2013, down from 14.8% for the same period in the prior year. The increase in operating profit for the three months ended September 30, 2013 in the Studio segment was mainly the result of increased sales in Europe. Increased operating expenses in Europe with our renewed participation in Salone Internazionale del Mobile (the major European furniture trade show), as well as increased operating expenses in North America as part of our growth initiative spending, were the main causes of the decline in the Studio segment operating margin for the nine months ended September 30, 2013.

Coverings:

Net sales for the third quarter of 2013 for the Coverings segment were \$28.7 million, an increase of \$2.0 million, or 7.5%, when compared with the same period in 2012. Net sales for the nine months ended September 30, 2013 for the Coverings segment were \$82.3 million, an increase of \$2.4 million, or 3.0%, when compared with the same period in 2012. The increase in net sales for the Coverings segment for the three and nine months ended September 30, 2013 was the result of increased sales by both our leather and textile businesses. Coverings segment net sales for the three and nine months ended September 30, 2013 were minimally impacted by changes in foreign exchange rates compared

to the same period in the prior year.

Operating profit for the third quarter of 2013 for the Coverings segment was \$6.1 million, an increase of \$0.8 million, or 15.1%, when compared with the same period of 2012. Operating profit for the nine months ended September 30, 2013 for the Coverings segment was \$15.9 million, an increase of \$0.4 million, or 2.6%, when compared with the same period in 2012. The increase in operating profit in the Coverings segment during the three and nine months ended September 30, 2013 is the result of increased sales at our leather businesses. As a percentage of net sales, the Coverings segment operating profit was 21.3% for the third quarter ended September 30, 2013 and 19.9% for the third quarter ended September 30, 2012. As a percentage of net sales, the Coverings segment operating profit was 19.3% for the nine months ended September 30, 2013 and 19.5% for the same period in the prior year.

Table of Contents

## Liquidity and Capital Resources

The following table highlights certain key cash flows and capital information pertinent to the discussion that follows:

	Nine Months Ended	
	September 30, 2013	September 30, 2012
	(in thousands)	
Cash provided by operating activities	\$31,349	\$29,055
Capital expenditures, net	(20,486 )	(10,088 )
Cash used in investing activities	(20,761 )	(16,544 )
Purchase of common stock for treasury	(2,729 )	(3,465 )
Proceeds from revolving credit facility	206,000	491,000
Repayment of revolving credit facility	(216,000 )	(500,000 )
Payment of dividends	(16,888 )	(14,925 )
Proceeds from the issuance of common stock	2,234	886
Cash used in financing activities	(27,150 )	(29,224 )

Historically, we have carried significant amounts of debt, and cash generated by operating activities has been used to fund working capital, capital expenditures, repurchase shares, pay quarterly dividends and make payments of principal and interest on our indebtedness. Our capital expenditures are typically for new product tooling and manufacturing equipment. These capital expenditures support new products and continuous improvements in our manufacturing processes.

In February 2013, we announced a three-year plan of strategic investments and initiatives intended to enable us to achieve our revenue and operating profit margin goals of over \$1.0 billion in revenues and over 12% operating results. This plan will require increased expenditures and we expect these increases to negatively impact short-term profits. However, we believe these are the appropriate investments to achieve our long-term goals. These increased expenses are reflected in the year-over-year increase in capital expenditures shown in the table above.

Year-to-date net cash provided by operations was \$31.3 million, of which \$40.7 million was provided by net income plus non-cash items, offset by \$9.4 million of unfavorable changes in operating assets and liabilities. During the first nine months of 2012, net cash provided by operations was \$29.1 million, of which \$54.5 million was provided by net income plus non-cash items, offset by \$25.4 million from unfavorable changes in operating assets and liabilities.

For the nine months ended September 30, 2013, we used available cash, including \$31.3 million of net cash from operating activities, to fund \$20.5 million in capital expenditures, to repay \$10.0 million of outstanding debt, fund dividend payments to shareholders totaling \$16.9 million, and fund working capital.

For the nine months ended September 30, 2012, we used available cash, including \$29.1 million of net cash from operating activities, to fund \$10.1 million in capital expenditures, to pay down debt of \$9.0 million net, fund dividend payments to shareholders totaling \$14.9 million, and fund working capital.

Cash used in investing activities was \$20.8 million for the nine months ended September 30, 2013 and \$16.6 million for the same period in 2012. Fluctuations in cash used in investing activities were primarily attributable to increased capital spending. The increase in capital expenditures year-over-year is in large part due to expenditures we incurred during 2013 related to our new flagship showroom located in New York City, our new website, capital investments in our factories, and technology infrastructure upgrades with the implementation of our new enterprise resource planning system.

We use our revolving credit facility in the ordinary course of business to fund our working capital needs and, at times, make significant borrowings and repayments under the facility depending on our cash needs and availability at such time. As of September 30, 2013 and December 31, 2012, there was \$183.0 million and \$193.0 million, respectively, outstanding under the facility. Borrowings under the revolving credit facility may be repaid at any time, but no later than February 3, 2017.

## Table of Contents

Our revolving credit facility requires that we comply with two financial covenants: our consolidated leverage ratio, defined as the ratio of total indebtedness to consolidated EBITDA (as defined in our credit agreement) for a period of four fiscal quarters, cannot exceed 4 to 1, and our consolidated interest coverage ratio, defined as the ratio of our consolidated EBITDA (as defined in our credit agreement) for a period of four fiscal quarters to our consolidated interest expense, must be a minimum of 3 to 1. We are also required to comply with various other affirmative and negative covenants including, without limitation, covenants that prevent or restrict our ability to pay dividends, engage in certain mergers or acquisitions, make certain investments or loans, incur future indebtedness, make significant capital expenditures, engage in sale-leaseback transactions, alter our capital structure or line of business, prepay subordinated indebtedness, engage in certain transactions with affiliates and sell stock or assets.

We are currently in compliance with all of the covenants and conditions under our credit facility. We believe that existing cash balances and internally generated cash flows, together with borrowings available under our revolving credit facility, will be sufficient to fund normal working capital needs, capital spending requirements, debt service requirements and dividend payments for at least the next twelve months. However, because of the financial covenants mentioned above, our capacity under our revolving credit facility could be reduced if our trailing consolidated EBITDA (as defined by our credit agreement) would decline. Future principal debt payments may be paid out of cash flows from operations, from future refinancing of our debt or from equity issuances. However, our ability to make scheduled payments of principal, to pay interest on or to refinance our indebtedness, to satisfy our other debt obligations and to pay dividends to stockholders will depend upon our future operating performance, which will be affected by general economic, financial, competitive, legislative, regulatory, business and other factors beyond our control.

### Contractual Obligations

Contractual obligations associated with our ongoing business will result in cash payments in future periods. A table summarizing the amounts and timing of these future cash payments was provided in the Company's Form 10-K filing for the fiscal year ended December 31, 2012.

### Environmental Matters

Our past and present business operations and the past and present ownership and operation of manufacturing plants on real property are subject to extensive and changing federal, state, local and foreign environmental laws and regulations, including those relating to discharges to air, water and land, the handling and disposal of solid and hazardous waste and the cleanup of properties affected by hazardous substances. As a result, we are involved from time-to-time in administrative and judicial proceedings and inquiries relating to environmental matters and could become subject to fines or penalties related thereto. We cannot predict what environmental legislation or regulations will be enacted in the future, how existing or future laws or regulations will be administered or interpreted or what environmental conditions may be found to exist. Compliance with more stringent laws or regulations, or stricter interpretation of existing laws, may require additional expenditures by us, some of which may be material. We have been identified as a potentially responsible party pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA") for remediation costs associated with waste disposal sites that we previously used. The remediation costs and our allocated share at some of these CERCLA sites are unknown. We may also be subject to claims for personal injury or contribution relating to CERCLA sites. We reserve amounts for such matters when expenditures are probable and reasonably estimable.

### Off-Balance Sheet Arrangements

We do not currently have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special-purpose entities, which would have been established for the purpose of



facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not engage in trading activities involving non-exchange-traded contracts. As a result, we are not materially exposed to any financing, liquidity, market or credit risk that could have arisen if we had engaged in these relationships.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We provided a discussion of our market risk in Part II, Item 7A, of our Annual Report on Form 10-K for the year ended December 31, 2012. During the first nine months of 2013, there was no substantive change in our market risk except for the items noted below. This discussion should be read in conjunction with Part II, Item 7A, of our Annual Report on Form 10-K for the year ended December 31, 2012.

During the normal course of business, we are routinely subjected to market risk associated with interest rate movements and foreign currency exchange rate movements. Interest rate risk arises from our debt obligations and foreign currency exchange rate risk arises from our non-U.S. operations and purchases of inventory from foreign suppliers.

We also have risk in our exposure to certain materials and transportation costs. Steel, leather, wood products and plastics are all used in the manufacture of our products. During the nine months ended September 30, 2013, there was minimal change in material and transportation costs when compared with the same period in the prior year.

Interest Rate Risk

We have variable-rate debt obligations that are denominated in U.S. dollars. A change in interest rates impacts the interest incurred and cash paid on our variable rate debt obligations.

In the past, we have from time-to-time used interest rate swap and cap agreements for other than trading purposes in order to manage our exposure to fluctuations in interest rates on our variable-rate debt. We will continue to review our exposure to interest rate fluctuations and evaluate whether we should manage such exposure through derivative instruments.

Our annualized weighted-average rate of interest for the nine months ended September 30, 2013 was 2.6%. Our annualized weighted-average rate of interest for the same period of 2012 was 2.4%.

Foreign Currency Exchange Rate Risk

We manufacture our products in the United States, Canada and Italy, and sell our products worldwide. Our foreign sales and certain expenses are transacted in foreign currencies. Our production costs, profit margins and competitive position are affected by the strength of the currencies in countries where we manufacture or purchase goods relative to the strength of the currencies in countries where our products are sold. Additionally, as we report currency in the U.S. dollar, our financial position is affected by the strength of the currencies in countries where we have operations relative to the strength of the U.S. dollar. The principal foreign currencies in which we conduct business are the Canadian dollar and the Euro. Approximately 12.7% of our revenues for the first nine months of 2013 and 13.2% in the same period for 2012, and 33.6% of our cost of goods sold for the first nine months of 2013 and 33.7% in the same period of 2012, were denominated in currencies other than the U.S. dollar. For the nine months ended September 30, 2013 and 2012, foreign exchange rate fluctuations included in other expense (income), net results in a \$1.3 million translation gain and a \$3.4 million translation loss, respectively.

From time to time, we enter into foreign currency forward exchange contracts and foreign currency option contracts for other than trading purposes in order to manage our exposure to foreign exchange rates - typically associated with short-term operating receivables of a Canadian subsidiary that are payable by our U.S. operations. The terms of these contracts are generally less than a year. Changes in the fair value of such contracts are reported in earnings in the period the value of the contract changes. The net gain or loss upon settlement and the change in fair value of outstanding contracts is recorded as a component of other expense (income), net. The Company entered into two

foreign currency contracts during the nine months ended September 30, 2013. There was nothing paid or received as a result of these contracts. The Company did not enter into any foreign currency contracts during the nine months ended September 30, 2012. There were no outstanding derivative contracts as of September 30, 2013 and December 31, 2012.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. We, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 as of the end of the period covered by this report (September 30, 2013) (“Disclosure Controls”). Based upon the Disclosure Controls evaluation, our principal executive officer and principal financial officer have concluded that the Disclosure Controls are effective in reaching a reasonable level of assurance that (i) information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and (ii) information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in internal control over financial reporting. Our principal executive officer and principal financial officer also conducted an evaluation of our internal control over financial reporting (“Internal Control”) to determine whether any changes in Internal Control occurred during the quarter ended September 30, 2013 that have materially affected or which are reasonably likely to materially affect Internal Control. Based on that evaluation, there has been no such change during the quarter ended September 30, 2013.

Table of Contents

## PART II — OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

During the first nine months of 2013, there have been no new material legal proceedings or material changes in the legal proceedings disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012.

## ITEM 1A. RISK FACTORS

During the first nine months of 2013, there were no material changes in the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND THE USE OF PROCEEDS

## Repurchases of Equity Securities

The following is a summary of share repurchase activity during the three months ended September 30, 2013.

On August 17, 2005, our board of directors approved a stock repurchase program (the “Options Proceeds Program”), whereby it authorized us to purchase shares of our common stock in the open market using the cash proceeds received by us upon exercise of outstanding options to purchase shares of our common stock.

On February 2, 2006, our board of directors approved an additional stock repurchase program, pursuant to which we are authorized to purchase up to \$50.0 million of our common stock in the open market, through privately negotiated transactions, or otherwise. On February 4, 2008, our board of directors expanded this previously authorized \$50.0 million stock repurchase program by an additional \$50.0 million.

Period	Total Number of Shares Purchased	Average Price paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
July 1, 2013 - July 31, 2013	8,870	(2) \$15.96	—	\$ 32,352,413
August 1, 2013 - August 30, 2013	794	\$16.83	794	32,352,413
September 1, 2013 - September 30, 2013	3,856	\$15.89	3,856	32,352,413
Total	13,520		4,650	

(1) There is no limit on the number or value of shares that may be purchased by us under the Options Proceeds Program. Under our \$50.0 million stock repurchase program, which was expanded by an additional \$50.0 million in February of 2008, we are only authorized to spend an aggregate of \$100.0 million on stock repurchases. Amounts in this column represent the amounts that remain available under the \$100.0 million stock repurchase program as of the end of the period indicated. There is no scheduled expiration date for the Option Proceeds Program or the \$100.0 million stock repurchase program, but our board of directors may terminate either program in the future.

(2) In July 2013, 25,000 shares of outstanding restricted stock vested. Concurrently with the vestings, 8,870 shares were forfeited by the holder of the restricted shares to cover applicable taxes paid on the holders' behalf by the Company.

22

---

Table of Contents

## ITEM 6. EXHIBITS

Exhibit Number	Description
10.1(a)	Letter Agreement, dated August 15, 2013, between Knoll, Inc. and Craig B. Spray
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012, (ii) Condensed Consolidated Statements of Operations and Other Comprehensive Income for the three and nine months ended September 30, 2013 and September 30, 2012, (iii) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and September 30, 2012, and (iv) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.*

(a) Incorporated by reference to Knoll, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 23, 2013.

\* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

Table of Contents

SIGNATURES

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.

KNOLL, INC.  
(Registrant)

Date: November 12, 2013

By: /s/ Andrew B. Cogan  
Andrew B. Cogan  
Chief Executive Officer

Date: November 12, 2013

By: /s/ Craig B. Spray  
Craig B. Spray  
Chief Financial Officer  
(Chief Accounting Officer)