MILLER HERMAN INC
Form 10-Q
April 06, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

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

For Quarter Ended February 27, 2016	Commission File No. 001-15141

HERMAN MILLER, INC.

A Michigan Corporation	ID No. 38-0837640
855 East Main Avenue, Zeeland, MI 49464-0302	Phone (616) 654 3000

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, and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [_]

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer [X] Accelerated filer [_] Non-accelerated filer [_] Smaller reporting company [_]

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

Common Stock Outstanding at April 4, 2016 - 59,908,233 shares

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Herman Miller, Inc.
Condensed Consolidated Statements of Comprehensive Income
(Dollars in millions, except per share data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	February 27, 2016	February 28, 2015	February 27, 2016	February 28, 2015
Net sales	$536.5	$516.4	$1,682.3	$1,591.5
Cost of sales	328.7	325.9	1,033.3	1,009.7
Gross margin	207.8	190.5	649.0	581.8
Operating expenses:				
Selling, general, and administrative	143.6	133.0	436.4	400.8
Restructuring expenses	—	1.9	—	1.9
Design and research	19.9	18.2	57.7	52.8
Total operating expenses	163.5	153.1	494.1	455.5
Operating earnings	44.3	37.4	154.9	126.3
Other expenses:				
Interest expense	3.8	4.4	11.6	13.7
Other, net	0.6	1.0	0.7	1.1
Earnings before income taxes and equity income	39.9	32.0	142.6	111.5
Income tax expense	11.9	10.8	46.1	37.3
Equity earnings from nonconsolidated affiliates, net of tax	0.2	—	0.4	0.1
Net earnings	28.2	21.2	96.9	74.3
Net earnings attributable to noncontrolling interests	0.3	0.2	0.8	0.2
Net earnings attributable to Herman Miller, Inc.	$27.9	$21.0	$96.1	$74.1
Earnings per share — basic	$0.46	$0.35	$1.61	$1.25
Earnings per share — diluted	$0.46	$0.35	$1.59	$1.23
Dividends declared, per share	$0.148	$0.140	$0.443	$0.420
Other comprehensive loss, net of tax				
Foreign currency translation adjustments	$(6.0)	$(3.6)	$(10.5)	$(9.5)
Pension and post-retirement liability adjustments	0.6	0.3	2.0	1.2
Other comprehensive loss	(5.4)	(3.3)	(8.5)	(8.3)
Comprehensive income	22.8	17.9	88.4	66.0
Comprehensive income attributable to noncontrolling interests	0.3	0.2	0.8	0.2
Comprehensive income attributable to Herman Miller, Inc.	$22.5	$17.7	$87.6	$65.8

See accompanying notes to condensed consolidated financial statements.

Herman Miller, Inc.
Condensed Consolidated Balance Sheets
(Dollars in millions, except per share data)
(Unaudited)

	February 27, 2016	May 30, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$55.3	$63.7
Marketable securities	7.3	5.7
Accounts and notes receivable, net	183.9	189.6
Inventories, net	135.3	129.6
Prepaid expenses and other	53.6	74.9
Total current assets	435.4	463.5
Property and equipment, at cost	908.2	868.6
Less — accumulated depreciation	(642.8)	(619.1)
Net property and equipment	265.4	249.5
Goodwill	305.6	303.1
Indefinite-lived intangibles	85.2	85.2
Other amortizable intangibles, net	52.1	52.3
Other noncurrent assets	44.9	39.1
Total Assets	$1,188.6	$1,192.7
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS & STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$143.5	$164.7
Accrued compensation and benefits	88.1	66.6
Accrued warranty	41.6	39.3
Other accrued liabilities	86.4	92.8
Total current liabilities	359.6	363.4
Long-term debt	240.2	289.8
Pension and post-retirement benefits	23.8	27.8
Other liabilities	44.6	61.0
Total Liabilities	668.2	742.0
Redeemable noncontrolling interests	27.6	30.4
Stockholders' Equity:		
Preferred stock, no par value (10,000,000 shares authorized, none issued)	—	—
Common stock, $0.20 par value (240,000,000 shares authorized, 59,888,961 and 59,694,611 shares issued and outstanding in 2016 and 2015, respectively)	12.0	11.9
Additional paid-in capital	142.8	135.1
Retained earnings	403.0	330.2
Accumulated other comprehensive loss	(64.7)	(56.2)
Key executive deferred compensation plans	(1.1)	(1.2)
Herman Miller, Inc. Stockholders' Equity	492.0	419.8
Noncontrolling Interests	0.8	0.5
Total Stockholders' Equity	492.8	420.3
Total Liabilities, Redeemable Noncontrolling Interests, and Stockholders' Equity	$1,188.6	$1,192.7

See accompanying notes to condensed consolidated financial statements.

Herman Miller, Inc.
Condensed Consolidated Statements of Cash Flows
(Dollars in millions)
(Unaudited)

	Nine Months Ended	
	February 27, 2016	February 28, 2015
Cash Flows from Operating Activities:		
Net earnings	$96.9	$74.3
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	39.9	38.6
Stock-based compensation	9.3	8.1
Excess tax benefits from stock-based compensation	(1.1)	(0.7)
Pension and post-retirement expenses	1.1	0.7
Deferred taxes	(2.1)	(2.5)
Restructuring expenses	—	1.9
(Increase) decrease in current assets	(26.0)	3.2
Decrease in current liabilities	(0.1)	(13.6)
Increase (decrease) in non-current liabilities	6.3	(0.9)
Other, net	1.7	0.7
Net Cash Provided by Operating Activities	125.9	109.8
Cash Flows from Investing Activities:		
Proceeds from sales of property	3.2	0.3
Marketable securities purchases	(7.3)	—
Marketable securities sales	5.7	4.6
Acquisitions, net of cash received	(3.6)	(154.0)
Capital expenditures	(55.2)	(43.2)
Other, net	(0.8)	(8.2)
Net Cash Used in Investing Activities	(58.0)	(200.5)
Cash Flows from Financing Activities:		
Dividends paid	(26.0)	(24.9)
Proceeds from issuance of long-term debt	615.2	622.0
Payments of long-term debt	(664.9)	(546.0)
Common stock issued	6.7	7.2
Common stock repurchased and retired	(8.7)	(3.3)
Excess tax benefits from stock-based compensation	1.1	0.7
Purchase of noncontrolling interests	—	(5.8)
Other, net	—	0.8
Net Cash Provided by (Used in) Financing Activities	(76.6)	50.7
Effect of Exchange Rate Changes on Cash and Cash Equivalents	0.3	0.3
Net Decrease in Cash and Cash Equivalents	(8.4)	(39.7)
Cash and Cash Equivalents, Beginning of Period	63.7	101.5
Cash and Cash Equivalents, End of Period	$55.3	$61.8

See accompanying notes to condensed consolidated financial statements.

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Herman Miller, Inc.
Condensed Consolidated Statements of Stockholders' Equity
(Dollars in millions)
(Unaudited)

	Nine Months Ended	
	February 27, 2016	February 28, 2015
Preferred Stock		
Balance at beginning of year and end of period	$—	$—
Common Stock		
Balance at beginning of year	11.9	11.9
Restricted stock units released	0.1	—
Balance at end of period	12.0	11.9
Additional Paid-in Capital		
Balance at beginning of year	135.1	122.4
Repurchase and retirement of common stock	(8.7)	(3.3)
Exercise of stock options	4.6	5.6
Stock-based compensation expense	6.8	7.2
Excess tax benefit for stock-based compensation	0.5	0.3
Restricted stock units released	2.5	0.2
Employee stock purchase plan issuances	1.5	1.2
Deferred compensation plan	(0.1)	(0.5)
Directors' fees	0.6	0.4
Balance at end of period	142.8	133.5
Retained Earnings		
Balance at beginning of year	330.2	269.6
Net income attributable to Herman Miller, Inc.	96.1	74.1
Dividends declared on common stock (per share - 2016: $0.443; 2015; $0.420)	(26.7)	(25.2)
Noncontrolling interests redemption value adjustment	3.4	—
Balance at end of period	403.0	318.5
Accumulated Other Comprehensive Loss		
Balance at beginning of year	(56.2)	(37.9)
Other comprehensive loss	(8.5)	(8.3)
Balance at end of period	(64.7)	(46.2)
Key Executive Deferred Compensation		
Balance at beginning of year	(1.2)	(1.7)
Deferred compensation plan	0.1	0.5
Balance at end of period	(1.1)	(1.2)
Herman Miller, Inc. Stockholders' Equity	492.0	416.5
Noncontrolling Interests		
Balance at beginning of year	0.5	—
Net income attributable to noncontrolling interests	0.3	—
Noncontrolling interests related to DWR acquisition	—	5.8
Purchase of noncontrolling interests	—	(5.8)
Balance at end of period	0.8	—
Total Stockholders' Equity	$492.8	$416.5

Notes to Condensed Consolidated Financial Statements
Three and Nine Months Ended February 27, 2016
(in millions)

1. Basis of Presentation and Correction of Immaterial Error

The condensed consolidated financial statements have been prepared by Herman Miller, Inc. ("the company") in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. Management believes the disclosures made in this document are adequate with respect to interim reporting requirements.

The accompanying unaudited condensed consolidated financial statements, taken as a whole, contain all adjustments that are of a normal recurring nature necessary to present fairly the financial position of the company as of February 27, 2016. Operating results for the nine months ended February 27, 2016, are not necessarily indicative of the results that may be expected for the year ending May 28, 2016. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the company's annual report on Form 10-K for the year ended May 30, 2015.

In the second quarter of fiscal 2016, the company made an adjustment to correct an immaterial error related to the accrual for product warranties. As a result of this correction, the company adjusted Accrued warranty, Other noncurrent assets (to capture the impact of adjusting deferred taxes), and Retained earnings by $12.5 million, $4.7 million, and $7.8 million, respectively. The adjustment impacts the Condensed Consolidated Balance Sheets as of May 30th, 2015, the Condensed Consolidated Statement of Stockholders' Equity as of February 28, 2015, Note 12 - Commitments and Contingencies, and Note 17 - Operating Segments. This correction had no impact on earnings or cash flows.

2. Recently Issued Accounting Standards Not Yet Adopted

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
Intangibles - Goodwill and Other - Internal-Use Software Customer's Accounting for Fees Paid in a Cloud Computing Arrangement	The standard provides guidance regarding whether a cloud computing arrangement includes a software license. The customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If the cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The updated standard can be applied either prospectively or retrospectively.	May 29, 2016	The company is currently evaluating the impact of adopting this guidance.
Simplifying the Measurement of Inventory	Under the updated standard, an entity should measure inventory that is measured using either the first-in, first-out ("FIFO") or average cost methods at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably	June 4, 2017	The company is currently evaluating the impact of adopting this guidance.

	predictable costs of completion, disposal, and transportation. The updated standard should be applied prospectively.		
Revenue from Contracts with Customers	The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard is designed to create greater comparability for financial statement users across industries and jurisdictions and also requires enhanced disclosures. The standard allows for two adoption methods, a full retrospective or modified retrospective approach.	June 3, 2018	The company is currently evaluating the possible adoption methodologies and the implications of adoption on our consolidated financial statements.
Leases	Under the updated standard a lessee's rights and obligations under most leases, including existing and new arrangements, would be recognized as assets and liabilities, respectively, on the balance sheet. The standard must be adopted under a modified retrospective approach and early adoption is permitted.	June 2, 2019	The standard is expected to have a significant impact on our Consolidated Financial Statements, however the company is currently evaluating the impact.

3. Fiscal Year

The company's fiscal year ends on the Saturday closest to May 31. Fiscal 2016, the year ending May 28, 2016, and fiscal 2015, the year ended May 30, 2015, each contain 52 weeks. The third quarters of fiscal 2016 and fiscal 2015 each contained 13 weeks.

4. Acquisitions

George Nelson Bubble Lamp Product Line Acquisition
On September 17, 2015, the company acquired certain assets associated with the George Nelson Bubble Lamp product line which together constituted the acquisition of a business. Consideration transferred to acquire the assets consisted of $3.6 million in cash transferred during the second quarter of fiscal 2016 and an additional component of performance-based contingent consideration with a fair value of $2.7 million as of the acquisition date.

The assets acquired included an exclusive manufacturing agreement and customer relationships with fair values of $2.5 million and $0.6 million, respectively, each having a useful life of 10 years. The excess of the purchase consideration over the fair value of the net assets acquired was $3.2 million and recognized as goodwill within the Consumer reportable segment. During the second quarter of fiscal 2016, the company finalized the purchase accounting for the acquisition of the George Nelson Bubble Lamp product line.

Design Within Reach Acquisition
On July 28, 2014, the company acquired the majority of the outstanding equity of Design Within Reach, Inc. ("DWR"), a Stamford, Connecticut based, leading North American marketer and seller of modern furniture, lighting, and accessories primarily serving consumers and design trade professionals. The acquisition of DWR advanced the company's strategy of being both an industry brand and a consumer brand by expanding the company's reach into the consumer sector.

The company purchased an ownership interest in DWR equal to approximately 81 percent for $155.2 million in cash. Subsequent to the initial transaction, the company acquired an additional 4 percent of DWR stock from the remaining public shareholders for approximately $5.8 million in cash, all of which was paid during the first and second quarters of fiscal 2015. The remaining 15 percent of DWR stock was contributed by DWR executives into a newly formed consumer facing subsidiary and the company contributed the assets of the existing Herman Miller Consumer business. After these transactions, the redeemable noncontrolling interests in the newly formed subsidiary, known as Herman Miller Consumer Holdings, Inc. ("HMCH"), were approximately 7 percent. The remaining HMCH shareholders have a put option to require the company to purchase their remaining interest over a five-year period from the date of issuance of such shares. As a result, these noncontrolling interests are not included within Stockholders' Equity within the Condensed Consolidated Balance Sheets, but rather, are included within Redeemable noncontrolling interests.

DWR acquisition-related expenses were $2.2 million during fiscal 2015. These expenses included legal and professional services fees. The following table summarizes the fair values of the assets acquired and the liabilities assumed from the acquisition.

Assets Acquired and Liabilities Assumed on July 28, 2014	
(In millions)	Fair Value
Purchase price	$155.2
Fair value of the assets acquired:	
Cash	1.2
Accounts receivable	2.2
Inventory	47.4
Current deferred tax asset	1.5
Other current assets	5.5
Goodwill	75.6
Other intangible assets	68.5
Property	32.0
Other long term assets	2.4
Total assets acquired	236.3
Fair value of liabilities assumed:	
Accounts payable	20.8
Accrued compensation and benefits	1.6
Other accrued liabilities	12.3
Long term deferred tax liability	14.5
Other long term liabilities	0.4
Total liabilities assumed	49.6
Redeemable noncontrolling interests	25.7
Noncontrolling interests	5.8
Net assets acquired	$155.2

The goodwill stemming from the transaction in the amount of $75.6 million was recorded as "Goodwill" in the Condensed Consolidated Balance Sheet and allocated to the Consumer reportable segment. The goodwill recognized was attributable primarily to the assembled workforce and expected synergies from DWR and the total amount of this goodwill is not deductible for tax purposes.

Other intangible assets acquired as a result of the acquisition of DWR were valued at $68.5 million. These amounts are reflected in the values presented in the following table:

Intangible Assets Acquired from the DWR Acquisition		
(In millions)	Fair Value	Useful Life
Trade Names and Trademarks	$55.1	Indefinite
Exclusive Distribution Agreements	0.2	1.5 years
Customer Relationships	12.0	10 - 16 years
Product Development Designs	1.2	7 years
Total Intangible Assets Acquired	$68.5	

5. Inventories, net

(In millions)	February 27, 2016	May 30, 2015
Finished goods	$108.7	$106.5
Raw materials	26.6	23.1
Total	$135.3	$129.6

Inventories are valued at the lower of cost or market and include material, labor, and overhead. The inventories of the majority of domestic manufacturing subsidiaries are valued using the last-in, first-out method ("LIFO"). The inventories of all other subsidiaries are valued using the first-in, first-out method ("FIFO").

6. Goodwill and Indefinite-lived Intangibles

Goodwill and other indefinite-lived intangible assets included in the Condensed Consolidated Balance Sheets consisted of the following as of February 27, 2016 and May 30, 2015:

(In millions)	Goodwill	Indefinite-lived Intangible Assets	Total Goodwill and Indefinite-lived Intangible Assets
May 30, 2015	$303.1	$85.2	$388.3
Foreign currency translation adjustments	(0.7)	—	(0.7)
Acquisition	3.2	—	3.2
February 27, 2016	$305.6	$85.2	$390.8

7. Employee Benefit Plans

Components of Net Periodic Benefit Costs

	Three Months Ended Pension Benefits		Nine Months Ended Pension Benefits	
(In millions)	February 27, 2016	February 28, 2015	February 27, 2016	February 28, 2015
International:				
Interest cost	$1.0	$1.2	$2.9	$3.5
Expected return on plan assets	(1.4)	(1.5)	(4.1)	(4.5)
Net amortization loss	0.6	0.5	2.0	1.5
Net periodic benefit cost	$0.2	$0.2	$0.8	$0.5

8. Earnings Per Share

The following table reconciles the numerators and denominators used in the calculations of basic and diluted earnings per share (EPS):

	Three Months Ended		Nine Months Ended	
	February 27, 2016	February 28, 2015	February 27, 2016	February 28, 2015
Numerators:				
Numerator for both basic and diluted EPS, net earnings attributable to Herman Miller, Inc. - in millions	$27.9	$21.0	$96.1	$74.1
Denominators:				
Denominator for basic EPS, weighted-average common shares outstanding	59,885,597	59,550,289	59,837,132	59,430,575
Potentially dilutive shares resulting from stock plans	565,251	547,900	569,544	566,292
Denominator for diluted EPS	60,450,848	60,098,189	60,406,676	59,996,867
Antidilutive equity awards not included in weighted-average common shares - diluted	531,021	676,405	585,770	703,364

The company has certain share-based payment awards that meet the definition of participating securities. The company has evaluated the impact on EPS of all participating securities under the two-class method, noting the impact on EPS was immaterial.

9. Stock-Based Compensation

The following table summarizes the stock-based compensation expense and related income tax effect for the periods indicated:

(In millions)	Three Months Ended		Nine Months Ended	
	February 27, 2016	February 28, 2015	February 27, 2016	February 28, 2015
Stock-based compensation expense	$2.7	$2.4	$9.3	$8.1
Related income tax effect	1.0	0.8	3.4	2.9

Stock-based compensation expense recognized in the Condensed Consolidated Statements of Comprehensive Income for the three and nine month periods ended February 27, 2016 and February 28, 2015 has been reduced for estimated forfeitures, as it is based on awards ultimately expected to vest. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ. Forfeitures are estimated based on historical experience.

For the nine month period ended February 27, 2016, the company issued 187,829 shares of common stock related to the exercise of stock options, 179,265 shares of common stock related to the vesting of restricted stock units, and 55,825 shares of common stock related to the vesting of performance share units.

For the nine month period ended February 28, 2015, the company issued 258,927 shares of common stock related to the exercise of stock options, 130,144 shares of common stock related to the vesting of restricted stock units, and no shares of common stock related to the vesting of performance share units.

10. Income Taxes

The company recognizes interest and penalties related to uncertain tax benefits through income tax expense in its Condensed Consolidated Statement of Comprehensive Income. Interest and penalties recognized in the company's Condensed Consolidated Statement of Comprehensive Income were negligible and $0.2 million during the three month periods ended February 27, 2016 and February 28, 2015, respectively and were negligible and $0.3 million during the nine month periods ended February 27, 2016 and February 28, 2015, respectively. The company's recorded liability for potential interest and penalties related to uncertain tax benefits totaled $0.9 million as of both February 27, 2016 and May 30, 2015. The company had income tax accruals associated with uncertain tax benefits totaling $2.6 million and $1.8 million as of February 27, 2016 and May 30, 2015, respectively.

The company is subject to periodic audits by domestic and foreign tax authorities. Currently, the company is undergoing routine periodic audits in both domestic and foreign tax jurisdictions. It is reasonably possible that the amounts of unrecognized tax benefits could change in the next twelve months as a result of the audits. Tax payments related to these audits, if any, are not expected to be material to the company's Condensed Consolidated Statements of Comprehensive Income.

For the majority of tax jurisdictions, the company is no longer subject to state, local, or non-United States income tax examinations by tax authorities for fiscal years before 2012.

11. Fair Value Measurements

The following describes the methods the company uses to estimate the fair value of financial assets and liabilities, which have not significantly changed in the current period:

Available-for-sale securities — The company's available-for-sale marketable securities primarily include exchange traded and fixed income mutual funds, mortgage-backed debt securities, government obligations and corporate debt securities and are recorded at fair value using quoted prices for similar securities. During the third quarter of fiscal 2016, the company adjusted the investment portfolio from individual investments to mutual funds to more broadly diversify the asset base.

Deferred compensation plan — The company's deferred compensation plan primarily includes various domestic and international mutual funds that are recorded at fair value using quoted prices for similar securities.

Foreign currency exchange contracts — The company's foreign currency exchange contracts are valued using an approach based on foreign currency exchange rates obtained from active markets. The estimated fair value of forward currency exchange contracts is based on month-end spot rates as adjusted by market-based current activity. These forward contracts are not designated as hedging instruments.

The following tables set forth financial assets and liabilities measured at fair value in the Condensed Consolidated Balance Sheets and the respective pricing levels to which the fair value measurements are classified within the fair value hierarchy as of February 27, 2016 and May 30, 2015.

(In millions)	Fair Value Measurements	
	February 27, 2016	May 30, 2015
	Quoted Prices with Other Observable Inputs	Quoted Prices with Other Observable Inputs
Financial Assets	(Level 2)	(Level 2)
Available-for-sale marketable securities:		
Asset-backed securities	$—	$0.2
Corporate securities	—	0.6
Mortgage-backed securities	—	0.5
Government obligations	0.4	4.4
Mutual funds	6.9	—
Foreign currency forward contracts	0.5	0.7
Deferred compensation plan	7.2	7.9
Total	$15.0	$14.3
Financial Liabilities		
Foreign currency forward contracts	$0.7	$0.2
Total	$0.7	$0.2

The company does not hold any level 3 investments. The following is a summary of the carrying and market values of the company's marketable securities as of the respective dates.

	February 27, 2016			
(In millions)	Cost	Unrealized Gain	Unrealized Loss	Market Value
Government obligations	0.4	—	—	0.4
Mutual funds	6.9	$—	$—	$6.9
Total	$7.3	$—	$—	$7.3

	May 30, 2015			
(In millions)	Cost	Unrealized Gain	Unrealized Loss	Market Value
Asset-backed securities	$0.2	$—	$—	$0.2
Corporate securities	0.6	—	—	0.6
Government obligations	4.4	—	—	4.4
Mortgage-backed securities	0.5	—	—	0.5
Total	$5.7	$—	$—	$5.7

Adjustments to the fair value of available-for-sale securities are recorded as increases or decreases, net of income taxes, within accumulated other comprehensive loss in stockholders’ equity. The cost of securities sold is based on the specific identification method; realized gains and losses resulting from such sales are included in the Condensed Consolidated Statements of Comprehensive Income within "Other, net".

The company reviews its investment portfolio for any unrealized losses that would be deemed other-than-temporary and require the recognition of an impairment loss in earnings. If the cost of an investment exceeds its fair value, the company evaluates, among other factors, general market conditions, the duration and extent to which the fair value is less than its cost, the company's intent to hold the investment, and whether it is more likely than not that the company will be required to sell the investment before recovery of the cost basis. The company also considers the type of security, related industry and sector performance, and published investment ratings. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis in the investment is established. If conditions within individual markets, industry segments, or macro-economic environments deteriorate, the company could incur future impairments.

Maturities of debt securities included in marketable securities as of February 27, 2016, are as follows:

(In millions)	Cost	Fair Value
Due within one year	$0.4	$0.4
Total	$0.4	$0.4

The company views its available-for-sale portfolio as available for use in its current operations. Accordingly, the investments are recorded within Current Assets within the Condensed Consolidated Balance Sheets.

12. Commitments and Contingencies

Product Warranties

The company provides coverage to the end-user for parts and labor on products sold under its warranty policy and for other product-related matters. The standard length of warranty is twelve years for the majority of products sold; however, this varies depending on the product classification. The company does not sell or otherwise issue warranties or warranty extensions as stand-alone products. Reserves have been established for the various costs associated with the company's warranty program and are included in the Condensed Consolidated Balance Sheets under “Accrued warranty.” General warranty reserves are based on historical claims experience and other currently available information. These reserves are adjusted once an issue is identified and the actual cost of correction becomes known or can be estimated.

(In millions)	Three Months Ended		Nine Months Ended	
	February 27, 2016	February 28, 2015	February 27, 2016	February 28, 2015
Accrual Balance — beginning	$40.6	$38.5	$39.3	$37.7
Accrual for product-related matters	5.7	5.4	17.9	18.1
Settlements and adjustments	(4.7)	(5.3)	(15.6)	(17.2)
Accrual Balance — ending	$41.6	$38.6	$41.6	$38.6

Guarantees

The company is periodically required to provide performance bonds to do business with certain customers. These arrangements are common and generally have terms ranging between one and three years. The bonds are required to provide assurance to customers that the products and services they have purchased will be installed and/or provided properly and without damage to their facilities. The bonds are provided by various bonding agencies; however, the company is ultimately liable for claims that may occur against them. As of February 27, 2016, the company had a maximum financial exposure related to performance bonds totaling approximately $7.5 million. The company has no history of claims, nor is it aware of circumstances that would require it to pay, under any of these arrangements. The company also believes that the resolution of any claims that might arise in the future, either individually or in the aggregate, would not materially affect the company's financial statements. Accordingly, no liability has been recorded in respect to these bonds as of either February 27, 2016 or May 30, 2015.

The company has entered into standby letter of credit arrangements for purposes of protecting various insurance companies and lessors against default on insurance premium and lease payments. As of February 27, 2016, the company had a maximum financial exposure from these standby letters of credit totaling approximately $8.8 million, all of which is considered usage against the company's revolving credit facility. The company has no history of claims, nor is it aware of circumstances that would require it to perform under any of these arrangements, and believes that the resolution of any claims that might arise in the future, either individually or in the aggregate, would not materially affect the company's financial statements. Accordingly, no liability has been recorded in respect of these arrangements as of February 27, 2016 and May 30, 2015.

Contingencies

The company is also involved in legal proceedings and litigation arising in the ordinary course of business. In the opinion of management, the outcome of such proceedings and litigation currently pending will not materially affect the company's consolidated financial statements.

13. Debt

Long-term debt as of February 27, 2016 and May 30, 2015 consisted of the following obligations:

(In millions)	February 27, 2016	May 30, 2015
Series B senior notes, due January 3, 2018	$149.8	$149.8
Debt securities, due March 1, 2021	50.0	50.0
Syndicated revolving line of credit, due July 2019	40.4	90.0
Total	$240.2	$289.8

On July 21, 2014, the company entered into a third amendment and restatement of its syndicated revolving line of credit, which provides the company with up to $250 million in revolving variable interest borrowing capacity and includes an "accordion feature" allowing the company to increase, at its option and subject to the approval of the participating banks, the aggregate borrowing capacity of the facility by $125 million. The facility expires in July 2019 and outstanding borrowings bear interest at rates based on the prime rate, federal funds rate, LIBOR, or negotiated rates as outlined in the agreement. Interest is payable periodically throughout the period if borrowings are outstanding. As of February 27, 2016, the total debt outstanding related to borrowings under this facility was $40.4 million. These borrowings are included within Long-term debt in the Condensed Consolidated Balance Sheet. As of February 27, 2016, the total usage against the facility was $49.2 million, of which $8.8 million related to outstanding letters of credit. As of May 30, 2015, total usage against this facility was $98.3 million, $8.3 million of which related to outstanding letters of credit.

14. Accumulated Other Comprehensive Loss

The following table provides an analysis of the changes in accumulated other comprehensive loss for the nine months ended February 27, 2016 and February 28, 2015:

	Nine Months Ended	
(In millions)	February 27, 2016	February 28, 2015
Cumulative translation adjustments at beginning of period	$(20.8)	$(11.1)
Translation adjustments	(10.5)	(9.5)
Balance at end of period	(31.3)	(20.6)
Pension and other post-retirement benefit plans at beginning of period	(35.4)	(26.8)
Reclassification to earnings - operating expenses (net of tax $(0.6), $(0.3))	2.0	1.2
Balance at end of period	(33.4)	(25.6)
Total accumulated other comprehensive loss	$(64.7)	$(46.2)

15. Restructuring Activities

During the third quarter of fiscal 2015 the company announced restructuring actions involving targeted workforce reductions within the North American segment. These actions resulted in the recognition of restructuring expenses related to severance and outplacement costs totaling $1.9 million during the quarter.

16. Redeemable Noncontrolling Interests

Redeemable noncontrolling interests are reported on the Consolidated Balance Sheets in mezzanine equity in “Redeemable noncontrolling interests.” The company recognizes changes to the redemption value of redeemable noncontrolling interests as they occur and adjusts the carrying value to equal the redemption value at the end of each reporting period. The redemption amounts have been estimated based on the fair value of the subsidiary, determined based on a weighting of the discounted cash flow and market methods. This represents a level 3 fair value measurement.

Changes in the company's Redeemable noncontrolling interests for the nine months ended February 27, 2016 and February 28, 2015 are as follows:

	Nine Months Ended	
(In millions)	February 27, 2016	February 28, 2015
Beginning Balance	$30.4	$—
Increase due to business combination	—	25.7
Net income attributable to redeemable noncontrolling interests	0.5	0.2
Exercised options	—	0.7
Redemption value adjustment	(3.4)	—
Other adjustments	0.1	0.9
Ending Balance	$27.6	$27.5

17. Operating Segments

The company's reportable segments consist of North American Furniture Solutions, ELA ("EMEA, Latin America, and Asia Pacific") Furniture Solutions, Specialty, and Consumer. The North American Furniture Solutions reportable segment includes the operations associated with the design, manufacture, and sale of furniture products for work-related settings, including office, education, and healthcare environments, throughout the United States and Canada. ELA Furniture Solutions includes the operations associated with the design, manufacture, and sale of furniture products, primarily for work-related settings, in the EMEA, Latin America, and Asia-Pacific geographic regions. Specialty includes the operations associated with the design, manufacture, and sale of high-craft furniture products and textiles including Geiger wood products, Maharam textiles, and Herman Miller Collection products. The Consumer segment includes the operations associated with the sale of modern design furnishings and accessories to third party retail distributors, as well as direct-to-consumer sales through eCommerce and DWR studios.

The company also reports a “Corporate” category consisting primarily of unallocated corporate expenses including restructuring, impairment, acquisition-related costs, and other unallocated corporate costs.

The accounting policies of the reportable operating segments are the same as those of the company. Additionally, the company employs a methodology for allocating corporate costs and assets with the underlying objective of this methodology being to allocate corporate costs according to the relative usage of the underlying resources and to allocate corporate assets according to the relative expected benefit.
The company has determined that allocation based on relative net sales is appropriate. The majority of corporate costs are allocated to the operating segments; however, certain costs generally considered the result of isolated business decisions are not subject to allocation and are evaluated separately from the rest of the regular ongoing business operations. For example, restructuring charges that are reflected in operating earnings are allocated to the “Corporate” category.

The performance of the operating segments is evaluated by the company's management using various financial measures. The following is a summary of certain key financial measures for the respective fiscal periods indicated.

	Three Months Ended		Nine Months Ended	
(In millions)	February 27, 2016	February 28, 2015	February 27, 2016	February 28, 2015
Net Sales:				
North American Furniture Solutions	$312.7	$296.0	$998.9	$932.4
ELA Furniture Solutions	98.9	97.3	302.1	307.0
Specialty	54.7	50.5	170.2	160.5
Consumer	70.2	72.6	211.1	191.6
Corporate	—	—	—	—
Total	$536.5	$516.4	$1,682.3	$1,591.5

Operating Earnings (Loss):				
North American Furniture Solutions	$30.6	$26.7	$112.8	$95.2
ELA Furniture Solutions	6.8	6.2	20.7	19.7
Specialty	3.4	1.9	11.9	7.6
Consumer	2.8	4.6	9.3	8.4
Corporate	0.7	(2.0)	0.2	(4.6)
Total	$44.3	$37.4	$154.9	$126.3

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(In millions)	February 27, 2016	May 30, 2015
Total Assets:		
North American Furniture Solutions	$502.4	$504.5
ELA Furniture Solutions	225.3	235.4