

MILLER HERMAN INC

Form 10-Q

April 12, 2017

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style="line-height:120%;text-align:justify;font-size:10pt;"><font style="font-family:Arial

Narrow;font-size:10pt;color:#000000;font-weight:bold;">Subsequent Event</div><div

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Narrow;font-size:10pt;color:#000000;">On January 1, 2017, the company completed the sale of a wholly-owned contract furniture dealership in Philadelphia. As a result of the transaction, the consideration to be received and the gain to be recognized in the third quarter of fiscal 2017 will be negligible. In addition to the initial payment from the buyer as consideration for the sale, additional amounts could become due from the buyer based on the future performance of the divested dealership. The operations associated with the dealership relate to the North American Furniture Solutions segment.</div></div>

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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 March 4, 2017 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 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 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 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

Common Stock Outstanding at April 10, 2017 - 59,785,399 shares

Herman Miller, Inc. Form 10-Q
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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	
	March 4, 2017	February 27, 2016	March 4, 2017	February 27, 2016
Net sales	\$524.9	\$ 536.5	\$1,701.0	\$ 1,682.3
Cost of sales	329.4	328.7	1,057.6	1,033.3
Gross margin	195.5	207.8	643.4	649.0
Operating expenses:				
Selling, general, and administrative	140.4	143.6	443.5	436.4
Restructuring expenses	2.7	—	3.7	—
Design and research	17.4	19.9	55.2	57.7
Total operating expenses	160.5	163.5	502.4	494.1
Operating earnings	35.0	44.3	141.0	154.9
Other expenses:				
Interest expense	3.8	3.8	11.4	11.6
Other, net	(0.8)	0.6	(1.0)	0.7
Earnings before income taxes and equity income	32.0	39.9	130.6	142.6
Income tax expense	9.5	11.9	41.1	46.1
Equity income from nonconsolidated affiliates, net of tax	—	0.2	1.1	0.4
Net earnings	22.5	28.2	90.6	96.9
Net earnings attributable to noncontrolling interests	—	0.3	0.1	0.8
Net earnings attributable to Herman Miller, Inc.	\$22.5	\$ 27.9	\$90.5	\$ 96.1
Earnings per share — basic	\$0.38	\$ 0.46	\$1.51	\$ 1.61
Earnings per share — diluted	\$0.37	\$ 0.46	\$1.50	\$ 1.59
Dividends declared, per share	\$0.170	\$ 0.148	\$0.510	\$ 0.443
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments	\$(0.4)	\$(6.0)	\$(10.8)	\$(10.5)
Pension and other post-retirement plans	0.5	0.6	2.1	2.0
Interest rate swap agreement	1.1	—	5.3	—
Unrealized holding gain	0.2	—	0.2	—
Other comprehensive income (loss)	1.4	(5.4)	(3.2)	(8.5)
Comprehensive income	23.9	22.8	87.4	88.4
Comprehensive income attributable to noncontrolling interests	—	0.3	0.1	0.8
Comprehensive income attributable to Herman Miller, Inc.	\$23.9	\$ 22.5	\$87.3	\$ 87.6

See accompanying notes to condensed consolidated financial statements.

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

	March 4, 2017	May 28, 2016
ASSETS		
Current Assets:		
Cash and cash equivalents	\$78.4	\$84.9
Marketable securities	8.0	7.5
Accounts and notes receivable, net	174.8	211.0
Inventories, net	155.7	128.2
Prepaid expenses and other	49.1	48.9
Total current assets	466.0	480.5
Property and equipment, at cost	970.5	929.0
Less — accumulated depreciation	(667.7)	(648.9)
Net property and equipment	302.8	280.1
Goodwill	304.4	305.3
Indefinite-lived intangibles	85.2	85.2
Other amortizable intangibles, net	46.3	50.8
Other noncurrent assets	73.6	33.3
Total Assets	\$1,278.3	\$1,235.2
<u>LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS & STOCKHOLDERS' EQUITY</u>		
Current Liabilities:		
Accounts payable	\$147.9	\$165.6
Accrued compensation and benefits	65.6	85.2
Accrued warranty	46.5	43.9
Other accrued liabilities	98.3	95.3
Total current liabilities	358.3	390.0
Long-term debt	234.5	221.9
Pension and post-retirement benefits	20.6	25.8
Other liabilities	58.6	45.8
Total Liabilities	672.0	683.5
Redeemable noncontrolling interests	25.0	27.0
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, 59,783,584 and 59,868,276 shares issued and outstanding in 2017 and 2016, respectively)	12.0	12.0
Additional paid-in capital	141.9	142.7
Retained earnings	495.8	435.3
Accumulated other comprehensive loss	(67.7)	(64.5)
Key executive deferred compensation plans	(1.0)	(1.1)
Herman Miller, Inc. Stockholders' Equity	581.0	524.4
Noncontrolling Interests	0.3	0.3
Total Stockholders' Equity	581.3	524.7

Total Liabilities, Redeemable Noncontrolling Interests, and Stockholders' Equity \$1,278.3 \$1,235.2

See accompanying notes to condensed consolidated financial statements.

4

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

	Nine Months Ended March 4, 2017	February 27, 2016
Cash Flows from Operating Activities:		
Net earnings	\$ 90.6	\$ 96.9
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	43.0	39.9
Stock-based compensation	9.2	9.3
Excess tax benefits from stock-based compensation	(0.5)	(1.1)
Pension and post-retirement expenses	0.3	1.1
Earnings from nonconsolidated affiliates net of dividends received	(1.0)	0.3
Deferred taxes	3.9	(2.1)
(Gain) loss on sales of property and dealers	(0.7)	0.1
Restructuring expenses	3.7	—
Increase in current assets	(8.4)	(26.0)
Decrease in current liabilities	(23.2)	(0.1)
Increase in non-current liabilities	4.2	6.3
Other, net	1.0	1.3
Net Cash Provided by Operating Activities	122.1	125.9
Cash Flows from Investing Activities:		
Proceeds from sales of property	—	3.2
Marketable securities purchases	(1.2)	(7.3)
Marketable securities sales	0.8	5.7

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Acquisitions, net of cash received	—		(3.6))
Equity investment in non-controlled entities	(13.3))	—	
Capital expenditures	(70.5))	(55.2))
Payments of loans on cash surrender value of life insurance	(15.3))	—	
Net receipts from notes receivable	1.4		0.1	
Other, net	(0.9))	(0.9))
Net Cash Used in Investing Activities	(99.0))	(58.0))
Cash Flows from Financing Activities:				
Dividends paid	(29.2))	(26.0))
Proceeds from issuance of long-term debt	659.3		615.2	
Payments of long-term debt	(646.7))	(664.9))
Payment of deferred financing costs	(1.4))	—	
Common stock issued	7.6		6.7	
Common stock repurchased and retired	(17.2))	(8.7))
Excess tax benefits from stock-based compensation	0.5		1.1	
Purchase of redeemable noncontrolling interests	(1.5))	—	
Payment of contingent consideration	(1.1))	—	
Other, net	0.1		—	
Net Cash Provided by (Used in) Financing Activities	(29.6))	(76.6))
Effect of Exchange Rate Changes on Cash and Cash Equivalents	—		0.3	
Net Decrease in Cash and Cash Equivalents	(6.5))	(8.4))
Cash and Cash Equivalents, Beginning of Period	84.9		63.7	
Cash and Cash Equivalents, End of Period	\$ 78.4		\$ 55.3	

See accompanying notes to condensed consolidated financial statements.

5

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

	Nine Months Ended March 4, February 27, 2017 2016	
Preferred Stock		
Balance at beginning of year and end of period	\$—	\$ —
Common Stock		
Balance at beginning of year	\$12.0	\$ 11.9
Restricted stock units released	—	0.1
Balance at end of period	\$12.0	\$ 12.0
Additional Paid-in Capital		
Balance at beginning of year	\$142.7	\$ 135.1
Repurchase and retirement of common stock	(17.1)	(8.7)
Exercise of stock options	5.8	4.6
Stock-based compensation expense	6.0	6.8
Excess tax benefit for stock-based compensation	(0.3)	0.5
Restricted stock units released	2.9	2.5
Employee stock purchase plan issuances	1.7	1.5
Deferred compensation plan	(0.1)	(0.1)
Directors' fees	0.3	0.6
Balance at end of period	\$141.9	\$ 142.8
Retained Earnings		
Balance at beginning of year	\$435.3	\$ 330.2
Net income attributable to Herman Miller, Inc.	90.5	96.1
Dividends declared on common stock (per share - 2017: \$0.510; 2016; \$0.443)	(30.7)	(26.7)
Redeemable noncontrolling interests valuation adjustment	0.7	3.4
Balance at end of period	\$495.8	\$ 403.0
Accumulated Other Comprehensive Loss		
Balance at beginning of year	\$(64.5)	\$ (56.2)
Other comprehensive loss	(3.2)	(8.5)
Balance at end of period	\$(67.7)	\$ (64.7)
Key Executive Deferred Compensation		
Balance at beginning of year	\$(1.1)	\$ (1.2)
Deferred compensation plan	\$0.1	\$ 0.1
Balance at end of period	\$(1.0)	\$ (1.1)
Herman Miller, Inc. Stockholders' Equity	\$581.0	\$ 492.0
Noncontrolling Interests		
Balance at beginning of year	\$0.3	\$ 0.5
Net income attributable to noncontrolling interests	—	0.3
Balance at end of period	\$0.3	\$ 0.8
Total Stockholders' Equity	\$581.3	\$ 492.8

Notes to Condensed Consolidated Financial Statements
Three and Nine Months Ended March 4, 2017
(in millions)

1. Basis of Presentation

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 March 4, 2017. Operating results for the three and nine months ended March 4, 2017, are not necessarily indicative of the results that may be expected for the year ending June 3, 2017. 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 28, 2016.

The company's fiscal year ends on the Saturday closest to May 31. Fiscal 2017, the year ending June 3, 2017, and fiscal 2016, the year ended May 28, 2016, contain 53 and 52 weeks, respectively. The nine months ended March 4, 2017 and February 27, 2016 contained 40 and 39 weeks, respectively.

2. Recently Issued Accounting Standards Not Yet Adopted

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
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 the 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 predictable costs of completion, disposal, and transportation. The updated standard should be applied prospectively.	June 4, 2017	The company has evaluated the impact of the update and it is expected to be immaterial.
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	June 3, 2018	The company is currently evaluating the possible adoption methodologies and the implications of adoption on our consolidated financial

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.

statements.

Statement of
Cash Flows

The standard amends the guidance on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of the standard is to reduce the diversity in practice by laying out consistent principles. The standard must be adopted under a modified retrospective approach and early adoption is permitted.

June 3,
2018

The company is currently evaluating the impact of adopting this guidance.

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.

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
Improvements to Employee Share-Based Payment Accounting.	Under the new guidance, all excess tax benefits/deficiencies should be recognized as income tax expense/benefit; entities can make elections on how to account for forfeitures; and cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity on the cash flow statement.	June 3, 2018	The company expects the most significant impact from the share-based compensation standard to be driven by the treatment of excess tax benefits/deficiencies, and expects the other impacts from the standard to be nominal. The company is currently evaluating the impact of the standard and will implement it at the start of fiscal 2018.

3. Acquisitions and Divestitures

Naughtone Holdings Limited

On June 3, 2016, the company acquired 50 percent of the outstanding equity of Naughtone Holdings Limited ("Naughtone"), a leader in soft seating products, stools, occasional and meeting tables, for \$12.4 million in consideration. Consequently, the company acquired a noncontrolling equity interest in Naughtone. In the second quarter of fiscal 2017, the company paid additional purchase consideration of approximately \$0.6 million as part of the final net equity adjustment.

Dealership

On January 1, 2017, the company completed the sale of a wholly-owned contract furniture dealership in Pennsylvania. A gain of \$0.7 million was recognized as a result of the sale.

4. Inventories, net

	March	May
(In millions)	4,	28,
	2017	2016
Finished goods	\$123.4	\$102.1
Raw materials	32.3	26.1
Total	\$155.7	\$128.2

Inventories are valued at the lower of cost or market and include material, labor, and overhead. The inventories at our West Michigan manufacturing operations are valued using the last-in, first-out (LIFO) method, whereas inventories of certain other operations are valued using the first-in, first-out (FIFO) method.

5. 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 March 4, 2017 and May 28, 2016:

(In millions)	Goodwill	Indefinite-lived Intangible Assets	Total Goodwill and Indefinite-lived Intangible Assets
May 28, 2016	\$ 305.3	\$ 85.2	\$ 390.5
Foreign currency translation adjustments	(0.8)	—	(0.8)
Sale of owned dealer	(0.1)	—	(0.1)
March 4, 2017	\$ 304.4	\$ 85.2	\$ 389.6

6. Employee Benefit Plans

The following table summarizes the components of net periodic benefit costs for the company's International defined benefit pension plan for the periods indicated:

(In millions)	Three Months Ended		Nine Months Ended	
	March 2017	February 2016	March 2017	February 2016
Interest cost	\$0.7	\$ 1.0	\$2.2	\$ 2.9
Expected return on plan assets	(1.2)	(1.4)	(3.7)	(4.1)
Net amortization loss	0.6	0.6	1.8	2.0
Net periodic benefit cost	\$0.1	\$ 0.2	\$0.3	\$ 0.8

7. 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	
	March 2017	February 2016	March 2017	February 2016
<u>Numerators:</u>				
Numerator for both basic and diluted EPS, net earnings attributable to Herman Miller, Inc. - in millions	\$22.5	\$ 27.9	\$90.5	\$ 96.1
<u>Denominators:</u>				
Denominator for basic EPS, weighted-average common shares outstanding	59,846,388	58,597,597	59,910,591	59,137,132
Potentially dilutive shares resulting from stock plans	537,152	265,251	511,138	469,544
Denominator for diluted EPS	60,383,540	59,062,848	60,421,729	59,606,676
Antidilutive equity awards not included in weighted-average common shares - diluted	554,326	31,021	745,585	385,770

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.

8. 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
---------------	--------------------	-------------------

	March 4, February 27, 2017 2016		March 4, February 27, 2017 2016	
Stock-based compensation expense	\$2.7	\$ 2.7	\$9.2	\$ 9.3
Related income tax effect	1.0	1.0	3.3	3.4

Stock-based compensation expense recognized in the Condensed Consolidated Statements of Comprehensive Income for the three and nine month periods ended March 4, 2017 and February 27, 2016 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.

The following is a detail of the company issued common stock related to the exercise of stock options and vesting of restricted stock and performance share units:

(Shares)	Nine Months Ended	
	March 4, 2017	February 27, 2016
Stock Options	211,566	187,829
Restricted Stock Units	89,290	179,265
Performance Share Units	113,040	55,825

9. 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 for the three and nine month periods ended March 4, 2017 and February 27, 2016, respectively.

The company's recorded liability for potential interest and penalties related to uncertain tax benefits was:

(In millions)	March 4, May 28,	
	2017	2016
Liability for interest and penalties	\$ 0.8	\$ 0.7
Liability for uncertain tax positions, current	2.9	2.4

The effective tax rate for the three month periods ended March 4, 2017 and February 27, 2016 was 29.8 percent. The effective tax rates for the nine month periods ended March 4, 2017 and February 27, 2016 were 31.5 percent and 32.3 percent, respectively. The company's United States federal statutory rate is 35 percent.

The decrease in the effective tax rate for the three and nine month periods ended March 4, 2017 was a result of an increase in the mix of earnings in tax jurisdictions that have rates lower than the United States statutory rate.

The effective tax rates for the three and nine month periods ended March 4, 2017 and February 27, 2016 were lower than the United States statutory rate due to the mix of earnings in taxing jurisdictions that have rates that are lower than the United States statutory rate along with the manufacturing deduction under the American Jobs Creation Act of 2004 ("AJCA") and the research and development tax credit under the Protecting Americans from Tax Hikes ("PATH") Act of 2015.

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.

10. Fair Value Measurements

The company's financial instruments consist of cash equivalents, marketable securities, accounts and notes receivable, deferred compensation plan, accounts payable, debt, redeemable noncontrolling interests, an interest rate swap agreement and foreign currency exchange contracts. The company's financial instruments, other than long-term debt, are recorded at fair value. The carrying value and fair value of the company's long-term debt, including current maturities, is as follows for the periods indicated: (In millions) March 4, May 28,

	2017	2016
Carrying value	\$ 234.5	\$ 221.9
Fair value	\$ 246.1	\$ 241.7

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 equity and fixed income mutual funds and government obligations. These investments 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.

Interest rate swap agreement — The company's interest rate swap agreement value is determined using a market approach based on rates obtained from active markets. The interest rate swap agreement is designated as a cash flow hedging instrument.

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.

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 March 4, 2017 and May 28, 2016.

(In millions)	Fair Value Measurements			
	March 4, 2017		May 28, 2016	
	Quoted Prices with Other Observable Inputs (Level 2)	Management Estimate Observable Inputs (Level 3)	Quoted Prices with Other Observable Inputs (Level 2)	Management Estimate Observable Inputs (Level 3)
<u>Financial Assets</u>				
Available-for-sale marketable securities:				
Government obligations	\$—	\$ —	\$ 0.4	\$ —
Mutual funds - fixed income	7.2	—	6.4	—
Mutual funds - equity	0.8	—	0.7	—
Foreign currency forward contracts	0.7	—	0.5	—
Interest rate swap agreement	8.2	—	—	—
Deferred compensation plan	9.7	—	7.9	—
Total	\$26.6	\$ —	\$ 15.9	\$ —
<u>Financial Liabilities</u>				
Foreign currency forward contracts	\$0.3	\$ —	\$ 0.8	\$ —
Contingent consideration	—	1.6	—	2.7
Total	\$0.3	\$ 1.6	\$ 0.8	\$ 2.7

The table below presents a reconciliation for liabilities measured at fair value using significant unobservable inputs (Level 3) (in millions).

<u>Contingent Consideration</u>	March 4, 2017	May 28, 2016
Beginning balance	\$ 2.7	\$ 2.6
Foreign currency translation adjustments	—	(0.1)
Settlements	(1.1)	(2.5)
Purchases or additions	—	2.7
Ending balance	\$ 1.6	\$ 2.7

The contingent consideration liabilities represent future payment obligations that relate to business and product line acquisitions. These payments are based on the future performance of the acquired businesses or product line. The contingent consideration liabilities are valued using estimates based on discount rates that reflect the risk involved and the projected sales and earnings of the acquired businesses. The estimates are updated and the liabilities are adjusted to fair value on a quarterly basis.

The following is a summary of the carrying and market values of the company's marketable securities as of the respective dates.

March 4, 2017	May 28, 2016
---------------	--------------

(In millions)	Cost	Unrealized Gain/(Loss)	Market Value	Cost	Unrealized Gain/(Loss)	Market Value
Government obligations	\$—	\$ —	\$ —	\$0.4	\$ —	—\$ 0.4
Mutual funds - fixed income	7.1	0.1	7.2	6.4	—	6.4
Mutual funds - equity	0.7	\$ 0.1	0.8	0.7	—	0.7
Total	\$7.8	\$ 0.2	\$ 8.0	\$7.5	\$ —	—\$ 7.5

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. These adjustments are also included within the caption Unrealized holding gain within the Condensed Consolidated Statements of Comprehensive Income. Unrealized gains recognized in the company's Condensed Consolidated Statement of Comprehensive Income related to available-for-sale securities were \$0.2 million and nil for the three and nine month periods ended March 4, 2017 and February 27, 2016, respectively. 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.

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.

Derivative Instruments and Hedging Activities

In September, 2016, the company entered into an interest rate swap agreement. The interest rate swap is for an aggregate notional amount of \$150.0 million with a forward start date of January 3, 2018 and a termination date of January 3, 2028. As a result of the transaction, the company effectively will convert \$150.0 million of its outstanding indebtedness from a LIBOR-based floating interest rate plus applicable margin to a 1.949 percent fixed interest rate plus applicable margin under the agreement as of the forward start date.

The company entered into the interest rate swap agreement to manage its exposure to interest changes and its overall cost of borrowing. The interest rate swap agreement was entered into to exchange variable rate interest payments for fixed rate payments over the life of the agreement without the exchange of the underlying notional amounts. The notional amount of the interest rate swap agreement is used to measure interest to be paid or received and does not represent the amount of exposure to credit loss. The differential paid or received on the interest rate swap agreement is recognized as an adjustment to interest expense.

The interest rate swap was a designated cash flow hedge at inception and remains an effective accounting hedge as of March 4, 2017. Since a designated derivative meets hedge accounting criteria, the fair value of the hedge is recorded in the Consolidated Statement of Stockholders' Equity as a component of Accumulated other comprehensive loss, net of tax. The ineffective portion of the change in fair value of the derivative is immediately recognized in earnings. The interest rate swap agreement is assessed for hedge effectiveness on a quarterly basis.

As of March 4, 2017, the fair value of the company's interest rate swap was \$8.2 million and was recorded within Other noncurrent assets within the Condensed Consolidated Balance Sheets. The unrealized gain recorded within Other comprehensive loss, net of tax, for the effective portion of the designated cash flow hedge was \$1.1 million and \$5.3 million for the three and nine month periods ended March 4, 2017, respectively. For three and nine month periods ended March 4, 2017, there were no gains or losses recognized against earnings for hedge ineffectiveness and there were no gains or losses reclassified from Accumulated other comprehensive loss into earnings.

11. 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	
	March 4, 2017	February 27, 2016	March 4, 2017	February 27, 2016
Accrual Balance — beginning	\$44.6	\$ 40.6	\$43.9	\$ 39.3
Accrual for product-related matters	6.7	5.7	17.6	17.9
Settlements and adjustments	(4.8)	(4.7)	(15.0)	(15.6)
Accrual Balance — ending	\$46.5	\$ 41.6	\$46.5	\$ 41.6

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 March 4, 2017, the company had a maximum financial exposure related to performance bonds totaling approximately \$10.2 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 March 4, 2017 or May 28, 2016.

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 March 4, 2017, the company had a maximum financial exposure from these standby letters of credit totaling approximately \$8.3 million, all of which is considered usage against the company's revolving line of credit. 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 March 4, 2017 and May 28, 2016.

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.

12. Debt

Long-term debt as of March 4, 2017 and May 28, 2016 consisted of the following obligations:

(In millions)	March 4, 2017	May 28, 2016
Series B senior notes, due January 3, 2018	\$149.9	\$149.9
Debt securities, due March 1, 2021	50.0	50.0
Syndicated revolving line of credit, due September 2021	34.6	22.0
Total	\$234.5	\$221.9

On September 13, 2016, the company entered into a fourth amendment and restatement of its unsecured syndicated revolving line of credit which provides the company with up to \$400 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 up to \$200 million. The facility will expire in September 2021 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 March 4, 2017, the total debt outstanding related to borrowings under the syndicated revolving line of credit was \$34.6 million. These borrowings are included within Long-term debt in the Condensed Consolidated Balance Sheet. As of March 4, 2017, the total usage against the facility was \$42.9 million, of which \$8.3 million related to outstanding letters of credit. As of May 28, 2016, total usage against the previous syndicated revolving line of credit was \$30.7 million, \$8.7 million of which related to outstanding letters of credit.

While the Series B senior notes mature in less than one year, the company classified the outstanding borrowings as long-term based on the ability and intent to refinance the notes on a long-term basis.

13. Accumulated Other Comprehensive Loss

The following table provides an analysis of the changes in accumulated other comprehensive loss for the nine months ended March 4, 2017:

(In millions)	Cumulative Translation Adjustments	Pension and Other Post-retirement Benefit Plans	Unrealized Gains (Losses) on Available-for-sale Securities	Interest Rate Swap Agreement	Accumulated Other Comprehensive Income
Balance at May 28, 2016	\$ (29.6)	\$ (34.9)	\$ —	\$ —	\$ (64.5)
Current period other comprehensive income (loss)	(10.8)	1.7	0.2	8.2	(0.7)
Tax (expense) benefit	—	0.4	—	(2.9)	(2.5)
Balance at March 4, 2017	\$ (40.4)	\$ (32.8)	\$ 0.2	\$ 5.3	\$ (67.7)

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

(In millions)	Cumulative Translation Adjustments	Pension and Other Post-retirement Benefit Plans	Unrealized Gains (Losses) on Available-for-sale Securities	Interest Rate Swap Agreements	Accumulated Other Comprehensive Income
Balance at May 30, 2015	\$ (20.8)	\$ (35.4)	\$ —	—\$	—\$ (56.2)
Current period other comprehensive income (loss)	(10.5)	2.3	—	—	(8.2)
Tax (expense) benefit	—	(0.3)	—	—	(0.3)
Balance at February 27, 2016	\$ (31.3)	\$ (33.4)	\$ —	—\$	—\$ (64.7)

14. 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 March 4, 2017 and February 27, 2016 are as follows:

(In millions)	Nine Months Ended	
	March 4, 2017	February 27, 2016
Beginning Balance	\$27.0	\$30.4
Purchase of redeemable noncontrolling interests	(1.5)	—
Net income attributable to redeemable noncontrolling interests	0.1	0.5
Redemption value adjustment	(0.7)	(3.4)
Other adjustments	0.1	0.1
Ending Balance	\$25.0	\$27.6

15. 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 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.

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(In millions)	Three Months Ended		Nine Months Ended	
	March 4, 2017	February 27, 2016	March 4, 2017	February 27, 2016
Net Sales:				
North American Furniture Solutions	\$309.8	\$ 312.7	\$1,004.4	\$ 998.9
ELA Furniture Solutions	88.0	98.9	292.9	302.1
Specialty	54.0	54.7	175.6	170.2
Consumer	73.1	70.2	228.1	211.1
Corporate	—	—	—	—
Total	\$524.9	\$ 536.5	\$1,701.0	\$ 1,682.3

Operating Earnings (Loss):				
North American Furniture Solutions	\$27.9	\$ 30.6	\$102.1	\$ 112.8
ELA Furniture Solutions	5.2	6.8	23.2	20.7
Specialty	2.5	3.4	13.6	11.9
Consumer	(0.2)	2.8	2.4	9.3
Corporate	(0.4)	0.7	(0.3)	0.2
Total	\$35.0	\$ 44.3	\$141.0	\$ 154.9

(In millions)	March 4, 2017	May 28, 2016
Total Assets:		
North American Furniture Solutions	\$529.9	\$531.7
ELA Furniture Solutions	225.7	218.4
Specialty	151.3	147.3
Consumer	275.4	245.3
Corporate	96.0	92.5
Total	\$1,278.3	\$1,235.2

16. Restructuring Activities

During the second and third quarters of fiscal 2017, the company announced restructuring actions involving targeted workforce reductions within the North American, ELA and Specialty segments. These actions resulted in the recognition of restructuring expenses related to severance costs of \$2.7 million and \$3.7 million in the third quarter and nine month periods, respectively. The restructuring actions are deemed to be complete at March 4, 2017 and final payments are expected to be made over the next two quarters.

The following table provides an analysis of the changes in restructuring costs reserve for the nine months ended March 4, 2017:

(In millions)	March 4, 2017
Beginning Balance	\$0.4
Restructuring expenses	3.7
Payments	(1.6)
Ending Balance	\$2.5

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations
Three and Nine Months Ended March 4, 2017
(in millions)

The following is management's discussion and analysis of certain significant factors that affected the company's financial condition, earnings and cash flows during the periods included in the accompanying condensed consolidated financial statements and should be read in conjunction with the company's Annual Report on Form 10-K for the fiscal year ended May 28, 2016. References to "Notes" are to the footnotes included in the accompanying condensed consolidated financial statements.

Discussion of Current Business Conditions

During the third quarter of fiscal 2017, net sales totaled \$524.9 million, a decrease of 2.2 percent from the same quarter of the prior year period. Orders of \$543.2 million represented growth of 6.8 percent as compared to the third quarter of the prior fiscal year. While order entry patterns did strengthen throughout the quarter, the company estimates its most recent price increase, which became effective on February 6, 2017, had the effect of pulling ahead approximately \$21 million of orders (of the \$34 million increase) that would have otherwise been entered in the fourth quarter of fiscal 2017. On an organic basis, which adjusts for the impact this order acceleration on orders as well as impact of foreign currency translation and dealer divestitures on both orders and net sales, orders increased by 4.8 percent in the third quarter and net sales increased by 0.1 percent^(*) from the same quarter last fiscal year.

Consolidated gross margin percentage for the current three month period was 37.2 percent, which was 150 basis points lower than the prior year period. This decrease was caused principally by a reduction in net sales and gross profit from incremental price discounting along with higher commodity costs. The price increase at the beginning of February 2017 was targeted at products most impacted by commodity pricing pressures.

Operating expenses in the third quarter totaled \$160.5 million. This is \$3.0 million lower than the same quarter last fiscal year. The year-over-year reduction was driven mainly by the impact of dealer divestitures, lower employee incentive costs and company-wide cost savings initiatives. The company also sold its Philadelphia-based contract dealership during the third quarter, which generated a gain on sale and reduced Selling, general and administrative expenses. These cost savings were offset by higher occupancy and staffing costs related to DWR studios and the recognition of severance and outplacement restructuring expenses totaling approximately \$2.7 million.

The company reported diluted earnings per share of \$0.37 during the third quarter of fiscal 2017, which was \$0.09 per share less than the \$0.46 per share reported in the prior year period. After adjusting for restructuring costs and the gain on sale related to the disposition of the Philadelphia dealership, adjusted diluted earnings per share of \$0.39^(*) were \$0.07 per share less than the prior year amount.

We believe that the cautious macro-economic environment contributed to rather inconsistent order patterns in our North American business segment during the first nine months of this fiscal year. This, in turn, contributed to comparatively soft net sales levels in the third quarter ended March 4, 2017. Sales within our North American segment for the quarter were \$309.8 million, a decrease of 0.9 percent as compared to the same period of the prior year. Conversely, the pace of orders within the North American segment improved throughout the quarter, resulting in year-over-year order growth of 12.3 percent. After adjusting for the impact of the acceleration of orders due to the price increase, foreign currency translation and dealer divestitures, orders within the North American segment increased approximately 6.8 percent in the third quarter of fiscal 2017 as compared to the third quarter of fiscal 2016. Future growth in net sales and

operating earnings of the North America segment will continue to be challenged by a competitive pricing environment and the increased price of commodities.

The ELA segment reported sales during the third quarter of fiscal 2017 of \$88.0 million, reflecting a decrease of 11.0 percent from the prior year period. On an organic basis, net sales decreased 0.8 percent^(*) from last year's level. Orders for the ELA segment decreased 9.5 percent and, on an organic basis, decreased 1.8 percent as compared to the third quarter of last fiscal year. The decrease in sales was driven primarily by lower demand in the Middle East, where we have seen fewer large projects than in the prior year, owing in part to a relative reduction in the market price of oil. Demand also slowed in Mexico and India, which was driven primarily by project timing. These decreases were offset by increased demand in Continental Europe and Japan.

Net sales and orders within the Specialty segment were \$54.0 million and \$51.8 million, respectively, for the third quarter of fiscal 2017. Net sales decreased by 1.3 percent while orders decreased by 3.2 percent from the third quarter of fiscal 2016. These decreases were driven mainly by challenging prior year comparisons for the company's Geiger subsidiary, principally due to certain large projects that occurred in the prior year.

*Non-GAAP measurements; see accompanying reconciliations and explanations.

Net sales and orders within the Consumer segment increased 4.1 percent and 13.3 percent, respectively, as compared to the same quarter of last fiscal year. The increase in orders this quarter was favorably influenced by a shift in the timing of a major annual promotional event compared to last fiscal year. With that said, the Consumer segment showed growth in sales and orders above and beyond this timing difference, driven by improved efficiency of the direct-mail catalog program, the positive impact of recent new product introductions and the continuing expansion of the DWR real estate footprint, which drove additional orders and net sales from studios this quarter. The company opened new studios in Portland, Oregon and in Westport, Connecticut, during the quarter.

The macro-economic backdrop of the contract furniture industry, both in the U.S. and abroad, remains mixed. The company believes that certain key industry metrics remain positive, including service sector employment, non-residential construction activity and architectural billings. These factors have run counter to industry data for sales, which have been uneven over the past nine months. However, the increase in order entry felt over the second half of the third quarter of fiscal 2017, primarily within the North America segment, is an encouraging sign that investment activity may be picking up within the contract furniture industry.

The remaining sections within Item 2 include additional analysis of our nine months ended March 4, 2017, including discussion of significant variances compared to the prior year periods.

Reconciliation of Non-GAAP Financial Measures

This report contains references to Organic net sales and Adjusted earnings per share - diluted, which are non-GAAP financial measures. Organic net sales represents Net sales, excluding the impact of dealer divestitures, currency translation effects, and the extra week of operations in the first quarter of fiscal 2017. Adjusted earnings per share - diluted represents the earnings per share - diluted, excluding the impact of restructuring expenses and the gain on the sale of a dealership during fiscal 2017. The company believes presenting Organic net sales and Adjusted earnings per share - diluted is useful for investors as it provides financial information on a more comparative basis for the periods presented. The first nine months of fiscal 2017 included 40 weeks of operations as compared to a 39-week period in the first nine months of fiscal 2016. The additional week, which occurred in the first quarter of fiscal 2017, is required periodically to more closely align Herman Miller's fiscal year with the calendar months.

Organic net sales and Adjusted earnings per share - diluted are not measurements of our financial performance under GAAP and should not be considered as alternatives to the related GAAP measurement. These non-GAAP measurements have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP. Our presentation of non-GAAP measures should not be construed as an indication that our future results will be unaffected by unusual or infrequent items. We compensate for these limitations by providing prominence of our GAAP results and using the non-GAAP financial measures only as a supplement.

The following table reconciles Net sales to Organic net sales for the periods indicated.

	Three Months Ended					Three Months Ended				
	3/4/17					2/27/16				
	North America	ELA	Specialty	Consumer	Total	North America	ELA	Specialty	Consumer	Total
Net Sales, as reported	\$309.8	\$88.0	\$54.0	\$73.1	\$524.9	\$312.7	\$98.9	\$54.7	\$70.2	\$536.5
% change from PY	(0.9)	%(11.0)	%(1.3)	%4.1	%(2.2)	%(0.9)	%(11.0)	%(1.3)	%4.1	%(2.2)

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Proforma Adjustments

Dealer Divestitures	—	—	—	—	—	(2.9)	(6.6)	—	—	(9.5)
Currency Translation Effects ⁽¹⁾	(0.9)	3.6	—	(0.1)	2.6	—	—	—	—	—
Organic net sales	\$308.9	\$91.6	\$54.0	\$ 73.0	\$527.5	\$309.8	\$92.3	\$ 54.7	\$ 70.2	\$527.0
% change from PY	(0.3)%	(0.8)%	(1.3)%	4.0 %	0.1 %					

⁽¹⁾ Currency translation effects represent the estimated net impact of translating current period sales and orders using the average exchange rates applicable to the comparable prior year period

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	Nine Months Ended 3/4/17					Nine Months Ended 2/27/16				
	North America	ELA	Specialty	Consumer	Total	North America	ELA	Specialty	Consumer	Total
Net Sales, as reported	\$1,004.4	\$292.9	\$175.6	\$228.1	\$1,701.0	\$998.9	\$302.1	\$170.2	\$211.1	\$1,682.3
% change from PY	0.6	%(3.0)	%)3.2	%)8.1	%)1.1	%				
Proforma Adjustments										
Dealer Divestitures	—	—	—	—	—	(2.9)	(20.3)	—	—	(23.2)
Currency Translation Effects (1)	(0.5)	11.1	—	—	10.6	—	—	—	—	—
Impact of extra week in FY17	(22.7)	(6.3)	(3.3)	(4.7)	(37.0)	—	—	—	—	—
Organic net sales	\$981.2	\$297.7	\$172.3	\$223.4	\$1,674.6	\$996.0	\$281.8	\$170.2	\$211.1	\$1,659.1
% change from PY	(1.5)	%)5.6	%)1.2	%)5.8	%)0.9	%				

(1) Currency translation effects represent the estimated net impact of translating current period sales and orders using the average exchange rates applicable to the comparable prior year period

The following table reconciles Earnings per share - diluted to Adjusted earnings per share - diluted for the periods indicated.

	Three Months Ended		Nine Months Ended	
	3/4/2017	2/27/2016	3/4/2017	2/27/2016
Earnings per Share - Diluted	\$0.37	\$ 0.46	\$ 1.50	\$ 1.59
Less: Gain on sale of dealer	(0.01)	—	(0.01)	—
Add: Restructuring expenses	0.03	—	0.03	—
Adjusted Earnings per Share - Diluted	\$0.39	\$ 0.46	\$ 1.52	\$ 1.59
Weighted Average Shares Outstanding (used for Calculating Adjusted Earnings per Share) – Diluted	60,383,000	60,450,848	60,421,507	60,406,676

Analysis of Results for Nine Months

The nine months ended March 4, 2017 and February 27, 2016 contained 40 and 39 weeks, respectively. The following table presents certain key highlights from the results of operations for the periods indicated. (In millions, except per share data)

	Three Months Ended			Nine Months Ended		
	March 4, 2017 (13 weeks)	February 27, 2016 (13 weeks)	Percent Change	March 4, 2017 (40 weeks)	February 27, 2016 (39 weeks)	Percent Change
Net sales	\$524.9	\$ 536.5	(2.2) %	\$1,701.0	\$ 1,682.3	1.1 %
Cost of sales	329.4	328.7	0.2 %	1,057.6	1,033.3	2.4 %
Gross margin	195.5	207.8	(5.9) %	643.4	649.0	(0.9) %
Operating expenses	157.8	163.5	(3.5) %	498.7	494.1	0.9 %
Restructuring expenses	2.7	—	n/a	3.7	—	n/a
Total operating expenses	160.5	163.5	(1.8) %	502.4	494.1	1.7 %
Operating earnings	35.0	44.3	(21.0) %	141.0	154.9	(9.0) %
Other expenses, net	3.0	4.4	(31.8) %	10.4	12.3	(15.4) %
Earnings before income taxes and equity income	32.0	39.9	(19.8) %	130.6	142.6	(8.4) %

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Income tax expense	9.5	11.9	(20.2)%	41.1	46.1	(10.8)%
Equity income from nonconsolidated affiliates, net of tax	—	0.2	n/a	1.1	0.4	175.0 %
Net earnings	22.5	28.2	(20.2)%	90.6	96.9	(6.5)%
Net earnings attributable to noncontrolling interests	—	0.3	n/a	0.1	0.8	(87.5)%
Net earnings attributable to Herman Miller, Inc.	22.5	27.9	(19.4)%	90.5	96.1	(5.8)%
Earnings per share — diluted	0.37	0.46	(19.6)%	1.50	1.59	(5.7)%
Orders	543.2	508.8	6.8 %	1,714.7	1,673.5	2.5 %
Backlog	331.6	313.3	5.8 %			

The following table presents, for the periods indicated, select components of the company's Condensed Consolidated Statements of Comprehensive Income as a percentage of net sales.

	Three Months Ended		Nine Months Ended			
	March 4, 2017	February 27, 2016	March 4, 2017	February 27, 2016		
Net sales	100.0%	100.0	%	100.0%	100.0	%
Cost of sales	62.8	61.3		62.2	61.4	
Gross margin	37.2	38.7		37.8	38.6	
Operating expenses	30.1	30.5		29.3	29.4	
Restructuring expenses	0.5	—		0.2	—	
Total operating expenses	30.6	30.5		29.5	29.4	
Operating earnings	6.7	8.3		8.3	9.2	
Other expenses, net	0.6	0.8		0.6	0.7	
Earnings before income taxes and equity income	6.1	7.4		7.7	8.5	
Income tax expense	1.8	2.2		2.4	2.7	
Equity income from nonconsolidated affiliates, net of tax	—	—		0.1	—	
Net earnings	4.3	5.3		5.3	5.8	
Net earnings attributable to noncontrolling interests	—	0.1		—	—	
Net earnings attributable to Herman Miller, Inc.	4.3	5.2		5.3	5.7	

Performance versus the Domestic Contract Furniture Industry

The Business and Institutional Furniture Manufacturer's Association (BIFMA) is the trade association for the North American contract furniture industry. The company monitors the trade statistics reported by BIFMA and considers them an indicator of industry-wide sales and order performance. BIFMA publishes statistical data for the contract segment and the office supply segment within the North American market. The contract segment of the industry relates primarily to products sold to large to mid-size corporations and installed via a network of dealers. The office supply segment relates primarily to products sold to smaller customers via wholesalers and retailers. The company participates, and is a leader in, the contract segment. Further, the company's diversification strategy lessens its dependence on the North American contract office furniture market.

The company analyzes BIFMA statistical information as a benchmark comparison against the performance of its contract business in North America and also to that of its competitors. The timing of large project-based business may affect comparisons to this data in any one period. Finally, BIFMA regularly provides its members with industry forecast information, which the company uses internally as one of several considerations in its short and long-range planning process.

After many years of compiling and reporting member production data for the U.S. market, BIFMA is revising its data collection process in an attempt to better reflect contract furniture production throughout North America, including products manufactured in Canada and Mexico. The BIFMA data collection process has been changing from the fourth quarter of the company's 2016 fiscal year. Prior to the change, products manufactured in Canada or Mexico and shipped to the U.S. were excluded from BIFMA's estimate of industry shipments and orders. The new methodology was designed to provide a better reflection of the market as a whole, especially given the rise in competition based in Canada and Mexico as well as sourcing moves by the company's existing competitors. Additionally, BIFMA is revising its product definitions to better fit products specifically designed for the Healthcare and Education end markets. The BIFMA statistics that are mentioned throughout this document are based on the revised method of compiling the industry data.

While the sales and order data for our North American reportable segment provide a relative comparison to BIFMA, it is not intended to be an exact comparison. The data we report to BIFMA is consistent with the BIFMA definition of office furniture “consumption.” This definition differs slightly from the categorization we have presented in this report. Notwithstanding this difference, we believe our presentation provides the reader with a relevant comparison.

For the three month period ended March 4, 2017, the company's domestic United States shipments, as defined by BIFMA, decreased by 0.4 percent while the company's domestic orders increased by 10.6 percent year-over-year. BIFMA reported an estimated year-over-year increase in shipments of 2.3 percent and an increase in orders of 3.4 percent for the comparable period.

Performance versus the Consumer Furnishings Sector

We also monitor trade statistics reported by the U.S. Census Bureau, which reports monthly retail sales growth data across a number of retail categories, including *Furniture and Home Furnishing Stores*. This information provides a relative comparison to our Consumer segment, but is

not intended to be an exact comparison. The average monthly year-over-year growth rate in sales for the Furniture and Home Furnishing Stores category for the three month period ended February 2017, was approximately 1.8 percent. By comparison, net sales in our Consumer segment increased by approximately 4.1 percent for the three months ended March 4, 2017.

Consolidated Sales

The following charts present graphically the primary drivers of the year-over-year change in net sales for the three and nine-months ended March 4, 2017. The amounts presented in the bar graphs are expressed in millions and have been rounded to eliminate decimals.

Consolidated net sales decreased \$11.6 million or 2.2 percent for the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016. The following items led to the change:

Sales volumes within the North American segment increased by approximately \$6 million, resulting from increased demand within the company's core contract furniture business unit in the third quarter.

The Consumer segment recorded an increase in sales volumes of approximately \$3 million, which was due to increased sales improvements across several Consumer sales channels, including contract, e-commerce, studios and direct-mail catalogs.

The impact of the divestiture of the company's dealership in Australia in fiscal 2016 and Philadelphia in fiscal 2017 had the effect of reducing sales by \$9.5 million in the current three month period as compared to the same period of the prior fiscal year.

Incremental price discounting decreased net sales in the third quarter of fiscal 2017 by approximately \$9 million compared to the prior year.

*Non-GAAP measurements; see accompanying reconciliations and explanations.

Consolidated net sales increased \$18.7 million or 1.1 percent in the first nine months of fiscal 2017 compared to the first nine months of fiscal 2016. The following items led to the change:

The nine month period for fiscal 2017 had 40 weeks as compared to the same period of fiscal 2016, which had 39 weeks. The impact of this additional week increased net sales by approximately \$37.0 million.

Increased sales volumes within the ELA segment of approximately \$21 million, driven primarily by growth in Latin America and Asia, excluding the impact of the Australia dealer divestiture.

Increased sales volumes within the Consumer segment of approximately \$12 million, which were due to enhanced sales improvements across all Consumer sales channels, including contract, e-commerce, wholesale business to other retailers, studios and direct-mail catalogs.

Sales volumes within the North American segment increased by approximately \$8 million, resulting from increased demand within the company's Healthcare business unit.

The impact of the divestiture of the company's dealerships in Australia in fiscal 2016 and Philadelphia in fiscal 2017 had the effect of reducing sales by \$23.2 million in the current nine month period as compared to the same period of the prior fiscal year.

Incremental price discounting decreased net sales in the current nine month period by approximately \$28 million compared to the prior year.

Consolidated Gross Margin

Consolidated gross margin was 37.2 percent for the three month period ended March 4, 2017 as compared to 38.7 percent for the same quarter of the prior fiscal year. The following factors summarize the major drivers of the year-over-year change in gross margin percentage:

Incremental price discounting reduced the company's consolidated gross margin by approximately 100 basis points relative to the same period of last fiscal year.

Higher commodity costs in the current fiscal year drove an unfavorable year-over-year margin impact of approximately 40 basis points.

A decrease in employee incentive costs increased our consolidated gross margin by 60 basis points relative to the three-month comparative period of last fiscal year. The decrease reflects lower employee incentive costs that are variable based on the achievement of planned earnings levels for the fiscal year.

Unfavorable product mix within the company's West Michigan manufacturing facilities drove a 40 basis point decrease in consolidated gross margin as compared to the same period of last fiscal year.

Unfavorable material cost variances within the company's International business unit decreased consolidated gross margin by approximately 30 basis points as compared to the same period of last fiscal year.

Consolidated gross margin was 37.8 percent for the nine month period ended March 4, 2017 as compared to 38.6 percent for the same period of the prior year. The following factors summarize the major drivers of the year-over-year change in gross margin percentage:

Incremental price discounting reduced the company's consolidated gross margin by approximately 100 basis points relative to the same period of last fiscal year.

A decrease in employee incentive costs increased our consolidated gross margin by 50 basis points relative to the nine-month comparative period of last fiscal year. The decrease reflects lower employee incentive costs that are variable based on the achievement of planned earnings levels for the fiscal year.

Higher commodity costs in the current fiscal year drove an unfavorable year-over-year margin impact of approximately 30 basis points.

Operating Expenses and Operating Earnings

The following chart presents graphically the primary drivers of the year-over-year change in operating expenses for the three and nine-months ended March 4, 2017. The amounts presented in the bar graphs are expressed in millions and have been rounded to eliminate decimals.

Consolidated operating expenses decreased by \$3.0 million or 1.8 percent in the third quarter of fiscal 2017, compared to the prior year period. The following factors contributed to the change:

- Restructuring charges related to targeted workforce reductions increased operating expenses by \$2.7 million in the third quarter of fiscal 2017.
- Incremental costs related to the continued growth and expansion of DWR retail studios of approximately \$2 million for the three month comparative period.
- Depreciation expense increased by approximately \$1 million as compared to the three month period of the prior year, which was driven primarily by investment in facilities.
- The divestiture of the company's dealerships in Australia and Philadelphia in fiscal 2016 and 2017 resulted in a decrease in operating expenses of \$3.2 million for the three month comparative period.
- Employee incentive costs decreased by \$4.7 million for the three month comparative period. The decrease reflects lower incentive compensation costs that are variable based on the achievement of planned earnings levels for the fiscal year.
- The remainder of the change for the three month comparative period was driven mainly by company-wide cost savings initiatives and changes in foreign currency exchange rates.

Consolidated operating expenses increased by \$8.3 million or 1.7 percent in the first nine months of fiscal 2017 compared to the prior year period. The following factors contributed to the change:

- The impact of an extra week in fiscal 2017 increased operating expenses by approximately \$9 million during the nine month period.
- Marketing and selling expenses increased \$5.8 million in the nine month period relative to the same period of last fiscal year. The increase resulted from new marketing initiatives as well as increases in selling capacity, during the comparative periods.
- Restructuring charges related to targeted workforce reductions increased operating expenses by \$3.7 million for the nine month period of fiscal 2017.
- Incremental costs related to the continued growth and expansion of DWR retail studios of approximately \$6 million for the nine month comparative period.
- Increased cost within the company's DWR subsidiary of approximately \$3 million for the nine month comparative period as a result of increased investment in information technology, infrastructure to support the contract channel and other business support functions.
- The divestiture of the company's dealerships in Australia and Philadelphia in fiscal 2016 and 2017 resulted in a decrease in operating expenses of \$6.2 million for the nine month comparative period.
- Employee incentive costs decreased by \$9.2 million for the nine month comparative period. The decrease reflects lower incentive compensation costs that are variable based on the achievement of planned earnings levels for the fiscal year.
- The remainder of the change for the three month comparative period was driven mainly by company-wide cost savings initiatives and changes in foreign currency exchange rates.

Operating earnings for the three and nine month periods ended March 4, 2017 were \$35.0 million or 6.7 percent of sales and \$141.0 million or 8.3 percent of sales, respectively. This compares to \$44.3 million or 8.3 percent of sales and \$154.9 million or 9.2 percent of sales for the respective periods during last fiscal year.

Other Income/Expense and Income Taxes

During the three months ended March 4, 2017, net other expense was \$3.0 million, a decrease of \$1.4 million compared to the same period in the prior year. Net other expense of \$10.4 million in the first nine months of fiscal 2017 decreased by \$1.9 million compared to the same period in the prior year. The decrease in net other expenses in the third quarter and first nine months of fiscal 2017 as compared to prior year was primarily related to higher investment income associated with the company's deferred compensation plan.

The effective tax rate for the three month periods ended March 4, 2017 and February 27, 2016 was 29.8 percent. The effective tax rates for the nine month periods ended March 4, 2017 and February 27, 2016 were 31.5 percent and 32.3 percent, respectively. The company's United States federal statutory rate is 35 percent.

The decrease in the effective tax rate for the three and nine month periods ended March 4, 2017 was a result of an increase in the mix of earnings in tax jurisdictions that have rates lower than the United States statutory rate.

The effective tax rates for the three and nine month periods ended March 4, 2017 and February 27, 2016 were lower than the United States statutory rate due to the mix of earnings in taxing jurisdictions that have rates that are lower than the United States statutory rate along with the manufacturing deduction under the American Jobs Creation Act of 2004 ("AJCA") and the research and development tax credit under the Protecting Americans from Tax Hikes ("PATH") Act of 2015.

Reportable Operating Segment Results

The business is comprised of various operating segments as defined by generally accepted accounting principles in the United States. These operating segments are determined on the basis of how the company internally reports and evaluates financial information used to make operating decisions. For external reporting purposes, the company has identified the following reportable segments:

North American Furniture Solutions — 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 EMEA, Latin America, and Asia-Pacific operations associated with the design, manufacture and sale of furniture products, primarily for work-related settings.

Specialty — Includes 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.

Consumer — Includes 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 retail studios and outlets.

The charts below present the relative mix of net sales and operating earnings across the company's reportable segments during the three and nine month period ended March 4, 2017. This is followed by a discussion of the company's results, by reportable segment.

North American Furniture Solutions ("North America")

Three Months Ended March 4, 2017

Net sales totaled \$309.8 million for the third quarter of fiscal 2017, a decrease of 0.9 percent from the third quarter of fiscal 2016. Orders totaled \$332.8 million, an increase of 12.3 percent from the same period in the prior year. Operating earnings for the third quarter of fiscal 2017 were \$27.9 million or 9.0 percent of sales as compared to \$30.6 million or 9.8 percent of sales in the third quarter of fiscal 2016.

We believe that the price increase that was announced during the third quarter of fiscal 2017 caused approximately \$20 million of orders that otherwise would have been entered in the fourth quarter, to be entered in the third quarter.

Sales volumes within the North American segment increased by approximately \$6 million. This was driven by increased demand within the company's core contract furniture business unit.

Incremental price discounting in the current quarter decreased net sales by approximately \$7 million.

The third quarter of fiscal 2016 included the results of operations for the company's dealership in Philadelphia that was divested in the third quarter of fiscal 2017. Accordingly, the increase in sales volumes for the North American segment for the current three month period was partially offset by a \$2.9 million decrease in net sales due to the divestiture. The sale of this dealership also decreased orders by \$4.7 million year-over-year.

Commodity price increases and incremental discounting drove a decrease in margins and operating earnings.

Operating expenses within the North American segment were lower than the prior year primarily as a result of decreased employee incentive costs, the Philadelphia dealer divestiture and company-wide cost savings initiatives, offset by an increase in restructuring costs.

Nine Months Ended March 4, 2017

Net sales totaled \$1,004.4 million for the first nine months of fiscal 2017, an increase of 0.6 percent from the same period of the prior year. Orders totaled \$1,018.8 million, an increase of 4.2 percent from the same period in the prior year. Operating earnings for the first nine months of fiscal 2017 were \$102.1 million or 10.2 percent of sales as compared to \$112.8 million or 11.3 percent of sales in same period of the prior year.

We believe that the price increase that was announced during the third quarter of fiscal 2017 caused approximately \$20 million of orders that otherwise would have been entered in the fourth quarter, to be entered in the third quarter.

The impact of the extra week increased net sales by an estimated \$23 million and increased orders by \$21 million in the first nine months of fiscal 2017 as compared to the same period in the prior year.

Incremental price discounting in the current nine month period decreased net sales by approximately \$22 million.

Sales volumes within the North American segment increased by approximately \$8 million, resulting from increased demand within the company's Healthcare business unit.

Commodity price increases and incremental discounting drove a decrease in margins and operating earnings.

Operating expenses within the North American segment were higher than the prior year primarily as a result of the impact of the extra week of operations and increased sales and marketing expenses, partially offset by decreased employee incentive costs, the Philadelphia dealer divestiture and company-wide cost savings initiatives

ELA Furniture Solutions ("ELA")

Three Months Ended March 4, 2017

Net sales totaled \$88.0 million for the third quarter of fiscal 2017, a decrease of 11.0 percent from the third quarter of fiscal 2016. Orders totaled \$85.5 million, a decrease of 9.5 percent from the same period in the prior year. Operating earnings for the third quarter of fiscal 2017 were \$5.2 million or 5.9 percent of sales as compared to \$6.8 million or 6.9 percent of sales in the third quarter of fiscal 2016.

The third quarter of fiscal 2016 included the results of the company's dealership in Australia that was divested in the fourth quarter of fiscal 2016. Accordingly, sales volumes for the ELA segment decreased by \$6.6 million due to the divestiture. The divestiture also decreased orders by \$5.5 million year-over-year. Foreign currency translation decreased net sales by approximately \$3.6 million relative to the same quarter a year ago.

A year-over-year decrease in operating expenses was driven by reductions in bad debt expense, warranty expense, employee incentive costs, foreign currency translation and the divestiture of the company's dealership in Australia.

Nine Months Ended March 4, 2017

Net sales totaled \$292.9 million for the first nine months of fiscal 2017, a decrease of 3.0 percent from the same period of the prior year. Orders totaled \$295.0 million, a decrease of 6.5 percent from the same period in the prior year. Operating earnings for the first nine months of fiscal 2017 were \$23.2 million or 7.9 percent of sales as compared to \$20.7 million or 6.9 percent of sales in same period of the prior year.

Sales volumes within the ELA segment increased approximately \$21 million. This was driven by growth in Latin America and Asia, excluding the impact of the Australia dealer divestiture.

The comparative nine month period of fiscal 2016 included the results of the company's dealership in Australia that was divested in the fourth quarter of fiscal 2016. Accordingly, sales volumes for the ELA segment decreased by \$20.3 million due to the divestiture. The divestiture also decreased orders by \$28.2 million year-over-year.

Foreign currency translation decreased net sales by approximately \$11 million relative to the same quarter a year ago.

The impact of the extra week increased net sales by approximately \$6 million in the first nine months of fiscal 2017 as compared to the same period in the prior year.

A broad-based decrease in operating expenses was driven by reductions in bad debt expense, employee incentive costs, foreign currency translation and the divestiture of the company's dealership in Australia.

Specialty

Three Months Ended March 4, 2017

Net sales totaled \$54.0 million for the third quarter of fiscal 2017, a decrease of 1.3 percent from the third quarter of fiscal 2016. Orders totaled \$51.8 million, a decrease of 3.2 percent from the same period in the prior year. Operating earnings for the third quarter of fiscal 2017 were \$2.5 million or 4.6 percent of sales as compared to \$3.4 million or 6.2 percent of sales in the third quarter of fiscal 2016.

We believe that the price increase that was announced during the third quarter of fiscal 2017 caused approximately \$1 million of orders that otherwise would have been entered in the fourth quarter, to be entered in the third quarter.

Lower sales volumes within The Herman Miller Collection, which was driven by the timing of shipments, was partially offset by increased shipments within the company's Geiger and Maharam subsidiaries.

Operating earnings in the third quarter included \$0.5 million of restructuring expenses.

Nine Months Ended March 4, 2017

Net sales totaled \$175.6 million for the first nine months of fiscal 2017, an increase of 3.2 percent from the same period of the prior year. Orders totaled \$173.4 million, an increase of 0.1 percent from the same period in the prior year. Operating earnings for the first nine months of fiscal 2017 were \$13.6 million or 7.7 percent of sales as compared to \$11.9 million or 7.0 percent of sales in same period of the prior year.

We believe that the price increase that was announced during the third quarter of fiscal 2017 caused approximately \$1 million of orders that otherwise would have been entered in the fourth quarter, to be entered in the third quarter.

The impact of the extra week increased net sales by approximately \$3 million in the first nine months of fiscal 2017 as compared to the same period in the prior year.

Sales volumes within the Specialty segment increased by approximately \$2.8 million, driven by the three businesses within the segment; Geiger, Maharam and The Herman Miller Collection.

Improved direct labor costs related to production volume leverage and lower benefits costs resulted in increased operating earnings in the first nine months of fiscal 2017, as compared to the same period in the prior year.

Consumer

Three Months Ended March 4, 2017

Net sales totaled \$73.1 million for the third quarter of fiscal 2017, an increase of 4.1 percent from the third quarter of fiscal 2016. Orders of \$73.1 million increased 13.3 percent from the same period in the prior year. Operating loss for the third quarter of fiscal 2017 was \$0.2 million or (0.3) percent of sales as compared to Operating earnings of \$2.8 million or 4.0 percent of sales in the third quarter of fiscal 2016.

An increase in sales volumes of approximately \$2.8 million was due to improvements across several Consumer sales channels, including studios, contract, e-commerce and direct-mail catalogs.

Incremental pre-opening costs related to non-comparable studios had a negative impact on operating earnings of approximately \$2 million compared to the same quarter last fiscal year.

The business has also made incremental investments in the infrastructure needed to support future growth in the consumer contract channel, which also contributed to the year-over-year reduction in operating earnings within this segment.

Nine Months Ended March 4, 2017

Net sales totaled \$228.1 million for the first nine months of fiscal 2017, an increase of 8.1 percent from the same period of the prior year. Orders of \$227.5 million increased 9.6 percent from the same period in the prior year. Operating earnings for the first nine months of fiscal 2017 were \$2.4 million or 1.1 percent of sales as compared to \$9.3 million or 4.4 percent of sales in the third quarter of fiscal 2016.

Increased sales volumes of approximately \$12.3 million were due to improvements across several Consumer sales channels, including studios, e-commerce and direct-mail catalogs.

The impact of the extra week increased net sales by \$4.7 million in the first nine months of fiscal 2017 as compared to the same period in the prior year.

Operating expenses within the Consumer segment were higher than the prior year primarily as a result of increased investments in marketing expenses, including those supporting the segments direct-to-consumer catalog and contract channels, and higher employee incentive costs.

Incremental pre-opening costs related to non-comparable studios had a negative impact on operating earnings of approximately \$6 million compared to the same quarter last fiscal year.

Financial Condition, Liquidity and Capital Resources

The table below presents certain key cash flow and capital highlights for the periods indicated.

(In millions)	Nine Months Ended	
	March 4, 2017	February 27, 2016
	(40 weeks)	(39 weeks)
Cash and cash equivalents, end of period	\$78.4	\$ 55.3
Marketable securities, end of period	8.0	7.3
Cash provided by operating activities	122.1	125.9

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Cash used in investing activities	(99.0)	(58.0)
Cash used in financing activities	(29.6)	(76.6)
Capital expenditures	(70.5)	(55.2)
Stock repurchased and retired	(17.2)	(8.7)
Common stock issued	7.6	6.7
Dividends paid	(29.2)	(26.0)
Interest-bearing debt, end of period	234.5	240.2
Available unsecured credit facility, end of period ⁽¹⁾	\$357.1	\$ 200.8

⁽¹⁾ Amounts shown are net of outstanding letters of credit of \$8.3 million and \$8.8 million as of March 4, 2017 and February 27, 2016, respectively, which are applied against availability under the company's unsecured credit facility.

Cash Flows - Operating Activities

Nine Month Period Ended March 4, 2017

Cash generated from operating activities was \$122.1 million for the nine month period ended March 4, 2017, as compared to \$125.9 million in the same period of the prior year. During the current nine month period, changes in working capital balances drove a use of cash totaling \$31.6 million. The main factors driving this use of cash were an increase in inventory of \$27.5 million and a decrease in accrued compensation and benefits of \$19.6 million. Inventory increased due mainly to the Consumer segment related to new product introductions, as well as the seasonal build of inventory in the third quarter in to fulfill demand from planned promotional events in the fourth quarter. Accrued compensation and benefits decreased due to the annual payout of the prior year accrued bonus and profit sharing and due to lower employee incentive cost accruals as compared to the prior year. These factors more than offset drivers within working capital that increased cash, including a decrease in accounts and notes receivable of \$36.2 million.

Nine Month Period Ended February 27, 2016

Cash generated from operating activities was \$125.9 million for the nine month period ended February 27, 2016, as compared to \$109.8 million in the same period of the prior year. During the current nine month period, changes in working capital balances drove a use of cash totaling \$26.1 million. The main factors driving this use of cash were an increase in inventory of \$9.7 million, an increase in prepaid expenses of \$10.2 million, and a decrease in accounts payable of \$21.2 million. These factors more than offset drivers within working capital that increased cash, primarily an increase in accrued compensation and benefits of \$22.2 million.

Cash Flows - Investing Activities

Investing activities in the first nine months of fiscal 2017 resulted in a net cash outflow of \$99.0 million as compared to a net cash outflow of \$58.0 million in the same period of the prior year. The largest contributor to the change in cash used in investing activities was the repayment of loans against the cash surrender value of life insurance policies in the amount of \$15.3 million. The cash surrender value of the company-owned life insurance policies and the loans were previously recorded net within "Other noncurrent assets" within the Condensed Consolidated Balance Sheets. Additionally, equity investments in noncontrolled entities resulted in a cash outlay of \$13.3 million during the first nine months of fiscal 2017.

The company had cash outflows for the purchase of \$70.5 million of capital assets in the first nine months of fiscal 2017 as compared to \$55.2 million during the first nine months of the prior year. The increase in capital expenditures as compared to the prior year was driven mainly by spend related to the company's New York City flagship showroom, office and retail studio as well as several new DWR studios. At the end of the third quarter of fiscal 2017, there were outstanding commitments for capital purchases of \$16.5 million compared to \$19.0 million at the corresponding date in the prior year. The company expects full-year capital purchases to be between \$85.0 million and \$95.0 million, which will be primarily related to investments in the company's facilities and equipment. This compares to full-year capital spending of \$85.1 million in fiscal 2016.

Cash Flows - Financing Activities

Cash outflows from financing activities were \$29.6 million for the first nine months of fiscal 2017 compared to cash outflows of \$76.6 million during the same period of the prior year. Cash inflows from net borrowings

on our revolving line of credit were \$12.6 million during the nine-month period of fiscal 2017. By comparison, cash outflows from net repayments were \$49.7 million during the same period of fiscal 2016. Cash outflows for dividend payments were \$29.2 million and \$26.0 million for the nine month periods of fiscal 2017 and fiscal 2016, respectively. Cash paid for the repurchase of common stock was \$17.2 million as compared to \$8.7 million in the first nine months of fiscal 2017 and 2016, respectively. Cash inflows for stock issuances related to employee benefit programs were \$7.6 million and \$6.7 million during the nine month periods of fiscal 2017 and fiscal 2016, respectively.

Certain minority shareholders in a subsidiary have the right, at certain times, to require the company to acquire a portion of their ownership interest in those entities at fair value. During the nine months ended March 4, 2017, the company purchased \$1.5 million of minority ownership shares as compared to zero in the same period last year. It is possible that within the next three years the company could be required to acquire the balance of this ownership interest. The fair value of this redeemable noncontrolling interest as of March 4, 2017 was \$25.0 million and is included within "Redeemable noncontrolling interests" on the Consolidated Balance Sheets.

Sources of Liquidity

In addition to cash flows from operating activities, the company has access to liquidity through credit facilities, cash and cash equivalents, and short-term investments. These sources have been summarized below. For additional information, refer to Note 12 to the condensed consolidated financial statements.

(In millions)	March 4, 2017	February 27, 2016
Cash and cash equivalents	\$78.4	\$ 55.3
Marketable securities	8.0	7.3
Availability under syndicated revolving line of credit	\$357.1	\$ 200.8

At the end of the third quarter of fiscal 2017, the company had cash and cash equivalents of \$78.4 million, including \$74.1 million of cash and cash equivalents held outside the United States. In addition, the company had marketable securities of \$8.0 million held by one of its international subsidiaries.

The subsidiary holding the company's marketable securities is taxed as a United States taxpayer at the company's election. Consequently, for tax purposes, all United States tax impacts for this subsidiary have been recorded. Additionally, the company has \$9.6 million of cash held outside of the United States for which United States taxes have been recorded. The company's intent is to permanently reinvest the remainder of the cash outside of the United States. The company's plans do not indicate a need to repatriate these balances to fund United States operations during fiscal 2017.

The company believes cash on hand, cash generated from operations, and borrowing capacity will provide adequate liquidity to fund near term and foreseeable future business operations, capital needs, future dividends and share repurchases, subject to financing availability in the marketplace.

Contractual Obligations

Contractual obligations associated with ongoing business and financing activities will require cash payments in future periods. A table summarizing the amounts and estimated timing of these future cash payments as of May 28, 2016 was provided in the company's annual report on Form 10-K for the year ended May 28, 2016. There has been no material change in such obligations since that date.

Guarantees

The company provides certain guarantees to third parties under various arrangements in the form of product warranties, loan guarantees, standby letters of credit, lease guarantees, performance bonds and indemnification provisions. These arrangements are accounted for and disclosed in accordance with FASB ASC Topic 460, *Guarantees*, as described in Note 12 to the condensed consolidated financial statements.

Variable Interest Entities

On occasion, the company provides financial support to certain independent dealers in the form of term loans, lines of credit, and/or loan guarantees that may represent variable interests in such entities. As of March 4, 2017, the company was not considered to be the primary beneficiary of any such dealer relationships under FASB ASC Topic 810, *Consolidation*. Accordingly, the company is not required to consolidate the financial statements of any of these entities as of March 4, 2017.

Contingencies

See Note 12 to the condensed consolidated financial statements.

Critical Accounting Policies

The company strives to report financial results clearly and understandably. The company follows accounting principles generally accepted in the United States in preparing its consolidated financial statements, which require certain estimates and judgments that affect the financial position and results of operations for the company. The company continually reviews the accounting policies and financial information disclosures. A summary of the more significant accounting policies that require the use of estimates and judgments in preparing the financial statements is provided in the company's annual report on Form 10-K for the year ended May 28, 2016. During the first nine months of fiscal 2017, there were no material changes in the accounting policies and assumptions previously disclosed.

New Accounting Standards

See Note 2 to the condensed consolidated financial statements.

Safe Harbor Provisions

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Certain statements in this filing are not historical facts but are “forward-looking statements” as defined under Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act, as amended, that are based on management’s beliefs, assumptions, current expectations, estimates, and projections about the office furniture industry, the economy, and the company itself. Words like “anticipates,” “believes,” “confident,” “estimates,” “expects,” “forecasts,” “likely,” “plans,” “projects,” and “should,” variations of such words, and similar expressions identify such forward-looking statements. These statements do not guarantee future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict with regard to timing, extent, likelihood, and degree of occurrence. These risks include, without limitation, the success of our growth strategy, employment and general economic conditions, the pace of economic recovery in the U.S., and in our International markets, the increase in white collar employment, the willingness of customers to undertake capital expenditures, the types of products purchased by customers, competitive-pricing pressures, the availability and pricing of raw materials, our reliance on a limited number of suppliers, our ability to expand globally given the risks associated with regulatory and legal compliance challenges and accompanying currency fluctuations, the ability to increase prices to absorb the additional costs of raw materials, the financial strength of our dealers and the financial strength of our customers, our ability to locate new DWR studios, negotiate favorable lease terms for new and existing locations and the implementation of our studio portfolio transformation, our ability to attract and retain key executives and other qualified employees, our ability to continue to make product innovations, the success of newly-introduced products, our ability to serve all of our markets, possible acquisitions, divestitures or alliances, the pace and level of government procurement, the outcome of pending litigation or governmental audits or investigations, political risk in the markets we serve, and other risks identified in our filings with the Securities and Exchange Commission. Therefore, actual results and outcomes may materially differ from what we express or forecast. Furthermore, Herman Miller, Inc., undertakes no obligation to update, amend or clarify forward-looking statements.

Item 3: Quantitative and Qualitative Disclosures About Market Risk

The information concerning quantitative and qualitative disclosures about market risk contained in the company's Annual Report on Form 10-K for its fiscal year ended May 28, 2016 has not changed significantly. The nature of market risks from interest rates and commodity prices has not changed materially during the first nine months of fiscal 2017.

Foreign Exchange Risk

The company manufactures its products in the United States, United Kingdom, China and India. The company also sources completed products and product components from both inside and outside the United States. The company's completed products are sold in numerous countries around the world. Sales in foreign countries as well as certain expenses related to those sales are transacted in currencies other than the company's reporting currency, the United States dollar. Accordingly, production costs and profit margins related to these sales are affected by the currency exchange relationship between the countries where the sales take place and the countries where the products are sourced or manufactured. These currency exchange relationships can also affect the company's competitive positions within these markets.

The principal foreign currencies in which the company conducts its business are the British pound sterling, European euro, Canadian dollar, Australian dollar, Japanese yen, Mexican peso, Brazilian real, Indian rupee, South African rand, Hong Kong dollar and Chinese renminbi. In the normal course of business, the company enters into forward foreign currency exchange swap contracts. Changes in the fair value of such contracts are reported in earnings in the period the value of the contract changes. The net gain or loss upon settlement and the change in fair value of outstanding contracts is recorded as a component of other expense (income), net.

Item 4: Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of management, including the company's Chief Executive Officer and Chief Financial Officer, management has evaluated the effectiveness of the company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of March 4, 2017, and the company's Chief Executive Officer and Chief Financial officer have concluded that, as of that date, the company's disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting

There were no changes in the company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) during the quarterly period ended March 4, 2017, that have materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting.

Part II - Other Information

Item 1: Legal Proceedings

Referred to in Note 12 of the condensed consolidated financial statements.

Item 1A: Risk Factors

There have been no material changes in the company's risk factors from those set forth in the company's Annual Report on Form 10-K for the year ended May 28, 2016.

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Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

The following is a summary of share repurchase activity during the quarter ended March 4, 2017.

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average price Paid per Share or Unit	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that may yet be Purchased Under the Plans or Programs (in millions)
12/4/16 - 12/31/16	1,316	\$ 35.75	1,316	\$120,188,858
1/1/17 - 1/31/17	76,112	\$ 31.39	76,112	\$117,799,819
2/1/17 - 3/4/17	84,700	\$ 31.13	84,700	\$115,162,898
Total	162,128		162,128	

No repurchase plans expired or were terminated during the third quarter of fiscal 2017, nor do any plans exist under which the company does not intend to make further purchases. The Board has the authority to terminate any further repurchases.

During the period covered by this report, the company did not sell any of its equity securities that were not registered under the Securities Act of 1933.

Item 3: Defaults upon Senior Securities

None

Item 4: Mine Safety Disclosures

Not applicable

Item 5: Other Information

None

Item 6: Exhibits

The following exhibits (listed by number corresponding to the Exhibit table as Item 601 in Regulation S-K) are filed with this Report:

Exhibit Number Document

31.1 Certificate of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certificate of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certificate of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certificate of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS¹ The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.

101.SCHXBRL Taxonomy Extension Schema Document

101.CALXBRL Taxonomy Extension Calculation Linkbase Document

101.LABXBRL Taxonomy Extension Label Linkbase Document

101.PREXBRL Taxonomy Extension Presentation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereto duly authorized.

HERMAN MILLER, INC.

April 12, 2017 /s/ Brian C. Walker
Brian C. Walker
Chief Executive Officer
(Duly Authorized
Signatory for
Registrant)

April 12, 2017 /s/ Jeffrey M. Stutz
Jeffrey M. Stutz
Chief Financial Officer
(Duly Authorized
Signatory for
Registrant)