KNOLL INC
Form 10-K
February 29, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

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

For the fiscal year ended December 31, 2015

OR

o 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.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 13-3873847 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |

1235 Water Street
East Greenville, PA 18041
(215) 679-7991
(Address, including zip code, and telephone number including area code of principal executive offices)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

| Title of each class | Name of exchange on which registered |
|---|---|
| Common Stock, par value $0.01 per share | New York Stock Exchange |

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

Indicate by check mark if the issuer is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act.) Yes ý No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No ý

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 ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

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 the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer ý | Accelerated filer o | Non-accelerated filer o (Do not check if a smaller reporting company) | Smaller reporting company o |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)
Yes o No ý
As of June 30, 2015, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $1,156,000,000 based on the closing sale price as reported on the New York Stock Exchange.
As of February 26, 2016, there were 49,116,313 shares (including 1,288,234 shares of non-voting restricted shares) of the Registrant's common stock, par value $0.01 per share, outstanding.
DOCUMENTS INCORPORATED BY REFERENCE
Portions of the Registrant's definitive Proxy Statement for its 2016 Annual Meeting of Stockholders are incorporated by reference into Part III of this report on Form 10-K to the extent stated therein.

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PART I

ITEM 1. BUSINESS

General

We are a leading designer and manufacturer of furnishings, textiles and fine leathers for the workplace and home. For over a decade, we have been building a constellation of high design, high margin businesses with a diversified design-driven product portfolio and flexible business model that can perform in various business cycles. Our commitment to innovation and modern design has yielded a comprehensive portfolio of products designed to help clients create inspired workplaces and residential settings. We provide enduring value as we help clients shape their workplaces and homes with imagination and vision. Our products are recognized for high quality and a sophisticated image and are targeted at the middle to upper end of the market. We sell our products primarily through a direct sales force, showrooms, and a broad network of independent dealers.

For 77 years, our clients have come to us for help, knowledge and products to create inspired interiors. We have a history and reputation for design leadership, quality and innovation in both the contract and residential markets. We continue our relentless focus on providing solutions for these two clear segments. This strategy has and will continue to substantively diversify our sources of revenues and profits. Since our founding, we have been recognized worldwide as a design leader within our industry. Our products are exhibited in major art museums worldwide, including more than 50 pieces in the permanent Design Collection of The Museum of Modern Art in New York. In 2011, we were honored to receive the Smithsonian Museum's Cooper-Hewitt National Design Award for Corporate and Institutional Achievement, celebrating our design legacy.

We manage our business through three reporting segments: Office, Studio and Coverings. The Office segment includes systems, seating, storage, tables, desks and KnollExtra® ergonomic accessories as well as the international sales of our North American Office products. The Studio segment includes our KnollStudio® division, the Company's European subsidiaries which primarily sell KnollStudio products, Richard Schultz® Design and, as of February 3, 2014, Holly Hunt Enterprises, Inc. The KnollStudio portfolio includes a range of lounge seating, side, café and dining chairs, barstools as well as conference, dining and occasional tables. Richard Schultz® Design provides high-quality outdoor furniture. Known for style and quality, HOLLY HUNT® produces and showcases custom made product including indoor and outdoor furniture, lighting, rugs, textiles and leathers. The Coverings segment includes KnollTextiles®, Spinneybeck® (including Filzfelt®), and Edelman® Leather. These businesses serve a wide range of customers offering high-quality textiles, felt, and leather. When we refer to our “specialty” products or businesses in this report, we are referring to our Studio and Coverings segments. See below for a further discussion of the individual businesses within each segment. For further information regarding our segments, see Note 18 in the accompanying financial statements.

In 2015, we continued our focus on maximizing profitability in our Office segment. As part of that focus we concentrated efforts in increasing productivity in our sales force through modernization of our system and technology resources, and with continuous efforts to transform and modernize our supply chain. By emphasizing these initiatives, we believe we can maximize our profitability through increased productivity, enhanced customer experience, material cost savings, reduced labor costs, and footprint efficiency. In 2014, we furthered our strategic ambition to expand our position in the high-design, high-margin residential space with the acquisition of Holly Hunt Enterprises. HOLLY HUNT is a premier high design residential showroom resource and provider of furnishings, lighting, textiles and leathers for architects and interior designers. In 2015, Holly Hunt continued to be financially accretive to our earnings, exceeding expectations through strong organic growth.

Our design excellence is complemented by a management philosophy that fosters a strong collaborative culture, client-driven processes and a lean, agile operating structure.

All trademarks used in this annual report on Form 10-K that are not owned by us or our affiliates are the property of their respective owners.

Products

We offer a comprehensive and expanding portfolio of high-quality furniture, textiles and leathers across five product categories: (i) office systems, which are typically modular and movable workspaces with functionally integrated panels or table desks, worksurfaces, pedestals and other storage units, power and data systems and lighting; (ii) office seating; (iii) files and storage; (iv) desks, casegoods and tables; and (v) specialty products, including high-image side chairs, sofas, desks and tables for the office and home, textiles, accessories, leathers, designer felt and related products. Historically, we have derived most of our revenues from office systems and from specialty products including our KnollStudio collection of signature design classics furnishings, KnollTextiles fabrics, Spinneybeck leathers, and Edelman leathers. However, in recent years, we have significantly expanded our product offerings in seating, files and storage, casegoods and tables and have reduced our dependence on office systems by further growing our specialty businesses, which includes the addition of HOLLY HUNT product offerings.

Office Segment:
Systems Furniture
We believe that office systems purchases are divided primarily between (i) architect and designer-oriented products and (ii) entry-level products with technology, ergonomic and functional support. Our office systems furniture reflects the breadth of these sectors with a variety of planning models and a corresponding depth of product features. Our systems furniture can define or adapt to virtually any office environment, from collaborative spaces for team interaction to private executive offices.
Systems furniture consists principally of functionally integrated panels or table desks, worksurfaces, pedestal and other storage units, power and data systems and lighting. These components are combined to create flexible, space-efficient work environments that can be moved, re-configured and re-used. Clients, often working with architects and designers, have the opportunity to select from a wide selection of laminates, paints, veneers and textiles to design workspaces appropriate to their organization's personality. Our systems furniture product development strategy generally aims to insure that product line enhancements can be added to clients' existing installations and integrate with other Knoll product lines, maximizing the value of the clients' investments in Knoll systems products over the long-term.
Our principal systems furniture product lines include the following panel, technology wall and desk-based planning models:
Antenna® Workspaces
Introduced in 2010, Antenna Workspaces by Masamichi Udagawa and Sigi Moeslinger, principals of Antenna Design, is a new approach to workplace design that reflects the freedom and mobility people seek in today's office. Antenna Workspaces consider the growing variety of settings where work takes place and blends desks, tables, storage units and screens to create intuitive solutions for individuals and groups. In the process, Antenna Workspaces suggests connections and boundaries between diverse work areas and establishes a new way to shape space, simplifying transitions between individual and group work. Antenna Workspaces has received recognition for its novel approach to office planning, including in 2010, at NeoCon®, our national industry tradeshow, a Best of NeoCon® innovation award. Recent product additions expanded the reach of the system to accommodate activity spaces — workplaces that provide multiple opportunities for engagement among individuals and groups over a broad spectrum of formality, flexibility, privacy and scale. In 2014, we introduced Antenna® Telescope™, a height-adjustable desk system that combines the healthful ergonomics of sit-to-stand adjustment with the planning efficiency of benching.
Reff® Profiles
In 2010, Reff Profiles debuted, building on the Reff flagship wood systems platform. Throughout its history, Reff has combined the high performance capabilities of panel-based systems furniture with the refined elegance of wood casegoods, showcasing sophisticated all-wood construction and precisely crafted detail. Reff Profiles extends those capabilities, with new aesthetic options, enhanced storage for materials and technology, and simple user access to power and data needs. Reff Profiles is available in an extensive range of veneers, laminates, glass, and metal options that can be used interchangeably in private offices and as freestanding or panel-based furnishings for the open office. Reff Profiles lines has expanded with a series of tables, credenzas and bookcases for meeting spaces and in 2013 and 2014 the line expanded again with new components designed to facilitate collaboration as well as support the open-office environment including a media enclave capable of supporting multiple technology platforms/needs; locker, bookcase and credenza storage; and several new table and desk options.
AutoStrada®
Introduced in 2004, AutoStrada is one of the most comprehensive office concepts that we have developed. AutoStrada provides aesthetic and functional alternatives to traditional panel-based and desk-based systems furniture with four planning models that combine high-performance furniture with the look of custom millwork. The AutoStrada spine-based, storage-based, wall-based and collaborative/open table planning models leverage a consistent design aesthetic to create a distinctively modern aesthetic in both open plan and private office environments. Whether an office requires a high-performance open-plan system, architectural casegoods, progressive private office furniture or a collaborative “big table” concept, AutoStrada provides a solution. In 2004, AutoStrada received a silver Best of NeoCon® award.

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Dividends Horizon®

Dividends Horizon, introduced in 2007, extends the Dividends portfolio of workplace solutions introduced in 1998 with new planning opportunities for the individual workstation, focusing on new materials and furniture that evolve the office landscape with a layered approach to furniture design. Focusing on exceptionally light and transparent materials and practical, personalized storage solutions, Dividends Horizon creates rich spatial environments for the contemporary workspace. Dividends Horizon received a silver 2007 Best of NeoCon® award. The system's enduring success is based on a straightforward, versatile frame-and-tile construction, featuring a universal panel frame. Removable panel inserts, which can be ordered in fabric, steel, glass or as marker boards, meet a range of clients' design and budgetary needs. The Dividends Horizon panel frame enables clients to utilize either monolithic, tiled or beltway panel type for applications throughout the workplace, and power and data access may be located virtually anywhere on the panel.

Morrison™

Our Morrison furniture system was introduced in 1986 and continues to be one of our most proven product offerings. Morrison meets essential power and data requirements for panel and desk-based planning and private offices, and offers one of the broadest ranges of systems performance in the industry. Morrison has been upgraded periodically with interchangeable enhancements from its Morrison Network, Morrison Access and Morrison Options lines. In addition, Morrison integrates with Currents® (described below) to provide advanced wire management capabilities, as well as with our Calibre® and Series 2 desks, pedestals, lateral files, overhead storage cabinets and architectural towers to provide compatible, cost-effective panel and desk-based solutions.

Currents®

Our award-winning and innovative Currents system provides advanced power and data capabilities to organizations that require maximum space-planning freedom, advanced technology support and the mobility of freestanding furniture. The groundbreaking Currents service wall divides space and manages technology. A related product, Fence, provides comparable performance for low horizon settings. Currents and Fence may be used in tandem with existing Knoll systems furniture, removing the constraints imposed by conventional panel system. Currents and Fence may also be used with competitors' systems and freestanding furniture.

Seating

We continuously research and assess the general landscape of the office seating market, and tailor work chair product development initiatives to enhance our competitive position for ergonomics, aesthetics, comfort and value. We believe that the result of these efforts is an increasingly innovative, versatile seating collection consistent with the Knoll brand.

Key client criteria in work chair selection include superior ergonomics, aesthetics, comfort, quality and affordability, all of which are consistent with our strengths and reputation. We believe that we offer an excellent and fully competitive line-up of chairs at a range of price points and performance levels that are constructed from varying materials, including mesh, polymers, and upholstery. In 2013, we introduced Toboggan®, a playful, yet practical solution for focused, shared or team work in an increasingly social and mobile workplace. A sled-based chair desk for collaborative and learning environments, Toboggan makes clever use of shape and scale to allow users to shift 360 degrees in the seat, with the back serving as backrest, armrest or impromptu tablet worksurface.

In 2014, we introduced Remix™, a new collection of chairs by Formway Design, the New-Zealand-based designers of the Generation by Knoll® family of chairs. Inspired by the idea of bringing pre-existing elements together to make something entirely new, Remix pairs upholstered comfort with innovative Flex Net Matrix™ technology for active, all day support. By combining traditional and innovative elements, Remix infuses movement and unexpected performance into a familiar upholstered form.

Our principal seating product lines include:

Generation by Knoll®, our flagship task chair, reflects Knoll's commitment to materials innovation and forward-thinking ergonomic research that has found there is no one right way to sit. Generation offers a new standard of unrestrained movement, supporting the range of postures and work styles typical of today's workplace through elastic design, where the chair rearranges itself in response to the user. Generation has received a series of accolades from the national press, including The Wall Street Journal, Business Week, Time, Fast Company and CBS Sunday Morning. Additionally, the chair has been honored with many awards, including Interior Design magazine's 2009 Best of Year Product Award in the contact/task seating category, the Chicago Athenaeum GOOD DESIGN Award, and a Best of NeoCon Gold Award for office seating.

ReGeneration by Knoll®, a general purpose task chair, extends the themes of Generation by Knoll®, to support the user simply and efficiently. Doing more with less, ReGeneration provides continuous support and comfort throughout the day. The chair's efficient structure required re-examining every detail and innovating in the use of sustainable material. As a result, the chair is lightweight, both visually and physically. The chair has been lauded in Cool Hunting, Wired.com, TreeHugger, and other design, technology, and environmental blogs.

LIFE®, introduced in 2002, has become an industry benchmark for ergonomic and sustainable design. Recognized for its overall lightness and agility, LIFE features intuitive adjustments that bring comfort and effortless control to a new performance level with an extensive range of supportive sitting options and responsive lumbar support.

Chadwick™, introduced in 2005, is an innovative hybrid seating design that accommodates the changing needs of today's workplace and home office.

Toboggan® is a playful, yet practical solution for focused, shared or team work in an increasingly social and mobile workplace. A sled based chair desk for collaborative and learning environments, Toboggan makes clever use of shape and scale to allow users to shift 360 degrees in the seat, with the back serving as backrest, armrest or impromptu tablet worksurface. A bench, perch and pull-up table complete the Toboggan® line.

Files and Storage

Our files and storage products, featuring the Template®, Calibre® and Series 2™ product lines, are designed with unique features to maximize storage capabilities throughout the workplace. Our core files and storage products consist of lateral files, mobile pedestals and other storage units, bookcases and overhead storage cabinets. Additionally, Knoll launched Anchor™ in 2013, a streamlined collection of user-friendly storage that addresses the user’s organizational needs in the changing workplace.

The range of files and storage completes our product offering, allowing clients to address all of their furniture needs with us, especially in competitive bid situations where Knoll office systems, seating, tables and desks have been specified. The breadth of the product line also enables our dealers to offer stand-alone products to businesses with smaller storage requirements.

Files and storage are available in an extensive array of sizes, configurations and colors, which can be integrated with other manufacturers' stand-alone furniture, thereby increasing our penetration in competitor accounts. In addition, certain elements of the product line can be configured as freestanding furniture in private offices or open-plan environments.

Our principal storage product lines include:

Anchor™

Offered in a variety of configurations including all-open, all-closed with drawers/doors, or a blended solution of open and drawer configurations, Anchor provides a balance of accessible and secure storage. The collection is an ideal individual storage solution for focused, shared and team settings, or for storage needs in group settings outside of primary workspaces.

Template®

In 2009, we introduced the Template Storage System, offering an economical approach to workplace planning, using vertical storage units to divide and define workspaces. In doing so, the product's compact 15 inch deep footprint consolidates storage while reducing the overall size of an individual workspace, saving clients both money and space. Template can be combined with Dividends Horizon, Antenna Workspaces, and other Knoll systems to expand its planning capabilities.

Calibre®

Calibre storage, comprised of lateral files, pedestals, hybrid cabinets, wardrobes and personal storage towers, offers clients a broad array of metal storage solutions to support virtually any office environment. Personalization is encouraged and valuable space is maximized with 1.5' planning advantage and Build-Your-Own design possibilities, offering more drawer heights and configurations than industry standards. Calibre storage can stand alone or blend with Dividends Horizon, Morrison, and other Knoll systems to complement focused, shared and team workspaces.

Series 2™

With a focused storage offering in a range of aesthetics, Series 2 storage provides ideal solutions for value-conscious customers. Overhead storage, pedestals and personal storage towers are offered in numerous front designs, both metal and veneer, which perfectly coordinate with Knoll Dividends Horizon, Reff, Morrison and Template systems.

Desks and Tables

We offer collections of adjustable tables as well as meeting, conference, training, dining, and café tables for large-scale projects and stand-alone desks and table desks. These items are also sold as stand-alone products through our Knoll dealers to businesses with smaller requirements.

Our Tone™, Upstart® and Antenna® Simple Tables product lines include adjustable, work, meeting, conference and training tables. These product lines range from independent tables to tables suitable for workstations that support individual preferences to plannable desks that can be linked together to reshape larger work areas. In 2014, we introduced Tone™, a comprehensive collection of height-adjustable tables designed to be compatible with the Dividends Horizons, Antenna Workspaces, and Reff Profiles office systems. Tone™ features a wide range of support and adjustment options that integrate seamlessly with Knoll open plan, private office and activity spaces furniture or plan independently to create flexible work areas. We also expanded the Reff Profiles product line with a series of meeting tables as well as enhanced the signature LSM Conference Table Collection for KnollStudio.

Pixel™

In 2015, we introduced, Pixel™, a comprehensive collection of flexible, architecturally-inspired meeting tables designed so people can think, learn and work with ease. Pixel features the intuitive Pixel Connect system and a patent-pending flip mechanism that makes it simple to attach, separate and nest tables for a virtually limitless range of meeting and training applications. The introduction of Pixel received 2015 Best of Neocon Gold for tables: training and work. With five base options that support a variety of electrical modules, Pixel can be used independently or ganged together. It is designed for a multitude of environments, including training, team meeting, office and conference spaces. Pixel allows you to access power wherever you need it, offering a range of electrical options including drop-in, edge mount and trough mount units, both cordset and hard-wired. In addition, the innovative Pixel Link system makes it easy to daisy chain multiple power centers together.

KnollExtra®

KnollExtra offers accessories that complement Knoll office furniture products, including technology support accessories, desktop organizational tools, lighting and storage. KnollExtra integrates technology comfortably into the workplace, meeting the increased demand for flat panel monitor supports and central processing unit holders, which deliver adjustability and space savings. During 2009, KnollExtra introduced the Sapper Monitor Arm Collection, designed by renowned industrial designer Richard Sapper. The collection provides a clean, modern solution to technology challenges in the modern workplace and has been accepted into the permanent collection of New York's Museum of Modern Art. During 2012, KnollExtra expanded its portfolio to include a line of markerboards, free-standing and mounted LED lighting (awarded 2013 Best of NeoCon Silver) and several products that provide technology support for the changing workplace.

The Office segment accounted for approximately 62.2% of our sales in 2015, 62.5% of our sales in 2014, and 69.5% of our sales in 2013.

Studio Segment:

KnollStudio, well-known for the Barcelona®, Saarinen, and Bertoia collections, is a renowned source for classic modern furniture and spirited new designs of unparalleled quality for the workplace, home, hotels, restaurants as well as government and educational institutions. The KnollStudio portfolio includes a range of lounge seating; side, café and dining chairs; barstools; and conference, dining and occasional tables.

KnollStudio has a long history of working with celebrated architects and designers from around the world, including Ludwig Mies van der Rohe, Marcel Breuer, Harry Bertoia, Eero Saarinen, Isamu Noguchi, Warren Platner, Frank Gehry, Maya Lin, Jens Risom, Kazuhide Takahama, and Ross Lovegrove. In addition, KnollStudio manufactures a collection of original furniture designs by Florence Knoll.

In 2014, KnollStudio introduced k.lounge, a soft seating series with 11 configurable lounge elements that bridge the gap between object-based furniture and plannable lounge system. k.lounge pieces can stand on their own for free placement or be configured in a myriad of ways to define work/lounge areas within open plan workspaces.

The Washington Collection for Knoll transforms David Adjaye's architectural and sculptural vision into accessible objects for the home and office. The collection consists of two cantilevered side chairs, a club chair, an ottoman, a side table and a monumental bronze coffee table.

In 2004, KnollStudio established Knoll Space as a formalized sales program for the retail market, making it easier for consumers to bring the best of Knoll furnishings into their home and home office. The program consists of independent specialty retailers and e-tailers nationwide that sell our iconic modern classics and selected contemporary designs as well as selected products with crossover home office appeal. Through this program, we sell our KnollStudio and other selected Knoll products through approximately 52 retailers, with an aggregate of over 90 locations in the United States and Canada.

Our Studio segment includes the Knoll Europe businesses. A majority of Knoll Europe's business is Knoll Studio products, but Knoll Europe also offers a product profile that enables our customers to purchase a complete office environment. In addition, we offer certain products designed specifically for the European market. In 2006, we introduced the Wa™ desking system. Wa™ reinvents desks and storage through its design and construction in a linear and well proportioned modern vernacular. Our presence in the European market provides strategic positioning with clients that have international offices where they would like to maintain their Knoll facility standard. In addition to working with North American clients' international offices, we also have a local European client base.

In Europe, the core product categories include: (i) KnollStudio; (ii) desk systems, including the Wa™ desking system, the KnollScope®, and the PL1™ system; (iii) seating, including a comprehensive range of chairs; and (iv) storage units, which are designed to complement Knoll desk products.

In 2014, we acquired the Chicago-based luxury design brand HOLLY HUNT. The acquisition advances the Knoll strategy of building our global capability as a go-to resource for high-design workplaces and homes, including the commercial contract, decorator to-the-trade and consumer markets and is included in the Studio segment. Like our co-founder Florence Knoll, Holly Hunt is one of the icons of our industry who consistently elevates the level of design in her chosen markets. Founded in 1983, HOLLY HUNT has grown into the premier high-design residential showroom resource and provider of furnishings, lighting, textiles and leathers for architects and interior designers.

The Studio segment also includes our Richard Schultz product line of outdoor furniture for the residential, hospitality, and contract office furniture markets.

The Studio segment accounted for approximately 27.5% of our sales in 2015, 26.6% of our sales in 2014, and 17.9% of our sales in 2013.

Coverings Segment:

Our Coverings segment consists of (i) KnollTextiles, (ii) Spinneybeck Leather (including Filzfelt products), and (iii) Edelman Leather.

KnollTextiles was established in 1947 to create high-quality textiles for Knoll furniture. KnollTextiles offers upholstery, panel fabrics, wallcoverings and drapery that harmonize color, pattern and texture and offers products for corporate, hospitality, healthcare and residential interiors. KnollTextiles products are used in the manufacture of Knoll furniture and are sold to clients for use in other manufacturers' products. In 2014, KnollTextiles introduced six collections across various categories and price points. The Empire Collection encompassed a total of nine patterns including high-performance upholstery and a trio of vinyl wallcoverings by guest designer Kari Pei. The Spirit Collection included six upholsteries, two privacy curtains for healthcare, a panel fabric and a wallcovering. The Zest Collection encompassed five patterns including upholstery, panel fabric and wallcovering. The division also introduced two collections for Knoll Luxe targeting high-end hospitality and residential clients. The first introduction by Dorothy Cosonas included two foundation draperies and four classic upholsteries. The second was the Maria Cornejo for Knoll Luxe Collection, the latest textile fashion collaboration for Knoll with a total of six patterns (4 upholstery and two drapery).

KnollTextiles continues to extend its distribution to reach new customers, notably through a KnollTextiles showroom in New York City's D&D building and e-commerce through the knolltextiles.com website. Additionally, KnollTextiles has collaborated with HOLLY HUNT to distribute its textiles to residential clients, starting with its Dallas showroom. The company also continues to win awards for its design excellence including Best of NeoCon® awards for eleven years running.

Spinneybeck Enterprises, Inc., or Spinneybeck, our wholly owned subsidiary, offers leathers and related products, including leather rugs and wall panels. Spinneybeck supplies high-quality upholstery leather for use on Knoll furniture and for sale directly to clients, including other office furniture manufacturers, hospitality, upholsterers, aviation, custom coach and boating manufacturers.

Filzfelt, a division of Spinneybeck, distributes German-milled 100% wool design felt in 63 colors and five thicknesses and offers a wide range of felt products and full custom capabilities. A biodegradable and renewable material, wool felt is naturally moisture resistant, self-extinguishing, non-directional, available in lightfast and water resistant colors, and provides thermal and acoustic insulation. We acquired the Filzfelt business on December 30, 2011.

Edelman Leather LLC, or Edelman, our wholly owned subsidiary, supplies fine leathers to residential, hospitality, aviation and contract office furniture markets. Edelman, offers a broad residential showroom network where designers

and retail consumers can sample our products.
The Coverings segment accounted for approximately 10.3% of our sales in 2015, 10.9% of our sales in 2014, and 12.6% of our sales in 2013.

Product Design and Development

Our design philosophy reflects a historical commitment to partnering with preeminent industrial designers and architects to commercialize products that meet evolving workplace and residential needs. By combining designers' creative vision with our commitment to innovative materials and technologically advanced processes, we continue to cultivate brand loyalty among target clients. Our enviable history of nurturing design provides for relationships that attract the world's leading designers. In addition, these collaborations are consistent with our commitment to a lean organization and incentive-based compensation, by utilizing a variable royalty-based fee as opposed to the fixed costs typically associated with a larger in-house design staff.

Our Office and Studio segments product development relies upon a New Product Commercialization Process to ensure quality and consistency of our methodology, reducing product development cycle time without sacrificing quality objectives. We use Pro/ENGINEER® solids modeling tools and rapid prototyping technology to compress development cycles and to improve responsiveness to special requests for customized solutions. Working closely with the designers during the early phases of development provides critical focus to yield the most viable products, balancing innovative modern design with practical function. Cross-functional teams are employed for all major development efforts with dedicated leaders who facilitate a seamless flow into manufacturing while aggressively managing cost and schedule opportunities. Increasingly, total environmental impact is factored into product material and manufacturing process decisions.

Research and development expenses, which are expensed as incurred, were $20.7 million for 2015, $19.2 million for 2014, and $17.8 million for 2013.

Sales and Distribution

We generate sales with our direct sales force and a network of independent dealers (primarily in the Office segment), who jointly market and sell our products. We generally rely on these independent dealers to also provide a variety of important specification, installation and after-market services to our clients. Our dealers generally operate under short-term (one to three year), non-exclusive agreements. Our Studio and Coverings segments market and sell products with their own internal sales force that often work closely with our Office sales force. We also sell our Studio products through a network of independent retailers. HOLLY HUNT and Edelman both operate a network of showrooms to market and sell their products.

Our clients are typically Fortune 1000 companies, governmental agencies and other medium-to-large sized organizations in a variety of industries including financial, legal, accounting, education, healthcare and hospitality. Our Coverings segment also markets and sells products to private aviation, marine and luxury coach industries. Our direct sales force and independent dealers in North America work in close partnership with clients and design professionals to specify distinctive work environments. Our direct sales representatives, in conjunction with the independent dealers, sell to and call directly on key clients. Our independent dealers also call on many other medium and small sized clients to provide seamless sales support and client service. We have an over $11.1 billion installed base of office systems, which provides a strong platform for recurring and add-on sales. “Installed base” refers to the amount of office systems product we have sold in North America during the previous fifteen years.

Our products and knowledgeable sales force have generated strong brand recognition and loyalty among architects, designers and corporate facility managers, all of whom are key decision-makers in the furniture purchasing process. Our strong relationships with architects and design professionals help us stay abreast of key workplace trends and position us to better meet the changing needs of clients. For example, we have invested in training all of our architect and designer specialists as Leadership in Energy and Environmental Design (“LEED®”) accredited professionals to help clients better address environmental issues that arise in the design of the workplace.

We have aligned our sales force to target strategic areas of opportunity to include global accounts, health care, higher education and others. We have also placed sales representatives and technical specialists into certain dealerships to support programs such as Knoll Essentials, which is described below.

In addition to coordinating sales efforts with the sales representatives, our dealers generally handle project management, installation and maintenance for client accounts after the initial product selection and sale. Although many of these dealerships also carry products of other manufacturers, they have agreed not to act as dealers for our principal direct competitors. We have not experienced significant dealer turnover. Our dealers' substantial commitment to understanding our product lines, and their strong relationships with us, serve to discourage dealers

from changing vendor affiliations. We are not significantly dependent on any one dealer, the largest of which accounted for approximately 3.5%, 4.3%, and 6.6%, of our North American sales in 2015, 2014, and 2013, respectively.
As part of our commitment to building relationships with our dealers, we introduced the Knoll Essentials program in January 2004. Knoll Essentials is a catalog program developed in response to dealer requests for a consolidated, user-friendly selling tool for day-to-day systems, seating, storage, and accessory products. The Knoll Essentials program includes dealer incentives to sell our products. We also employ a dedicated team of dealer sales representatives to work with our dealerships.

Sales to U.S., state and local government agencies aggregated approximately 10.0% of our consolidated sales in 2015. The U.S. government typically can terminate or modify any of its contracts with us either for its convenience or if we default by failing to perform under the terms of the applicable contract.

Manufacturing and Operations

Our East Greenville, Pennsylvania site manufactures Office, Studio and Textiles products. HOLLY HUNT's operations are primarily located in Chicago, Illinois. The operations for our two leather businesses, Spinneybeck and Edelman, are located in Getzville, New York and New Milford, Connecticut, respectively. Textiles are also warehoused at our East Greenville, Pennsylvania site. East Greenville, Pennsylvania, Chicago, Illinois, Dallas, Texas, and Foligno and Graffignana, Italy locations supply our Studio products. Our locations at Grand Rapids, Michigan, Muskegon, Michigan, and Toronto, Canada also manufacture Office products. We manufacture and assemble products to specific customer order and operate all facilities under a philosophy of continuous improvement, lean manufacturing and efficient asset utilization.

In 2010, we initiated a plan to better utilize our North American manufacturing capacity, eliminate duplication of capabilities, and reduce associated costs. We continue to look for ways to ensure that our manufacturing capabilities match our supply chain strategy providing the most value for Knoll. In 2013, our supply chain team continued its lean journey by launching a comprehensive transformation strategy designed to make our supply chain operations more efficient, flexible and competitive. State of the art veneering and laminate worksurface manufacturing equipment were installed at East Greenville and Toronto manufacturing sites. In 2015, we continued to execute our plan by adding capital at all Office North American manufacturing locations. During 2015, the focus shifted toward optimizing our plan processes to improve manufacturing efficiencies. These projects improved customer responsiveness, quality and significantly improve productivity.

The root of our continuous improvement efforts lies in the philosophy of lean manufacturing that drives operations. As part of this philosophy, we partner with suppliers who can supply our facilities efficiently, often with just-in-time deliveries, thus allowing us to reduce our raw materials inventory. We also utilize “Kaizen” work groups in the plants to develop best practices to minimize scrap, time and material waste at all stages of the manufacturing process. The involvement of employees at all levels ensures an organizational commitment to lean and efficient manufacturing operations.

In 2009, our East Greenville location recertified its “Star” rating under the Occupational Safety and Health Administration's (OSHA) Voluntary Protection Program (VPP). A Star rating is the highest rating a company can obtain in OSHA's premier partnership program. To achieve this rating, our East Greenville site had to demonstrate a comprehensive safety and health process with strong management leadership, include all employees as active participants, and ensure an injury rate substantially below the average for the industry. The Star rating allows us to join an elite and exclusive group of less than 2,500 companies nationwide that have demonstrated the dedication and commitment to safety.

Raw Materials and Suppliers

In addition to the continued focus on enhancing the efficiency of the manufacturing operations, we also seek to reduce costs through our global sourcing effort. We have capitalized on raw material and component cost savings available through lower cost global suppliers. This broader view of potential sources of supply has enhanced our leverage with domestic supply sources, and we have been able to reduce cycle times by extracting improvements from all levels throughout the supply chain.

The purchasing function in North America is centralized at the East Greenville facility for Office, Studio, and Textiles. This centralization, and the close relationships with our primary suppliers, has enhanced our ability to realize purchasing economies of scale and implement “just-in-time” inventory practices. Steel, lumber, paper, paint, plastics, laminates, particleboard, veneers, glass, fabrics, leathers, upholstery filling material, aluminum extrusions and castings are used in our manufacturing process. Both domestic and overseas suppliers of these materials are selected based upon a variety of factors, with the price and quality of the materials and the supplier's ability to meet delivery requirements being primary factors in such selection. We do not generally enter into long-term supply contracts and, as a result, we can be vulnerable to fluctuations in the prices for these materials. No supplier is the only available source for a particular component or raw material. However, because of the specialization involved with some of our components, it can take a significant amount of time, money and effort to move to an alternate source.

Competition

The markets in which we compete are highly competitive. We compete on the basis of (i) product design, including performance, ergonomic and aesthetic features; (ii) product quality and durability; (iii) relationships with clients, architects and designers; (iv) strength of dealer and distributor network; (v) on-time delivery and service performance; (vi) commitment to environmental standards by offering products that help clients achieve LEED® certified facilities and minimize environmental impact; and (vii) price. We estimate that our Office segment had an approximate 6.7% market share in the U.S. office furniture market in 2015 and 2014, respectively.

Some of our competitors, especially those in North America, are larger and have significantly greater financial, marketing, manufacturing and technical resources than us. Our most significant competitors in primary markets are Herman Miller, Inc., Steelcase, Inc., Haworth, Inc. and, to a lesser extent, Allsteel, Inc., an operating unit of HNI Corporation, and Teknion Corporation. These competitors have a substantial volume of furniture installed at businesses throughout North America, providing a continual source of demand for further products and enhancements. Moreover, the products of these competitors have strong acceptance in the marketplace. Although we believe that we have been able to compete successfully in the markets to date, there can be no assurance that we will be able to continue to do so in the future.

Competition in the Coverings segment is much more fragmented than in the Office segment. Both Spinneybeck and Edelman serve the mid to high end of the market, but compete against many companies, none of which has a dominant market share.

Patents and Trademarks

We consider securing and protecting our intellectual property rights to be important to the business. We own approximately 51 active U.S. utility patents on various components used in our products and systems and approximately 89 active U.S. design patents. We also own approximately 403 patents in various foreign countries. The scope and duration of our patent protection varies throughout the world by jurisdiction and by individual product. In particular, patents for individual products extend for varying periods of time according to the date a patent application is filed, the date a patent is granted and the term of patent protection available in the jurisdiction granting the patent (generally 20 years from the date of filing in the U.S., for example). We believe that the duration of the applicable patents we are granted is adequate relative to the expected lives of our products. We own approximately 83 trademark registrations in the U.S., including registrations to the following trademarks, as well as related stylized depictions of the Knoll word mark: Knoll®, KnollExtra®, Knoll Luxe®, KnollStudio®, KnollTextiles®, Good Design Is Good Business®, Antenna®, Autostrada®, Calibre®, Currents®, Dividends®, Edelman® Leather, Modern Always®, Propeller®, Reff®, RPM®, Sapper XYZ®, Spinneybeck® Leather, Toboggan®, Generation by Knoll®, Regeneration by Knoll®, MultiGeneration by Knoll®, and HOLLY HUNT®. We also own approximately 279 trademarks registered in foreign countries. The scope and duration of our trademark protection varies throughout the world, with some countries protecting trademarks only as long as the mark is used, and others requiring registration of the mark and the payment of registration (generally ten years from the date of filing in the U.S., for example). In order to protect the indefinite duration, we make filings to continue registration of our trademarks.

In October 2004, we received registered trademark protection in the United States for five iconic furniture designs by Ludwig Mies van der Rohe-the Barcelona Chair, the Barcelona Stool, the Barcelona Couch, the Barcelona Table and the Flat Bar Brno Chair. This protection recognizes the renown of these designs and reflects our commitment to ensuring that when architects, furniture retailers, businesses and individuals purchase a Ludwig Mies van der Rohe design, they are acquiring the authentic product, manufactured in accordance with the designer's historic specifications. Barcelona® is a registered trademark in the U.S., Canada and European Community owned by Knoll, Inc.

Foreign and Domestic Operations

Our principal manufacturing operations and markets are in North America, and we also have manufacturing operations and markets in Europe. Our sales to clients and net property, plant and equipment are summarized by geographic areas below. Sales are attributed to the geographic areas based on the origin of sale.

| | United States (in thousands) | Canada | Europe | Consolidated |
|---|---|---|---|---|
| 2015 | | | | |
| Sales | $979,221 | $36,163 | $89,058 | $1,104,442 |
| Property, plant, and equipment, net | 137,863 | 20,919 | 13,360 | 172,142 |
| 2014 | | | | |
| Sales | $928,733 | $32,811 | $88,750 | $1,050,294 |
| Property, plant, and equipment, net | 123,821 | 25,669 | 15,529 | 165,019 |
| 2013 | | | | |
| Sales | $752,347 | $36,240 | $73,665 | $862,252 |

| | | | | |
|---|---|---|---|---|
| Property, plant, and equipment, net | 94,896 | 27,938 | 15,059 | 137,893 |

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## Environmental Matters

We believe that we are substantially in compliance with all applicable laws and regulations for the protection of the environment and the health and safety of our employees based upon existing facts presently known to us. Compliance with federal, state, local and foreign environmental laws and regulations relating to the discharge of substances into the environment, the disposal of hazardous wastes and other related activities has had and will continue to have an impact on our operations, but has, since 1990, been accomplished without having a material adverse effect on our operations. There can be no assurance that such laws and regulations will not change in the future or that we will not incur significant costs as a result of such laws and regulations. We have trained staff responsible for monitoring compliance with environmental, health and safety requirements. Our goal is to reduce and, wherever possible, eliminate the creation of hazardous waste in our manufacturing processes. While it is difficult to estimate the timing and ultimate costs to be incurred due to uncertainties about the status of laws, regulations and technology, based on information currently known to management, we do not expect environmental costs or contingencies to have a material adverse effect on our consolidated financial position, results of operations, competitive position, or cash flows. The operation of manufacturing plants entails risks in these areas, however, and we cannot be certain that we will not incur material costs or liabilities in the future which could adversely affect our operations.

We have been identified as a potentially responsible party pursuant to the Comprehensive Environmental Response Compensation and Liability Act, or “CERCLA,” for remediation costs associated with waste disposal sites previously used by us. CERCLA can impose liability for costs to investigate and remediate contamination without regard to fault or the legality of disposal and, under certain circumstances, liability may be joint and several resulting in one responsible party being held responsible for the entire obligation. Liability may also include damages for harm to natural resources. 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.

## Employees

As of December 31, 2015, we employed a total of 3,386 people, consisting of 1,841 hourly and 1,545 salaried employees. The Grand Rapids, Michigan plant is the only unionized plant within North America 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 (the “Union”), covering approximately 200 hourly employees. The Collective Bargaining Agreement was entered into on May 1, 2015 and expires April 28, 2018. From time to time, there have been unsuccessful efforts to unionize at our other North American locations. We believe that relations with our employees are good. Nonetheless, it is possible that our employees may continue attempts to unionize. Certain workers in the facilities in Italy are also represented by unions.

## Available Information

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports are made available free of charge through the “Investor Relations” section of our website at www.knoll.com, as soon as practicable after such material is electronically filed with or furnished to the U.S. Securities and Exchange Commission.

ITEM 1A. RISK FACTORS

RISK FACTORS

Risks Related to our Business

Our product sales are tied to corporate spending and service-sector employment, which are outside of our control. Our sales and/or growth in sales would be adversely affected by a recessionary economy characterized by decreased corporate spending and service-sector employment.

Our sales are significantly impacted by the level of corporate spending primarily in North America, which, in turn, is a function of the general economic environment. In a recessionary economy, business confidence, service-sector employment, corporate cash flows and non-residential commercial construction decrease, which typically leads to a decrease in demand for furniture and our other products. In addition, a recessionary economy may also result in saturation of the market by "just new" used office systems, leading to a decrease in demand for new office systems furniture. Sales of office systems, which have historically accounted for almost half of our revenues, represent longer term and higher cost investments for our clients. As a result, sales of office systems are more severely impacted by decreases in corporate spending than sales of coverings, studio products, seating, files and storage and casegoods, and demand for office systems typically takes longer to respond to an economic recovery.

Geopolitical uncertainties, terrorist attacks, acts of war, natural disasters, increases in energy and other costs or combinations of such and other factors that are outside of our control could at any time have a significant effect on the economy, and, therefore, our business. The occurrence of any of these or similar events in the future could result in downward pressure on the economy, which we would expect to cause demand for our products to decline and competitive pricing pressures to increase.

Weakness in the economy or uncertainty in the financial markets may adversely affect our results of operations and financial condition, as well as the financial soundness of our customers and suppliers.

In recent history, the global capital and credit markets have experienced a period of unprecedented turmoil and upheaval, characterized by the bankruptcy, failure, collapse or sale of various financial institutions. Our ability to access capital may be restricted at a time when we would like, or need, to access financial markets. In addition, interest rate fluctuations, financial market volatility or credit market disruptions may negatively affect our customers' and our suppliers' abilities to obtain credit to finance their businesses on acceptable terms. As a result, our customers' needs and abilities to purchase our products or services may decrease, and our suppliers may increase their prices, reduce their output or change their terms of sale. If our customers' or suppliers' operating and financial performance deteriorates, or if they are unable to make scheduled payments or obtain credit, our customers may not be able to pay, or may delay payment of, accounts receivable owed to us, and our suppliers may restrict credit or impose different payment terms on us. Any inability of customers to pay us for our products and services, or any demands by suppliers for different payment terms, may adversely affect our earnings and cash flow.

We may have difficulty increasing or maintaining our prices as a result of price competition, which could lower our profit margins. Our competitors may develop new product designs that give them an advantage over us in making future sales.

We compete with our competitors on the basis of, among other things, price and product design. Since our competitors offer products that are similar to ours, we face significant price competition from our competitors, particularly in the Office segment. This price competition impacts our ability to implement price increases or, in some cases, maintain prices, which could lower our profit margins.

Additionally, our competitors may develop new product designs that achieve a high level of customer acceptance, which could give them a competitive advantage over us in making future sales.

Our efforts to introduce new products that meet customer and workplace requirements may not be successful, which could limit our sales growth or cause our sales to decline.

To keep pace with workplace trends, such as changes in workplace design and increases in the use of technology, and with evolving regulatory and industry requirements, including environmental, health, safety and similar standards for the workplace and for product performance, we must periodically introduce new products. The introduction of new products requires the coordination of the design, manufacturing and marketing of such products, which may be affected by factors beyond our control. The design and engineering of certain of our new products can take up to a year or more and further time may be required to achieve client acceptance. In addition, we may face difficulties in introducing new products if we cannot successfully align ourselves with independent architects and designers who are able to design, in a timely manner, high-quality products consistent with our image. Accordingly, the launch of any particular product may be later or less successful than originally anticipated by us. Difficulties or delays in introducing new products or lack of customer acceptance of new products could limit our sales growth or cause our sales to decline.

We may not be able to manage our business effectively if we are unable to retain our experienced management team or recruit other key personnel.

The success of our business is highly dependent upon our ability to attract and retain qualified employees and upon the ability of our senior management and other key employees to implement our business strategy. We believe there are only a limited number of qualified executives in the industry in which we compete. We rely substantially upon the services of Andrew B. Cogan, our Chief Executive Officer. The loss of the services of Mr. Cogan or other key members of our management team could seriously harm our efforts to successfully implement our business strategy.

We are dependent on the pricing and availability of raw materials and components, and price increases and unavailability of raw materials and components could lower sales, increase our cost of goods sold and reduce our profits and margins.

We require substantial amounts of raw materials, which we purchase from outside sources. Steel, plastics, wood-related materials, and leather are the main raw materials used in our products. The prices and availability of raw materials are subject to change or curtailment due to, among other things, the supply of, and demand for, such raw materials, changes in laws or regulations, including duties and tariffs, suppliers' allocations to other purchasers, interruptions in production by raw materials or component parts suppliers, changes in currency exchange rates and worldwide price levels. We can be significantly impacted by price increases in these raw materials.

Although no supplier is the only available source for a particular component or raw material, some of our products and components are extremely specialized and, therefore, it can take a significant amount of time and money to move from one supply source to another. Any failure to obtain raw materials and components on a timely basis, or any significant delays or interruptions in the supply of raw materials or components, could prevent us from being able to produce products ordered by our clients in a timely fashion, which could have a negative impact on our reputation and our dealership network, and could cause our sales to decline.

We are affected by the cost of energy and increases in energy prices could reduce our margins and profits.

The profitability of our operations is sensitive to the cost of energy through our transportation costs, the cost of petroleum-based materials, like plastics, and the cost of operating our manufacturing facilities. Energy costs have been volatile in recent years due to changes in global supply and demand. Although we have been successful in countering energy price increases, primarily through our global sourcing initiatives and continuous improvement programs, we have not been able to offset these costs entirely.

We rely upon independent furniture dealers, and a loss of a significant number of dealers could affect our business, financial condition and results of operations.

We rely on a network of independent dealers for the joint marketing of our products to small and mid-sized accounts, and to assist us in the marketing of our products to large accounts, particularly in the Office segment. We also rely upon these dealers to provide a variety of important specification, installation and after-market services to our clients. Our dealers operate, generally, under short-term, non-exclusive agreements. There is nothing to prevent our dealers from terminating their relationships with us. In addition, individual dealers may not continue to be viable and profitable and may suffer from the lack of available credit. While we are not significantly dependent on any single dealer, our largest dealer accounted for 3.5% of our North American sales in 2015, and if dealers go out of business or are restructured, we may suffer losses because they may not be able to pay us for products previously delivered to them. The loss of a dealer relationship could also negatively affect our ability to maintain market share in the affected geographic market and to compete for and service clients in that market until a new dealer relationship is established. Establishing a viable dealer in a market can take a significant amount of time and resources. The loss or termination of a significant dealer or a significant number of dealer relationships could cause significant difficulties for us in marketing and distributing our products, resulting in a decline in our sales.

Currently, one of our largest clients is the U.S. government, a relationship that is subject to uncertain future funding levels and federal procurement laws and requires restrictive contract terms; any of these factors could curtail current or future business.

For the year ended December 31, 2015, we derived approximately 10.0% of our revenue from sales to U.S., state and local government agencies. Our ability to compete successfully for and retain business with the U.S. government is highly dependent on cost-effective performance and compliance with complex procurement laws. Historically, federal procurement laws required government agencies to purchase furniture products from Federal Prison Industries, Incorporated. If these or similar laws would be re-instituted, it would make it more difficult for us to sell our furniture to agencies and departments of the U.S. government.

In addition, the U.S. government typically can terminate or modify its contracts with us either for its convenience or if we default by failing to perform under the terms of the applicable contract. A termination arising out of our default could expose us to liability and impede our ability to compete in the future for contracts and orders. Furthermore, if we were found to have committed fraud or certain criminal offenses, we could be suspended or debarred from all further government contracting.

Given the significance of our governmental business, we are sensitive to decreases in governmental spending. Federal, state and local government budgets have experienced deficits recently and are under significant pressure to reduce spending. These spending pressures have resulted in, and may continue to result in, decreased furniture spending, which has negatively impacted (and may continue to negatively impact) our governmental sales.

Our efforts to diversify our sources of revenue may not be effective and may expose us to new risks.

Historically, the majority of our revenues were derived from the sales of office systems in North America. We have pursued a strategy to diversify our sources of revenue and reduce our dependence on North American office system sales by, for example, growing our seating, international, and specialty businesses. While we believe that this strategy enables us to better maintain and grow our sales and profitability during cyclical ups and downs in the industry, there can be no assurance that this diversification strategy will be effective in achieving these goals. Our diversification strategy involves the continued expansion of our specialty businesses, and business growth internationally, which may expose us to business risks that we have not experienced. We also may incur significant costs in pursuing our diversification strategy, and those costs may not be fully offset by increased revenues associated with new business lines.

We operate with leverage, and a significant amount of cash will be required to service our indebtedness. Restrictions imposed by the terms of our indebtedness may limit our operating and financial flexibility.

As of December 31, 2015, we had total consolidated outstanding debt of approximately $222.0 million under our credit facility.

On May 20, 2014, we amended and restated our existing credit facility, dated February 3, 2012, with a new $500.0 million credit facility maturing on May 20, 2019, consisting of a revolving commitment in the amount of $300.0 million and a term loan commitment in the amount of $200.0 million. The Amended Credit Agreement also includes an option to increase the size of the credit facility or incur incremental term loans by up to an additional $200.0 million, subject to the satisfaction of certain terms and conditions.

At December 31, 2015, if we were to borrow the maximum available to us under our credit facility and those of our foreign subsidiaries, we would have total consolidated outstanding debt of approximately $494.2 million. The high level of our indebtedness could have important consequences to holders of our common stock, given that:

•a substantial portion of our cash flow from operations must be dedicated to fund scheduled payments of principal and debt service and will not be available for other purposes;

•our ability to obtain additional debt financing in the future for working capital, capital expenditures, research and development or acquisitions may be limited by the terms of our credit facility; and

•the terms of our credit facility also impose other operating and financial restrictions on us, which could limit our flexibility in reacting to changes in our industry or in economic conditions generally.

Our credit facility prevents us and our subsidiaries from incurring any additional indebtedness other than (i) borrowings under our existing credit facility; (ii) certain types of indebtedness that may be incurred subject to aggregate dollar limitations identified in the credit facility, including, without limitation, purchase money indebtedness and capital lease obligations, indebtedness incurred in connection with a permitted acquisition, and loans obtained through an expansion of the facility, all of which cannot exceed $250.0 million at any time, and (iii) other types of indebtedness that are not limited to specific dollar limitations, such as indebtedness incurred in the ordinary course of business and unsecured, subordinated indebtedness. The aggregate amount of indebtedness that we may incur pursuant to these exceptions is further limited by the financial covenants in our credit facility and, therefore, will depend on our future results of operations and cannot be determined at this time. Furthermore, although we may incur unlimited amounts of certain types of indebtedness, subject to compliance with these financial covenants, the amount of indebtedness that we may actually be able to incur will depend on the terms on which such types of debt financing are available to us, if available at all.

As a result of the foregoing, we may be prevented from engaging in transactions that might further our growth strategy or otherwise be considered beneficial to us. A breach of any of the covenants in our credit facility could result in a default thereunder. If payments to the lenders under our credit facility were to be accelerated, our assets could be insufficient to repay in full the indebtedness under our credit facility and our other liabilities. Any such acceleration could also result in a foreclosure on all or substantially all of our subsidiaries' assets, which would have a negative impact on the value of our common stock and jeopardize our ability to continue as a going concern.

We may require additional capital in the future, which may not be available or may be available only on unfavorable terms.

Our capital requirements depend on many factors, including capital improvements, tooling, information technology upgrades and new product development. To the extent that our existing capital is insufficient to meet these requirements and cover any losses, we may need to raise additional funds through financings or curtail our growth and reduce our assets. Any equity or debt financing, if available at all, may be on terms that are not favorable to us. Equity financings could result in dilution to our stockholders, and the securities may have rights, preferences and privileges that are senior to those of our common stock. If our need for capital arises because of significant losses, the occurrence of these losses may make it more difficult for us to raise the necessary capital.

An inability to protect our intellectual property could have a significant impact on our business.

We attempt to protect our intellectual property rights, both in the United States and in foreign countries, through a combination of patent, trademark, copyright and trade secret laws, as well as licensing agreements and third-party nondisclosure and assignment agreements. Because of the differences in foreign trademark, copyright, patent and other laws concerning proprietary rights, our intellectual property rights do not generally receive the same degree of protection in foreign countries as they do in the United States. In some parts of the world, we have limited protections, if any, for our intellectual property. Our ability to compete effectively with our competitors depends, to a significant extent, on our ability to maintain the proprietary nature of our intellectual property. The degree of protection offered by the claims of the various patents, copyrights, trademarks and service marks may not be broad enough to provide significant proprietary protection or competitive advantages to us, and patents, copyrights, trademarks or service marks may not be issued on our pending or contemplated applications. In addition, not all of our products are covered by patents or similar intellectual property protections. It is also possible that our patents, copyrights, trademarks and service marks may be challenged, invalidated, canceled, narrowed or circumvented.

In the past, certain of our products have been copied and sold by others. We try to enforce our intellectual property rights, but we have to make choices about where and how we pursue enforcement and where we seek and maintain intellectual property protection. In many cases, the cost of enforcing our rights is substantial, and we may determine that the costs of enforcement outweigh the potential benefits. If we are unable to maintain the proprietary nature of our intellectual property with respect to our significant current or proposed products, our competitors may be able to sell copies of our products, which could adversely affect our ability to sell our original products and could also result in competitive pricing pressures, which may negatively affect our profitability.

If third parties claim that we infringe upon their intellectual property rights, we may incur liabilities and costs and may have to redesign or discontinue an infringing product.

We face the risk of claims that we have infringed upon third parties' intellectual property rights. Companies operating in our industry routinely seek patent protection for their product designs, and many of our principal competitors have large patent portfolios. Prior to launching major new products in our key markets, we normally evaluate existing intellectual property rights. However, our competitors may have filed for patent protection which is not, at the time of our evaluation, a matter of public knowledge. Our efforts to identify and avoid infringing upon third parties' intellectual property rights may not be successful. Any claims of patent or other intellectual property infringement, even those without merit, could (i) be expensive and time consuming to defend; (ii) cause us to cease making, licensing or using products that incorporate the challenged intellectual property; (iii) require us to redesign, reengineer, or rebrand our products or packaging, if feasible; or (iv) require us to enter into royalty or licensing agreements in order to obtain the right to use a third party's intellectual property.

We could be required to incur substantial costs to comply with environmental requirements. Violations of, and liabilities under, environmental laws and regulations may increase our costs or require us to change our business practices.

Our past and present ownership and operation of manufacturing plants 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, or CERCLA, for remediation costs associated with waste disposal sites previously used by us. In general, CERCLA can impose liability for costs to investigate and remediate contamination without regard to fault or the legality of disposal and, under certain circumstances, liability may be joint and several, resulting in one party being held responsible for the entire obligation. Liability may also include damages for harm to natural resources. 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.

We are subject to potential labor disruptions, which could have a significant impact on our business.

Certain of our employees located in Grand Rapids, Michigan and Italy are represented by unions. The collective bargaining agreement for our Grand Rapids location expires April 28, 2018. We have also had attempts to unionize our other North American manufacturing locations, which to date have been unsuccessful. We have experienced a number of brief work stoppages at our facilities in Italy as a result of national and local issues. While we believe that we have good relations with our workforce, we may experience work stoppages or other labor problems in the future, and further unionization efforts may be successful. Any prolonged work stoppage could have an adverse effect on our reputation, our vendor relations and our dealership network. Moreover, because substantially all of our products are manufactured to order, we do not carry finished goods inventory that could mitigate the effects of a prolonged work stoppage.

Product defects could adversely affect our results of operations.

Our customers may encounter product defects that could potentially arise in the course of our development of new products or due to manufacturing problems. If product defects do arise, we could incur product warranty costs, product liability costs and costs associated with recalling and repairing defective products. While we maintain a reserve for our product warranty costs based on estimates of the costs that may be incurred under the warranties on all of our products, our actual warranty costs may exceed this reserve, resulting in a need to increase the amounts accrued for warranty costs. We also maintain product liability and other insurance coverage that we believe to be generally in accordance with industry practices, but our insurance coverage does not extend to field visits to repair, retrofit or replace defective products, or to product recalls. As a result, our insurance coverage may not be adequate to protect us fully against substantial claims and costs that may arise from product defects, particularly if we have a large number of defective products that we must repair, retrofit, replace or recall. Sales of our products could be adversely affected by excessive warranty claims, product recalls and adverse perceptions of product quality. As a result of these factors, product defects could have a material adverse effect on our results of operations.

We may be vulnerable to the effects of currency exchange rate fluctuations, which could increase our expenses.

We primarily sell our products and report our financial results in U.S. dollars, but we generate some of our revenues and pay some of our expenses in other currencies. Paying our expenses in other currencies can result in a significant increase or decrease in the amount of those expenses in U.S. dollar terms, which affects our profits.

In the future, any foreign currency appreciation relative to the U.S. dollar would increase our expenses that are denominated in that currency. 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 11.6% of our revenues in 2015 and 26.1% of our cost of goods sold in 2015 were denominated in currencies other than the U.S. dollar. From time to time, we review our foreign currency exposure and evaluate whether we should hedge our exposure.

Pension costs or funding requirements could increase at a higher-than-anticipated rate.
We administer two defined benefit pension plans, which hold significant amounts of equity securities. Changes in interest rates or other plan assumptions or in the market value of plan assets could affect the funded status of our pension plans. This could cause volatility in our benefits costs which could increase future funding requirements of our pension plans and have a negative impact on our results of operations, financial condition and cash flows. Our future funding obligations also are affected by the Pension Protection Act of 2006 (“PPA”), which established certain required funding targets. Volatility in the economic environment and/or a decline in the equity markets could cause the value of investment assets held by our pension plans to decline. As a result, we may be required to increase the amount of our cash contributions to our pension plans in order to meet the funding level requirements of the PPA.
If we fail to protect the integrity and security of our information technology systems and confidential information, it could adversely affect our business.
We rely upon information technology networks and systems to process, transmit and store electronic information, and to manage numerous aspects of our business and provide information to management. We also receive certain customer-specific data, including credit card information, in connection with orders placed through our various businesses, including our e-commerce websites and our retail store. The secure operation of these information technology systems, and the processing and maintenance of this information, is critical to our business operations and strategy. These systems are vulnerable to, among other things, damage and interruption from power loss or natural disasters, computer system and network failures, loss of telecommunications services, physical and electronic loss of data, security breaches, hackers and employee misuse. We may face unauthorized attempts by hackers seeking to harm us or, as a result of industrial espionage, to penetrate our network security and gain access to our systems, steal intellectual or other proprietary data, including design, sales or personally identifiable information, introduce malicious software or interrupt our internal systems, manufacturing or distribution. Though we attempt to prevent and detect these incidents, we may not be successful. Any disruption of our information technology systems, or access to or disclosure of information stored in or transmitted by our systems, could result in legal claims and damages, loss of intellectual property or other proprietary information (including customer data), disrupt operations, result in competitive disadvantage and damage our reputation, which could adversely affect our business and results of operations.
In addition, states and the federal government are increasingly enacting laws and regulations to protect consumers against identity theft. Also, as our business expands globally, we are subject to data privacy and other similar laws in various foreign jurisdictions. If we are the target of a cybersecurity attack resulting in unauthorized disclosure of our customer data, we may be required to undertake costly notification procedures. Compliance with these laws will likely increase the costs of doing business. Further, if we fail to implement appropriate safeguards or to detect and provide prompt notice of unauthorized access as required by some of these laws, we could be subject to potential claims for damages and other remedies, which could harm our business.
We are in the process of implementing a new enterprise resource planning system, and problems with the design or implementation of this system could interfere with our business and operations.
We are engaged in a multi-year implementation of a new global enterprise resource planning system (ERP). The ERP is designed to accurately maintain the company's books and records and provide information to the company's management team important to the operation of the business. The company's ERP has required, and will continue to require, the investment of significant human and financial resources. We may not be able to successfully implement the ERP without experiencing delays, increased costs and other difficulties. If we are unable to successfully design and implement the new ERP system as planned, our financial positions, results of operations and cash flows could be negatively impacted.
We may not be able to successfully integrate acquired businesses, which may result in an inability to realize the anticipated benefits of our acquisitions.
One of our key operating strategies is to selectively pursue acquisitions. We have made a number of acquisitions in the past and we expect that a portion of our future growth may come from such transactions. We evaluate potential acquisitions on an ongoing basis. However, we may not be able to identify suitable acquisition candidates at prices we consider attractive. Further, our ability to successfully integrate acquired businesses could be negatively impaired because of difficulties, costs and delays that may include:

- Negative impacts on employee morale and performance as a result of job changes and reassignments;
- Unforeseen difficulties, costs or complications in integrating the companies' operations, which could lead to us not achieving the synergies we anticipate;
- Unanticipated incompatibility of systems and operating methods;
- Resolving possible inconsistencies in standards, controls, procedures and policies, business cultures and compensation structures;

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•The diversion of management's attention from ongoing business concerns and other strategic opportunities;
•Unforeseen difficulties in operating acquired business in parallel with similar businesses that we operated previously;
•Unforeseen difficulties in operating businesses we have not operated before;
•Unanticipated difficulty of integrating multiple acquired businesses simultaneously;
•The retention of key employees and management of acquired businesses;
•The coordination of geographically separate organizations;
•The coordination and consolidation of ongoing and future research and development efforts; and
•Possible tax costs or inefficiencies associated with integrating the operations of a combined company.

In connection with any acquisition that we make, there may be liabilities that we fail to discover or that we inadequately assess. Acquired entities may not operate profitably or result in improved operating performance. Additionally, we may not realize anticipated synergies. If our acquisitions perform poorly, our business and financial results could be adversely affected.

In the beginning of 2013, we announced a program of strategic investments and multi-year initiatives. If we experience delays or complications in implementing these programs, or if these programs are not as successful as we expect, it could negatively impact our financial position and results of operations.

In the beginning of 2013, we announced the implementation of an aggressive program of strategic investments and multi-year initiatives intended to enable us to achieve our operating goals of over $1.0 billion in annual revenues and over 12% operating profit margins. These initiatives required the company to make significant investments in 2013, 2014 and 2015, in an effort to drive our longer-term revenue and profitability goals. We may not be successful in the implementation of these initiatives and we may experience delays, increased costs and other difficulties and never achieve our revenue growth or profit goals, or achieve them later than currently planned. Any delays or failures in the implementation or success of these initiatives could have a negative impact on our financial position and results of operations.

Risks Related to Our Common Stock

Our corporate documents and Delaware law contain provisions that could discourage, delay or prevent a change in control of our company.

Provisions in our amended and restated certificate of incorporation and bylaws may discourage, delay or prevent a merger or acquisition involving us that our stockholders may consider favorable. For example, our amended and restated certificate of incorporation authorizes our board of directors to issue up to 10,000,000 shares of “blank check” preferred stock. Without stockholder approval, the board of directors has the authority to attach special rights, including voting and dividend rights, to this preferred stock. With these rights, preferred stockholders could make it more difficult for a third party to acquire us. In addition, our amended and restated certificate of incorporation provides for a staggered board of directors, whereby directors serve for three-year terms, with approximately one-third of the directors coming up for reelection each year. Having a staggered board will make it more difficult for a third party to obtain control of our board of directors through a proxy contest, which may be a necessary step in an acquisition of us that is not favored by our board of directors.

We are also subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law. Under these provisions, if anyone becomes an “interested stockholder,” we may not enter into a “business combination” with that person for three years without special approval, which could discourage a third party from making a takeover offer and could delay or prevent a change of control. For purposes of Section 203, “interested stockholder” means, generally, someone owning 15% or more of our outstanding voting stock or an affiliate of ours that owned 15% or more of our outstanding voting stock during the past three years, subject to certain exceptions as described in Section 203. Upon any change in control, the lenders under our credit facility would have the right to require us to repay all of our outstanding obligations under the facility.

Our stock price may be volatile, and your investment in our common stock could suffer a decline in value.

There has been significant volatility in the market price and trading volume of equity securities, which may be unrelated to the financial performance of the companies issuing the securities. These broad market fluctuations may negatively affect the market price of our common stock. You may not be able to resell your shares at or above the price at which you purchased them due to fluctuations in the market price of our common stock caused by changes in our operating performance or prospects and other factors. Some specific factors that may have a significant effect on our common stock market price include:

- actual or anticipated fluctuations in our operating results or future prospects, including actual or perceived fluctuations in the demand for our products;
- our announcements or our competitors' announcements of new products;

- the public's reaction to our press releases, our other public announcements and our filings with the SEC;
- strategic actions by us or our competitors, such as acquisitions, joint ventures, strategic investments, or restructurings;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidance, interpretations or principles;
- changes in our growth rates or our competitors' growth rates;
- our inability to raise additional capital;
- conditions of the office furniture industry as a result of changes in financial markets or general economic conditions, including those resulting from war, incidents of terrorism and responses to such events;
- sales of common stock by us or members of our management team; and
- changes in stock market analyst recommendations or earnings estimates regarding our common stock, other comparable companies or our industry generally.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

We operate over 3,896,000 square feet of facilities, including manufacturing plants, warehouses and sales offices. Of these facilities, we own approximately 2,418,000 square feet and lease approximately 1,478,000 square feet. Our manufacturing plants are located in East Greenville, Pennsylvania, Grand Rapids and Muskegon, Michigan, Chicago, Illinois, Dallas, Texas, Toronto, Canada, and Foligno and Graffignana, Italy. The location, square footage, and use of the facilities as of December 31, 2015 are shown below.

| Owned Locations | Square Footage | | Use | Operating Segment |
|---|---|---|---|---|
| East Greenville, Pennsylvania | 735,000 | (1) | Corporate Headquarters, Manufacturing, Warehouses, and Administration | Office, Studio and Coverings |
| Grand Rapids, Michigan | 534,000 | (1) | Manufacturing, Distribution, and Administration | Office |
| Toronto, Canada | 408,000 | | Manufacturing, Distribution, Warehouses, and Administration | Office |
| Muskegon, Michigan | 367,000 | (1) | Manufacturing and Administration | Office |
| Foligno, Italy | 259,000 | | Manufacturing, Distribution, Warehouses, and Administration | Studio |
| Graffignana, Italy | 108,000 | | Manufacturing, Distribution, Warehouses, and Administration | Studio |
| Paris, France | 7,000 | | Sales Offices | Studio |
| Leased Locations | Square Footage | | Use | Operating Segment |
| Allentown, Pennsylvania | 290,000 | | Warehouse, Distribution | Office and Studio |
| Bedford Park, Illinois | 135,000 | | Warehouse, Distribution (Holly Hunt Enterprises) | Studio |
| Muskegon, Michigan | 105,000 | | Manufacturing | Office |
| Toronto, Canada | 194,000 | | Manufacturing, Warehouses, Distribution and Administration | Office |
| New Milford, Connecticut | 55,000 | | Manufacturing and Administration (Edelman Leather) | Coverings |
| East Greenville, Pennsylvania | 40,000 | | Warehouses, Distribution | Office and Studio |
| Knoll, Europe—various locations | 40,000 | | Sales Offices, Administration, and Warehouses | Studio |
| Chicago, Illinois | 34,000 | | Warehouse, Distribution (Holly Hunt Enterprises) | Studio |
| Getzville, New York | 36,000 | | Manufacturing and Administration (Spinneybeck) | Coverings |
| Dallas, Texas | 30,000 | | Warehouse, Distribution (Holly Hunt Enterprises) | Studio |
| Chicago, Illinois | 23,000 | | Administration (Holly Hunt Enterprises) | Studio |
| Miscellaneous Showrooms | 496,000 | | Sales Offices | Office, Studio, and Coverings |

(1) Facilities are encumbered by mortgages securing indebtedness under our credit facility.

We believe that our plants and other facilities are sufficient for our needs for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are subject to litigation or other legal proceedings arising in the ordinary course of business. Based upon information currently known to us, we believe the outcome of such proceedings will not have, individually or in the aggregate, a material adverse effect on our business, financial condition or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES
Not applicable.

# PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

### Market Information and Dividend Policy

Our common stock has been listed on the New York Stock Exchange (“NYSE”) since December 14, 2004, the date of our initial public offering, under the symbol “KNL.” As of December 31, 2015, there were approximately 105 stockholders of record of our common stock.

The following table sets forth, for the periods indicated, high and low sales prices for the common stock as reported by the NYSE.

| | High | Low |
|---|---|---|
| Fiscal year ended December 31, 2015 | | |
| First quarter | $23.53 | $19.20 |
| Second quarter | $26.06 | $22.00 |
| Third quarter | $25.49 | $21.81 |
| Fourth quarter | $24.87 | $18.29 |
| | High | Low |
| Fiscal year ended December 31, 2014 | | |
| First quarter | $18.28 | $14.54 |
| Second quarter | $20.10 | $16.21 |
| Third quarter | $19.22 | $16.45 |
| Fourth quarter | $21.88 | $16.52 |

We declared and paid cash dividends of $0.51 and $0.48 per share for the years ended December 31, 2015 and 2014, respectively. On February 9, 2016, our board of directors declared a cash dividend of $0.15 per share on our common stock payable on March 31, 2016 to shareholders of record on March 15, 2016. The declaration and payment of future dividends is subject to the discretion of our board of directors and depends on various factors, including our net income, financial condition, cash requirements and future prospects and other factors deemed relevant by our board of directors. Our credit facility imposes restrictions on our ability to pay dividends, and thus our ability to pay dividends on our common stock will depend upon, among other things, our level of indebtedness at the time of the proposed dividend and whether we are in default under any of our debt obligations. Our ability to pay dividends will also depend on the requirements of any future financing agreements to which we may be a party. Our board of directors intends to evaluate our dividend policy quarterly in reference to these factors.

### Performance Graph

The following line graph compares the cumulative total stockholder return on our common stock with the cumulative total return of the Standard & Poor's 500 Stock Index and with the cumulative total return of a peer group of companies selected by us for the period commencing on December 31, 2010 and ending on December 31, 2015. Our share price at the beginning of the measurement period is $16.73 per share. The graph and table assume that $100 was invested on December 31, 2010 in each of our common stock, the stock of our peer group, and the S&P 500 Index, and that all dividends were reinvested. Cumulative total stockholder returns for our common stock, the S&P 500 Index, and the stock of our peer group are based on our fiscal year. Our peer group is made up of seven publicly-held companies, Herman Miller, Inc., Steelcase, Inc., HNI Corp, Kimball International Inc., Interface Inc., Movado Group Inc. and Tumi Holdings Inc. The stock performance on the graph below does not necessarily indicate future price performance.

$100 invested on 12/31/10 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

| | 12/10 | 12/11 | 12/12 | 12/13 | 12/14 | 12/15 |
|---|---|---|---|---|---|---|
| Knoll, Inc. | 100.00 | 90.85 | 96.88 | 118.99 | 141.31 | 128.50 |
| S&P 500 | 100.00 | 102.08 | 118.39 | 156.70 | 178.10 | 180.56 |
| Peer Group | 100.00 | 84.70 | 126.17 | 176.24 | 155.51 | 134.65 |

* The performance graph and the related chart should not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 or incorporated by reference into any of our filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, unless we specifically incorporate the performance graph by reference therein.

Issuer Purchases of Equity Securities

The following is a summary of share repurchase activity during the three months ended December 31, 2015.

On August 17, 2005, our board of directors approved a stock repurchase program (the “Options Proceeds Program”), whereby they 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.

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) |
|---|---|---|---|---|---|---|
| October 1, 2015 - October 31, 2015 | 28,869 | (2) | $23.62 | — | | $32,352,413 |
| November 1, 2015 - November 30, 2015 | 7,887 | (2) | $21.36 | 4,194 | (3) | $32,352,413 |
| December 1, 2015 - December 31, 2015 | 17,991 | | $21.83 | 17,991 | (3) | $32,352,413 |
| Total | 54,747 | | | 22,185 | | |

(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 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 October and November 2015, 71,667 and 11,250 shares of outstanding restricted stock vested, respectively. Concurrently with the vestings, 28,869 and 3,693 shares, respectively were forfeited by the holders of the restricted shares to cover applicable taxes paid on the holders' behalf by the Company.

(3) These shares were purchased under the Options Proceeds Program.

## ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with “Management's Discussion and Analysis of Financial Condition and Results of Operations” and our audited consolidated financial statements and the related notes included elsewhere in this Form 10-K. The selected consolidated financial data for the years ended December 31, 2013, 2014 and 2015 and as of December 31, 2014 and 2015 are derived from our audited financial statements included elsewhere in this Form 10-K. The selected consolidated financial data for the years ended December 31, 2011 and 2012 and as of December 31, 2011, 2012 and 2013 are derived from our audited financial statements not included in this Form 10-K.

| | Consolidated Statements of Operations and Comprehensive Income Data<br>Years Ended December 31,<br>(dollars in thousands, except per share data) | | | | |
|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 |
| Sales | $918,822 | $898,496 | $862,252 | $1,050,294 | $1,104,442 |
| Cost of sales | 626,352 | 600,602 | 581,920 | 678,609 | 692,310 |
| Gross profit | 292,470 | 297,894 | 280,332 | 371,685 | 412,132 |
| Selling, general and administrative expenses | 203,009 | 206,422 | 224,915 | 286,801 | 299,476 |
| Restructuring and other charges | 696 | — | 5,104 | 1,532 | 896 |
| Intangible asset impairment charges | — | — | 8,900 | — | 10,650 |
| Pension settlement and OPEB curtailment | (5,445) | — | — | 6,509 | — |
| Operating profit | 94,210 | 91,472 | 41,413 | 76,843 | 101,110 |
| Interest expense | 9,753 | 6,350 | 5,941 | 7,378 | 6,865 |
| Other (income) expense, net | (3,108) | 3,215 | (3,430) | (6,285) | (9,174) |
| Income before income tax expense | 87,565 | 81,907 | 38,902 | 75,750 | 103,419 |
| Income tax expense | 31,245 | 30,384 | 15,718 | 29,165 | 37,471 |
| Net earnings | $56,320 | $51,523 | $23,184 | $46,585 | $65,948 |
| Net earnings attributable to Knoll, Inc. stockholders | $56,320 | $51,523 | $23,184 | $46,596 | $65,963 |
| Per Share Data: | | | | | |
| Earnings per share: | | | | | |
| Basic | $1.22 | $1.10 | $0.49 | $0.98 | $1.38 |
| Diluted | $1.20 | $1.09 | $0.49 | $0.97 | $1.36 |
| Cash dividends declared per share: | $0.36 | $0.44 | $0.48 | $0.48 | $0.51 |
| Weighted-average shares of common stock outstanding: | | | | | |
| Basic | 46,249,571 | 46,634,834 | 46,916,845 | 47,346,532 | 47,746,707 |
| Diluted | 46,835,712 | 47,059,186 | 47,659,418 | 48,068,249 | 48,438,231 |

| | Consolidated Balance Sheet Data:<br>As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 |
| | (in thousands) | | | | |
| Working capital | $79,641 | $83,129 | $66,827 | $80,045 | $92,732 |
| Total assets | 686,187 | 695,873 | 675,762 | 868,943 | 856,085 |
| Total long-term debt, including current portion | 212,000 | 193,000 | 173,000 | 258,000 | 222,000 |
| Total liabilities | 527,558 | 513,559 | 451,935 | 665,725 | 600,611 |
| Total equity | 158,629 | 182,314 | 223,827 | 213,218 | 255,474 |

## ITEM 7. 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 audited consolidated financial statements.

### Forward-looking Statements

This annual report on Form 10-K contains forward-looking statements, principally in the sections entitled “Business,” “Risk Factors,” “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-K 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 sim phrases or expressions. This 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, and our expectations with respect to leverage. 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 in Item 7A of this annual report on Form 10-K; 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 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 and the cost of borrowing; the overall strength and stability of our dealers, suppliers, and customers; access to necessary capital; our ability to successfully integrate acquired businesses; the success of our design and implementation of a new enterprise resource planning system; 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-K are expressly qualified in their entirety by the foregoing cautionary statements. Except as required under the Federal securities laws and the 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.

### Overview

We design, manufacture, market and sell high-end furnishings and accessories, textiles, fine leathers, and designer felt, for the workplace and home. Our commitment to innovation and modern design has yielded a comprehensive portfolio of products and a brand recognized for high quality and a sophisticated image. Our products are targeted at the middle to upper end of the market and are sold primarily in North America and Europe through a direct sales force and a broad network of independent dealers, showrooms, retailers and websites.

### Business Highlights

During the last decade we have diversified our sources of revenue among our varying operating segments. In 2015, over 38% of our sales and 57% of our profits come from outside our Office segment. We continue to build Knoll with an eye toward what works for our customers and shareholders: a constellation of high-design, high-margin businesses that leverage our historic relationships with architects, designers and decorators, resulting in a singular and distinctive source for workplace and residential interiors.

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We believe over the long run our diversification efforts and strategy will continue to result in a more profitable and less cyclical enterprise. However, our efforts to diversify our sources of revenue among our operating segments has not distracted us from our continued effort to grow and improve the operating performance of our Office segment. Recent introductions of complementary products like adjustable tables, seating and ergonomic accessories have led our recent growth in the Office business. These new products, where we have invested heavily, resulted in Office segment sales growth of 4.7% in 2015. Operating margins in our Office segment improved 290 basis points from 3.4% in 2014 to 6.3% in 2015. Business mix, foreign exchange rates, net price realization and improved fixed cost absorption from higher volumes all contributed positively.

As the workplace continues to evolve and the traditional boundaries between residential and contract blur, companies compete to attract and retain talent, and the importance of a total environment trumps any one particular element, we believe we have the singular constellation of businesses to meet these requirements. Our recently renovated showrooms from New York to San Francisco to Houston demonstrate viscerally for our clients and designers the power of bringing together our innovative mix of office furnishings, KnollStudio design classics and lounge designs, Spinneybeck and FilzFelt architectural materials and our broad range of KnollTextiles coverings materials. This package helps us both capture more of our clients total spend and elevates the profitability of that engagement.

Two other evolving trends create opportunity for us. The changing balance between the allocation of office space between the individual and the group creates opportunities outside the traditional workstation market. We are also seeing clients incrementally investing in giving the individual more adjustable and high performance options. This can increase the average selling price of an individual space and, coupled with an increased focus on well-being, this also creates opportunities to innovate with new types of products, some of which we look forward to bringing to market later this year, that give our clients compelling reasons to incrementally invest in the individual workspace.

On the residential side, HOLLY HUNT continues to exceed our expectations as our strategy of expanding the showroom footprint and using this foundation as a platform for both organic growth in existing categories and future acquisitions plays out. HOLLY HUNT, together with residential opportunities in our KnollStudio business, here and in Europe, gives us exposure to a sophisticated and educated clientèle that is willing to invest in the finest in modern design.

In the fourth quarter 2015 we increased our dividend 25%, even as we continued to aggressively manage our balance sheet. As of December 31, 2015, our bank leverage was 1.67, down from 2.41 a year ago. The calculation of our leverage ratio under our credit facility includes the use of adjusted EBITDA, a non-GAAP financial measure. For details on the leverage ratio calculations, see “Reconciliation of Non-GAAP Financial Measures” below.

Results of Operations

Comparison of Consolidated Results for the Years Ended December 31, 2015 and December 31, 2014

| | Year Ended December 31, | | 2015 vs. 2014 | |
|---|---|---|---|---|
| | 2015 | 2014 | $ Change | % Change |
| | (Dollar in thousands) | | | |
| Net Sales | $1,104,442 | $1,050,294 | $54,148 | 5.2 % |
| Gross profit | 412,132 | 371,685 | 40,447 | 10.9 % |
| Operating profit | 101,110 | 76,843 | 24,267 | 31.6 % |
| Interest expense | 6,865 | 7,378 | (513) | (7.0)% |
| Other income, net | (9,174) | (6,285) | (2,889) | 46.0 % |
| Income tax expense | 37,471 | 29,165 | 8,306 | 28.5 % |
| Net earnings | 65,948 | 46,585 | 19,363 | 41.6 % |
| Net earnings attributable to Knoll, Inc. stockholders | 65,963 | 46,596 | 19,367 | 41.6 % |
| Net earnings per common share attributable to Knoll, Inc. stockholders: | | | | |
| Basic | $1.38 | $0.98 | $0.40 | 40.8 % |
| Diluted | $1.36 | $0.97 | $0.39 | 40.2 % |
| Statistical Data | | | | |
| Gross profit % | 37.3 % | 35.4 % | | |
| Operating profit % | 9.2 % | 7.3 % | | |

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Net Sales
Net sales for the year ended December 31, 2015 were $1,104.4 million, an increase of $54.1 million, or 5.2%, from sales of $1,050.3 million for the year ended December 31, 2014. The increase in sales was largely due to a $30.7 million increase in Office sales where we experienced growth in our complimentary products to which we have been aggressively investing. In 2015, our Studio segment sales also increased, due primarily to strong sales growth of $11.8 million and $7.8 million related to the full year effect of the HOLLY HUNT acquisition.

Gross Profit
Gross profit for 2015 was $412.1 million, an increase of $40.4 million, or 10.9%, from gross profit of $371.7 million in 2014. Gross profit for 2015 includes a charge of $0.9 million due to the discontinuation of one of our seating products. As a percentage of sales, gross profit increased from 35.4% for 2014 to 37.3% for 2015. The increase in gross profit as a percent of sales during the year was driven by foreign exchange benefits, operational improvements as well as the mix of business and net price realization.

Operating Profit
Operating profit for 2015 was $101.1 million, an increase of $24.3 million, or 31.6%, from operating profit of $76.8 million for 2014. Operating profit as a percentage of sales increased from 7.3% in 2014 to 9.2% in 2015. Operating profit for 2015 includes $11.5 million of charges related to a non-cash Edelman tradename impairment of $10.7 million as well as restructuring charges of $0.9 million that are intended to streamline our corporate structure and improve future profitability. Operating profit for 2014 includes the pension settlement and other postretirement benefit curtailment of $6.5 million, acquisition expenses of $0.7 million, restructuring charges of $1.5 million and a charge of $0.5 million associated with the remeasurement of the FilzFelt earn-out liability.

Selling, general, and administrative expenses for 2015 were $299.5 million, or 27.1% of sales, compared to $286.8 million, or 27.3% of sales, for 2014. The increase in operating expenses was related to higher commissions from increased sales volume as well as higher incentive compensation and profit sharing resulting from increased profitability.

Interest Expense
Interest expense for 2015 was $6.9 million, a decrease of $0.5 million from interest expense of $7.4 million for 2014. The decrease in interest expense was due primarily to a reduction in outstanding debt. During 2015 and 2014, the Company's weighted average interest rates were approximately 2.1% and 2.3%, respectively.

Other Income, net
Other income in 2015 and 2014 was $9.2 million and $6.3 million, respectively, which primarily consisted of foreign exchange gains.

Income Tax Expense
Our effective tax rate was 36.2% for 2015, compared to 38.5% for 2014. The decrease in the effective tax rate was due to the allowance of certain research and development tax credits recognized in 2015 as well as the mix of pretax income and the varying effective tax rates in the states and countries in which we operate, as that mix directly affects our consolidated effective tax rate.

Comparison of Consolidated Results for the Years Ended December 31, 2014 and December 31, 2013

| | Year Ended December 31, | | 2014 vs. 2013 | |
|---|---|---|---|---|
| | 2014 | 2013 | $ Change | % Change |
| | (Dollar in thousands) | | | |
| Sales | $1,050,294 | $862,252 | $188,042 | 21.8 % |
| Gross profit | 371,685 | 280,332 | 91,353 | 32.6 % |
| Operating profit | 76,843 | 41,413 | 35,430 | 85.6 % |
| Interest expense | 7,378 | 5,941 | 1,437 | 24.2 % |
| Other income, net | (6,285 ) | (3,430 ) | (2,855 ) | 83.2 % |
| Income tax expense | 29,165 | 15,718 | 13,447 | 85.6 % |
| Net earnings | 46,585 | 23,184 | 23,401 | 100.9 % |
| Net earnings attributable to Knoll, Inc. stockholders | 46,596 | 23,184 | 23,412 | 101.0 % |
| Net earnings per common share attributable to Knoll, Inc. stockholders: | | | | |
| Basic | $0.98 | $0.49 | $0.49 | 100.0 % |
| Diluted | $0.97 | $0.49 | $0.48 | 98.0 % |
| Statistical Data | | | | |
| Gross profit % | 35.4 % | 32.5 % | | |
| Operating profit % | 7.3 % | 4.8 % | | |

Net Sales

Net sales for the year ended December 31, 2014 were $1,050.3 million, an increase of $188.0 million, or 21.8%, from net sales of $862.3 million for the year ended December 31, 2013. In 2014, office systems and storage provided significant growth. Geographically, sales in Europe and sales for North America Studio also contributed to sales improvement year-over-year. Also, within the Studio segment, HOLLY HUNT, acquired in February 2014, bolstered our sales growth. Spinneybeck and FilzFelt provided for sales improvement in the Coverings segment.

Gross Profit

Gross profit for the year ended December 31, 2014 was $371.7 million, an increase of $91.4 million, or 32.6%, from gross profit of $280.3 million for the year ended December 31, 2013. As a percentage of sales, gross profit increased from 32.5% for 2013 to 35.4% for 2014. The increase in gross profit as a percent of sales during the year was driven by the richer mix of business due to the addition of HOLLY HUNT, foreign exchange benefits on the weakening Canadian dollar, and improved fixed cost absorption on the higher volume.

Operating Profit

Operating profit for the year ended December 31, 2014 was $76.8 million, an increase of $35.4 million, or 85.6%, from operating profit of $41.4 million for the year ended December 31, 2013. Operating profit as a percentage of sales increased from 4.8% in 2013 to 7.3% in 2014. Operating profit for 2014 includes a pension settlement and OPEB curtailment of $6.5 million and restructuring charges of $1.5 million. Operating profit for 2013 includes $5.1 million of restructuring charges and an $8.9 million intangible asset impairment charge related to the write-down of the Edelman tradename.

Selling, general, and administrative expenses for 2014 were $286.8 million, or 27.3% of sales, compared to $224.9 million, or 26.1% of sales, for 2013. The increase in operating expenses during 2014 was due to the acquisition of HOLLY HUNT, costs associated with a multi-day training event that occurred during the first quarter of 2014 in conjunction with our 75th anniversary, higher product development costs as well as commission and incentive compensation accruals incurred as a result of higher sales and profits.

Interest Expense

Interest expense for 2014 was $7.4 million, an increase of $1.4 million from interest expense of $5.9 million for 2013. The increase in interest expense for the periods noted above is mainly due to debt incurred to fund the acquisition of HOLLY HUNT in the first quarter of 2014. Our weighted average interest rates were approximately 2.3% and 2.4% during 2014 and 2013, respectively.

Other Income, net

Other income in 2014 primarily consisted of income related to $5.8 million of foreign exchange gains and $0.6 million associated with the sale of our Equity product line. Other income in 2013 consisted of income related to $3.5 million of foreign exchange gains.

Income Tax Expense

The effective tax rate was 38.5% for the year, as compared to 40.4% for 2013. Our effective tax rate is dependent upon the mix of pretax income in the countries in which we operate.

Segment Reporting

Our three reporting segments consist of: (1) Office, which includes our systems, seating, storage, tables, desks and KnollExtra® ergonomic accessories as well as the international sales of our North American Office products; (2) Studio, which includes KnollStudio®, Knoll Europe, Richard Schultz® Design, and HOLLY HUNT®; and (3) Coverings, which includes KnollTextiles®, Edelman® Leather, and Spinneybeck® Leather (including Filzfelt®). See Note 18 of our consolidated financial statements contained in this annual report on Form 10-K for further information regarding the business segments.

Comparison of Segment Results for the Years Ended December 31, 2015 and December 31, 2014

| | Year Ended December 31, | | 2015 vs. 2014 | |
|---|---|---|---|---|
| | 2015 | 2014 | $ Change | % Change |
| | (Dollar in thousands) | | | |
| SALES | | | | |
| Office | $686,943 | $656,228 | $30,715 | 4.7% |
| Studio | 303,838 | 279,167 | 24,671 | 8.8% |
| Coverings | 113,661 | 114,899 | (1,238) | (1.1)% |
| Knoll, Inc. | $1,104,442 | $1,050,294 | $54,148 | 5.2% |
| OPERATING PROFIT | | | | |
| Office | $43,143 | $21,964 | $21,179 | 96.4% |
| Studio | 43,335 | 33,567 | 9,768 | 29.1% |
| Coverings | 14,632 | 21,312 | (6,680) | (31.3)% |
| Knoll, Inc. (1) | $101,110 | $76,843 | $24,267 | 31.6% |

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

Office

Net sales for the Office segment in 2015 were $686.9 million, an increase of $30.7 million, or 4.7%, when compared with 2014. This increase in the Office segment for the year was the result of growth experienced across all of our product categories. The most predominant growth was experienced in complimentary products where we have been aggressively investing. Operating profit for the Office segment in 2015 was $43.1 million, an increase of $21.2 million, or 96.4%, when compared with 2014. The increase in operating profit was driven by more efficiency and continued work in our plants to a more profitable mix of product revenue. Operating profit for the Office segment in 2015 includes a $0.9 million seating product discontinuation charge and the $0.5 million restructuring charges. Operating profit for the Office segment in 2014 includes a $5.3 million pension settlement and OPEB curtailment and restructuring charges of $2.1 million.

Studio

Net sales for the Studio segment in 2015 were $303.8 million, an increase of $24.7 million, or 8.8%, when compared with 2014. This increase in net sales was driven by strong sales volume growth in HOLLY HUNT, one additional month of HOLLY HUNT sales included in 2015 as well as additional sales growth in our North American Studio business. Operating profit for the Studio segment in 2015 was $43.3 million, an increase of $9.8 million, or 29.1%, when compared with 2014. The increase in operating profit was driven by foreign exchange benefits, increased sales volume and net price realization. Operating profit for the Studio segment in 2015 includes a $0.4 million restructuring charge. Operating profit for the Studio segment in 2014 includes $0.8 million pension settlement and OPEB curtailment, $0.7 million of acquisition expenses and a restructuring benefit of $0.9 million.

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Coverings

Net sales for the Coverings segment in 2015 were $113.7 million, a decrease of $1.2 million, or 1.1%, when compared with 2014. For the full year 2015, Spinneybeck | FilzFelt and KnollTextiles all grew, while Edelman was negatively impacted by weakness in the private aviation market. Operating profit for the Coverings segment in 2015 was $14.6 million, a decrease of $6.7 million, or 31.3%, when compared with 2014. Operating profit for the Coverings segment in 2015 includes a $10.7 intangible asset impairment charge. Operating profit for the Coverings segment in 2014 includes a $0.4 million pension settlement and OPEB curtailment and $0.3 million of restructuring charges.

Comparison of Segment Results for the Years Ended December 31, 2014 and December 31, 2013

| | Year Ended December 31, | | 2014 vs. 2013 | | |
|---|---|---|---|---|---|
| | 2014 | 2013 | $ Change | % Change | |
| | (Dollar in thousands) | | | | |
| SALES | | | | | |
| Office | $656,228 | $599,131 | $57,097 | 9.5 | % |
| Studio | 279,167 | 154,083 | 125,084 | 81.2 | % |
| Coverings | 114,899 | 109,038 | 5,861 | 5.4 | % |
| Knoll, Inc. | $1,050,294 | $862,252 | $188,042 | 21.8 | % |
| OPERATING PROFIT | | | | | |
| Office | $21,964 | $13,982 | $7,982 | 57.1 | % |
| Studio | 33,567 | 15,335 | 18,232 | 118.9 | % |
| Coverings | 21,312 | 12,096 | 9,216 | 76.2 | % |
| Knoll, Inc. (1) | $76,843 | $41,413 | $35,430 | 85.6 | % |

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

Office

Net sales for the Office segment in 2014 were $656.2 million, an increase of $57.1 million, or 9.5%, when compared with 2013. This increase in the Office segment for the year was mainly the result of growth of office systems and storage sales. Office segment sales in 2014 were negatively impacted by $2.2 million due to changes in foreign exchange rates when compared to 2013. Excluding the impact of $5.3 million of pension settlement and OPEB curtailment and restructuring charges of $2.1 million, adjusted operating profit for the Office segment was $29.4 million in 2014, an increase of $13.3 million, or 82.6%, when compared with 2013. Operating profit in 2013 excludes the $2.1 million restructuring charge for the Office segment. As a percent of net sales, excluding the pension settlement and OPEB curtailment as well as restructuring charges, Office segment adjusted operating profit was 4.5% for the year ended December 31, 2014 and 2.7% for the year ended December 31, 2013.

Studio

Net sales for the Studio segment in 2014 were $279.2 million, an increase of $125.1 million, or 81.2%, when compared with 2013. Sales growth in North America and Europe, as well as the addition of HOLLY HUNT, contributed to Studio sales growth year-over-year. Studio segment sales in 2014 also were positively impacted by $1.5 million due to changes in foreign exchange rates when compared to 2013. Excluding the impact of the $0.8 million pension settlement and OPEB curtailment, $0.7 million of acquisition expenses and $0.9 million of restructuring benefit, adjusted operating profit for the Studio segment was $34.2 million, an increase of $15.9 million, or 86.6%, when compared with 2013. Adjusted operating profit for 2013 excludes the restructuring charge of $3.0 million for the Studio segment. As a percentage of net sales, excluding the pension settlement and OPEB curtailment as well as restructuring charges, Studio segment adjusted operating profit was 12.2% for the year ended December 31, 2014 and 11.9% for the year ended December 31, 2013.

Coverings

Net sales for the Coverings segment in 2014 were $114.9 million, an increase of $5.9 million, or 5.4%, when compared with 2013. Increased sales of our Spinneybeck and FilzFelt products was the primary driver for sales growth. Coverings segment sales in 2014 were not materially impacted by changes in foreign exchange rates when compared to 2013. Excluding $0.5 million from the remeasurement of FilzFelt earn-out liability, $0.4 million pension settlement and OPEB curtailment and $0.3 million of restructuring charges, adjusted operating profit for the Coverings segment was $22.5 million, an increase of $1.5 million, or 7.1%, when compared to 2013. Adjusted operating profit for 2013 excludes the $8.9 million intangible asset impairment related to the write-down of the Edelman tradename. As a percentage of net sales, excluding the pension settlement and OPEB curtailment, restructuring charges, and Edelman tradename impairment, the Coverings segment adjusted operating profit was 19.6% for the year ended December 31, 2014 and 19.3% for the year ended December 31, 2013.

Reconciliation of Non-GAAP Financial Measures

This annual report on Form 10-K contains certain non-GAAP financial measures. A “non-GAAP financial measure” is a numerical measure of a company's financial performance that excludes or includes amounts so as to be different than the most directly comparable measure calculated and presented in accordance with U.S. generally accepted accounting principles (“GAAP”) in the statements of income, balance sheets, or statements of cash flow of the company. These non-GAAP financial measures are presented because management uses this information to monitor and evaluate financial results and trends. Therefore, management believes this information is also useful for investors. Pursuant to applicable reporting requirements, the company has provided reconciliations below of non-GAAP financial measures to the most directly comparable GAAP measure.

The non-GAAP financial measures presented within this item are Last Twelve Months (“LTM”) Adjusted EBITDA and Adjusted Operating Profit. These non-GAAP measures are not indicators of our financial performance under GAAP and should not be considered as an alternative to the applicable GAAP measure. These non-GAAP measures have limitations as analytical tools, and you should not consider them in isolation or as a substitute for analysis of our results as reported under GAAP. In addition, in evaluating these non-GAAP measures, you should be aware that in the future we may incur expenses similar to the adjustments in this presentation. Our presentation of these non-GAAP measures should not be construed as an inference that our future results will be unaffected by unusual or infrequent items. We compensate for these limitations by providing equal prominence of our GAAP results and using non-GAAP measures only as supplemental presentations.

The following table reconciles net earnings to adjusted EBITDA and computes our bank leverage calculations for the periods shown. The bank leverage calculation is in accordance with our Second Amended and Restated Credit Agreement dated May 20, 2014.

| | December 31, 2014 (in millions) | | March 31, 2015 | June 30, 2015 | September 30, 2015 | December 31, 2015 |
|---|---|---|---|---|---|---|
| Debt Levels (1) | $275.5 | | $316.7 | $290.7 | $274.2 | $238.7 |
| LTM Net Earnings | 46.6 | | 56.2 | 62.6 | 64.8 | 66.0 |
| LTM Adjustments | | | | | | |
| Interest | 6.7 | | 6.9 | 6.8 | 6.6 | 6.1 |
| Taxes | 29.2 | | 35.0 | 37.2 | 39.1 | 37.5 |
| Depreciation and Amortization | 20.0 | | 20.6 | 21.1 | 21.2 | 21.3 |
| Non-cash items and Other (2) | 11.9 | | 5.7 | 3.3 | 6.0 | 12.5 |
| LTM Adjusted EBITDA | $114.4 | (4) | $124.4 | $131.0 | $137.7 | $143.4 |
| Bank Leverage Calculation (3) | 2.41 | | 2.55 | 2.22 | 1.99 | 1.67 |

(1) Outstanding debt levels include outstanding letters of credit and guarantee obligations. Excess cash over $15.0 million reduces outstanding debt per the terms of our credit facility, a copy of which was filed with the Securities and Exchange Commission on May 21, 2014.

(2) Non-cash items include, but are not limited to, an intangible asset impairment charge, a pension settlement and other postretirement benefit curtailment, stock-based compensation expenses, unrealized gains and losses on foreign exchange, and restructuring charges.

(3) Debt divided by LTM (Last Twelve Months) adjusted EBITDA, as calculated in accordance with our credit facility.
(4) Includes an annualized pro forma EBITDA for HOLLY HUNT®, which was acquired on February 3, 2014.

The following tables reconciles Adjusted Operating Profit to GAAP Operating Profit for the segments and periods indicated.

| | Year Ended December 31, 2015 | 2014 | 2013 |
|---|---|---|---|
| Office Segment | | | |
| Operating Profit | $43,143 | $21,964 | $13,982 |
| Add back: | | | |
| Pension settlement and OPEB curtailment | — | 5,337 | — |
| Restructuring charges | 455 | 2,111 | 2,129 |
| Seating product discontinuation charge | 883 | — | — |
| Adjusted Operating Profit | $44,481 | $29,412 | $16,111 |
| Net Sales | $686,943 | $656,228 | $599,131 |
| Adjusted Operating Profit % | 6.5 % | 4.5 % | 2.7 % |
| | | | |
| Studio Segment | | | |
| Operating Profit | $43,335 | $33,567 | $15,335 |
| Add back: | | | |
| Pension settlement and OPEB curtailment | — | 781 | — |
| Acquisition expenses | — | 710 | — |
| Restructuring charges | 441 | (897) | 2,975 |
| Adjusted Operating Profit | $43,776 | $34,161 | $18,310 |
| Net Sales | $303,838 | $279,167 | $154,083 |
| Adjusted Operating Profit % | 14.4 % | 12.2 % | 11.9 % |
| | | | |
| Coverings Segment | | | |
| Operating Profit | $14,632 | $21,312 | $12,096 |
| Add back: | | | |
| Pension settlement and OPEB curtailment | — | 391 | — |
| Remeasurement of FilzFelt earn-out liability | — | 457 | — |
| Intangible asset impairment charge | 10,650 | — | 8,900 |
| Restructuring charges | — | 318 | — |
| Adjusted Operating Profit | $25,282 | $22,478 | $20,996 |
| Net Sales | $113,661 | $114,899 | $109,038 |
| Adjusted Operating Profit % | 22.2 % | 19.6 % | 19.3 % |
| | | | |
| Knoll Inc. | | | |
| Operating Profit | $101,110 | $76,843 | $41,413 |
| Add back: | | | |
| Pension settlement and OPEB curtailment | — | 6,509 | — |
| Remeasurement of FilzFelt earn-out liability | — | 457 | — |
| Acquisition expenses | — | 710 | — |
| Intangible asset impairment charge | 10,650 | — | 8,900 |
| Restructuring charges | 896 | 1,532 | 5,104 |
| Seating product discontinuation charge | 883 | — | — |
| Adjusted Operating Profit | $113,539 | $86,051 | $55,417 |
| Net Sales | $1,104,442 | $1,050,294 | $862,252 |
| Adjusted Operating Profit % | 10.3 % | 8.2 % | 6.4 % |

Liquidity and Capital Resources

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

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| | (in thousands) | | |
| Cash provided by operating activities | $88,854 | $88,227 | $54,614 |
| Capital expenditures, net | 29,610 | 41,901 | 29,379 |
| Purchase of business, net of cash acquired | — | (93,349) | — |
| Cash used in investing activities | 29,610 | 135,250 | 29,379 |
| Purchase of common stock for treasury | 8,725 | 8,974 | 5,638 |
| Proceeds from credit facilities | 309,000 | 789,000 | 281,000 |
| Repayment of credit facilities | 345,000 | 704,000 | 301,000 |
| Payment of dividends | 24,364 | 22,742 | 22,529 |
| Proceeds from issuance of common stock | 5,756 | 4,914 | 4,029 |
| Cash (used in) provided by financing activities | (67,517) | 57,265 | (43,508) |

We have historically funded our business through cash generated from operations, supplemented by debt borrowings. Available cash is primarily used for our working capital needs, ongoing operations, capital expenditures, the payment of quarterly dividends, and the repurchase of shares. Our investment in capital expenditures shows our commitment to improving our operating efficiency, innovation and modernization, and includes leasehold improvements for our showrooms, new product tooling, manufacturing equipment and technology. During 2015, we increased our annual dividend payments from $0.48 to $0.51 per share, returning $24.4 million of cash to our shareholders.

Our borrowing capacity under our credit facility increased significantly in 2015, as our leverage ratio decreased from 2.41 to 1.67. The increased borrowing capacity resulted from the repayment of $36.0 million of debt from cash generated from operations. The calculation of our leverage ratio under our credit facility includes the use of adjusted EBITDA, a non-GAAP financial measure. For details on the leverage ratio calculations, see "Reconciliation of Non-GAAP Financial Measures" below.

Cash provided by operating activities was $88.9 million, $88.2 million, and $54.6 million in 2015, 2014 and 2013, respectively. For the year ended December 31, 2015, cash provided by operating activities consisted primarily of $102.8 million from net income and various non-cash charges, which included $8.2 million of stock-based compensation expense, and $13.9 million of unfavorable changes in assets and liabilities. For the year ended December 31, 2014, cash provided by operating activities consisted of $72.9 million from net income and various non-cash charges, which included $8.1 million of stock compensation expense, and $15.3 million of unfavorable changes in assets and liabilities. For the year ended December 31, 2013, cash provided by operating activities consisted of $60.9 million from net income and various non-cash charges, which included $10.5 million of stock compensation expense, and $6.3 million of unfavorable changes in assets and liabilities.

During 2015 and 2014, we used free cash to pay dividends to our shareholders totaling $24.4 million and $22.7 million, respectively. During the fourth quarter of 2015, we declared quarterly dividend payments of $0.15 per share. During 2015, we also spent $29.6 million on capital expenditures. The capital expenditures are mainly attributed to our technology infrastructure upgrades with the implementation of a new enterprise resource planning system, site capacity and supply chain improvements, the opening of new showrooms, and new product development.

For the year ended December 31, 2015, we used $29.6 million of cash for capital expenditures. We also used $24.4 million to fund dividend payments to shareholders, $36.0 million for the repayment of debt and $8.7 million for share repurchases. For the year ended December 31, 2014, we used available cash, including the $88.2 million of cash from operating activities, fund $41.9 million in capital expenditures, and fund dividend payments to shareholders totaling $22.7 million, and to fund working capital. For the year ended December 31, 2013, we used available cash, including the $54.6 million of cash from operating activities, to repay $20.0 million of debt, fund $29.4 million in capital expenditures, fund dividend payments to shareholders totaling $22.5 million and to fund working capital.

We use our 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 December 31, 2015, there was approximately $222.0 million outstanding under our credit facility, compared to $258.0 million outstanding under the facility as of December 31, 2014. Borrowings under the credit facility may be repaid at any time, but no later than May 2019. See Note 9 of the consolidated financial statements included in this Form 10-K for further information regarding this facility.

Our credit facility requires that we comply with two financial covenants, consolidated leverage ratio, defined as the ratio of total indebtedness to consolidated EBITDA (as defined in our credit agreement) and consolidated interest coverage ratio, defined as the ratio of our consolidated EBITDA (as defined in our credit agreement) to our consolidated interest expense. Our consolidated leverage ratio cannot exceed 4.0 to 1, and our consolidated interest coverage ratio must be a minimum of 3.0 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, 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 credit facility, will be sufficient to fund 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 credit facility could be reduced if our trailing consolidated EBITDA (as defined by our credit agreement) declines due to deteriorating market conditions or poor performance. Future debt payments may be paid out of cash flows from operations, from future refinancing of our debt or from equity issuances. Our ability to make scheduled payments of principal, pay interest on or to refinance our indebtedness, satisfy our other debt obligations and to pay dividends to stockholders will depend upon our future operating performance, which is affected by general economic, financial, competitive, legislative, regulatory, business and other factors beyond our control.

Contractual Obligations

The following table summarizes our contractual cash obligations as of December 31, 2015 (in thousands):

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| | Less than 1 year | 1 to 3 years | 3 to 5 years | More than 5 years | Total |
| Long-term debt (a) | $11,125 | $30,200 | $197,921 | $— | $239,246 |
| Operating leases | 26,228 | 47,448 | 31,059 | 39,973 | 144,708 |
| Purchase commitments | 2,681 | 360 | — | — | 3,041 |
| Pension and other postretirement benefit plan obligations (b) | 2,760 | — | — | — | 2,760 |
| Other long-term liabilities (c) | 5,000 | 6,000 | — | — | 11,000 |
| Total * | $47,794 | $84,008 | $228,980 | $39,973 | $400,755 |

(a) Contractual obligations for long-term debt and short-term borrowings include principal and interest payments. Interest payments have been computed based on an estimated variable interest as of December 31, 2015. The estimated variable interest rate is based on the company's expected consolidated leverage ratio and the forecasted LIBOR rate for each period presented. The computation of interest, as included in the above table, is based on our Amended and Restated Credit Agreement, dated May 20, 2014.

(b) Due to the uncertainty of future cash outflows, contributions to the pension and other post-retirement benefit plans subsequent to 2016 have been excluded from the table above.

(c) Other long-term liabilities consists of a contingent payout due to HOLLY HUNT, which is based on the future performance of the business through fiscal year 2016.

* Due to the uncertainty of future cash outflows, uncertain tax positions have been excluded from the table above.

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 arise if we had engaged in these relationships.

Critical Accounting Policies

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the U.S. (“GAAP”) requires us to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results may differ from such estimates. We believe that the critical accounting policies that follow are those policies that require the most judgment, estimation and assumption in preparing our consolidated financial statements.

Allowance for Doubtful Accounts

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our clients and dealers to make required payments. The allowance is determined through an analysis of the aging of accounts receivable and assessments of risk that are based on historical trends. We evaluate the past-due status of our trade receivables based on contractual terms of sale. If the financial condition of our customers were to deteriorate, additional allowances may be required. Accounts receivable are charged against the allowance for doubtful accounts when we determine that the likelihood of recovery is remote, and we no longer intend to expend resources to attempt collection.

Inventory

Inventories are valued at the lower of cost or market. Cost is determined using the first-in, first-out method. We reserve inventory that, in our judgment, is impaired or obsolete. Obsolescence may be caused by the discontinuance of a product line, changes in product material specifications, replacement products in the marketplace and other competitive influences.

Goodwill and Intangible Assets

We record the excess of purchase price over the fair value of the tangible and identifiable intangible assets acquired as goodwill. Goodwill and intangible assets with indefinite lives are tested for impairment at least annually, as of October 1, and whenever events or circumstances occur indicating that a possible impairment may have been incurred. Intangible assets with finite lives are amortized over their useful lives.

We assess whether goodwill impairment exists using both the qualitative and quantitative assessments. The qualitative assessment involves determining whether events or circumstances exist that indicate it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If based on this qualitative assessment we determine it is not more likely than not that the fair value of a reporting unit is less than its carrying amount or if we elect not to perform a qualitative assessment, a quantitative assessment is performed using a two-step approach to determine whether a goodwill impairment exists at the reporting unit.

In the first step, we compare the fair value of each reporting unit to its carrying value. If the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired and no further testing is required. If the fair value of the reporting unit is less than the carrying value, we must perform the second step of the impairment test to measure the amount of impairment loss, if any. In the second step, the reporting unit's fair value is allocated to all of the assets and liabilities of the reporting unit, including any unrecognized intangible assets, in a hypothetical analysis that calculates the implied fair value of goodwill in the same manner as if the reporting unit was being acquired in a business combination. If the implied fair value of the reporting unit's goodwill is less than the carrying value, the difference is recorded as an impairment loss. As a result of our annual impairment test during 2015, the fair values of each of our reporting units significantly exceeded the carrying values with the exception of our Edelman reporting unit. The goodwill balance at Edelman was $32.1 million at December 31, 2015. The estimated fair value of the Edelman reporting unit exceeded the carrying value as of October 1, 2015 by approximately 12%.

We estimate the fair value of its reporting units using a combination of the fair values derived from both the income approach and the market approach. Under the income approach, we calculate the fair value of a reporting unit based on the present value of estimated future cash flows. Cash flow projections are based on our estimates of revenue growth rates and operating margins, taking into consideration industry and market conditions. The discount rate used is based on the weighted-average cost of capital adjusted for the relevant risk associated with business-specific characteristics and the uncertainty related to the business's ability to execute on the projected cash flows. The market approach estimates fair value based on market multiples of revenue and earnings derived from comparable publicly-traded companies with similar operating and investment characteristics as the reporting unit.

We assess whether indefinite-lived intangible assets impairment exists using both the qualitative and quantitative assessments. The qualitative assessment involves determining whether events or circumstances exist that indicate it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount. If based on this qualitative assessment, we determine it is not more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount or if we elect not to perform a qualitative assessment, a quantitative assessment is performed to determine whether an indefinite-lived intangible asset impairment exists. We test the indefinite-lived intangible assets for impairment by comparing the carrying value to the fair value based on current revenue projections of the related operations, under the relief from royalty method. Any excess of the carrying value over the amount of fair value is recognized as an impairment. Any such impairment would be recognized in full in the reporting period in which it has been identified.

Deferred Financing Fees

Financing fees that are incurred by the Company in connection with the issuance of debt are deferred and amortized to interest expense over the life of the underlying indebtedness.

Business Combinations

The purchase price of an acquired company is allocated between tangible and intangible assets acquired and liabilities assumed from the acquired business based on their estimated fair values with the residual of the purchase price recorded as goodwill. The results of operations of the acquired businesses are included in our operating results from the dates of acquisition.

Warranty

We generally offer a warranty for our products. The specific terms and conditions of those warranties vary depending upon the product. We estimate the costs that may be incurred under our warranties and record a liability in the amount of such costs at the time product revenue is recognized. Factors that affect our warranty liability include historical product-failure experience and estimated repair costs for identified matters. We periodically assess the adequacy of our recorded warranty liabilities and adjust the amounts as necessary.

Employee Benefits

We are partially self-insured for our employee health benefits. We accrue for employee health benefit obligations based on an actuarial valuation. The actuarial valuation is based upon historical claims as well as a number of assumptions, including rates of inflation for medical costs, and benefit plan changes. Actual results could be materially different from the estimates used.

Pension and Other Postretirement Benefits

We sponsor two defined benefit pension plans and two other postretirement benefit plans. Several statistical and other factors, which attempt to anticipate future events, are used in calculating the expense and liability related to the plans. Key factors include assumptions about the expected rates of return on plan assets, discount rates, and health care cost trend rates. We consider market and regulatory conditions, including changes in investment returns and interest rates, in making these assumptions.

During 2015, we approved amendments, effective December 31, 2015, to both the union and nonunion U.S. defined benefit pension plans. We also amended our remaining postretirement medical plan, effective May 1, 2015. The amendments eliminated the accrual of future benefits for all participants in the defined benefit pension plans and the postretirement medical plan. These amendments resulted in a curtailment gain of approximately $7.1 million. As the plans had unrealized losses in excess of the reduction of the projected benefit obligation at the date of amendment, the gain was recorded as a reduction of the projected benefit obligation and a corresponding reduction of unrealized losses within accumulated other comprehensive loss.

We determine the expected long-term rate of return on plan assets based on aggregating the expected rates of return for each component of the plan's asset mix. We use historic plan asset returns combined with current market conditions to estimate the rate of return. The expected rate of return on plan assets is a long-term assumption and generally does not change annually. The discount rate reflects the market rate for high-quality fixed income debt instruments as of our annual measurement date and is subject to change each year. Holding all other assumptions constant, a one-percentage-point increase or decrease in the assumed rate of return on plan assets would decrease or increase 2015 net periodic pension expense by approximately $2.0 million. Likewise, a one-percentage-point increase or decrease in the discount rate would decrease or increase 2015 net periodic pension expense by approximately $4.8 million or $6.4 million, respectively.

Unrecognized actuarial gains and losses are recognized over the expected remaining service life of the employee group. Unrecognized actuarial gains and losses arise from several factors, including experience and assumption changes with respect to the obligations and from the difference between expected returns and actual returns on plan assets. These unrecognized gains and losses are systematically recognized as a change in future net periodic pension expense in accordance with the appropriate accounting guidance relating to defined benefit pension and other postretirement plans.

As of December 31, 2015, we changed the method used to estimate the interest cost component of net periodic benefit cost for pension and other postretirement benefits. This change will result in a decrease in the interest cost component for 2016, compared to the previous method. Historically, we estimated the interest cost component utilizing a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. We have elected to utilize a full yield curve approach in the estimation of this component by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. We have made this change to provide a more precise measurement of interest cost by improving the correlation between projected benefit cash flows to the corresponding spot yield curve rates. This change will not affect the measurement of the total benefit obligation at the annual measurement date, as the change in interest cost is completely offset by deferred actuarial (gains)/losses that will arise at the next annual measurement date. As this change is treated as a change in estimate inseparable from a change in accounting principle, the impact is reflected prospectively, and historical measurements of interest cost are not affected. This change in estimate is anticipated to reduce our annual net periodic benefit expense in 2016 by approximately $2.7 million.

Key assumptions that we use in determining the amount of the obligation and expense recorded for OPEB, under the appropriate accounting guidance, include the assumed discount rate and the assumed rate of increases in future health care costs. In estimating the health care cost trend rate, we consider actual health care cost experience, future benefit structures, industry trends and advice from our actuaries. We assume that the relative increase in health care costs will generally trend downward over the next several years, reflecting assumed increases in efficiency and cost-containment initiatives in the health care system. For purposes of measuring the benefit obligation associated with the Company's other postretirement benefit plans as of December 31, 2015, as well as the assumed rate for 2016, a between 6.00% to 6.50% annual rate of increase in the per capita cost of covered health care benefits was assumed and a 12.00% annual rate of increase in the per capita cost of covered prescription drug benefits was assumed. The rate was then assumed to decrease to an ultimate rate of 4.5% for 2022 for the medical plan and prescription drug plan and thereafter for the benefit obligation. Increasing the assumed health care cost trend by one-percentage-point in each year would increase the benefit obligation as of December 31, 2015 by $0.1 million and increase the aggregate of the service and interest cost components of net periodic benefit cost for 2015 by a minimal amount. Decreasing the assumed health care cost trend rate by one percentage point in each year would decrease the benefit obligation as of December 31, 2015 by approximately $0.1 million and decrease the aggregate of the service and interest cost components of net periodic benefit cost for 2015 by a minimal amount.

In accordance with the appropriate accounting guidance, we recognize in our consolidated balance sheet the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligation) of our defined benefit pension and postretirement benefit plans. To record the unfunded status of our plans, we recorded an additional liability and an adjustment to accumulated other comprehensive income, net of tax.

The actuarial assumptions we use in determining our pension and OPEB retirement benefits may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates, or longer or shorter life spans of participants. While we believe that the assumptions used are appropriate, differences in actual experience or changes in assumptions may materially affect our financial position or results of operations.

Commitments and Contingencies

We establish reserves for the estimated cost of environmental and legal contingencies when such expenditures are probable and reasonably estimable. A significant amount of judgment is required to estimate and quantify our ultimate exposure in these matters. We engage outside experts as deemed necessary or appropriate to assist in the evaluation of exposure. From time to time, as information becomes available regarding changes in circumstances for ongoing issues as well as information regarding emerging issues, our potential liability is reassessed and reserve balances are adjusted as necessary. Revisions to our estimates of potential liability, and actual expenditures related to commitments and contingencies, could have a material impact on our results of operations or financial position.

Taxes

We account for income taxes in accordance with the appropriate accounting guidance relating to income taxes, which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between book and tax bases of recorded assets and liabilities. The appropriate accounting guidance also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be recognized.

At December 31, 2015, our deferred tax liabilities of $114.5 million exceeded deferred tax assets of $59.1 million by $55.4 million. At December 31, 2014, deferred tax liabilities of $109.1 million exceeded deferred tax assets of $60.8 million by $48.3 million. Our deferred tax assets at December 31, 2015 and 2014 of $59.1 million and $60.8 million, respectively, are net of valuation allowances of $6.3 million and $7.9 million, respectively. We have recorded the valuation allowance primarily for net operating loss carryforwards in foreign tax jurisdictions where we have incurred historical tax losses from operations or acquired tax losses through acquisition, and have determined that it is more likely than not that these deferred tax assets will not be realized.

We evaluate on an ongoing basis the realizability of our deferred tax assets and adjust the amount of the allowance, if necessary. The factors used to assess the likelihood of realization include our forecast of future taxable income and our assessment of available tax planning strategies that could be implemented to realize the net deferred tax assets.

We account for uncertain tax positions in accordance with the applicable accounting guidance relating to uncertainty in income taxes. Accordingly, we report a liability for unrecognized tax benefits resulting from uncertain tax positions taken, or expected to be taken, in an income tax return. We recognize interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

Derivative Financial Instruments

From time to time, we enter into foreign currency forward exchange contracts and foreign currency option contracts to manage our 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 less than a year.

We do not hold or issue derivative financial instruments for trading or speculative purposes. We recognize derivatives as either assets or liabilities in the accompanying consolidated balance sheet and measures those instruments at fair value. Changes in the fair value of such contracts are reported in earnings as a component of “Other (income) expense, net.”

Stock-Based Compensation

We measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. Forfeitures are estimated based on historical experience.

Stock Options

The fair value of stock options is estimated at the date of grant using the Black-Scholes option pricing model, which requires management to make certain assumptions of future expectations based on historical and current data. The assumptions include the expected term of the options, risk-free interest rate, expected volatility, and dividend yield. The expected term represents the expected amount of time that options granted are expected to be outstanding, based on historical and forecasted exercise behavior. The risk-free rate is based on the rate at grant date of zero-coupon U.S. Treasury Notes with a term equal to the expected term of the option. Expected volatility is estimated based on the historical volatility of our stock price. Our dividend yield is based on historical data. We recognize compensation expense using the straight-line method over the vesting period.

Restricted Stock and Restricted Stock Units

The fair value of restricted stock and restricted stock units, excluding market-based restricted stock units that are discussed below, is based upon the closing market price of our common stock on the date of grant. We recognize compensation expense using the straight-line method over the vesting period.

The fair value of the market-based restricted stock units is estimated at the date of grant using a lattice pricing model, which requires management to make certain assumptions based on both historical and current data. These awards vest based upon the performance of our stock price relative to a peer group. The assumptions included in the model include, but are not limited to, risk-free interest rate, expected volatility of our and the peer group's stock prices, and dividend yield. The risk-free rate is based upon the applicable U.S. Treasury Note rate. Expected volatility is estimated based on the historical volatility of our stock prices. The dividend yield is based on our historical data.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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. 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 our products. For the year ended December 31, 2015, we estimated that materials and transportation inflation were approximately $2.0 million and $0.3 million, respectively. During 2014, we estimated that materials and transportation inflation were approximately $4.5 million and $1.4 million, respectively. We continue to work to offset price increases in raw materials and transportation through our global sourcing initiatives, cost improvements and price increases to our products.

Interest Rate Risk

We have variable rate debt obligations that are denominated in U.S. dollars. A change in interest rates will impact the interest costs incurred and cash paid on the variable rate debt. During 2015 and 2014, our weighted average interest rates were approximately 2.1% and 2.3%, respectively.

The following table summarizes our market risks associated with our debt obligations as of December 31, 2015. For debt obligations, the table presents principal cash flows and related average interest rates by year of maturity. Variable interest rates presented for variable-rate debt represent the average interest rates on our credit facility borrowings as of December 31, 2015.

| | 2016 | 2017 | 2018 | 2019 | Thereafter | Total |
|---|---|---|---|---|---|---|
| | (in thousands) | | | | | |
| Rate-Sensitive Liabilities | | | | | | |
| Long-term Debt: | | | | | | |
| Variable Rate Debt | $10,000 | $10,000 | $10,000 | $192,000 | $— | $222,000 |
| Variable Interest Rate | 2.20 % | 2.40 % | 2.69 % | 2.66 % | — % | 2.49 % |

The fair value of the Company's long-term debt approximates its carrying value, as the variable rate debt and the associated terms are comparable to market terms as of the balance sheet date.

For each period presented, the average interest rate is based on an estimated variable interest rate as of December 31, 2015. The estimated variable interest rate is based on the Company's expected consolidated leverage ratio, and the forecasted LIBOR rate and commitment fees for each period presented. The computation of interest, as included in the above table, is based on our Amended and Restated Credit Agreement, dated May 20, 2014.

An increase in our effective interest rate of 1% would increase annual interest expense by approximately $2.1 million. We will continue to review our exposure to interest rate fluctuations and evaluate whether we should manage such exposure through derivative transactions.

Foreign Currency Exchange Rate Risk

We manufacture our products in the United States, Canada and Italy, and sell our products primarily in those markets as well as in other European countries. 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 our reporting currency is 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 11.6% and 11.8% of our revenues in 2015 and 2014, respectively, and 26.1% and 30.2% of our cost of goods sold in 2015 and 2014, respectively, were denominated in currencies other than the U.S. dollar. Foreign currency exchange rate fluctuations resulted in $9.1 million and $5.8 million translation gains for 2015 and 2014, respectively.

From time to time, we enter into foreign currency hedges to manage our exposure to foreign exchange rates associated with short-term operating receivables of a Canadian subsidiary that are payable by our U.S. operations. The terms of these contracts are typically 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 (income) expense. During 2015, the Company did not enter into any foreign currency contracts. During 2014, the Company entered into one foreign currency contract. No amount was paid or received as a result of these contracts in 2015 or 2014. As of December 31, 2015, the Company had no outstanding foreign currency contracts.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Knoll, Inc.

We have audited the accompanying consolidated balance sheets of Knoll, Inc. as of December 31, 2015 and 2014, and the related consolidated statements of operations and comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Knoll, Inc. at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Knoll, Inc.’s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 29, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 29, 2016

KNOLL, INC.
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except share and per share data)

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $4,192 | $19,021 |
| Customer receivables, net of allowance for doubtful accounts of $7,919 and $7,197, respectively | 116,532 | 114,551 |
| Inventories, net | 140,798 | 140,835 |
| Deferred income taxes | 20,485 | 15,868 |
| Prepaid and other current assets | 26,765 | 21,544 |
| Total current assets | 308,772 | 311,819 |
| Property, plant, and equipment, net | 172,142 | 165,019 |
| Goodwill | 127,671 | 128,918 |
| Intangible assets, net | 240,169 | 253,739 |
| Other non-trade receivables | 2,254 | 3,278 |
| Other noncurrent assets | 5,077 | 6,170 |
| Total Assets | $856,085 | $868,943 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Current maturities of long-term debt | $10,000 | $10,000 |
| Accounts payable | 89,552 | 114,914 |
| Income taxes payable | 1,580 | 12,895 |
| Other current liabilities | 114,908 | 93,965 |
| Total current liabilities | 216,040 | 231,774 |
| Long-term debt | 212,000 | 248,000 |
| Deferred income taxes | 75,959 | 64,203 |
| Postretirement benefits other than pensions | 6,294 | 8,765 |
| Pension liability | 63,441 | 70,770 |
| Other noncurrent liabilities | 26,877 | 32,213 |
| Total liabilities | 600,611 | 655,725 |
| Commitments and contingent liabilities | | |
| Equity: | | |
| Common stock, $0.01 par value; 200,000,000 shares authorized; 64,603,344 shares issued and 48,822,013 shares outstanding (including 993,934 non-voting restricted shares and net of 15,781,331 treasury shares) at December 31, 2015 and 64,113,785 shares issued and 48,723,414 shares outstanding (including 1,235,904 non-voting restricted shares and net of 15,390,371 treasury shares) at December 31, 2014 | 488 | 487 |
| Additional paid-in capital | 47,165 | 41,143 |
| Retained earnings | 244,947 | 204,063 |
| Accumulated other comprehensive loss | (37,318) | (32,682) |
| Total Knoll, Inc. stockholders' equity | 255,282 | 213,011 |
| Noncontrolling interests | 192 | 207 |
| Total equity | 255,474 | 213,218 |
| Total Liabilities and Equity | $856,085 | $868,943 |

See accompanying notes to the consolidated financial statements.

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KNOLL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(dollars in thousands, except share and per share data)

| | Years ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Sales | $1,104,442 | $1,050,294 | $862,252 |
| Cost of sales | 692,310 | 678,609 | 581,920 |
| Gross profit | 412,132 | 371,685 | 280,332 |
| Selling, general, and administrative expenses | 299,476 | 286,801 | 224,915 |
| Restructuring and other charges | 896 | 1,532 | 5,104 |
| Intangible asset impairment charges | 10,650 | — | 8,900 |
| Pension settlement and OPEB curtailment | — | 6,509 | — |
| Operating profit | 101,110 | 76,843 | 41,413 |
| Interest expense | 6,865 | 7,378 | 5,941 |
| Other income, net | (9,174) | (6,285) | (3,430) |
| Income before income tax expense | 103,419 | 75,750 | 38,902 |
| Income tax expense | 37,471 | 29,165 | 15,718 |
| Net earnings | 65,948 | 46,585 | 23,184 |
| Net loss attributable to noncontrolling interests | (15) | (11) | — |
| Net earnings attributable to Knoll, Inc. stockholders | $65,963 | $46,596 | $23,184 |
| | | | |
| Net earnings per common share attributable to Knoll, Inc. stockholders: | | | |
| Basic | $1.38 | $0.98 | $0.49 |
| Diluted | $1.36 | $0.97 | $0.49 |
| Weighted-average number of common shares outstanding: | | | |
| Basic | 47,746,707 | 47,346,532 | 46,916,845 |
| Diluted | 48,438,231 | 48,068,249 | 47,659,418 |
| | | | |
| Net earnings | $65,948 | $46,585 | $23,184 |
| Other comprehensive income (loss): | | | |
| Pension and other postretirement liability adjustment, net of tax | 11,945 | (25,548) | 36,729 |
| Foreign currency translation adjustment | (16,581) | (12,271) | (4,814) |
| Total other comprehensive income (loss), net of tax | (4,636) | (37,819) | 31,915 |
| Total comprehensive income | 61,312 | 8,766 | 55,099 |
| Comprehensive loss attributable to noncontrolling interests | (15) | (11) | — |
| Comprehensive income attributable to Knoll, Inc. stockholders | $61,327 | $8,777 | $55,099 |

See accompanying notes to the consolidated financial statements.

KNOLL, INC.
CONSOLIDATED STATEMENTS OF EQUITY
(dollars in thousands, except per share data)

| | Common Stock | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Knoll, Inc. Stockholders' Equity | Noncontrolling Interests | Total Equity |
|---|---|---|---|---|---|---|---|
| Balance at December 31, 2012 | $479 | $27,751 | $180,862 | $ (26,778) | $182,314 | $— | $182,314 |
| Net earnings | — | — | 23,184 | — | 23,184 | — | 23,184 |
| Other comprehensive income | — | — | — | 31,915 | 31,915 | — | 31,915 |
| Shares issued for consideration: | | | | | | | |
| Exercise of stock options | 3 | 3,976 | — | — | 3,979 | — | 3,979 |
| Income tax effect from the exercise of stock options and vesting of equity awards | — | 643 | — | — | 643 | — | 643 |
| Shares issued under stock incentive plan | 4 | — | — | — | 4 | — | 4 |
| Shares issued to Board of Directors in lieu of cash | — | 50 | — | — | 50 | — | 50 |
| Stock-based compensation | — | 10,473 | — | — | 10,473 | — | 10,473 |
| Cash dividend ($0.48 per share) | — | — | (23,097) | — | (23,097) | — | (23,097) |
| Purchase of common stock | (3) | (5,635) | — | — | (5,638) | — | (5,638) |
| Balance at December 31, 2013 | $483 | $37,258 | $180,949 | $ 5,137 | $223,827 | $— | $223,827 |
| Noncontrolling interests acquired in acquisition | — | — | — | — | — | 218 | 218 |
| Net earnings | — | — | 46,596 | — | 46,596 | (11) | 46,585 |
| Other comprehensive loss | — | — | — | (37,819) | (37,819) | — | (37,819) |
| Shares issued for consideration: | | | | | | | |
| Exercise of stock options | 4 | 4,854 | — | — | 4,858 | — | 4,858 |
| Income tax effect from the exercise of stock options and vesting of equity awards | — | (119) | — | — | (119) | — | (119) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Shares issued under stock incentive plan | 6 | — | — | — | 6 | — | 6 |
| Shares issued to Board of Directors in lieu of cash | — | 56 | — | — | 56 | — | 56 |
| Stock-based compensation | — | 8,062 | — | — | 8,062 | — | 8,062 |
| Cash dividend ($0.48 per share) | — | — | (23,482 ) | — | (23,482 ) | — | (23,482 ) |
| Purchase of common stock | (6 ) | (8,968 ) | — | — | (8,974 ) | — | (8,974 ) |
| Balance at December 31, 2014 | $487 | $41,143 | $204,063 | $ (32,682 ) | $213,011 | $ 207 | $213,218 |
| Net earnings | — | — | 65,963 | — | 65,963 | (15 ) | 65,948 |
| Other comprehensive income | — | — | — | (4,636 ) | (4,636 ) | — | (4,636 ) |
| Shares issued for consideration: | | | | | | | |
| Exercise of stock options | 4 | 5,652 | — | — | 5,656 | — | 5,656 |
| Income tax effect from the exercise of stock options and vesting of equity awards | — | 826 | — | — | 826 | — | 826 |
| Shares issued under stock incentive plan | 1 | (1 ) | — | — | — | — | — |
| Shares issued to Board of Directors in lieu of cash | — | 100 | — | — | 100 | — | 100 |
| Stock-based compensation | — | 8,166 | — | — | 8,166 | — | 8,166 |
| Cash dividend ($0.51 per share) | — | — | (25,079 ) | — | (25,079 ) | — | (25,079 ) |
| Purchase of common stock | (4 ) | (8,721 ) | — | — | (8,725 ) | — | (8,725 ) |
| Balance at December 31, 2015 | $488 | $47,165 | $244,947 | $ (37,318 ) | $255,282 | $ 192 | $255,474 |

See accompanying notes to the consolidated financial statements.

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

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net earnings | $65,948 | $46,585 | $23,184 |
| Adjustments to reconcile net earnings to cash provided by operating activities: | | | |
| Depreciation | 17,364 | 16,327 | 14,727 |
| Amortization expense (including deferred financing fees) | 3,915 | 3,715 | 1,634 |
| Provision for deferred taxes | 158 | (269) | 3,529 |
| Write-off of deferred financing fees | — | 347 | — |
| Inventory obsolescence | 2,656 | 1,761 | 2,043 |
| Loss on disposal of property, plant and equipment | 1,229 | 464 | 128 |
| Unrealized foreign currency gains | (8,789) | (6,640) | (4,578) |
| Stock-based compensation | 8,166 | 8,062 | 10,473 |
| Intangible asset impairment charge | 10,650 | — | 8,900 |
| Bad debt and customer credits | 1,477 | 2,590 | 834 |
| Changes in assets and liabilities, net of effects of acquisitions: | | | |
| Customer receivables | (4,292) | (13,814) | 1,621 |
| Inventories | (4,481) | (23,063) | (1,085) |
| Accounts payable | (26,253) | 23,002 | 6,204 |
| Current income taxes | 675 | (5,528) | 15,663 |
| Other current assets | (5,425) | (3,601) | 414 |
| Other current liabilities | 22,937 | (6,969) | (8,098) |
| Other noncurrent assets and liabilities | 2,919 | 45,258 | (20,979) |
| Cash provided by operating activities | 88,854 | 88,227 | 54,614 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Capital expenditures, net | (29,610) | (41,901) | (29,379) |
| Purchase of business, net of cash acquired | — | (93,349) | — |
| Cash used in investing activities | (29,610) | (135,250) | (29,379) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from credit facility | 309,000 | 789,000 | 281,000 |
| Repayment of credit facility | (345,000) | (704,000) | (301,000) |
| Payment of financing fees | (10) | (1,938) | (13) |
| Payment of dividends | (24,364) | (22,742) | (22,529) |
| Proceeds from the issuance of common stock | 5,756 | 4,914 | 4,029 |
| Purchase of common stock for treasury | (8,725) | (8,974) | (5,638) |
| Contingent purchase price payment | (5,000) | — | — |
| Tax benefit from the exercise of stock options and vesting of equity awards | 826 | 1,005 | 643 |
| Cash (used in) provided by financing activities | (67,517) | 57,265 | (43,508) |
| Effect of exchange rate changes on cash and cash equivalents | (6,556) | (3,247) | 343 |
| Net (decrease) increase in cash and cash equivalents | (14,829) | 6,995 | (17,930) |
| Cash and cash equivalents at beginning of year | 19,021 | 12,026 | 29,956 |
| Cash and cash equivalents at end of year | $4,192 | $19,021 | $12,026 |
| | | | |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid for interest | $6,168 | $6,879 | $5,280 |
| Cash paid for income taxes | $40,781 | $18,646 | $18,281 |

See accompanying notes to the consolidated financial statements.

KNOLL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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## 1. DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION

### Description of the Business

Knoll, Inc. and its subsidiaries (the "Company" or "Knoll") are engaged in the design, manufacture, market and sale of high-end furniture products and accessories, and modern outdoor furniture. The Company is also engaged in the sale of fine leather, textiles, and felt, focusing on the middle to high-end segments of the market. The Company primarily operates in the United States ("U.S."), Canada and Europe, and sells its products primarily through its direct sales representatives, independent dealers and websites.

### Basis of Presentation

The Company follows accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB establishes accounting principles generally accepted in the United States ("GAAP"). Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants, which the Company is required to follow. References to GAAP issued by the FASB in these footnotes are to the FASB Accounting Standards Codification ("ASC"), which serves as a single source of authoritative non-SEC accounting and reporting standards to be applied by non-governmental entities. All amounts are presented in U.S. dollars, unless otherwise noted.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Principles of Consolidation

The consolidated financial statements of the Company include the accounts of the Company and its wholly owned subsidiaries and any partially owned subsidiaries that the Company has the ability to control. Significant intercompany transactions and balances have been eliminated in consolidation.

The results of the Company's European subsidiaries are included in the consolidated financial statements, and are presented on a one-month lag to allow for the timely preparation of consolidated financial information. The effect of this lag in presentation is not material to the consolidated financial statements.

### Use of Estimates

The preparation of the consolidated financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Examples include, but are not limited to, revenue recognition; income tax exposures; the carrying value of goodwill and property, plant, and equipment; bad debts; customer receivable allowances; inventory obsolescence and product warranties. Actual results may differ from such estimates.

### Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and highly liquid investments with maturities of three months or less at the date of purchase.

### Revenue Recognition

The Company recognizes revenue when the earnings process is complete. This occurs when risk and title transfers, collectability is reasonably assured, and pricing is fixed and determinable. Accordingly, revenue is recognized when risk and title are transferred to the client, which primarily occurs at the time of shipment. Taxes on revenue producing transactions are not included in sales. Based on historical experience, accruals are made at the time of sale to estimate for sales returns and other allowances.

### Allowance for Doubtful Accounts

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The allowance is determined through an analysis of the aging of accounts receivable and assessments of risk that are based on historical trends. The Company evaluates the past-due status of its customer receivables based on the contractual terms of sale. If the financial condition of the Company's customers were to deteriorate, additional allowances may be required. Accounts receivable are charged against the allowance for doubtful accounts when the Company determines that the likelihood of recovery is remote, and the Company no longer intends to expend resources to attempt collection.

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Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method. The Company reserves for inventory that, in its judgment, is impaired or obsolete. Obsolescence may be caused by the discontinuance of a product line, changes in product material specifications, replacement products in the marketplace and other competitive influences.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The useful lives are as follows:

| Category | Useful Life (in years) |
|---|---|
| Leasehold improvements (1) | Various |
| Buildings | 45-60 |
| Office equipment | 3-10 |
| Machinery and equipment | 4-12 |

(1) Useful lives for leasehold improvements are amortized over the shorter of the economic lives or the term of the lease.

The Company reviews the carrying values of its property and equipment for possible impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable based on undiscounted estimated cash flows expected to result from its use and eventual disposition. The factors considered by the Company in performing this assessment include current operating results, business trends affecting the use of certain assets and other economic factors. In assessing the recoverability of the carrying value of property and equipment, the Company must make assumptions regarding future cash flows and other factors. If these estimates or the related assumptions change in the future, the Company may be required to record an impairment loss for these assets.

Goodwill and Intangible Assets

The Company records the excess of purchase price over the fair value of the tangible and identifiable intangible assets acquired as goodwill. Goodwill and intangible assets with indefinite lives are tested for impairment at least annually, as of October 1, and whenever events or circumstances occur indicating that a possible impairment may have been incurred. Intangible assets with finite lives are amortized over their useful lives.

The Company assesses whether goodwill impairment exists using both the qualitative and quantitative assessments. The qualitative assessment involves determining whether events or circumstances exist that indicate it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If based on this qualitative assessment the Company determines it is more likely than not that the fair value of a reporting unit is less than its carrying amount, or if the Company elects not to perform a qualitative assessment, a quantitative assessment is performed using a two-step approach to determine whether a goodwill impairment exists at the reporting unit.

In the first step, the Company compares the estimated fair value of each reporting unit to its carrying value. If the estimated fair value of the reporting unit exceeds its carrying value, goodwill is not impaired and no further testing is required. If the estimated fair value of the reporting unit is less than the carrying value, the Company must perform the second step of the impairment test to measure the amount of impairment loss, if any. In the second step, the reporting unit's estimated fair value is allocated to all of the assets and liabilities of the reporting unit, including any unrecognized intangible assets, in a hypothetical analysis that calculates the implied fair value of goodwill in the same manner as if the reporting unit was being acquired in a business combination. If the implied fair value of the reporting unit's goodwill is less than the carrying value, the difference is recorded as an impairment loss.

The Company estimates the fair value of its reporting units using a combination of the fair values derived from both the income approach and the market approach. Under the income approach, the Company calculates the fair value of a reporting unit based on the present value of estimated future cash flows. Cash flow projections are based on management's estimates of revenue growth rates and operating margins, taking into consideration industry and market conditions. The discount rate used is based on the weighted-average cost of capital adjusted for the relevant risk associated with business-specific characteristics and the uncertainty related to the business's ability to execute on the projected cash flows. The market approach estimates fair value based on market multiples of revenue and earnings derived from comparable publicly-traded companies with similar operating and investment characteristics as the reporting unit.

KNOLL, INC.
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The Company assesses whether indefinite-lived intangible assets impairment exists using both the qualitative and quantitative assessments. The qualitative assessment involves determining whether events or circumstances exist that indicate it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount. If based on this qualitative assessment, the Company determines it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount or if the Company elects not to perform a qualitative assessment, a quantitative assessment is performed to determine whether an indefinite-lived intangible asset impairment exists. The Company tests the indefinite-lived intangible assets for impairment by comparing the carrying value to the fair value based on current revenue projections of the related operations, under the relief from royalty method. Any excess of the carrying value over the amount of fair value is recognized as an impairment. Any such impairment would be recognized in the reporting period in which it has been identified.

Finite-lived assets such as customer relationships, non-compete agreements, and licenses are amortized over their estimated useful lives. The Company reviews the carrying values of these assets for possible impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable based on undiscounted estimated cash flows expected to result from its use and eventual disposition. The Company continually evaluates the reasonableness of the useful lives of these assets.

Business Combinations

The purchase price of an acquired company is allocated between tangible and intangible assets acquired and liabilities assumed from the acquired business based on their estimated fair values, with the residual of the purchase price recorded as goodwill. The results of operations of the acquired business are included in the Company's operating results from the date of acquisition.

Deferred Financing Fees

Financing fees that are incurred by the Company in connection with the issuance of debt are deferred and amortized to interest expense over the life of the underlying indebtedness. Deferred financing fees are included in the Company's consolidated balance sheets within other noncurrent assets.

Shipping and Handling

Amounts billed to clients for shipping and handling of products are classified as sales. Costs incurred by the Company for shipping and handling are classified as cost of sales.

Research and Development Costs

Research and development expenses are expensed as incurred, and are included as a component of selling, general, and administrative expenses. Research and development expenses, were $20.7 million for 2015, $19.2 million for 2014, and $17.8 million for 2013.

Income Taxes

The Company accounts for income taxes using the asset and liability approach, which requires deferred tax assets and liabilities be recognized using enacted tax rates to measure the effect of temporary differences between book and tax bases on recorded assets and liabilities. Valuation allowances are recorded to reduce deferred tax assets, if it is more likely than not some portion or all of the deferred tax assets will not be recognized. The need to establish valuation allowances against deferred tax assets is assessed quarterly. The Company recorded a valuation allowance primarily for net operating loss carryforwards in foreign tax jurisdictions where the Company incurred historical tax losses from operations or acquired tax losses through acquisitions, and has determined that it is more likely than not these deferred tax assets will not be recognized. The primary factors used to assess the likelihood of realization are forecasts of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets.

The Company evaluates tax positions to determine whether the benefits of tax positions are more likely than not to be sustained upon audit based on the technical merits of the tax position. For tax positions that are more likely than not to be sustained upon audit, the Company recognizes the largest amount of the benefit that is greater than 50% likely of being realized upon ultimate settlement. For tax positions that are not more likely than not to be sustained upon audit, the Company does not recognize any portion of the benefit. If the more likely than not threshold is not met in the period for which a tax position is taken, the Company may subsequently recognize the benefit of that tax position if the tax matter is effectively settled, the statute of limitations expires, or if the more likely than not threshold is met in a subsequent period.

The Company recognizes tax related interest and penalties in income tax expense and accrues for interest and penalties in other noncurrent liabilities.

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Fair Value of Financial Instruments
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. |

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. The Company and its subsidiaries use, as appropriate, a market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models), and/or a cost approach (generally, replacement cost) to measure the fair value of an asset or liability. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk.

Derivative Financial Instruments
From time to time, the Company enters into foreign currency hedges 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 typically less than a year.

The Company does not hold or issue derivative financial instruments for trading or speculative purposes. The Company recognizes derivatives as either assets or liabilities in the accompanying consolidated balance sheet and measures those instruments at fair value. Changes in the fair value of such contracts are reported in earnings as a component of “Other income, net.”

Commitments and Contingencies
The Company establishes reserves for the estimated cost of environmental, legal and other contingencies when such expenditures are probable and reasonably estimable. A significant amount of judgment is required to estimate and quantify the ultimate exposure in these matters. The Company engages outside experts as deemed necessary or appropriate to assist in the evaluation of exposure. From time to time, as information becomes available regarding changes in circumstances for ongoing issues as well as information regarding emerging issues, the potential liability is reassessed and reserve balances are adjusted as necessary. Revisions to the estimates of potential liability, and actual expenditures related to commitments and contingencies, could have a material impact on the results of operations or financial position.

Warranty
The Company generally offers a warranty for its products. The specific terms and conditions of those warranties vary depending upon the product sold. 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 warranty liability include historical product-failure experience and estimated repair costs for identified matters. The Company regularly assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

Concentration of Credit Risk
The Company's accounts receivables are comprised primarily of independent dealers and direct customers. The Company monitors and manages the credit risk associated with the individual dealers and direct customers. The

independent dealers are responsible for assessing and assuming the credit risk of their customers, and may require their customers to provide deposits or other credit enhancement measures. Historically the Company has had a concentration of federal and local government receivables; however, they carry minimal credit risk.

Foreign Currency Translation

Results of foreign operations are translated into U.S. dollars using average exchange rates during the year, while assets and liabilities are translated into U.S. dollars using the exchange rates as of the balance sheet dates. The resulting translation adjustments are recorded in accumulated other comprehensive income (loss).

KNOLL, INC.
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Transaction gains and losses resulting from exchange rate changes on transactions denominated in currencies other than the functional currency of the applicable subsidiary are included in the consolidated statements of operations, within other (income) expense, net, in the year in which the change occurs.

Stock-Based Compensation

The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. Forfeitures are estimated based on historical experience.

Stock Options

The fair value of stock options is estimated at the date of grant using the Black-Scholes option pricing model, which requires management to make certain assumptions of future expectations based on historical and current data. The assumptions include the expected term of the options, risk-free interest rate, expected volatility, and dividend yield. The expected term represents the expected amount of time that options granted are expected to be outstanding, based on historical and forecasted exercise behavior. The risk-free rate is based on the rate at grant date of zero-coupon U.S. Treasury Notes with a term equal to the expected term of the option. Expected volatility is estimated based on the historical volatility of the Company's stock price. The Company's dividend yield is based on historical data. The Company recognizes compensation expense using the straight-line method over the vesting period.

Restricted Stock and Restricted Stock Units

The fair value of restricted stock and restricted stock units, excluding market-based restricted stock units that are discussed below, is based upon the closing market price of the Company's common stock on the date of grant. The Company recognizes compensation expense using the straight-line method over the vesting period.

The fair value of the market-based restricted stock units is estimated at the date of grant using a lattice pricing model, which requires management to make certain assumptions based on both historical and current data. These awards vest based upon the performance of the Company's stock price relative to a peer group. The assumptions included in the model include, but are not limited to, risk-free interest rate, expected volatility of the Company's and the peer group's stock prices, and dividend yield. The risk-free rate is based upon the applicable U.S. Treasury Note rate. Expected volatility is estimated based on the historical volatility of the companies' stock prices. The dividend yield is based on the Company's historical data.

Pension and Other Postretirement Benefits

The Company sponsors two defined benefit pension plans and two other post-employment benefit plans ("OPEB"). Several statistical and other factors, which attempt to anticipate future events, are used in calculating the expense and liability related to the plans. Key factors include assumptions about the expected rates of return on plan assets, discount rates, and health care cost trend rates. The Company considers market and regulatory conditions, including changes in investment returns and interest rates, in making these assumptions.

The Company determines the expected long-term rate of return on plan assets based on aggregating the expected rates of return for each component of the plan's asset mix. The Company uses historic plan asset returns combined with current market conditions to estimate the rate of return. The expected rate of return on plan assets is a long-term assumption and generally does not change annually. The discount rate reflects the market rate for high-quality fixed income debt instruments as of the Company's annual measurement date and is subject to change each year.

Unrecognized actuarial gains and losses are recognized over the expected remaining service life of the employee group. Unrecognized actuarial gains and losses arise from several factors, including experience and assumption changes with respect to the obligations of the pension and OPEB plans, and from the difference between expected returns and actual returns on plan assets. These unrecognized gains and losses are systematically recognized as a change in future net periodic pension expense in accordance with the appropriate accounting guidance relating to defined benefit pension and other postretirement plans.

Key assumptions used in determining the amount of the obligation and expense recorded for the OPEB plans include the assumed discount rate and the assumed rate of increases in future health care costs. In estimating the health care cost trend rate, the Company considers actual health care cost experience, future benefit structures, industry trends and advice from its actuaries. The Company assumes that the relative increase in health care costs will generally trend downward over the next several years, reflecting assumed increases in efficiency and cost-containment initiatives in the health care system.

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In accordance with the appropriate accounting guidance, the Company has recognized the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligation) of the defined benefit pension and postretirement benefit plans in the consolidated balance sheets. To record the unfunded status of the plans, the Company recorded an additional liability and an adjustment to accumulated other comprehensive loss, net of tax. Other changes in the benefit obligation including net actuarial loss (gain), prior service cost (credit) or curtailment (gain) loss are recognized in other comprehensive income.

The actuarial assumptions the Company used in determining the pension and OPEB retirement benefits may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates, or longer or shorter life spans of participants. While the Company believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may materially affect the financial position or results of operations.

As of December 31, 2015, the Company changed the method it uses to estimate the interest cost component of net periodic benefit cost for pension and other postretirement benefits. This change will result in a decrease in the interest cost component for 2016, compared to the previous method. Historically, the Company estimated the interest cost component utilizing a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. The Company has elected to utilize a full yield curve approach in the estimation of this component by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. The Company has made this change to provide a more precise measurement of interest cost by improving the correlation between projected benefit cash flows to the corresponding spot yield curve rates. This change will not affect the measurement of the total benefit obligation at the annual measurement date, as the change in interest cost is completely offset by deferred actuarial (gains)/losses that will arise at the next annual measurement date. As this change is treated as a change in estimate inseparable from a change in accounting principle, the impact is reflected prospectively, and historical measurements of interest cost are not affected. This change in estimate is anticipated to reduce the Company's annual net periodic benefit expense in 2016 by approximately $2.7 million.

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 Office and KnollStudio® products, and Holly Hunt Enterprises, Inc. The KnollStudio® portfolio includes a range of lounge seating; side, café and dining chairs; barstools; and conference, dining and occasional tables. HOLLY HUNT® produces and showcases custom made product including indoor and outdoor furniture, lighting, rugs, textiles and leathers. The Coverings segment includes, KnollTextiles®, Spinneybeck®, and Edelman®Leather. These businesses serve a wide range of customers offering high-quality textiles, felt, and leather.

Reclassifications

Certain amounts in the prior years' consolidated financial statements have been reclassified to conform to the current-year presentation.

New Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. This ASU supersedes the revenue recognition requirements in Accounting Standards Codification 605, Revenue Recognition, and most industry-specific guidance throughout the Accounting Standards Codification. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU is effective for fiscal years beginning after December 15, 2017, and for interim periods therein. The guidance permits the use of either a full retrospective or modified retrospective transition method. The Company has not yet selected a transition method and is currently evaluating the impact of the amended guidance on the consolidated financial position, results of operations and related disclosures.

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In April 2015, the FASB issued ASU No. 2015-03 - Interest—Imputation of Interest (Subtopic 835-30). This ASU simplifies the presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct reduction from the carrying amount of the debt liability, which is consistent with the treatment of debt discounts. The new guidance should be applied on a retrospective basis, and upon transition, an entity is required to comply with the applicable disclosures necessary for a change in accounting principle. This ASU is effective for fiscal years beginning after December 15, 2015, and for interim periods within those fiscal years. The Company does not expect the impact of the adoption of this ASU to have a material impact on its consolidated financial position, results of operations and cash flows.

In July 2015, the FASB issued ASU 2015-11 - Inventory (Topic 330), which amends existing guidance for measuring inventories. This amendment will require the Company to measure inventories recorded using the first-in, first-out method at the lower of cost and net realizable value. This amendment does not change the methodology for measuring inventories recorded using the last-in, first-out method. This amendment will be effective for the Company on January 1, 2017. Early adoption is permitted. The Company does not expect the impact of the adoption of this ASU to have a material impact on its consolidated financial position, results of operations and cash flows.

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. The amendments in this ASU require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in this ASU are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. The amendments in this ASU may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Company does not expect the impact of the adoption of this ASU to have a material impact on its consolidated financial position.

3. ACQUISITIONS

On February 3, 2014, the Company acquired Holly Hunt Enterprises, Inc. (HOLLY HUNT®). The acquisition advances the Company's strategy of building its global capability as a resource for high-design workplaces and homes, including the commercial contract, decorator to-the-trade and consumer markets. The aggregate purchase price for the acquisition was $95.0 million, plus certain contingent payouts of up to $16.0 million in the aggregate based on the future performance of the business. The purchase price was funded from borrowings under the Company's revolving credit facility. The Company recorded the acquisition of HOLLY HUNT using the acquisition method of accounting and recognized the assets acquired and liabilities assumed at their fair values as of the date of the acquisition. The Company finalized the purchase accounting for the acquisition of HOLLY HUNT during the first quarter of 2015 as no additional adjustments were made from the fair values assigned since December 31, 2014. The results of operations of HOLLY HUNT have been included in the Company's Studio segment beginning February 3, 2014.

The amount of sales and net earnings that resulted from the acquisition and attributable to Knoll, Inc. stockholders included in the consolidated statements of operations and comprehensive income during the twelve months ended December 31, 2014 were as follows (in thousands):

| | |
|---|---|
| Sales | $102,572 |
| Net earnings attributable to Knoll, Inc. stockholders | $6,291 |

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The following table summarizes the fair values assigned to the assets acquired and liabilities assumed as of the February 3, 2014 acquisition date (in thousands):

| | |
|---|---|
| Working Capital (1) | $14,376 |
| Property, plant and equipment | 5,995 |
| Intangible assets | 41,786 |
| Contingent consideration | (16,000) |
| Noncontrolling interests | (218) |
| Other liabilities | (604) |
| Fair value of net acquired identifiable assets and liabilities | $45,335 |
| | |
| Purchase Price | $95,000 |
| Less: Fair value of net acquired identifiable assets and liabilities | 45,335 |
| Goodwill | $49,665 |

(1) Working capital accounts include cash, customer receivables, inventories, prepaid expenses and other current assets, accounts payable, and other current liabilities.

The following table summarizes the fair value of intangible assets as of the acquisition date (in thousands):

| | Fair Value | Weighted-Average Useful Life |
|---|---|---|
| Intangible assets: | | |
| Tradename | $23,479 | Indefinite |
| Non-competition agreements | 2,440 | 4 |
| Customer relationships | 15,867 | 10 |
| Total intangible assets | $41,786 | |

The Company recorded acquisition costs in its consolidated statements of operations and comprehensive income, within selling, general, and administrative expenses during the year ended December 31, 2014 as follows (in thousands):

| | |
|---|---|
| Accounting and legal fees | $435 |
| Other | 275 |
| Total | $710 |

The following unaudited pro forma summary financial information presents the operating results of the combined company, assuming the acquisition had occurred as of January 1, 2013 (in thousands):

| | Years Ended December 31, | |
|---|---|---|
| | 2014 | 2013 |
| Pro forma sales | $1,058,115 | $956,795 |
| Pro forma net earnings attributable to Knoll, Inc. stockholders | $47,079 | $25,450 |

The unaudited pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of the results that would have been attained had the acquisition occurred on January 1, 2013, nor is it indicative of results of operations for future periods. The pro forma information presented includes adjustments for acquisition costs, interest expense that would have been incurred to finance the acquisition, amortization and depreciation.

The results of this acquisition have been included in the Company's results of operations as of the acquisition date. This acquisition strengthened the Company's portfolio of products that can be offered.

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4. RESTRICTED CASH

Included in the Company's consolidated balance sheets in cash and cash equivalents is restricted cash of $0.1 million and $0.6 million at December 31, 2015 and 2014, respectively. This restricted cash primarily represents a bond held in the United Kingdom in order to defer the payment of duties on imports into the United Kingdom.

5. INVENTORIES

Information regarding the Company's inventories is as follows (in thousands):

| | December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Raw materials | $58,412 | $54,376 |
| Work-in-process | 7,470 | 7,265 |
| Finished goods | 74,916 | 79,194 |
| | $140,798 | $140,835 |

Inventory reserves for obsolescence and other estimated losses were $8.3 million and $8.4 million at December 31, 2015 and 2014, respectively, and have been included in the amounts above.

6. PROPERTY, PLANT, AND EQUIPMENT, NET

Information regarding the Company's property, plant and equipment is as follows (in thousands):

| | December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Land | $11,826 | $13,138 |
| Leasehold improvements | 41,897 | 40,765 |
| Buildings | 63,122 | 66,262 |
| Office equipment | 28,596 | 26,095 |
| Machinery and Equipment | 226,198 | 235,320 |
| Construction-in-progress | 32,967 | 23,684 |
| Property, plant and equipment | 404,606 | 405,264 |
| Accumulated depreciation | (232,464) | (240,245) |
| Property, plant, and equipment, net | $172,142 | $165,019 |

During 2015, 2014 and 2013, the Company capitalized interest of approximately $0.3 million, $0.4 million and $0.2 million, respectively.

7. GOODWILL AND INTANGIBLE ASSETS, NET

Information regarding the Company's intangible assets is as follows (in thousands):

| | December 31, 2015 | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|
| | Gross Amount | Accumulated Amortization | Net Amount | Gross Amount | Accumulated Amortization | Net Amount |
| Indefinite-lived intangible assets: | | | | | | |
| Tradenames | $220,650 | $— | $220,650 | $231,300 | $— | $231,300 |
| Finite-lived intangible assets: | | | | | | |
| Various | 34,545 | (15,026) | 19,519 | 34,215 | (11,776) | 22,439 |
| Total | $255,195 | $(15,026) | $240,169 | $265,515 | $(11,776) | $253,739 |

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The Company completed the annual test of impairment for tradenames (indefinite-lived intangible assets) as of October 1, 2015. The Company estimated the fair value of the tradenames using a relief from royalty method under the income approach. The key assumptions for this method are revenue projections, royalty rates based on a consideration of market rates, and a discount rate (based on the weighted-average cost of capital). Based on the results of the annual impairment test, the Company determined that the Edelman Leather tradename was impaired as the estimated fair value of the Edelman Leather tradename was less than its respective carrying amount. The decline in the fair value of the Edelman Leather tradename was primarily the result of weaker than expected revenue performance in the current year and a corresponding reduction of future revenue expectations. These revenue reductions were primarily a result of lower sales to private aviation customers. The fair value of the Edelman Leather tradename is estimated to be $6.5 million, resulting in a non-cash pre-tax impairment charge of $10.7 million during the fourth quarter of 2015. The impairment charge was separately disclosed in the consolidated statements of operations. These fair value measurements fell within Level 3 of the fair value hierarchy as described in Note 2. A significant decline in expected revenue or a change in the discount rate may result in future impairment charges. Edelman Leather is included within the Company's Coverings Segment.

The Company's amortization expense related to finite-lived intangible assets was $3.2 million, $3.1 million, and $1.0 million for the years ended December 31, 2015, 2014, and 2013, respectively. The expected amortization expense based on the finite-lived intangible assets as of December 31, 2015 is as follows (in thousands):

| | Estimated Amortization |
|---|---|
| 2016 | $3,237 |
| 2017 | 3,200 |
| 2018 | 2,375 |
| 2019 | 2,142 |
| 2020 | 2,046 |

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

| | Office Segment | Studio Segment | Coverings Segment | Total |
|---|---|---|---|---|
| Balance as of December 31, 2014 | $36,848 | $55,111 | $36,959 | $128,918 |
| Foreign currency translation adjustment | (1,349) | 102 | — | (1,247) |
| Balance as of December 31, 2015 | $35,499 | $55,213 | $36,959 | $127,671 |

## 8. OTHER CURRENT LIABILITIES

Information regarding the Company's other current liabilities is as follows (in thousands):

| | December 31, 2015 | 2014 |
|---|---|---|
| Accrued employee compensation | $44,011 | $35,030 |
| Customer deposits | 36,906 | 24,927 |
| Warranty | 8,513 | 8,180 |
| Contingent payout | 5,000 | 5,000 |
| Other | 20,478 | 20,828 |
| Other current liabilities | $114,908 | $93,965 |

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9. INDEBTEDNESS
The Company's long-term debt is summarized as follows (in thousands):

| | December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Balance of revolving credit facility | $37,000 | $63,000 |
| Balance of term loan | 185,000 | 195,000 |
| Total long-term debt | 222,000 | 258,000 |
| Less: Current maturities of long-term debt | 10,000 | 10,000 |
| Long-term debt | $212,000 | $248,000 |

Credit Facilities
On May 20, 2014, the Company amended and restated its existing credit facility, dated February 3, 2012, with a new $500.0 million credit facility maturing on May 20, 2019, consisting of a revolving commitment in the amount of $300.0 million and a term loan commitment in the amount of $200.0 million ("Amended Credit Agreement"). The Amended Credit Agreement also includes an option to increase the size of the revolving credit facility or incur incremental term loans by up to an additional $200.0 million, subject to the satisfaction of certain terms and conditions.
Borrowings under the revolving credit facility may be repaid at any time, but no later than the maturity date on May 20, 2019. Obligations under the credit facility are secured by a first priority security interest in (i) the capital stock of certain present and future subsidiaries (with limitations on foreign subsidiaries) and (ii) all present and future property and assets of the Company (with various limitations and exceptions). The Company retains the right to terminate or reduce the size of the revolving credit facility at any time. Borrowings under the term loan facility are due in equal quarterly installments of $2.5 million, with the remaining borrowings due on the maturity date.
Interest on revolving credit and term loans will accrue, at the Company's election, at (i) the Eurocurrency Rate (as defined in the Amended Credit Agreement), plus additional percentage points based on the Company's leverage ratio or (ii) the Base Rate (a rate based on the higher of (a) the prime rate announced from time-to-time by Bank of America, N.A., (b) the Federal Reserve System's federal funds rate, plus .50% or (c) the Eurocurrency Rate plus 1.00%; Base Rate is defined in detail in the Amended Credit Agreement), plus additional percentage points based on the Company's leverage ratio.
The Company is required to pay an annual commitment fee equal to a rate per annum calculated as the product of the applicable rate based upon the Company's leverage ratio as set forth in the credit agreement, times the unused portion of the revolving credit facility. In addition, the Company is required to pay a letter of credit fee equal to the applicable rate based upon the Company's leverage ratio as set forth in the credit agreement times the daily maximum amount available to be drawn under such letter of credit. The commitment and letter of credit fees are payable in arrears on the last business day of each quarter.
At December 31, 2015 and 2014, the Company's interest rates were approximately 1.9% and 2.3%, respectively.
The Amended Credit Agreement requires the Company to comply with various affirmative and negative covenants, including without limitation (i) covenants to maintain a minimum specified interest coverage ratio and maximum specified net leverage ratio, and (ii) covenants that prevent or restrict the Company's ability to pay dividends, engage in certain mergers or acquisitions, make certain investments or loans, incur future indebtedness, engage in sale-leaseback transactions, alter its capital structure or line of business, prepay subordinated indebtedness, engage in certain transactions with affiliates and sell stock or assets. The Company was in compliance with the Amended Credit Agreement covenants at December 31, 2015.
Repayments under the Amended Credit Agreement can be accelerated by the lenders upon the occurrence of certain events of default, including, without limitation, a failure to pay any principal, interest or other amounts in respect of loans when due, breach by the Company (or its subsidiaries) of any of the covenants or representations contained in the Amended Credit Agreement or related loan documents, failure of the Company (or its material subsidiaries) to pay any amounts owed with respect to other significant indebtedness of the Company or such subsidiary, or a bankruptcy

event with respect to the Company or any of its material subsidiaries.

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Deferred Financing Fees

In connection with the refinancing of the Company's previous credit facility during 2014, the Company wrote off $0.3 million of unamortized deferred financing fees associated with the previous credit facility and incurred $1.9 million in new financing fees that will be amortized as a component of interest expense over the life of the new facility through May 2019. Deferred financing fees, net of accumulated amortization, totaled $2.3 million and $2.9 million as of December 31, 2015 and 2014, respectively. Amortization expense related to the deferred financing fees, included in interest expense, was $0.7 million, $0.7 million, and $0.6 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Other Borrowings

The Company also has several revolving credit agreements with various European financial institutions. These credit agreements provide credit primarily for overdraft and working capital purposes. As of December 31, 2015, total credit available under such agreements was approximately $10.6 million, and the Company had no outstanding borrowings under the European credit facilities as of December 31, 2015 or 2014. There is currently no expiration date on these agreements. The interest rates on borrowings are variable and are based on the monetary market rate that is linked to each country's prime rate.

## 10. STOCKHOLDERS' EQUITY

Preferred Stock

The Company's Certificate of Incorporation authorizes the issuance of 10,000,000 shares of preferred stock with a par value of $1.00 per share. Subject to applicable laws, the Board of Directors is authorized to provide for the issuance of preferred shares in one or more series, for such consideration and with designations, powers, preferences and relative, participating, optional or other special rights and the qualifications, limitations or restrictions thereof, as shall be determined by the Board of Directors. There was no preferred stock outstanding as of December 31, 2015, 2014 or 2013.

Common Stock

The following table demonstrates the change in the number of shares of common stock outstanding during the years ended December 2015, 2014, and 2013 (excludes non-voting restricted shares).

| | | |
|---|---|---|
| Shares outstanding as of December 31, 2012 | 46,774,573 | |
| Purchase of common stock | (211,546 | ) |
| Shares issued under stock incentive plan, net of awards surrender to pay applicable taxes | 162,549 | |
| Exercise of stock options | 330,895 | |
| Shares issued to Board of Directors in lieu of cash | 2,987 | |
| Shares outstanding as of December 31, 2013 | 47,059,458 | |
| Purchase of common stock | (270,467 | ) |
| Shares issued under stock incentive plan, net of awards surrender to pay applicable taxes | 319,773 | |
| Exercise of stock options | 375,718 | |
| Shares issued to Board of Directors in lieu of cash | 3,028 | |
| Shares outstanding as of December 31, 2014 | 47,487,510 | |
| Purchase of common stock | (260,088 | ) |
| Shares issued under stock incentive plan, net of awards surrender to pay applicable taxes | 218,458 | |
| Exercise of stock options | 377,671 | |
| Shares issued to Board of Directors in lieu of cash | 4,528 | |
| Shares outstanding as of December 31, 2015 | 47,828,079 | |

Treasury Stock

As of December 31, 2015 and 2014, the Company held 15,781,331 and 15,390,371 treasury shares, respectively. The Company records repurchases of its common stock for treasury at cost.

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Accumulated Other Comprehensive Income (Loss)
The components of accumulated other comprehensive income (loss) are as follows (in thousands):

| | Beginning Balance | Before-Tax Amount | Tax Benefit (Expense) | Net-of-Tax Amount | Ending Balance |
|---|---|---|---|---|---|
| December 31, 2013 | | | | | |
| Pension and other postretirement liability adjustment | $(45,958) | $59,743 | $(23,014) | $36,729 | $(9,229) |
| Foreign currency translation adjustment | 19,180 | (4,814) | — | (4,814) | 14,366 |
| Accumulated other comprehensive income (loss) | $(26,778) | $54,929 | $(23,014) | $31,915 | $5,137 |
| December 31, 2014 | | | | | |
| Pension and other postretirement liability adjustment | $(9,229) | $(41,906) | $16,358 | $(25,548) | $(34,777) |
| Foreign currency translation adjustment | 14,366 | (12,271) | — | (12,271) | 2,095 |
| Accumulated other comprehensive income (loss) | $5,137 | $(54,177) | $16,358 | $(37,819) | $(32,682) |
| December 31, 2015 | | | | | |
| Pension and other postretirement liability adjustment | $(34,777) | $19,728 | $(7,783) | $11,945 | $(22,832) |
| Foreign currency translation adjustment | 2,095 | (16,581) | — | (16,581) | (14,486) |
| Accumulated other comprehensive income (loss) | $(32,682) | $3,147 | $(7,783) | $(4,636) | $(37,318) |

The following reclassifications were made from accumulated other comprehensive income (loss) to the statements of operations are as follows (in thousands):

| | December 31, 2015 | 2014 | 2013 |
|---|---|---|---|
| Amortization of pension and other post-retirement liability adjustments | | | |
| Prior Service Credits [1] | $852 | $2,019 | $3,364 |
| Actuarial Losses [1] | (6,167) | (2,540) | (9,390) |
| Loss recognized during settlement | — | (6,509) | — |
| Total Before Tax | (5,315) | (7,030) | (6,026) |
| Tax Benefit | (1,929) | (2,714) | (2,410) |
| Net of Tax | $(3,386) | $(4,316) | $(3,616) |

(1) These accumulated other comprehensive income (loss) components are included in the computation of net periodic pension costs. See Note 16 for additional information.

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11. EARNINGS PER SHARE
Basic earnings per share excludes the dilutive effect of common shares that could potentially be issued due to the exercise of stock options and unvested restricted stock and restricted stock units, and is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share includes the effect of shares and potential shares and units issued under the stock incentive plans. The following table sets forth the reconciliation from basic to dilutive average common shares (in thousands):

| | December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Numerator: | | | |
| Net earnings attributable to Knoll, Inc. stockholders | $65,963 | $46,596 | $23,184 |
| | | | |
| Denominator: | | | |
| Denominator for basic earnings per shares - weighted-average shares | 47,747 | 47,347 | 46,917 |
| Effect of dilutive securities: | | | |
| Potentially dilutive shares resulting from stock plans | 691 | 721 | 742 |
| Denominator for diluted earnings per share - weighted-average shares | 48,438 | 48,068 | 47,659 |
| Antidilutive equity awards not included in weighted-average common shares—diluted | 4 | 144 | 164 |
| | | | |
| Net earnings per common share attributable to Knoll, Inc. stockholders: | | | |
| Basic | $1.38 | $0.98 | $0.49 |
| Diluted | $1.36 | $0.97 | $0.49 |

12. DERIVATIVE FINANCIAL INSTRUMENTS
The Company entered into no derivative contracts during the year ended December 31, 2015. The Company entered into one derivative contract during the year ended December 31, 2014, and the contract expired unexercised during 2014. The Company entered into two derivative contracts during the year ended December 31, 2013. Both contracts entered into during 2013 expired unexercised during 2013. There were no outstanding derivative contracts as of December 31, 2015 or 2014.
13. COMMITMENTS AND CONTINGENCIES
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 December 31, 2015, the Company employed a total of 3,386 people.  Approximately 11.3% of the total number of employees are represented by unions globally. 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 200 hourly employees. The Collective Bargaining Agreement expires April 26, 2018. Approximately 182 workers in Italy are also represented by state-sponsored unions.  The union contracts under which these Italian workers are represented expire in 2016.
Warranty
The Company provides for estimated product warranty expenses when related products are sold and are included within other current liabilities. Because warranty estimates are forecasts that are based on the best available information, primarily historical claims experience, future warranty claims may differ from the amounts provided.

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

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Balance, beginning of the year | $8,180 | $8,214 | $7,852 |
| Provision for warranty claims | 7,249 | 6,664 | 7,092 |
| Warranty claims paid | (6,801) | (6,631) | (6,716) |
| Foreign currency translation adjustment | (115) | (67) | (14) |
| Balance, end of the year | $8,513 | $8,180 | $8,214 |

## 14. INCOME TAXES

Income before income tax expense consists of the following (in thousands):

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| U.S. operations | $77,996 | $61,353 | $32,328 |
| Foreign operations | 25,423 | 14,397 | 6,574 |
| Total | $103,419 | $75,750 | $38,902 |

Income tax expense is comprised of the following (in thousands):

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Current: | | | |
| Federal | $24,988 | $20,154 | $6,665 |
| State | 6,101 | 4,472 | 1,903 |
| Foreign | 6,224 | 4,808 | 3,621 |
| Total current | 37,313 | 29,434 | 12,189 |
| Deferred: | | | |
| Federal | (1,098) | (1,315) | 4,135 |
| State | 505 | 753 | 607 |
| Foreign | 751 | 293 | (1,213) |
| Total deferred | 158 | (269) | 3,529 |
| Income tax expense | $37,471 | $29,165 | $15,718 |

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The following table sets forth the tax effects of temporary differences that give rise to the deferred tax assets and liabilities (in thousands):

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Deferred tax assets | | |
| Accounts receivable, principally due to allowance for doubtful accounts | $2,949 | $2,750 |
| Inventories | 4,707 | 3,883 |
| Net operating loss carryforwards | 7,260 | 8,626 |
| Accrued pension | 25,939 | 27,598 |
| Stock-based compensation | 5,813 | 5,794 |
| Compensation-related accruals | 5,131 | 4,218 |
| Warranty | 3,245 | 2,893 |
| Obligation for postretirement benefits other than pension | 2,131 | 3,706 |
| Accrued liabilities and other items | 8,195 | 9,247 |
| Gross deferred tax assets | 65,370 | 68,715 |
| Valuation allowance | (6,317) | (7,901) |
| Net deferred tax assets | 59,053 | 60,814 |
| Deferred tax liabilities: | | |
| Intangibles | 84,931 | 86,464 |
| Plant and equipment | 29,596 | 22,685 |
| Gross deferred tax liabilities | 114,527 | 109,149 |
| Net deferred tax liabilities | $(55,474) | $(48,335) |

Income taxes paid, net of refunds received, by the Company during 2015, 2014, and 2013, totaled $40.8 million, $18.6 million, and $18.3 million, respectively.

As of December 31, 2015, the Company had net operating loss carryforwards totaling approximately $29.4 million in Brazil, the United Kingdom, and Germany. The net operating loss carryforwards may be carried forward indefinitely. The Company provides a valuation allowance against certain net foreign deferred tax assets (principally the net operating loss carryforwards) due to the uncertainty that they can be realized.

The following table sets forth a reconciliation of the statutory federal income tax rate to the effective income tax rate:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Federal statutory tax rate | 35.0 % | 35.0 % | 35.0 % |
| Increase (decrease) in the tax rate resulting from: | | | |
| State taxes, net of federal effect | 4.4 % | 3.5 % | 3.7 % |
| Effect of tax rates of other countries | (2.4 )% | (0.4 )% | 0.2 % |
| Section 199 deduction | (0.9 )% | (1.2 )% | (1.7 )% |
| Change in Contingency Reserve | (0.2 )% | 0.7 % | 2.0 % |
| Limitation on deduction of officer’s compensation | 0.5 % | 1.5 % | 2.6 % |
| Other | (0.2 )% | (0.6 )% | (1.4 )% |
| Effective tax rate | 36.2 % | 38.5 % | 40.4 % |

As of December 31, 2015, there is $104.2 million of cumulative earnings overseas. Approximately $12.4 million has been subject to tax under the U.S. Subpart F of Section 954 provisions. Accordingly, $91.8 million of earnings have not been subject to U.S. tax and are reinvested indefinitely. It is not practical to estimate the amount of U.S. tax that would result upon the eventual repatriation of such earnings.

As of December 31, 2015 and 2014, the Company had unrecognized tax benefits of approximately $4.4 million and $4.9 million, respectively. The entire amount of the unrecognized tax benefits would reduce the effective tax rate if recognized.

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The following table summarizes the activity related to the Company's unrecognized tax benefits during 2015, 2014, and 2013 (in thousands):

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Balance, beginning of the year | $4,922 | $4,611 | $4,039 |
| Additions for tax position related to the current year | 125 | 125 | 691 |
| Additions for tax position related to the prior year | 134 | 350 | — |
| Decreases for tax position related to the prior year | (774) | — | — |
| Prior year reductions: | | | |
| Lapse of statute of limitations | — | (164) | (119) |
| Balance, end of the year | $4,407 | $4,922 | $4,611 |

Included in the unrecognized tax benefits at December 31, 2015 is $3.0 million associated with errors on previously reported income tax returns. It is anticipated that amended returns will be filed to report the incremental taxable income within the next three months.

During 2015, 2014, and 2013, respectively, the Company recognized approximately $0.1 million, $0.2 million and $0.2 million of interest and penalties. The Company has accrued approximately $0.5 million and $0.5 million for the payment of interest and penalties as of December 31, 2015 and 2014, respectively.

As of December 31, 2015, the Company is subject to U.S. Federal Income Tax examination for the tax years 2012 through 2015, and to non-U.S. income tax examination for the tax years 2006 to 2015. In addition, the Company is subject to state and local income tax examinations for the tax years 2006 through 2015.

15. LEASES

The Company has commitments under operating leases for certain machinery and equipment as well as manufacturing, warehousing, showroom and other facilities used in its operations. Some of the leases contain renewal provisions and generally require the Company to pay certain operating expenses, including utilities, insurance and taxes, which are subject to escalation. At times the Company enters into lease agreements which contain a provision for cash abatements related to certain leasehold improvements. These abatements are recognized on a straight-line basis as a reduction to rent expense over the lease term. The unamortized portions as of December 31, 2015 and 2014 were $15.8 million and $9.2 million, respectively. Total rent expense for 2015, 2014, and 2013 was $28.6 million, $28.8 million, and $18.8 million, respectively. Future minimum rental payments required, excluding maintenance and other miscellaneous charges, under those operating leases are as follows (in thousands):

| | Future Minimum Rental Payments |
|---|---|
| 2016 | $26,228 |
| 2017 | 24,823 |
| 2018 | 22,625 |
| 2019 | 16,688 |
| 2020 | 14,371 |
| Subsequent years | 39,973 |
| Total minimum lease payments | $144,708 |

16. PENSION AND OTHER POSTRETIREMENT BENEFITS

The Company has two domestic defined benefit pension plans and two plans providing for other postretirement benefits, including medical and life insurance coverage. One of the pension plans and one of the OPEB plans cover eligible U.S. nonunion employees while the other pension plan and OPEB plan cover eligible U.S. union employees. The Company uses a December 31 measurement date for both of these plans.

During 2014, the Company offered a one-time lump sum payment option to terminated vested participants in exchange for the right to receive future pension payments. As a result, the Company settled $30.2 million of benefit obligations and recorded a $6.1 million settlement charge during the year ended December 31, 2014.

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During 2015, the Company approved amendments, effective December 31, 2015, to both the union and nonunion U.S. defined benefit pension plans. The Company also amended its remaining postretirement medical plan, effective May 1, 2015. The amendments eliminated the accrual of future benefits for all participants in the defined benefit pension plans and the postretirement medical plan. These amendments resulted in a curtailment gain of approximately $7.1 million. As the plans had unrealized losses in excess of the reduction of the projected benefit obligation at the date of amendment, the gain was recorded as a reduction of the projected benefit obligation and a corresponding reduction of unrealized losses within accumulated other comprehensive loss.

The following table sets forth a reconciliation of the related benefit obligation and plan assets related to the benefits provided by the Company (in thousands):

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Change in projected benefit obligation: | | | | |
| Projected benefit obligation at beginning of the period | $296,416 | $261,714 | $9,804 | $10,063 |
| Service cost | 7,457 | 6,937 | 5 | 23 |
| Interest cost | 12,350 | 13,341 | 289 | 385 |
| Plan amendments | — | — | (1,684) | — |
| Participant contributions | — | — | 281 | 326 |
| Actuarial (gain) loss | (21,134) | 58,922 | (1,182) | (362) |
| Benefits paid | (15,867) | (36,476) | (1,219) | (1,324) |
| Liability (gain) loss related to curtailment | (5,413) | — | — | 693 |
| Liability (gain) related to settlement | — | (8,022) | — | — |
| Projected benefit obligation at end of the period | $273,809 | $296,416 | $6,294 | $9,804 |
| Accumulated benefit obligation at end of the period | $273,388 | $290,933 | $— | $— |
| Change in plan assets: | | | | |
| Fair value of plan assets at beginning of the period | $225,862 | $244,302 | $— | $— |
| Actual return on plan assets | (50) | 18,036 | — | — |
| Employer contributions | 611 | — | 938 | 998 |
| Participant contributions | — | — | 281 | 326 |
| Benefits paid | (15,867) | (6,270) | (1,219) | (1,324) |
| Benefits paid related to settlement | — | (30,206) | — | — |
| Fair value of plan assets at the end of period | $210,556 | $225,862 | $— | $— |
| Funded status | $(63,253) | $(70,554) | $(6,294) | $(9,804) |

Assumptions used in computing the benefit obligation as of December 31, 2015 and 2014 were as follows:

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Discount rate | 4.55 - 4.65% | 4.20 - 4.27% | 2.30 - 4.51% | 3.03 - 4.20% |
| Expected return on plan assets | 7.10% | 7.10% | N/A | N/A |
| Rate of compensation increase | 2.50% | 2.50% | N/A | N/A |

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The following table presents the fair value of the Company's pension plan investments as of December 31, 2015 and 2014 (in thousands):

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Equity Securities | | | | |
| U.S. equity securities | $110,705 | $— | $— | $110,705 |
| Non-U.S. equity securities | 20,866 | — | — | 20,866 |
| Debt Securities | | | | |
| Fixed income funds and cash investment funds | 78,985 | — | — | 78,985 |
| December 31, 2015 | $210,556 | $— | $— | $210,556 |
| | | | | |
| Equity Securities | | | | |
| U.S. equity securities | $115,102 | $— | $— | $115,102 |
| Non-U.S. equity securities | 22,081 | — | — | 22,081 |
| Debt Securities | | | | |
| Fixed income funds and cash investment funds | 88,679 | — | — | 88,679 |
| December 31, 2014 | $225,862 | $— | $— | $225,862 |

See Note 2 of the consolidated financial statements for the description of the levels of the fair value hierarchy.

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | (in thousands) | | | |
| Amounts recognized in the consolidated balance sheets consist of: | | | | |
| Current liabilities | $— | $— | $(818) | $(1,039) |
| Noncurrent liabilities | (63,253) | (70,554) | (5,476) | (8,765) |
| Net amount recognized | $(63,253) | $(70,554) | $(6,294) | $(9,804) |
| Amounts recognized in accumulated other comprehensive income (loss) before taxes: | | | | |
| Net actuarial loss | $40,493 | $58,780 | $474 | $1,018 |
| Prior service cost (credit) | — | — | (3,600) | (2,768) |
| Net amount recognized | $40,493 | $58,780 | $(3,126) | $(1,750) |

The following table sets forth other changes in the benefit obligation recognized in other comprehensive income for the Company's pension and other postretirement benefits plans (in thousands):

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Net actuarial loss (gain) | $(6,629) | $48,606 | $(687) | $330 |
| Prior service cost/(credit) | — | — | (1,684) | — |
| Curtailment (gain)/loss | (5,413) | — | — | — |
| Amortization of: | | | | |
| Prior service (credit) cost | — | (10) | 852 | 2,029 |
| Actuarial (gain) loss | (6,311) | (2,006) | 144 | (534) |
| Gain recognized related to settlement | — | (6,060) | — | — |
| Gain recognized related to curtailment | — | — | — | (449) |
| Total recognized in OCI | $(18,353) | $40,530 | $(1,375) | $1,376 |

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The net actuarial gain of $6.6 million in 2015 was mainly due to improved discount rates over the course of 2015 and the mortality improvement scale was updated to MP-2015, still using the RP- 2014 base table. The net actuarial loss of $48.6 million in 2014 was mainly due to lower discount rates as compared to 2013 and the change in the mortality tables from the RP-2000 mortality tables to the RP-2014 mortality tables.
The estimated net actuarial loss for the defined benefit pension plans included in accumulated other comprehensive income and expected to be recognized in net periodic pension cost during the fiscal year ended December 31, 2016 is $0.5 million.
The following table sets forth the components of the net periodic benefit cost for the Company's pension and other postretirement benefit plans (in thousands):

| | Pension Benefits | | | Other Benefits | | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015 | 2014 | 2013 |
| Service cost | $7,457 | $6,937 | $8,009 | $5 | $23 | $37 |
| Interest cost | 12,350 | 13,341 | 12,066 | 289 | 385 | 325 |
| Expected return on plan assets | (14,455) | (15,743) | (13,912) | — | — | — |
| Amortization of prior service cost (credit) | — | 10 | 14 | (852) | (2,029) | (3,378) |
| Recognized actuarial loss | 6,311 | 2,006 | 8,623 | (144) | 534 | 767 |
| Settlement and curtailment related expense | — | 6,060 | — | — | 449 | — |
| Net periodic benefit cost | $11,663 | $12,611 | $14,800 | $(702) | $(638) | $(2,249) |

For the years ended December 31, 2015, 2014 and 2013, $6.5 million, $7.3 million and $9.0 million of pension expense was recorded in cost of sales and $5.2 million, $5.3 million and $5.8 million was recorded in selling, general, and administrative expenses, respectively.
Assumptions used to determine net periodic benefit cost for the years ended December 31, 2015, 2014, and 2013 were as follows:

| | Pension Benefits | | | Other Benefits | | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015 | 2014 | 2013 |
| Discount rate | 4.18 - 4.54% | 5.10 - 5.18% | 4.30 - 4.40% | 1.69 - 4.20% | 2.69 - 5.05% | 2.25 - 4.25% |
| Expected return on plan assets | 7.10% | 7.10% | 7.10% | N/A | N/A | N/A |
| Rate of compensation increase | 2.50% | 2.50% | 2.50% | N/A | N/A | N/A |

The expected long-term rate of return on assets is based on management's expectations of long-term average rates of return to be earned on the investment portfolio. In establishing this assumption, management considers historical and expected returns for the asset classes in which the plan assets are invested.
For purposes of measuring the benefit obligation associated with the Company's other postretirement benefit plans as of December 31, 2015, as well as the assumed rate for 2016, an annual rate increase of 6.00% to 6.50% in the per capita cost of covered health care benefits was assumed and a 12.0% annual rate of increase in the per capita cost of covered prescription drug benefits was assumed. The rates were then assumed to decrease to an ultimate rate of 4.5% for 2022 and thereafter. For purposes of measuring the net periodic benefit cost for 2015 associated with the Company's other postretirement benefits plans, a 7.8% to 8.3% annual rate of increase in the per capita cost of covered medical benefits was assumed and a 7.00% annual rate of increase in the per capita cost of covered prescription drug benefits was assumed. The rate was then assumed to decrease to an ultimate rate of 5.0% for 2022 for both the medical plan and prescription drug plan and thereafter. Increasing the assumed health care cost trend rate by 1.0% would increase the benefit obligation as of December 31, 2015 by $137,000 and increase the aggregate of the service

and interest cost components of net periodic benefit cost for 2015 by $7,000. Decreasing the assumed health care cost trend rate by 1.0% would decrease the benefit obligation as of December 31, 2015 by $130,000 and decrease the aggregate of the service and interest cost components of net periodic benefit cost for 2015 by $7,000.

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The Company's pension plans' weighted-average asset allocations as of December 31, 2015 and 2014, by asset category were as follows:

| | Plan Assets at December 31, | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| Asset Category: | | | | |
| Temporary investment funds | 1 | % | 4 | % |
| Equity investment funds | 63 | % | 61 | % |
| Fixed income funds | 36 | % | 35 | % |
| Total | 100 | % | 100 | % |

The Company's pension plans' investment policy includes an asset mix based on the Company's risk posture. The investment policy states a target allocation of 60% equity funds and 40% fixed income funds. Inclusion of the fixed income funds is to provide growth through income and these funds should primarily invest in fixed income instruments of the U.S. Treasury and government agencies and investment-grade corporate bonds. The equity fund investments can consist of a broadly diversified domestic equity fund, an actively managed domestic equity fund and an actively managed international equity fund. The purpose of these funds is to provide the opportunity for capital appreciation, income, and the ability to diversify investments outside the U.S. equity market. Mutual funds are used as the plans' investment vehicle since they have clearly stated investment objectives and guidelines, offer a high degree of investment flexibility, offer competitive long-term results, and are cost effective for small asset balances.

The Company expects to contribute $1.9 million to its pension plans and $0.8 million to its other postretirement benefit plans in 2016. Estimated future benefit payments under the pension and other postretirement plans are as follows (in thousands):

| | Pension Benefits | Other Benefits |
|---|---|---|
| 2016 | $15,906 | $817 |
| 2017 | 16,576 | 784 |
| 2018 | 16,626 | 683 |
| 2019 | 16,681 | 622 |
| 2020 | 17,938 | 556 |
| 2021 - 2025 | 89,655 | 2,058 |

The Company also sponsors 401K retirement savings plans for all U.S. associates who do not participate in the Company's pension plans. Under the 401K retirement savings plans, participants may defer a portion of their earnings up to the annual contribution limits established by the Internal Revenue Service. The Company's total expense under the 401K plans for U.S. employees was $5.6 million for 2015, $2.5 million for 2014 and $2.0 million for 2013.

Employees of the Canadian, Belgium and United Kingdom operations also participate in defined contribution pension plans sponsored by the Company. The Company's expense related to these plans for 2015, 2014, and 2013 was $1.0 million, $1.2 million, and $1.2 million, respectively.

17. STOCK PLANS

As of December 31, 2015, the Company sponsors three stock incentive plans under which awards denominated or payable in shares, units or options to purchase shares of Knoll common stock may be granted to officers, certain other employees, directors and consultants of the Company. In May 2007, the Company approved the 2007 Stock Incentive Plan which authorized the issuance of 2,000,000 shares of common stock; as of December 31, 2015, 7,306 shares remained available for issuance under this plan. In May 2010, the Company approved the 2010 Stock Incentive Plan which authorized the issuance of 2,000,000 shares of common stock; as of December 31, 2015, 467,617 shares remained available for issuance under this plan. In May 2013, the Company approved the 2013 Stock Incentive Plan which authorized the issuance of 2,000,000 shares of common stock; as of December 31, 2015, 1,578,979 shares remained available for issuance under this plan. As of December 31, 2015, an aggregate of 2,053,902 total shares remained available for issuance under these plans.

A Committee of the Board of Directors currently consisting of the Compensation Committee of the Company's Board of Directors, has sole discretion concerning administration of the plans including selection of individuals to receive awards, types of awards, the terms and conditions of the awards and the time at which awards will be granted.

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Restricted Shares and Restricted Stock Units

During 2013, the Company granted 441,629 restricted shares to certain key employees and the Company's Board of Directors at the weighted-average fair value of $16.56 per restricted share at the date of grant. The majority of these awards cliff vest on the third anniversary of the grant date.

During 2014, the Company granted 1,106,919 of restricted shares and restricted stock units to certain key employees and the Company's Board of Directors. 462,773 of these awards were granted at the weighted-average fair value of $15.43 per restricted share at the date of grant. The majority of these awards cliff vest on the third anniversary of the grant date. 200,000 of these awards were granted at the weighted-average fair value of $18.72 per restricted share and cliff vest on the fourth anniversary of the grant date. 331,896 of these awards were granted at the weighted-average fair value of $17.34 per restricted stock unit. These awards vest based upon the Company achieving certain cumulative operating performance target goals over the next three years. 112,250 of these awards were granted at the weighted-average fair value of $8.24 per restricted stock unit. These awards vest based upon the performance of the Company's stock price relative to a peer group over the next three years.

During 2015, the Company granted 314,360 of restricted shares and restricted stock units to certain key employees and the Company's Board of Directors. 168,360 of these awards were granted at the weighted-average fair value of $21.59 per restricted share at the date of grant. The majority of these awards cliff vest on the third anniversary of the grant date. 73,000 of these awards were granted at the weighted-average fair value of $21.64 per restricted stock unit. These awards vest based upon the Company achieving certain cumulative operating performance target goals over the next three years. 73,000 of these awards were granted at the weighted-average fair value of $12.14 per restricted stock unit. These awards vest based upon the performance of the Company's stock price relative to a peer group over the next three years.

The following table summarizes the Company's restricted stock activity during the year:

| | Restricted Stock | Weighted-Average Fair Value |
|---|---|---|
| Outstanding at December 31, 2014 | 1,235,904 | $ 16.38 |
| Granted | 168,360 | 21.59 |
| Forfeited | (86,250) | 16.23 |
| Vested | (324,081) | 21.68 |
| Outstanding at December 31, 2015 | 993,933 | $ 17.34 |

The following table summarizes the Company's restricted stock units activity during the year:

| | Restricted Stock Units | Weighted-Average Fair Value | Restricted Stock Units Performance Based | Weighted-Average Fair Value | Restricted Stock Units Market Based | Weighted-Average Fair Value |
|---|---|---|---|---|---|---|
| Outstanding at December 31, 2012 | 110,000 | $ 14.04 | — | $ — | — | $ — |
| Granted | — | — | — | — | — | — |
| Forfeited | — | — | — | — | — | — |
| Vested | (15,000) | 14.04 | — | — | — | — |
| Outstanding at December 31, 2013 | 95,000 | $ 14.04 | — | $ — | — | — |
| Granted | — | — | 331,896 | 17.34 | 112,250 | 8.24 |
| Forfeited | — | — | (8,813) | 15.19 | (8,813) | 8.14 |
| Vested | (15,000) | 14.04 | — | — | — | — |
| Outstanding at December 31, 2014 | 80,000 | $ 14.04 | 323,083 | $ 17.36 | 103,437 | $ 8.18 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Granted | — | — | 73,000 | 21.64 | 73,000 | 12.14 |
| Forfeited | — | — | (15,625 ) | 15.92 | (15,625 ) | 8.93 |
| Vested | (35,000 ) | 14.04 | — | — | — | — |
| Outstanding at December 31, 2015 | 45,000 | $ 14.04 | 380,458 | $ 18.28 | 160,812 | $ 10.12 |

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Stock Options

The following table summarizes the Company's stock option activity for the preceding three years.

| | Number of Options | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life (years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at December 31, 2012 | 1,364,284 | $ 13.84 | 3.53 | $3,686,098 |
| Exercised | (330,895) | 11.98 | | 1,739,700 |
| Forfeited | (10,000) | 10.24 | | 42,400 |
| Outstanding at December 31, 2013 | 1,023,389 | $ 14.48 | 2.71 | $4,625,520 |
| Exercised | (375,718) | 12.93 | | 2,237,704 |
| Outstanding at December 31, 2014 | 647,671 | $ 15.37 | 2.16 | $4,016,809 |
| Exercised | (377,671) | $ 14.98 | | $2,496,218 |
| Outstanding at December 31, 2015 | 270,000 | $ 15.93 | 1.44 | $1,203,600 |
| Exercisable at December 31, 2015 | 262,000 | $ 15.93 | 1.30 | $1,181,040 |

The following table summarizes information regarding stock options outstanding and exercisable at December 31, 2015:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Ranges of Exercise Prices | Number of Options | Weighted-Average Remaining Contractual Life (years) | Weighted-Average Exercise Price | Number of Options | Weighted-Average Exercise Price |
| $10.24 - $15.00 | 140,000 | 1.09 | $10.61 | 140,000 | $10.61 |
| $15.01 - $18.77 | 20,000 | 6.12 | 15.98 | 12,000 | 15.98 |
| $18.78 - $23.47 | 110,000 | 1.03 | 22.69 | 110,000 | 22.69 |
| $10.24 - $23.47 | 270,000 | 1.44 | $15.93 | 262,000 | $15.93 |

A summary of the status of the Company's non-vested options as of December 31, 2015 and 2014, and changes during the year ended December 31, 2015, is presented below.

| | Number of Options | Weighted-Average Grant-Date Fair Value |
|---|---|---|
| Non-vested at December 31, 2014 | 12,000 | $6.26 |
| Vested | (4,000) | 6.26 |
| Non-vested at December 31, 2015 | 8,000 | $6.26 |

The total fair value of options vested during both 2015 and 2014 were less than $0.1 million, respectively. For 2013, the total fair value of options vested was $0.9 million.

Total Awards

Compensation costs related to stock-based compensation for the years ended December 31, 2015, 2014, and 2013 totaled $8.3 million pre-tax ($5.3 million after-tax), $7.8 million pre-tax ($4.8 million after-tax), and $10.5 million pre-tax ($6.3 million after-tax), respectively, and are included within selling, general, and administrative expenses. At December 31, 2015, the total compensation cost related to non-vested awards not yet recognized equaled $11.8 million for restricted stock awards and restricted stock units, with minimal costs related to non-vested stock options. The weighted-average remaining period over which the cost is to be recognized is 1.5 years.

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18. SEGMENT AND GEOGRAPHIC REGION INFORMATION

The following information below categorizes certain financial information into the Company's reportable segments for the years ended December 31, 2015, 2014, and 2013 (in thousands):

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| SALES | | | |
| Office | $686,943 | $656,228 | $599,131 |
| Studio | 303,838 | 279,167 | 154,083 |
| Coverings | 113,661 | 114,899 | 109,038 |
| Knoll, Inc. | $1,104,442 | $1,050,294 | $862,252 |
| INTERSEGMENT SALES (1) | | | |
| Office | $1,640 | $2,776 | $1,698 |
| Studio | 6,184 | 5,918 | 6,594 |
| Coverings | 8,358 | 10,576 | 9,722 |
| Knoll, Inc. | $16,182 | $19,270 | $18,014 |
| DEPRECIATION AND AMORTIZATION | | | |
| Office | $14,945 | $13,747 | $13,116 |
| Studio | 5,565 | 5,313 | 2,085 |
| Coverings | 769 | 982 | 1,160 |
| Knoll, Inc. | $21,279 | $20,042 | $16,361 |
| OPERATING PROFIT | | | |
| Office | $43,143 | $21,964 | $13,982 |
| Studio | 43,335 | 33,567 | 15,335 |
| Coverings | 14,632 | 21,312 | 12,096 |
| Knoll, Inc.(2) | $101,110 | $76,843 | $41,413 |
| CAPITAL EXPENDITURES | | | |
| Office | $27,058 | $33,541 | $25,615 |
| Studio | 4,241 | 8,075 | 3,063 |
| Coverings | 648 | 285 | 701 |
| Knoll, Inc. | $31,947 | $41,901 | $29,379 |

(1) Intersegment sales are presented on a cost-plus basis which takes into consideration the effect of transfer prices between legal entities.
(2) The Company does not allocate interest expense or other (income) expense, net to the reportable segments.

Many of the Company's facilities manufacture products for all three reporting segments. Therefore, it is impractical to disclose asset information on a segment basis.

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Office Systems | $432,655 | $429,503 | $392,700 |
| Seating | 117,799 | 108,635 | 109,650 |
| Files and Storage | 86,099 | 84,297 | 68,185 |
| Studio | 303,838 | 279,167 | 154,083 |
| Coverings | 113,661 | 114,899 | 109,038 |
| Other | 50,390 | 33,793 | 28,596 |
| Total | $1,104,442 | $1,050,294 | $862,252 |

The Company markets its products in the United States and internationally, with its principal international markets being Canada and Europe. The table below contains information about the geographical areas in which the Company operates. Sales are attributed to the geographic areas based on the origin of sale, and property, plant, and equipment, net is based on the geographic area in which the asset resides (in thousands):

| | United States | Canada | Europe | Consolidated |
|---|---|---|---|---|
| 2015 | | | | |
| Sales | $979,221 | $36,163 | $89,058 | $1,104,442 |
| Property, plant, and equipment, net | 137,863 | 20,919 | 13,360 | 172,142 |
| 2014 | | | | |
| Sales | $928,733 | $32,811 | $88,750 | $1,050,294 |
| Property, plant, and equipment, net | 123,821 | 25,669 | 15,529 | 165,019 |
| 2013 | | | | |
| Sales | $752,347 | $36,240 | $73,665 | $862,252 |
| Property, plant, and equipment, net | 94,896 | 27,938 | 15,059 | 137,893 |

19. OTHER INCOME, NET

The components of other (income) expense, net are as follows (in thousands):

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Foreign exchange gains | $(9,130) | $(5,801) | $(3,502) |
| Other, net | (44) | (484) | 72 |
| Other income, net | $(9,174) | $(6,285) | $(3,430) |

20. RESTRUCTURING AND OTHER CHARGES

During 2013, the Company approved certain restructuring activities. These restructuring activities primarily related to headcount reductions in the Office segment as part of the Company's previously announced strategic supply chain initiatives and headcount reductions in the Studio segment associated with factory overhead consolidations. The Company does not expect any additional charges related to these restructuring actions in the future.

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During 2014, the Company approved additional restructuring actions. These actions primarily included reductions in headcount in the Office and Coverings segments, the exiting of certain showrooms within the Company's Coverings segment, and charges related to improvements to better utilize the Company's manufacturing capacity. The Company does not expect any additional charges related to these restructuring actions in the future.

During 2015, the Company approved additional restructuring actions. The Company closed a HOLLY HUNT® showroom in Brazil that was opened prior to the acquisition of HOLLY HUNT®. As a result of these actions, restructuring charges of $0.4 million were recorded in the Studio segment. Also in 2015, the Company approved certain restructuring actions in the Office segment intended to streamline the corporate structure resulting in restructuring charges of $0.5 million. Both of these charges relate to cash severance and employment termination related expenses. The Company does not expect any additional charges related to these restructuring actions in the future, and the Company anticipates that the remaining liability will be paid in the next twelve months. Below is a rollforward of the restructuring liability that is recorded within other current liabilities in the accompanying balance sheets (in thousands):

| | Office Segment | Studio Segment | Coverings Segment | Total |
|---|---|---|---|---|
| Balance, December 31, 2013 | 2,129 | 2,975 | — | 5,104 |
| Additions | 2,199 | — | 318 | 2,517 |
| Payments | (3,194) | (2,078) | (302) | (5,574) |
| Adjustments to accrual | (88) | (897) | — | (985) |
| Balance, December 31, 2014 | $1,046 | $— | $16 | $1,062 |
| Additions | 455 | 441 | — | 896 |
| Payments | (898) | (319) | (16) | (1,233) |
| Balance, December 31, 2015 | $603 | $122 | $— | $725 |

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial Instruments

The fair values 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.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following table represents the assets and liabilities, measured at fair value on a recurring basis and the basis for that measurement (in thousands):

| | Fair Value as of December 31, 2015 | | | | Fair Value as of December 31, 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| Liabilities: | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Contingent purchase price payment | $— | $— | $11,000 | $11,000 | $— | $— | $16,000 | $16,000 |

Pursuant to the agreement governing the acquisition of HOLLY HUNT®, the Company may be required to make annual contingent purchase price payments. The payouts are based upon HOLLY HUNT® reaching an annual net sales target, for each year through 2016, and are paid out on or around February 20 of the following calendar year. The Company classifies this as a Level 3 measurement and is required to remeasure this liability at fair value on a recurring basis. The fair value of such contingent purchase price payments was determined at the time of acquisition based upon net sales projections for HOLLY HUNT® for 2014, 2015, and 2016. The Company paid $5.0 million of the $16.0 million contingent purchase price in 2015, as a result of HOLLY HUNT® achieving the 2014 net sales projections. Excluding the initial recognition of the liability for the contingent purchase price payments and payments made to reduce the liability, any changes in the fair value would be included within selling, general and administrative expenses.

There were no additional assets and/or liabilities recorded at fair value on a recurring basis as of December 31, 2015 or 2014.

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Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

The following table represents non-recurring fair value amounts (as measured at the time of adjustment) for those assets remeasured to fair value on a nonrecurring basis as of October 1, 2015 (in thousands):

| | Fair Value Measurements at December 31, 2015 | | | | |
|---|---|---|---|---|---|
| Description | Total | Level 1 | Level 2 | Level 3 | Total Impairment |
| Edelman Leather tradename (1) | $6,500 | — | — | $6,500 | $10,650 |

(1) The Company estimated the fair value of the indefinite-life intangible asset using the relief-from-royalty method under the income approach as of October 1, 2015. The Company used a royalty rate of 2.5% based on comparable market rates and a discount rate of 12.0%.

Based on the results of the 2015 annual impairment test, the Company determined that the Edelman Leather tradename was impaired. Refer to Note 7 for more details regarding the impairment testing.

There were no additional assets and/or liabilities remeasured to fair value on a nonrecurring basis as of December 31, 2015 or 2014 and for the years then ended.

## 22. QUARTERLY RESULTS (UNAUDITED)

The following tables contain selected unaudited Consolidated Statements of Operations and Comprehensive Income data for each quarter for the years ended December 31, 2015 and 2014. The operating results for any quarter are not necessarily indicative of results for any future period. The quarterly results are as follows (in thousands):

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Fiscal Year | |
|---|---|---|---|---|---|---|
| 2015 | | | | | | |
| Sales | $266,498 | $268,622 | $263,588 | $305,734 | $1,104,442 | |
| Gross profit | 95,309 | 101,191 | 101,207 | 114,425 | 412,132 | |
| Net earnings | 17,435 | 17,222 | 17,861 | 13,430 | 65,948 | (1) |
| Net earnings attributable to Knoll, Inc. stockholders | 17,443 | 17,239 | 17,833 | 13,448 | 65,963 | (1) |
| Earnings per share—Basic | $0.37 | $0.36 | $0.37 | $0.28 | $1.38 | |
| Earnings per share—Diluted | $0.36 | $0.36 | $0.37 | $0.28 | $1.36 | |
| | | | | | | |
| 2014 | | | | | | |
| Sales | $229,601 | $265,943 | $268,297 | $286,453 | $1,050,294 | |
| Gross profit | 76,598 | 97,274 | 94,962 | 102,850 | 371,685 | |
| Net earnings | 7,832 | 10,841 | 15,597 | 12,316 | 46,585 | (2) |
| Net earnings attributable to Knoll, Inc. stockholders | 7,826 | 10,855 | 15,628 | 12,288 | 46,596 | (2) |
| Earnings per share—Basic | $0.17 | $0.23 | $0.33 | $0.26 | $0.98 | |
| Earnings per share—Diluted | $0.16 | $0.23 | $0.33 | $0.26 | $0.97 | |

(1) During 2015, the Company recorded $0.9 million of pre-tax restructuring charges. These charges of $0.4 million and $0.5 million were incurred in the third and fourth quarters of 2015, respectively. Additionally, during the fourth quarter of 2015, the Company recorded an intangible asset impairment charge of $10.7 million.

(2) During 2014, the Company recorded $1.5 million of pre-tax restructuring charges. These charges were incurred in the first, second, and fourth quarters of 2014 and were $0.6 million, $0.2 million, and $0.7 million, respectively. Additionally, during the fourth quarter of 2014, the Company recorded pension settlement and OPEB curtailment charges of $6.5 million.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None

ITEM 9A. 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 (December 31, 2015) ("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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management's annual report on internal control over financial reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended, for the Company. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes without limitation, maintaining records that in reasonable detail accurately and fairly reflect our transactions, providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statements, providing reasonable assurance that receipts and expenditures of company assets are made in accordance with management authorization, and providing reasonable assurance that unauthorized acquisition, use or disposition of company assets that could have a material effect on our financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected.

Our management assessed the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on this assessment, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2015.

The effectiveness of the Company’s internal control over financial reporting as of December 31, 2015 has been audited by Ernst & Young LLP, the Company’s independent registered public accounting firm, as stated in their report included in Item 8, “Financial Statements and Supplementary Data.”

Remediation of Previously Identified Material Weakness. The material weakness that was previously disclosed as of December 31, 2014 was remediated as of December 31, 2015. See Item 9A, “Controls and Procedures—Management's annual report on internal control over financial reporting” and Item 9A, “Controls and Procedures—Management's plans for remediation” contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014 and “Controls and Procedures” contained in the Company’s subsequent Quarterly Reports on Form 10-Q for the quarters ended March 31, 2015, June 30, 2015 and September 30, 2015, for disclosure of information about the material weakness that was reported as a result of the Company’s annual assessment as of December 31, 2014 and remediation actions to address this material weakness. As disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014 and Quarterly Reports on Form 10-Q for the quarters ended March 31, 2015, June 30, 2015 and September 30, 2015, the Company has implemented and executed the Company’s remediation plans with respect to its material weakness in internal control over financial reporting related to controls over the accounting for income taxes, and as of December 31, 2015, such remediation plans were successfully tested, and the material weakness was deemed remediated.

Changes in internal control over financial reporting. Other than the remediation steps discussed above, there have been no changes in our internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Knoll, Inc.

We have audited Knoll, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Knoll, Inc.'s management is responsible 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 annual report on internal control over financial reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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 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.

In our opinion, Knoll, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Knoll, Inc. as of December 31, 2015 and 2014, and the related consolidated statements of operations and comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2015 of Knoll, Inc. and our report dated February 29, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 29, 2016

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 relating to directors, director nominees and executive officers of the registrant is incorporated by reference from the information under the captions “Board of Directors,” “Election of Directors,” “Executive Officers,” “Board Meetings and Committees,” “Code of Ethics,” and “Section 16(a) Beneficial Ownership Reporting Compliance” contained in our Proxy Statement for our 2016 Annual Meeting of Stockholders (the “Proxy Statement”).

The information relating to the identification of the audit committee, audit committee financial expert and director nomination procedures of the registrant is incorporated by reference from the information under the caption “Board Meetings and Committees” contained in our Proxy Statement.

Our Board of Directors has adopted a code of ethics for all employees. This code is made available free of charge on our website at www.knoll.com. For further information see subsection “Code of Ethics” in our Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is hereby incorporated by reference from the information under the caption “Executive Compensation” contained in our Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Securities Authorized for Issuance Under Equity Compensation Plans

| | Equity Compensation Plan Information<br>As of December 31, 2015 | | |
|---|---|---|---|
| Plan Category | Number of Securities to be Issued upon Exercise of Outstanding Options (a) | Weighted-Average Exercise Price of Outstanding Options (b) | Number of Shares Remaining for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c) |
| Equity compensation plans approved by security holders | 270,000 | $15.93 | 2,053,902 |
| Equity compensation plans not approved by security holders | — | — | — |
| Total | 270,000 | | 2,053,902 |

If there is an expiration, termination, or cancellation of any benefit granted under the plans without the issuance of shares, the shares subject to or reserved for that benefit may again be used for new stock options, rights, or awards of any type authorized under the plans.

All other information required by Item 12 is hereby incorporated by reference from the information under the caption “Security Ownership of Certain Beneficial Owners and Management” contained in our Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 is hereby incorporated by reference from the information under the captions “Transactions with Related Persons” and “Director Independence” contained in our Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Item 14 is hereby incorporated by reference from the information under the caption “Independent Registered Public Accounting Firm” contained in our Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)Documents filed as part of this Form 10-K:

(1) CONSOLIDATED FINANCIAL STATEMENTS (ITEM 8)

- Consolidated Balance Sheets as of December 31, 2015 and 2014
- Consolidated Statements of Operations and Comprehensive Income for the Years Ended December 31, 2015, 2014, and 2013
- Consolidated Statements of Equity for the Years Ended December 31, 2015, 2014, and 2013
- Consolidated Statements of Cash Flows for the Years Ended December 31, 2015, 2014, and 2013
- Notes to the Consolidated Financial Statements
- Report of Independent Registered Public Accounting Firm

(2) FINANCIAL STATEMENT SCHEDULES

- Financial Statement Schedule II—Valuation and Qualifying Accounts is filed with this Form 10-K on page S-1 of this Form 10-K. All other schedules for which provision is made in the applicable regulation of the Commission have either been presented in the Company's financial statements or are not required under the related instructions or are inapplicable and therefore have been omitted.

(3) EXHIBITS

| Exhibit Number | | Description |
|---|---|---|
| 2.1 | (k) | Securities Purchase Agreement, dated February 3, 2014, among Knoll, Inc., Holly Hunt Enterprises, Inc., HHMI LLC, the Shareholders of Holly Hunt Enterprises, Inc. and the Members of HHMI LLC. |
| 3.1 | (a) | Amended and Restated Certificate of Incorporation of Knoll, Inc. |
| 3.2 | (n) | Amended and Restated By-Laws of Knoll, Inc. |
| 4.1 | (r) | Form of Stock Certificate. |
| 10.1 | (b) | Second Amended and Restated Credit Agreement, dated as of May 20, 2014, by and among Knoll, Inc., certain of the domestic subsidiaries of Knoll, Inc., Bank of America, N.A., Merrill Lynch, Pierce, Fenner and Smith Incorporated, and the other lenders party thereto. |
| 10.2 | (f)* | Amended and Restated Employment Agreement, executed March 14, 2006, effective as of January 1, 2006, between Knoll, Inc. and Burton B. Staniar. |
| 10.3 | (p)* | Amendment to Amended and Restated Employment Agreement, dated as of May 4, 2009, between Knoll, Inc. and Burton B. Staniar. |
| 10.4 | (d)* | Employment Agreement, dated as of March 23, 2001, between Knoll, Inc. and Andrew B. Cogan. |

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| Exhibit Number | | Description |
|---|---|---|
| 10.5 | (a)* | Amendment No. 1 to Employment Agreement, dated as of August 25, 2004, between Knoll, Inc. and Andrew B. Cogan. |
| 10.6 | (f)* | Amendment No. 2 to Employment Agreement, dated as of March 14, 2006, between Knoll, Inc. and Andrew B. Cogan. |
| 10.7 | (g)* | Amendment No. 3 to Employment Agreement, dated as of December 11, 2006, between Knoll, Inc. and Andrew B. Cogan. |
| 10.8 | (i)* | Amendment No. 4 to Employment Agreement, dated as of December 10, 2007, between Knoll, Inc. and Andrew B. Cogan. |
| 10.9 | (u)* | Amendment No. 5 to Employment Agreement dated as of June 12, 2014, between Knoll, Inc. and Andrew B. Cogan |
| 10.10 | (m)* | Amendment No. 6 to Employment Agreement dated as of June 24, 2015, between Knoll, Inc. and Andrew B. Cogan |
| 10.11 | (s)* | Separation Agreement, dated as of January 12, 2015, between Knoll, Inc. and Lynn M. Utter. |
| 10.12 | (m)* | Offer Letter, dated May 4, 2015, from Knoll, Inc. to Joseph T. Coppola. |
| 10.13 | * | Summary of Craig B. Spray 2016 Compensation. |
| 10.14 | * | Summary of Joseph T. Coppola 2016 Compensation. |
| 10.15 | * | Summary of Benjamin A. Pardo 2016 Compensation. |
| 10.16 | * | Summary of Pamela J. Ahrens 2016 Compensation. |
| 10.17 | (c)* | Amended and Restated Knoll, Inc. 1997 Stock Incentive Plan. |
| 10.18 | (a)* | Amended and Restated Knoll, Inc. 1999 Stock Incentive Plan. |
| 10.19 | (j)* | Amended and Restated Knoll, Inc. 2007 Stock Incentive Plan. |
| 10.20 | (q)* | Amended and Restated Knoll, Inc. 2010 Stock Incentive Plan. |
| 10.21 | (t)* | Amended and Restated Knoll, Inc. 2013 Stock Incentive Plan |
| 10.22 | * | Amended and Restated Knoll, Inc. Non-Employee Director Compensation Plan. |
| 10.23 | (e)* | Form of Non-Qualified Stock Option Agreement under the Amended and Restated Knoll, Inc. 1997 Stock Incentive Plan, entered into by Knoll, Inc. and certain executive officers. |
| 10.24 | (c)* | Form of Non-Qualified Stock Option Agreement under the Amended and Restated Knoll, Inc. 1999 Stock Incentive Plan, entered into by Knoll, Inc. and certain executive officers. |

| | | |
|---|---|---|
| 10.25 | (l)* | Form of Non-Qualified Stock Option Agreement under the 2007 Stock Incentive Plan, entered into by Knoll, Inc. and certain executive officers. |
| 10.26 | (l)* | Form of Restricted Share Agreement under the 2007 Stock Incentive Plan (time vesting with accelerated performance vesting). |
| 10.27 | (l)* | Form of Restricted Share Agreement under the 2007 Stock Incentive Plan (time vesting). |
| 10.28 | (l)* | Form of Restricted Share Agreement under the Non-Employee Director Compensation Plan (time vesting). |
| 10.29 | (h)* | Form of Restricted Share Agreement under the 2010 Stock Incentive Plan (time vesting). |
| 10.30 | (h)* | Form of Restricted Share Agreement under the 2010 Stock Incentive Plan (time vesting with accelerated performance vesting). |
| 10.31 | (h)* | Form of Non-Qualified Stock Option Agreement under the 2010 Stock Incentive Plan. |
| 10.32 | (v)* | Form of Performance-Based Stock Unit Agreement under the 2013 Stock Incentive Plan. |

| Exhibit Number | | Description |
|---|---|---|
| 10.33 | * | Form of Performance-Based Stock Unit Agreement under the 2013 Stock Incentive Plan (enhanced vesting). |
| 10.34 | (a)* | Form of Director and Officer Indemnification Agreement. |
| 10.35 | (o)* | Andrew B. Cogan 2016 Incentive Compensation Letter, dated December 3, 2015. |
| 10.36 | (o)* | Craig B. Spray 2016 Incentive Compensation Letter, dated December 3, 2015. |
| 10.37 | (o)* | Benjamin A. Pardo 2016 Incentive Compensation Letter, dated December 3, 2015. |
| 10.38 | (o)* | Pamela J. Ahrens 2016 Incentive Compensation Letter, dated December 3, 2015. |
| 21.00 | | Subsidiaries of Knoll, Inc. |
| 23.10 | | Consent of Independent Registered Public Accounting Firm. |
| 24.10 | | Power of Attorney [(included on signature page)]. |
| 31.10 | | Certification for Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended. |
| 31.20 | | Certification for Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended. |
| 32.10 | | Certification for 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. |
| 32.20 | | Certification for 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. |
| 101.00 | | The following materials from the Company's Annual Report on Form 10-K for the period ended December 31, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2015, and December 31, 2014, (ii) Consolidated Statements of Operations and Comprehensive Income for the years ended December 31, 2015, December 31, 2014 and December 31, 2013, (iii) Consolidated Statements of Stockholders' Equity for the years ended December 31, 2015, December 31, 2014, and December 31, 2013, (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2015, December 31, 2014, and December 31, 2013 and (v) Notes to Consolidated Financial Statements.** |

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* Management Contract or Compensatory Plan or Arrangement required to be identified by Item 15(a) (3) of Form 10-K.

** 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 and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

(a)Incorporated by reference to Knoll, Inc.'s Registration Statement on Form S-1 (File No. 333-118901), which was declared effective by the Commission on December 13, 2004.
(b)Incorporated by reference to Knoll, Inc.'s Current Report on Form 8-K filed with the Commission on May 21, 2014.
(c)Incorporated by reference to Knoll, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1999.
(d)Incorporated by reference to Knoll, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2000.
(e)See Exhibit 10.24. Exhibit is substantially identical to Exhibit 10.24.

(f)Incorporated by reference to Knoll, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2005.
(g)Incorporated by reference to Knoll, Inc.'s Current Report on Form 8-K filed with the Commission on December 11, 2006.
(h)Incorporated by reference to Knoll, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2010.
(i)Incorporated by reference to Knoll, Inc.'s Current Report on Form 8-K filed with the Commission on December 10, 2007.
(j)Incorporated by reference to Knoll, Inc.'s Quarterly Report on Form 10-Q filed with the Commission on August 9, 2007.
(k)Incorporated by reference to Knoll, Inc.'s Current Report on Form 8-K filed with the Commission on February 3, 2014.
(l)Incorporated by reference to Knoll, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2007.
(m)Incorporated by reference to Knoll, Inc.'s Quarterly Report on Form 10-Q filed with the Commission on August 3, 2015.
(n)Incorporated by reference to Knoll, Inc.'s Current Report on Form 8-K filed with the Commission on May 11, 2015.
(o)Incorporated by reference to Knoll, Inc.'s Current Report on Form 8-K filed with the Commission on December 9, 2015.
(p)Incorporated by reference to Knoll, Inc.'s Quarterly Report on Form 10-Q filed with the Commission on May 11, 2009.
(q)Incorporated by reference to Knoll, Inc.'s Current Report on Form 8-K filed with the Commission on May 11, 2010.
(r)Incorporated by reference to Knoll, Inc's Annual Report on Form 10-K for the year ended December 31, 2012.
(s)Incorporated by reference to Knoll, Inc's Annual Report on Form 10-K for the year ended December 31, 2014.
(t)Incorporated by reference to Knoll, Inc's Current Report on Form 8-K filed with the Commission on April 26, 2013.
(u)Incorporated by reference to Knoll, Inc.'s Quarterly Report on Form 10-Q filed with the Commission on August 11, 2014.
(v)Incorporated by reference to Knoll, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2013.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, on this 29th day of February 2016.

KNOLL, INC.
/s/ ANDREW B. COGAN
By: Andrew B. Cogan
Chief Executive Officer

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KNOW ALL PERSONS BY THESE PRESENTS, that each individual whose signature appears below constitutes and appoints Andrew B. Cogan and Craig B. Spray, and each of them, his true and lawful attorneys-in-fact and agents with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Form 10-K, and to file the same, with all exhibits thereto and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report on Form 10-K has been signed by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

| | | |
|---|---|---|
| /s/ BURTON B. STANIAR<br>Burton B. Staniar | Chairman of the Board | February 29, 2016 |
| /s/ ANDREW B. COGAN<br>Andrew B. Cogan | Chief Executive Officer,<br>Knoll, Inc. and Director | February 29, 2016 |
| /s/ CRAIG B. SPRAY<br>Craig B. Spray | Chief Financial Officer (Chief Accounting Officer and Controller) | February 29, 2016 |
| /s/ JEFFREY A. HARRIS<br>Jeffrey A. Harris | Director | February 29, 2016 |
| /s/ SIDNEY LAPIDUS<br>Sidney Lapidus | Director | February 29, 2016 |
| /s/ KATHLEEN G. BRADLEY<br>Kathleen G. Bradley | Director | February 29, 2016 |
| /s/ JOHN F. MAYPOLE<br>John F. Maypole | Director | February 29, 2016 |
| /s/ SARAH E. NASH<br>Sarah E. Nash | Director | February 29, 2016 |
| /s/ STEPHEN F. FISHER<br>Stephen F. Fisher | Director | February 29, 2016 |
| /s/ STEPHANIE STAHL<br>Stephanie Stahl | Director | February 29, 2016 |
| /s/ CHRISTOPHER G. KENNEDY<br>Christopher G. Kennedy | Director | February 29, 2016 |

SCHEDULE II
KNOLL, INC.
VALUATION AND QUALIFYING ACCOUNTS
(In Thousands)

| Description | Balance at Beginning of Year | Additions Charged to Expenses (Income) | Charge-Offs | Other(1) | Balance at End of Year |
|---|---|---|---|---|---|
| Allowance for doubtful accounts: | | | | | |
| Year ended December 31, 2013 | $5,514 | $1,253 | $(1,072) | $(18) | $5,677 |
| Year ended December 31, 2014 | 5,677 | 2,494 | (972) | (2) | 7,197 |
| Year ended December 31, 2015 | 7,197 | 1,401 | (600) | (79) | 7,919 |
| Reserve for inventory valuation: | | | | | |
| Year ended December 31, 2013 | $6,916 | $2,043 | $(1,734) | $(23) | $7,202 |
| Year ended December 31, 2014 | 7,202 | 1,761 | (508) | (51) | 8,404 |
| Year ended December 31, 2015 | 8,404 | 2,656 | (2,286) | (503) | 8,271 |
| Valuation allowance for deferred income tax assets: | | | | | |
| Year ended December 31, 2013 | $7,798 | $889 | $— | $304 | $8,991 |
| Year ended December 31, 2014 | 8,991 | 254 | — | (1,344) | 7,901 |
| Year ended December 31, 2015 | 7,901 | (841) | — | (743) | 6,317 |

(1) Primarily the impact of currency changes