

MILLER HERMAN INC
Form 10-Q
April 11, 2013

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 2, 2013

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 8, 2013 - 58,617,907 shares

HERMAN MILLER, INC. FORM 10-Q
 FOR THE QUARTER ENDED MARCH 2, 2013
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HERMAN MILLER, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Dollars in Millions Except Share Data)
 (Unaudited)

	March 2, 2013	June 2, 2012
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 198.1	\$ 172.2
Marketable securities	10.2	9.6
Accounts receivable, net	154.6	159.7
Inventories, net	66.4	59.3
Prepaid expenses and other	48.9	54.5
Total current assets	478.2	455.3
Property and equipment, at cost	727.7	711.5
Less — accumulated depreciation	(559.9)	(555.5)
Net property and equipment	167.8	156.0
Other Assets:		
Goodwill	146.3	146.4
Indefinite-lived intangibles	39.3	39.3
Other amortizable intangibles, net	29.4	31.1
Other noncurrent assets	15.2	11.0
Total other assets	230.2	227.8
Total Assets	\$876.2	\$839.1
LIABILITIES & STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 103.8	\$ 115.8
Accrued compensation and benefits	60.4	54.5
Accrued warranty	24.0	22.2
Other accrued liabilities	61.8	61.2
Total current liabilities	250.0	253.7
Long-term Liabilities:		
Long-term debt	250.0	250.0
Pension and post-retirement benefits	45.2	37.9
Other liabilities	38.7	49.2
Total long-term liabilities	333.9	337.1
Total Liabilities	583.9	590.8
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)	11.7	11.7
Additional paid-in capital	98.6	90.9
Retained earnings	315.1	288.2
Accumulated other comprehensive loss	(131.2)	(140.6)
Key executive deferred compensation plans	(1.9)	(1.9)
Total Stockholders' Equity	292.3	248.3
Total Liabilities and Stockholders' Equity	\$876.2	\$839.1

See accompanying notes to condensed consolidated financial statements.

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HERMAN MILLER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Dollars in Millions, Except Per Share Data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	March 2, 2013	March 3, 2012	March 2, 2013	March 3, 2012
Net Sales	\$423.5	\$399.8	\$1,315.0	\$1,303.5
Cost of Sales	279.1	265.6	872.4	862.9
Gross Margin	144.4	134.2	442.6	440.6
Operating Expenses	117.0	108.9	362.2	332.8
Restructuring and Other Related Expenses	—	—	1.2	—
Operating Earnings	27.4	25.3	79.2	107.8
Other Expenses:				
Interest expense	4.2	4.1	12.9	13.3
Other, net	(0.1) (0.2) 0.1	0.7
Earnings Before Income Taxes	23.3	21.4	66.2	93.8
Income Tax Expense	6.8	6.5	21.4	30.6
Net Earnings	\$16.5	\$14.9	\$44.8	\$63.2
Earnings Per Share — Basic	\$0.28	\$0.26	\$0.77	\$1.09
Earnings Per Share — Diluted	\$0.28	\$0.26	\$0.76	\$1.08
Comprehensive Income	\$10.6	\$17.2	\$54.1	\$60.1
Dividends Declared, Per Share	\$0.125	\$0.022	\$0.305	\$0.066

See accompanying notes to condensed consolidated financial statements.

HERMAN MILLER, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF
 CASH FLOWS
 (Dollars in Millions)
 (Unaudited)

	Nine Months Ended	
	March 2, 2013	March 3, 2012
Cash Flows from Operating Activities:		
Net earnings	\$44.8	\$63.2
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	28.1	27.9
Stock-based compensation	5.8	4.5
Pension and post-retirement expenses	28.1	8.3
Deferred taxes	(19.6)	(0.2)
Gain on sales of property and dealers	(0.9)	—
Restructuring and other related expenses	1.2	—
Other, net	1.4	2.7
Increase in current assets	2.8	29.9
Decrease in current liabilities	(7.5)	(34.5)
Decrease in non-current liabilities	(6.9)	(19.4)
Net Cash Provided by Operating Activities	77.3	82.4
Cash Flows from Investing Activities:		
Proceeds from sales of property and dealers	1.1	13.8
Marketable securities purchases	(2.5)	(5.6)
Marketable securities sales	2.0	5.9
Acquisitions, net of cash received	(1.7)	—
Capital expenditures	(39.4)	(19.1)
Other, net	(0.4)	(1.2)
Net Cash Used in Investing Activities	(40.9)	(6.2)
Cash Flows from Financing Activities:		
Dividends paid	(11.8)	(3.8)
Proceeds from notes payable	2.4	—
Notes payable payments	(2.4)	—
Common stock issued	5.5	5.9
Common stock repurchased and retired	(3.5)	(2.7)
Net Cash Used in Financing Activities	(9.8)	(0.6)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(0.7)	—
Net Increase in Cash and Cash Equivalents	25.9	75.6
Cash and Cash Equivalents, Beginning of Period	172.2	142.2
Cash and Cash Equivalents, End of Period	\$198.1	\$217.8

See accompanying notes to condensed consolidated financial statements.

HERMAN MILLER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 accounting principles generally accepted in the United States of America 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 which are of a normal recurring nature necessary to present fairly the financial position of the company as of March 2, 2013, and the results of its operations and cash flows for the interim periods presented. Operating results for the nine-month period ended March 2, 2013, are not necessarily indicative of the results that may be expected for the year ending June 1, 2013. 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 Form 10-K filing for the year ended June 2, 2012. Certain prior year information has been reclassified to conform to the current year presentation.

2. NEW ACCOUNTING STANDARDS

In July 2012, the FASB issued ASU No. 2012-02, "Intangibles-Goodwill and Other (ASC Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment." ASU 2012-02 amends prior indefinite-lived intangible asset impairment testing guidance. Under ASU 2012-02, the company has the option to first assess qualitative factors to determine whether it is more likely than not (a likelihood of more than 50%) that an indefinite-lived intangible asset is impaired. If, after considering the totality of events and circumstances, an entity determines it is more likely than not that an indefinite-lived intangible asset is not impaired, then calculating the fair value of such asset is unnecessary. ASU 2012-02 was effective for the company in the second quarter of fiscal 2013. The adoption did not have a material impact on the company's consolidated financial position, results of operations or cash flows.

In February 2013, the FASB issued ASU 2013-02, "Comprehensive Income (ASC Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income," which requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, entities are required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, entities are required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail on these amounts. This ASU is effective prospectively for reporting periods beginning after December 15, 2012. The company is currently evaluating the impact of adopting this guidance.

3. FISCAL YEAR

The company's fiscal year ends on the Saturday closest to May 31. Fiscal 2013, the year ending June 1, 2013, and fiscal 2012, the year ended June 2, 2012, contain 52 weeks and 53 weeks, respectively. The first nine months of fiscal 2013 and fiscal 2012 contained 39 weeks and 40 weeks, respectively. The third quarter of fiscal 2013 and fiscal 2012 contained 13 weeks, respectively.

4. ACQUISITIONS AND DIVESTITURES

Acquisitions

On April 3, 2012, the company acquired POSH Office Systems Ltd. ("POSH"). POSH is a Hong Kong-based designer and distributor of office furniture systems, freestanding furniture, seating, and filing and storage with distribution in Hong Kong and China. The allocation of the purchase price was finalized during the third quarter of fiscal 2013, as a result of which no significant changes were made to the previously recorded amounts. The consideration transferred to acquire POSH includes \$47.1 million in net cash transferred during fiscal 2012 and an additional component of performance based contingent consideration ranging between \$1.0 million and \$13.0 million to be earned over the next three years. The company also made a \$1.7 million cash payment during the second quarter of fiscal 2013 as final settlement of the cash purchase price for the company's acquisition of POSH. This payment resulted in adjustments to the preliminary purchase accounting resulting in an increase in goodwill and accrued liabilities.

Divestitures

During the third quarter of fiscal 2013, the company completed the sale of one wholly-owned contract furniture dealership in Florida. A gain on sale of \$1.0 million was recognized as a result of the transaction. Furthermore, the company completed the sale of one wholly-owned contract furniture dealership in California during the second quarter of fiscal year 2012, as well as two wholly-owned contract furniture dealerships in Texas and Colorado during the first quarter of fiscal year 2012. The effect of these transactions on the company's consolidated financial statements was not material.

5. INVENTORIES

(In millions)	March 2, 2013	June 2, 2012
Finished goods and work in process	\$47.3	\$40.4
Raw materials	19.1	18.9
Total	\$66.4	\$59.3

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

6. GOODWILL AND INDEFINITE-LIVED INTANGIBLES

Goodwill and other indefinite-lived assets included in the Condensed Consolidated Balance Sheets consist of the following as of March 2, 2013 and June 2, 2012:

(In millions)	Goodwill	Indefinite-lived Intangible Assets	Total Goodwill and Indefinite-lived Intangible Assets
June 2, 2012	\$146.4	\$39.3	\$185.7
Foreign currency translation adjustments	—	—	—
Sale of owned dealer	(0.1) —	(0.1)
March 2, 2013	\$146.3	\$39.3	\$185.6

7. EMPLOYEE BENEFIT PLANS

The company maintains retirement benefit plans for substantially all of its employees.

Pension Plans and Post-Retirement Medical Insurance

During the fourth quarter of fiscal 2012, the company announced a change to its employee retirement programs from a defined benefit-based model to a defined contribution structure. The company approved a plan to freeze future benefit accruals of its primary domestic defined benefit plan as of September 1, 2012 and intends to ultimately terminate its domestic defined benefit plans. The company transitioned employees to a new defined contribution program as of September 1, 2012. The termination process for the defined benefit plans is expected to take 12 to 18 months from September 1, 2012.

The measurement date for the company's primary domestic pension plan is the last day of the fiscal year. Certain participants of this plan elected a lump-sum payment of their pension benefits during the second quarter and third quarter of fiscal 2013. These elections resulted in the recognition of settlement expenses of \$16.0 million in the second quarter and \$1.7 million in the third quarter of fiscal 2013. Subsequent to the accounting for this settlement activity, the company then remeasured the assets and liabilities of this plan as of the end of the second quarter and third quarter of fiscal 2013.

A pension settlement charge is recorded when the total lump-sum payments for a year exceed total service and interest costs recognized for that year. The settlement charge recognizes a pro-rata portion of the unrecognized actuarial net losses equal to the percentage reduction in the pension benefit obligation. The settlement expenses recognized do not affect total equity, as the amounts are reclassified from accumulated other comprehensive loss within stockholders' equity.

Based on information currently available to the company, it is likely, but not certain, that the company will recognize additional settlement expenses between \$1.0 million and \$3.0 million over the balance of fiscal 2013.

Components of Net Periodic Benefit Costs

(In millions)	Three Months Ended		Other Post-Retirement	
	Pension Benefits		Benefits	
	March 2, 2013	March 3, 2012	March 2, 2013	March 3, 2012
Domestic:				
Service cost	\$—	\$1.7	\$—	\$—
Interest cost	2.4	3.6	0.1	0.1
Expected return on plan assets	(2.9) (4.8) —	—
Net amortization loss	2.8	1.8	—	—
Settlement loss recognized	1.7	—		