

MILLER HERMAN INC
Form 10-Q
January 07, 2015

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 November 29, 2014

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 January 5, 2015 - 59,594,395 shares

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 FOR THE QUARTER ENDED NOVEMBER 29, 2014
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HERMAN MILLER, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Dollars in Millions, Except Per Share Data)
 (Unaudited)

	Three Months Ended		Six Months Ended	
	November 29, 2014	November 30, 2013	November 29, 2014	November 30, 2013
Net sales	\$565.4	\$470.5	\$1,075.1	\$938.6
Cost of sales	359.7	351.6	683.8	649.7
Gross margin	205.7	118.9	391.3	288.9
Operating expenses:				
Selling, general, and administrative	141.1	223.6	267.8	338.0
Restructuring and impairment expenses	—	4.0	—	4.0
Design and research	17.9	16.5	34.6	33.0
Total operating expenses	159.0	244.1	302.4	375.0
Operating earnings (loss)	46.7	(125.2	) 88.9	(86.1
Other expenses:				
Interest expense	4.6	4.3	9.3	8.8
Other, net	0.1	(0.2	) 0.1	(0.1
Earnings before income taxes and equity income	42.0	(129.3	) 79.5	(94.8
Income tax expense (benefit)	14.2	(48.6	) 26.6	(36.6
Equity earnings from nonconsolidated affiliates, net of tax	—	0.1	0.1	0.1
Net earnings (loss)	27.8	(80.6	) 53.0	(58.1
Net earnings attributable to noncontrolling interests	—	—	—	—
Net earnings (loss) attributable to Herman Miller, Inc.	\$27.8	\$(80.6	) \$53.0	\$(58.1
Earnings (loss) per share — basic	\$0.47	\$(1.37	) \$0.89	\$(0.99
Earnings (loss) per share — diluted	\$0.46	\$(1.37	) \$0.88	\$(0.99
Dividends declared, per share	\$0.140	\$0.125	\$0.280	\$0.250
Other comprehensive income, net of tax				
Foreign currency translation adjustments	\$(5.4	) \$2.8	\$(5.9	) \$2.1
Pension and post-retirement liability adjustments	0.5	86.2	0.9	87.6
Other comprehensive income (loss)	(4.9	) 89.0	(5.0	) 89.7
Comprehensive income	22.9	8.4	48.0	31.6
Comprehensive income attributable to noncontrolling interests	—	—	—	—
Comprehensive income attributable to Herman Miller, Inc.	\$22.9	\$8.4	\$48.0	\$31.6

See accompanying notes to condensed consolidated financial statements.

HERMAN MILLER, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Dollars in Millions Except Share Data)
 (Unaudited)

	November 29, 2014	May 31, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents	\$64.7	\$101.5
Marketable securities	6.6	11.1
Accounts and notes receivable, net	198.6	204.3
Inventories, net	126.3	78.4
Prepaid expenses and other	65.1	56.5
Total current assets	461.3	451.8
Property and equipment, at cost	846.5	789.2
Less — accumulated depreciation	(612.4	) (594.0
Net property and equipment	234.1	195.2
Goodwill	303.9	228.2
Indefinite-lived intangibles	96.0	40.9
Other amortizable intangibles, net	55.7	44.2
Other noncurrent assets	42.9	30.6
Total Assets	\$1,193.9	\$990.9
LIABILITIES & STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt	\$50.0	\$50.0
Accounts payable	160.7	136.9
Accrued compensation and benefits	62.4	65.0
Accrued warranty	26.0	25.2
Other accrued liabilities	93.2	79.0
Total current liabilities	392.3	356.1
Long-term debt	277.0	200.0
Pension and post-retirement benefits	16.5	18.2
Other liabilities	69.8	44.5
Total Liabilities	755.6	618.8
Redeemable noncontrolling interests	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)	11.9	11.9
Additional paid-in capital	130.4	122.4
Retained earnings	313.6	277.4
Accumulated other comprehensive loss	(42.9	) (37.9
Key executive deferred compensation plans	(1.7	) (1.7
Total Stockholder's Equity	411.3	372.1
Total Liabilities, Redeemable Noncontrolling Interest, and Stockholders' Equity	\$1,193.9	\$990.9

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended	
	November 29, 2014	November 30, 2013
Cash Flows from Operating Activities:		
Net earnings (loss)	\$53.0	\$(58.1)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Depreciation and amortization	25.2	21.6
Stock-based compensation	5.7	5.6
Excess tax benefits from stock-based compensation	(0.6)	(0.8)
Pension and post-retirement expenses	0.6	116.4
Deferred taxes	(5.4)	(49.0)
Gain on sales of property and dealers	(0.2)	(0.3)
Restructuring and impairment expenses	—	4.0
Other, net	0.4	0.3
Increase in current assets	(1.7)	(11.9)
Increase in current liabilities	3.3	6.0
(Increase) Decrease in non-current liabilities	0.4	(6.3)
Net Cash Provided by Operating Activities	80.7	27.5
Cash Flows from Investing Activities:		
Proceeds from sales of property and dealers	0.3	—
Marketable securities purchases	—	(3.2)
Marketable securities sales	4.5	2.5
Acquisitions, net of cash received	(154.0)	(5.9)
Capital expenditures	(26.7)	(20.0)
Other, net	(0.6)	0.3
Net Cash Used in Investing Activities	(176.5)	(26.3)
Cash Flows from Financing Activities:		
Dividends paid	(16.6)	(14.7)
Proceeds from issuance of long-term debt	401.5	—
Payments of long-term debt	(324.5)	—
Common stock issued	5.7	8.9
Common stock repurchased and retired	(3.2)	(4.1)
Excess tax benefits from stock-based compensation	0.6	0.8
Payment of contingent consideration obligation	—	(1.3)
Purchase of noncontrolling interests	(5.8)	—
Other, net	0.8	0.1
Net Cash Provided by/(Used in) Financing Activities	58.5	(10.3)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	0.5	(0.3)
Net Increase (Decrease) in Cash and Cash Equivalents	(36.8)	(9.4)

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Cash and Cash Equivalents, Beginning of Period	101.5	82.7
Cash and Cash Equivalents, End of Period	\$64.7	\$73.3

See accompanying notes to condensed consolidated financial statements.

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HERMAN MILLER, INC.
CONDENSED CONSOLIDATED STATEMENTS OF
STOCKHOLDERS' EQUITY
(Dollars in Millions)
(Unaudited)

	Six Months Ended	
	November 29, 2014	November 30, 2013
REDEEMABLE NONCONTROLLING INTERESTS		
Balance at beginning of year	\$—	\$—
Redeemable noncontrolling interests related to DWR acquisition	25.7	—
Stock-based compensation expense	0.5	—
Sale of redeemable noncontrolling interests	0.1	—
Stock options exercised	0.7	—
Redeemable noncontrolling interests	\$27.0	\$—
STOCKHOLDERS' EQUITY		
Preferred Stock		
Balance at beginning of year and end of period	\$—	\$—
Common Stock		
Balance at beginning of year	11.9	11.7
Exercise of stock options	—	0.1
Balance at end of period	11.9	11.8
Additional Paid-in Capital		
Balance at beginning of year	122.4	102.9
Repurchase and retirement of common stock	(3.2	) (4.1
Exercise of stock options	4.9	8.0
Stock-based compensation expense	5.2	5.6
Excess tax benefit for stock-based compensation	0.2	0.7
Restricted stock units released	0.1	0.1
Employee stock purchase plan issuances	0.8	0.8
Balance at end of period	130.4	114.0
Retained Earnings		
Balance at beginning of year	277.4	331.1
Net income attributable to Herman Miller, Inc.	53.0	(58.1
Dividends declared on common stock (per share - 2015: \$0.280; 2014; \$0.250)	(16.8	) (14.9
Balance at end of period	313.6	258.1
Accumulated Other Comprehensive Loss		
Balance at beginning of year	(37.9	) (124.3
Other comprehensive income (loss)	(5.0	) 89.7
Balance at end of period	(42.9	) (34.6
Key Executive Deferred Compensation		
Balance at beginning of year	(1.7	) (1.9
Deferred compensation plan	—	—
Balance at end of period	(1.7	) (1.9
Noncontrolling Interests		
Balance at beginning of year	—	—
Noncontrolling interests related to DWR acquisition	5.8	—

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Purchase of noncontrolling interests	(5.8)	—
Balance at end of period	—		—
Total Stockholders' Equity	\$411.3		\$347.4

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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 November 29, 2014. Operating results for the six months ended November 29, 2014, are not necessarily indicative of the results that may be expected for the year ending May 30, 2015. 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 May 31, 2014.

2. NEW ACCOUNTING STANDARDS

Recently Adopted Accounting Guidance

During the first quarter of fiscal 2015, the company adopted Accounting Standards Update ("ASU") 2013-11, "Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists," which defines the presentation requirements of an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements. The adoption of this standard did not have a material impact on the consolidated financial statements.

Accounting Guidance Issued But Not Adopted as of November 29, 2014

During the first quarter of fiscal 2015, the Financial Accounting Standards Board ("FASB") issued ASU 2014-12, "Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could be Achieved after the Requisite Service Period." This ASU provides more specificity regarding the treatment of share-based payment awards that require a specific performance target that affects vesting and that could be achieved after the requisite service period as a performance condition. This guidance is effective for annual and interim reporting periods beginning after December 15, 2015. The adoption of this standard is not expected to have a material impact on the consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which is the single, comprehensive revenue recognition standard that will supersede all existing revenue recognition guidance under U.S. GAAP. The core principle of the standard is that a company will recognize revenue when it transfers promised goods or services to a customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU is effective for annual and interim periods beginning on or after December 15, 2016, and early adoption is not permitted. 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 2015, the year ending May 30, 2015, and fiscal 2014, the year ended May 31, 2014, each contain 52 weeks. The second quarter of fiscal 2015 and fiscal 2014 each contained 13 weeks.

4. ACQUISITIONS AND DIVESTITURES

Design Within Reach Acquisition

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

The company purchased an ownership interest in DWR equal to approximately 81 percent for \$155.2 million in cash. The acquisition was financed by using a combination of existing cash and \$127.0 million of borrowings on the company's available, unsecured credit facility. As a result of the transaction, the company estimates it will receive future tax benefits with a present value of approximately \$10 million measured as of the date of acquisition. Additionally, certain senior management of DWR received fully-vested stock options, with a value of \$1.7 million, in the equity of a newly-formed consumer-facing subsidiary that DWR merged into as a result of the transaction. These fully-vested equity awards are recorded in the Condensed Consolidated Balance Sheet within "Redeemable noncontrolling interests".

Subsequent to the initial transaction, the company acquired an additional 4 percent of DWR stock from the remaining public shareholders for approximately \$5.8 million in cash, all of which was paid during the first and second quarters of fiscal 2015. The remaining 15 percent of DWR stock was contributed by DWR executives into the newly formed consumer business subsidiary and the company contributed the assets of the existing Herman Miller Consumer business. After these transactions, the redeemable noncontrolling interests in the newly

formed subsidiary, known as Herman Miller Consumer Holdings, Inc. ("HMCH"), was approximately 7 percent. The remaining HMCH shareholders have a put option to require the company to purchase their remaining interest over a five-year period from the date of issuance of such shares. As a result, these noncontrolling interests are not included within Stockholders' Equity within the Condensed Consolidated Balance Sheets, but rather are included within Redeemable noncontrolling interests.

During the measurement period, the company made certain post-closing adjustments related to the final settlement of net working capital, valuation of customer relationship intangible assets, valuation of accounts receivable, and deferred income taxes that resulted in a net increase to goodwill of \$1.8 million. The following table summarizes the fair values of the assets acquired and the liabilities assumed from the acquisition. The allocation of the purchase price is still considered preliminary, and the company is finalizing information related to the valuation and useful lives of intangible assets, deferred income taxes, and goodwill. The final determination of the fair values may result in further adjustments to the values presented below:

Valuation as of July 28, 2014

(In millions)	At acquisition date - reported as of August 30, 2014	Measurement Period Adjustments	At acquisition date - reported as of November 29, 2014
Purchase price	\$ 155.0	\$ 0.2	\$ 155.2
Fair value of the assets acquired:			
Cash	1.2	—	1.2
Accounts receivable	2.4	(0.2)	)2.2
Inventory	47.4	—	47.4
Other current assets	5.5	—	5.5
Long term deferred tax asset	3.7	—	3.7
Goodwill	74.4	1.8	76.2
Other intangible assets	69.6	(0.3)	)69.3
Property	32.0	—	32.0
Other long term assets	2.4	—	2.4
Total assets acquired	238.6	1.3	239.9
Fair value of liabilities assumed:			
Accounts payable	20.8	—	20.8
Current deferred tax liabilities	0.6	—	0.6
Accrued compensation and benefits	1.6	—	1.6
Other accrued liabilities	12.3	—	12.3
Long term deferred tax liability	16.4	1.1	17.5
Other long term liabilities	0.4	—	0.4
Total liabilities assumed	52.1	1.1	53.2
Redeemable noncontrolling interests	25.7	—	25.7
Noncontrolling interests	5.8	—	5.8
Net assets acquired	\$ 155.0	\$ 0.2	\$ 155.2

The goodwill stemming from the transaction in the amount of \$76.2 million was preliminarily recorded as "Goodwill" in the Condensed Consolidated Balance Sheet and allocated to the Consumer reportable segment. The goodwill recognized is attributable primarily to the assembled workforce and expected synergies from DWR and the total amount of this goodwill is not deductible for tax purposes.

Other intangible assets acquired as a result of the acquisition of Design Within Reach were preliminarily valued at \$69.3 million. These amounts are reflected in the values presented in the following table:

Intangible Assets Acquired from the DWR Acquisition

(In millions)	Fair Value	Useful Life
Trade Names and Trademarks	\$55.1	Indefinite
Exclusive Distribution Agreements	0.2	1.5 years
Customer Relationships	12.8	10 - 16 years
Product Development Designs	1.2	7 years
Total Intangible Assets Acquired	\$69.3	

The following table provides net sales and results of operations from DWR included in the company's results since the July 28, 2014 acquisition.

DWR Results of Operations

(In millions)	July 28, 2014 - August 30, 2014	Three Months Ended November 29, 2014	Six Months Ended November 29, 2014
DWR Net sales	\$21.6	\$66.8	\$88.4
Intercompany sales elimination	(1.6)	)(5.8	)(7.4
Net sales impact to Herman Miller, Inc.	\$20.0	\$61.0	\$81.0
Net loss	\$(1.6)	)(2.2	)(3.8

DWR Acquisition-related expenses were \$0.2 million for the second quarter and were \$2.2 million for the six-month period. These expenses included legal and professional services fees.

China Manufacturing and Distribution Acquisition

On September 30, 2013, the company acquired certain assets from Dongguan Sun Hing Steel Furniture Factory Ltd (DGSH) which together constituted the acquisition of a business. The acquired business is a manufacturing and distribution operation in Dongguan, China. Consideration transferred to acquire the net assets of DGSH consisted of \$8.2 million in cash, of which \$6.7 million was paid during the second and third quarters of fiscal 2014. The remaining payment is recorded in the Condensed Consolidated Balance Sheets within "Other Accrued Liabilities" and is expected to be made within the next nine months. The Company has finalized the purchase accounting for the acquisition of the China manufacturing and distribution facility.

Divestitures

During the second quarter of fiscal 2014, the company completed the sale of one wholly-owned contract furniture dealership in Arkansas. The effect of this transaction on the company's consolidated financial statements was not material. The company also completed the sale of one wholly-owned contract furniture dealership in Oregon during the first quarter of fiscal 2014. The effect of this transaction on the company's consolidated financial statements was also not material.

5. INVENTORIES, NET

(In millions)	November 29, 2014	May 31, 2014
Finished goods	\$102.7	\$58.2
Raw materials	23.6	20.2
Total	\$126.3	\$78.4

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

6. GOODWILL AND INDEFINITE-LIVED INTANGIBLES

Goodwill and other indefinite-lived intangible assets included in the Condensed Consolidated Balance Sheets consisted of the following as of November 29, 2014 and May 31, 2014:

(In millions)	Goodwill	Indefinite-lived Intangible Assets	Total Goodwill and Indefinite-lived Intangible Assets
May 31, 2014	\$228.2	\$40.9	\$269.1
Foreign currency translation adjustments	(0.5	) —	(0.5)
DWR acquisition	76.2	55.1	131.3
November 29, 2014	\$303.9	\$96.0	\$399.9

7. EMPLOYEE BENEFIT PLANS**Pension Plans and Post-Retirement Medical Insurance**

During the second quarter of fiscal 2014, the company settled the remaining obligations associated with its primary domestic defined benefit pension plans. Plan participants received vested benefits from the plan assets by electing either a lump sum distribution, roll-over contribution to other 401(k) or individual retirement plans, or an annuity contract with a qualifying third-party provider. These payments resulted in the settlement of the primary domestic defined benefit pension plans, thus relieving the company of any further obligation.

Components of Net Periodic Benefit Costs

(In millions)	Three Months Ended		Other Post-Retirement Benefits	
	Pension Benefits		November 29,	November 30,
	November 29,	November 30,	November 29,	November 30,
	2014	2013	2014	2013
Domestic:				
Interest cost	\$—	\$2.6	\$0.1	\$0.1
Expected return on plan assets	—	(1.9) —	—
Net amortization loss	—	2.4	—	—
Settlement loss recognized	—	158.2	—	—
Net periodic benefit cost	\$—	\$161.3	\$0.1	\$0.1
International:				
Interest cost	\$1.1	\$1.0		
Expected return on plan assets	(1.5	) (1.2)	
Net amortization loss	0.5	0.4		
Net periodic benefit cost	\$0.1	\$0.2		
Six Months Ended				
	Pension Benefits		Other Post-Retirement Benefits	
	November 29,	November 30,	November 29,	November 30,
	2014	2013	2014	2013
Domestic:				
Interest cost	\$—	\$5.2	\$0.2	\$0.2
Expected return on plan assets	—	(3.8) —	—
Net amortization loss	—	4.8	—	—
Settlement loss recognized	—	158.2	—	—
Net periodic benefit cost	\$—	\$164.4	\$0.2	\$0.2
International:				
Interest cost	\$2.3	\$2.0		
Expected return on plan assets	(3.0	) (2.4)	
Net amortization loss	1.0	0.8		
Net periodic benefit cost	\$0.3	\$0.4		

8. EARNINGS PER SHARE

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

	Three Months Ended		Six Months Ended	
	November 29,	November 30,	November 29,	November 30,
	2014	2013	2014	2013
Numerators:				
Numerator for both basic and diluted EPS, net earnings - in millions	\$27.8	\$(80.6	) \$53.0	\$(58.1
)
Denominators:				
Denominator for basic EPS, weighted-average common shares outstanding	59,445,577	58,923,648	59,370,718	58,825,377

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Potentially dilutive shares resulting from stock plans	578,941	—	581,916	—
Denominator for diluted EPS	60,024,518	58,923,648	59,952,634	58,825,377
Antidilutive equity awards not included in weighted-average common shares - diluted	538,380	2,780,570	743,060	2,867,150

The total antidilutive equity awards not included in the weighted-average common shares for the second quarter of fiscal 2015 and fiscal 2014 were 538,380 shares and 2,780,570 shares, respectively. Included within these amounts were options to purchase 507,252 shares and 2,094,277 shares, respectively.

For the six months ended November 29, 2014 and November 30, 2013, the total antidilutive equity shares not included in the weighted-average common shares were 743,060 shares and 2,867,150 shares, respectively. Included within these amounts were options to purchase 716,843 shares and 2,191,741 shares, respectively.

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

9. STOCK-BASED COMPENSATION

The company's stock-based compensation expense for the three month periods ended November 29, 2014 and November 30, 2013 was \$2.7 million and \$2.8 million, respectively. The related income tax effect for the three month periods ended November 29, 2014 and November 30, 2013 was \$1.0 million. For the six months ended November 29, 2014 and November 30, 2013, compensation costs were \$5.7 million and \$5.6 million, respectively. The related income tax effect for the respective six month periods was \$2.1 million and \$2.0 million, respectively.

Stock-based compensation expense recognized in the Condensed Consolidated Statements of Comprehensive Income for the three and six month periods ended November 29, 2014 and November 30, 2013 has been reduced for estimated forfeitures, as it is based on awards ultimately expected to vest. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ. Forfeitures are estimated based on historical experience.

For the six month period ended November 29, 2014, the company issued 226,867 shares of common stock related to the exercise of stock options and 121,985 of common stock related to the vesting of restricted stock units.

For the six month period ended November 30, 2013, the company issued 390,080 shares of common stock related to the exercise of stock options and 93,041 shares of common stock related to the vesting of restricted stock units.

Stock Option Plans

The company has stock option plans under which options to purchase the company's stock are granted to employees, directors, and consultants at a price not less than the market price of the company's common stock on the date of grant. Under the current award program, all options become exercisable between one year and three years from date of grant and expire ten years from date of grant. Most options are subject to graded vesting with the related compensation expense recognized on a straight-line basis over the requisite service period. The company estimates the issuance date fair value of stock options on the date of grant using the Black-Scholes model.

Herman Miller Consumer Holdings Stock (HMCH) Option Plan

Certain employees have been granted, as rollover grants from the acquisition of DWR, options to purchase stock of HMCH, a subsidiary of the company, at a price equal to the exercise price of the original DWR stock options. These awards are fully vested and exercisable at the rollover grant date, and expire at the end of the window period that follows the fifth anniversary of the grant date. Certain employees were also granted new options to purchase stock of HMCH at a price not less than the market price of HMCH common stock on the date of grant. For the grants of new options under the award program, options are potentially exercisable between one year and five years from date of grant and expire at the end of the window period that follows the fifth anniversary of the grant date. Vesting is based on the performance of HMCH over a period of five years. Compensation expense is determined based on grant-date fair value and the number of common shares projected to be issued and is recognized over the requisite service period.

The company estimates the issuance date fair value of HMCH stock options on the date of grant using the Black-Scholes model.

Employee Stock Purchase Program

Under the terms of the company's Employee Stock Purchase Plan, 4 million shares of authorized common stock were reserved for purchase by plan participants at 85 percent of the market price. The company recognizes pre-tax compensation expense related to the market value discount.

Restricted Stock Grants

The company periodically grants restricted common stock to certain key employees. Shares are granted in the name of the employee, who has all the rights of a shareholder, subject to certain restrictions on transferability and risk of forfeiture. The grants are subject to either cliff-based or graded vesting over a period not exceeding five years, and are subject to forfeiture if the employee ceases to be employed by the company for certain reasons. After the vesting period, the risk of forfeiture and restrictions on transferability lapses. The compensation expense for these awards is based on the closing stock price on the date of grant. The company recognizes the related compensation expense on a straight-line basis over the requisite service period.

Restricted Stock Units

The company grants restricted stock units to certain key employees. The awards generally cliff-vest after a three or five-year service period, with prorated vesting under certain circumstances and full or partial accelerated vesting upon retirement. Each restricted stock unit represents one equivalent share of the company's common stock to be issued, free of restrictions, after the vesting period. The compensation expense for these awards is based on the closing stock price on the date of grant. Compensation expense related to these awards is recognized over the requisite service period. Dividend equivalent awards are credited quarterly. The units do not entitle participants the rights of shareholders of common stock, such as voting rights, until shares are issued after the vesting period.

Performance Share Units

The company has granted performance share units to certain key employees. Each unit represents one equivalent share of the company's common stock. The number of common shares ultimately issued in connection with these performance share units is determined based on the company's financial performance over the related three-year service period or the company's financial performance based on certain total shareholder return results as compared to a selected group of peer companies. Compensation expense is determined based on the grant-date fair value and the number of common shares projected to be issued and is recognized over the requisite service period.

10. INCOME TAXES

The effective tax rates for the three months ended November 29, 2014 and November 30, 2013, were 33.8 percent and 37.6 percent, respectively. The company's United States federal statutory rate is 35 percent. For the six month periods ended November 29, 2014 and November 30, 2013, the effective tax rates were 33.4 percent and 38.7 percent, respectively. The decrease in the rate in the quarter ended November 29, 2014 resulted from a shift in the relative mix of income and loss between the taxing jurisdictions from the prior year primarily due to legacy pension expenses recorded in the prior year.

The company had income tax accruals associated with uncertain tax benefits totaling \$1.4 million as of both November 29, 2014 and November 30, 2013.

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 \$0.1 million during the six month periods ended November 29, 2014 and November 30, 2013 and were negligible during the three month periods ended November 29, 2014 and November 30, 2013. The company's recorded liability for potential interest and penalties related to uncertain tax benefits totaled \$0.7 million and \$0.6 million as of November 29, 2014 and November 30, 2013, respectively.

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

For the majority of tax jurisdictions, the company is no longer subject to state, local, or non-United States income tax examinations by tax authorities for fiscal years before 2011.

11. FAIR VALUE MEASUREMENTS

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

Available-for-sale securities — The company's available-for-sale marketable securities primarily include mortgage-backed debt securities, government obligations and corporate debt securities and are recorded at fair value using quoted prices for similar securities.

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

Foreign currency exchange contracts — The company's foreign currency exchange contracts are valued using an approach based on foreign currency exchange rates obtained from active markets. The estimated fair value of forward currency exchange contracts is based on month-end spot rates as adjusted by market-based current activity.

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 November 29, 2014 and May 31, 2014.

(In millions)	Fair Value Measurements	
	November 29, 2014	May 31, 2014
	Quoted Prices with Other Observable Inputs (Level 2)	Quoted Prices with Other Observable Inputs (Level 2)
Financial Assets		
Available-for-sale marketable securities:		
Asset-backed securities	\$0.3	\$0.4
Corporate securities	0.8	1.2
Government obligations	4.9	7.9
Mortgage-backed securities	0.6	1.6
Foreign currency forward contracts	0.4	0.2
Deferred compensation plan	7.2	6.3
Total	\$14.2	\$17.6
Financial Liabilities		
Foreign currency forward contracts	\$0.3	\$0.1
Total	\$0.3	\$0.1

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

(In millions)	November 29, 2014			
	Cost	Unrealized Gain	Unrealized Loss	Market Value
Asset-backed securities	\$0.3	\$—	\$—	\$0.3
Corporate securities	0.8	—	—	0.8
Government obligations	4.9	—	—	4.9
Mortgage-backed securities	0.6	—	—	0.6
Total	\$6.6	\$—	\$—	\$6.6
(In millions)	May 31, 2014			
	Cost	Unrealized Gain	Unrealized Loss	Market Value
Asset-backed securities	\$0.4	\$—	\$—	\$0.4
Corporate securities	1.2	—	—	1.2
Government obligations	7.9	—	—	7.9
Mortgage-backed securities	1.6	—	—	1.6
Total	\$11.1	\$—	\$—	\$11.1

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

The company reviews its investment portfolio for any unrealized losses that would be deemed other-than-temporary and require the recognition of an impairment loss in earnings. If the cost of an investment exceeds its fair value, the company evaluates, among other factors, general market conditions, the duration and extent to which the fair value is less than its cost, the company's intent to hold the investment, and whether it is more likely than not that the company will be required to sell the investment before recovery of the cost basis. The company also considers the type of

security, related industry and sector performance, and published investment ratings. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis in the investment is established. If conditions within individual markets, industry segments, or macro-economic environments deteriorate, the company could incur future impairments.

Maturities of debt securities included in marketable securities as of November 29, 2014, are as follows.

(In millions)	Cost	Fair Value
Due within one year	\$1.1	\$1.1
Due after one year through five years	5.5	5.5
Due after five years through ten years	—	—
Total	\$6.6	\$6.6

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

12. COMMITMENTS AND CONTINGENCIES

Product Warranties

The company provides warranty coverage to the end-user for parts and labor on products sold. 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		Six Months Ended	
	November 29, 2014	November 30, 2013	November 29, 2014	November 30, 2013
Accrual Balance — beginning	\$25.7	\$24.6	\$25.2	\$24.8
Accrual for warranty matters	6.2	5.4	12.7	10.3
Settlements and adjustments	(5.9	) (5.2	) (11.9	) (10.3
Accrual Balance — ending	\$26.0	\$24.8	\$26.0	\$24.8

Guarantees

The company is periodically required to provide performance bonds in order 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 November 29, 2014, the company had a maximum financial exposure related to performance bonds totaling approximately \$10.4 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 as of November 29, 2014 and May 31, 2014.

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 November 29, 2014, the company had a maximum financial exposure from these standby letters of credit totaling approximately \$10.6 million, all of which is considered usage against the company's revolving credit facility. The company has no history of claims, nor is it aware of circumstances that would require it to perform under any of these arrangements, and believes that the resolution of any claims that might arise in the future, either individually or in the aggregate, would not materially affect the company's financial statements. Accordingly, no liability has been recorded as of November 29, 2014 and May 31, 2014.

Contingencies

The company leases a facility in the United Kingdom under an agreement that expired in June 2011, and the company is currently leasing the facility on a month-to-month basis. Under the terms of the lease, the company is required to perform the maintenance and repairs necessary to address the general dilapidation of the facility. The ultimate cost of this provision to the company is dependent on a number of factors including, but not limited to, the future use of the facility by the lessor and whether the company chooses and is permitted to renew the lease term. The company has estimated the cost of these maintenance and repairs to be between \$0 million and \$3.0 million, depending on the outcome of future plans and negotiations. As a result, an estimated liability of \$1.2 million and \$1.5 million was recorded under the caption "Other accrued liabilities" in the Condensed Consolidated Balance Sheets as of November 29, 2014, and May 31, 2014, respectively.

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

13. DEBT

The company's Series A Senior Notes are due on January 3, 2015. Due to this upcoming maturity, \$50 million is classified within the Condensed Consolidated Balance Sheet as "Current maturities of long-term debt".

On July 21, 2014, the company entered into a third amendment and restatement of the syndicated revolving line of credit, which provides the company with up to \$250 million in revolving variable interest borrowing capacity and includes an "accordion feature" allowing the company to increase, at its option and subject to the approval of the participating banks, the aggregate borrowing capacity of the facility by \$125 million. The facility expires in July 2019 and outstanding borrowings bear interest at rates based on the prime rate, federal funds rate, LIBOR, or negotiated rates as outlined in the agreement. Interest is payable periodically throughout the period if borrowings are outstanding. As of November 29, 2014, the total debt outstanding related to borrowings against this facility was \$77.0 million. These borrowings are included within Long-term debt in the Condensed Consolidated Balance Sheet. The total usage against the facility was \$87.6 million, of which \$10.6 million related to outstanding letters of credit.

During the second quarter of fiscal 2014, the company entered into a revolving line of credit, which provides the company with approximately \$5.0 million in revolving variable interest borrowing capacity. The company intends to utilize the revolver, which is denominated in Chinese Renminbi, to meet working capital cash flow needs at its South China operations. The uncommitted facility is subject to changes in bank approval and outstanding borrowings bear interest at rates based on a benchmark lending rate. As of November 29, 2014 and May 31, 2014, there were no borrowings against this facility.

During the second quarter of fiscal 2013, the company entered into a revolving line of credit, which provides the company with approximately \$5.0 million in revolving variable interest borrowing capacity. The company intends to utilize the revolver, which is denominated in Chinese Renminbi, to meet working capital cash flow needs at its Ningbo, China operations. The uncommitted facility is subject to changes in bank approval and outstanding borrowings bear interest at rates based on a benchmark lending rate. Each draw on the line of credit is subject to a maximum period of one year and corresponding interest is payable on the maturity date of each draw. As of November 29, 2014 and May 31, 2014, there were no borrowings against this facility.

During the second quarter of fiscal 2012, the company entered into an amendment and restatement of the syndicated revolving line of credit, which provided the company with up to \$150 million in revolving variable interest borrowing capacity and included an "accordion feature", which allowed the company to increase, at its option and subject to the approval of the participating banks, the aggregate borrowing capacity of the facility by \$75 million. This facility was replaced by the third amendment and restatement that occurred on July 21, 2014. As of May 31, 2014, total usage against this facility was \$4.9 million, all of which related to outstanding letters of credit.

14. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table provides an analysis of the changes in accumulated other comprehensive income (loss) for the six months ended November 29, 2014 and November 30, 2013:

(In millions)	Six Months Ended	
	November 29, 2014	November 30, 2013
Cumulative translation adjustments at beginning of period	\$(11.1)	\$(14.0)
Translation adjustments	(5.9)	2.1
Balance at end of period	(17.0)	(11.9)
Pension and other post-retirement benefit plans at beginning of period	(26.8)	(110.3)
Adjustments to pension and other post-retirement benefit plans	—	(2.0)
Reclassification to earnings - cost of sales (net of tax \$0.0, \$(15.9))	—	27.6

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Reclassification to earnings - operating expenses (net of tax \$(0.2), \$(35.7))	0.9	62.0	
Balance at end of period	(25.9	) (22.7)
Total accumulated other comprehensive loss	\$(42.9	) \$(34.6)

15. RESTRUCTURING AND IMPAIRMENT ACTIVITIES

Due to the acquisition of a manufacturing and distribution operation in Dongguan, China in the second quarter of 2014, Herman Miller decided not to pursue the construction of a new manufacturing and distribution facility on property that it previously acquired in Ningbo, China. In connection with this decision, the company evaluated the fair value of this property and recorded an asset impairment of \$4.0 million during the second quarter of fiscal 2014. This impairment charge was recorded to the "Restructuring and impairment expenses" line

item within the Condensed Consolidated Statements of Comprehensive Income. The impairment charge is included within the "Corporate" category within the segment reporting.

16. OPERATING SEGMENTS

Following the acquisition of DWR, we realigned the composition of our reportable segments to reflect the new operational and management divisions of the business. As a result, our previously defined "Specialty and Consumer" structure has been divided into two separate segments. The "Specialty" segment includes the operations associated with our Geiger, Maharam, and Herman Miller Collection business units. Under the new structure, the company's "Consumer" business segment includes the results of our combined North American consumer wholesale and retail business, including DWR. Prior year results have been revised to reflect this change. The North American and ELA segments were not affected by these changes.

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 Design Within Reach studios.

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

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

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

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(In millions)	Three Months Ended		Six Months Ended	
	November 29, 2014	November 30, 2013	November 29, 2014	November 30, 2013
Net Sales:				
North American Furniture Solutions	\$315.3	\$297.1	\$636.4	\$615.3
ELA Furniture Solutions	114.3	103.1	209.7	184.7
Specialty	55.4	53.2	110.0	105.2
Consumer	80.4	17.1	119.0	33.4
Corporate	—	—	—	—
Total	\$565.4	\$470.5	\$1,075.1	\$938.6
Depreciation and Amortization:				
North American Furniture Solutions	\$7.0	\$7.6	\$14.2	\$14.7
ELA Furniture Solutions	2.2	1.4	4.4	3.4
Specialty	1.8	1.3	3.5	3.0
Consumer	2.1	0.2	3.0	0.5
Corporate	0.1	—	0.1	—
Total	\$13.2	\$10.5	\$25.2	\$21.6
Operating Earnings:				
North American Furniture Solutions	\$32.3	\$(119.0)	\$68.5	\$(85.0)
ELA Furniture Solutions	10.4	8.2	13.5	8.1
Specialty	2.8	(8.9)	5.7	(7.1)
Consumer	1.5	(1.3)	3.8	2.1
Corporate	(0.3)	(4.2)	(2.6)	(4.2)
Total	\$46.7	\$(125.2)	\$88.9	\$(86.1)
Capital Expenditures:				
North American Furniture Solutions	\$11.5	\$10.8	\$15.7	\$15.3
ELA Furniture Solutions	4.4	1.2	6.3	2.6
Specialty	1.1	1.5	2.2	2.1
Consumer	1.5	—	2.5	—
Corporate	—	—	—	—
Total	\$18.5	\$13.5	\$26.7	\$20.0
(In millions)	November 29, 2014	May 31, 2014		
Total Assets:				
North American Furniture Solutions	\$509.0	\$457.0		
ELA Furniture Solutions	238.4	244.8		
Specialty	155.7	157.7		
Consumer	219.5	18.8		
Corporate	71.3	112.6		
Total	\$1,193.9	\$990.9		
Total Goodwill:				
North American Furniture Solutions	\$135.8	\$135.8		
ELA Furniture Solutions	42.1	42.6		

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Specialty	49.8	49.8
Consumer	76.2	—
Corporate	—	—
Total	\$303.9	\$228.2

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17. SUBSEQUENT EVENT

On January 3rd, 2015, \$50.0 million of the company's Series A senior notes became due and payable. This debt was paid through the use of borrowings on the company's revolving line of credit. As of January 3rd, 2015, the total debt outstanding related to borrowings against this facility was \$126.2 million and the total usage against the facility was \$136.8 million, of which \$10.6 million related to outstanding letters of credit.

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

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 31, 2014. References to "Notes" are to the footnotes included in the condensed consolidated financial statements.

Discussion of Current Business Conditions

During the second quarter of fiscal 2015, we delivered sales, order, and earnings growth, including our twelfth consecutive quarter of organic order growth. Sales and orders for the quarter improved by \$95 million and \$69 million, respectively, compared to the same period of the prior year. The largest contributors to this growth were our recent acquisition of Design Within Reach ("DWR") and our ELA segment. On a fully diluted basis, earnings per share in the second quarter totaled \$0.46, compared to a loss of \$1.37 per share in the second quarter of last year. On an adjusted basis, we generated earnings of \$0.51⁽¹⁾ per share, an improvement from adjusted earnings per share of \$0.42⁽¹⁾ in the second quarter of fiscal 2014.

We advanced a number of important strategic initiatives this past quarter. During the period, we began construction on a new, consolidated manufacturing and distribution facility in the United Kingdom, which we plan to be operational by the third quarter of fiscal 2016. Construction of a new leased manufacturing facility in India is also nearing completion, with operations expected to begin by the start of fiscal 2016.

We also made progress in our efforts to integrate and combine Herman Miller and DWR, and we continue to be impressed by the leadership, direction, and strategy of the business. The studio transformation strategy of DWR was advanced during the quarter with the opening of a large format studio in the Boston area and the closure of two smaller studios in the same market. The results of our Consumer business were dampened by acquisition-related charges stemming from the DWR purchase, but we are excited that these charges are behind us and we believe we are poised to further execute on available cost and operational synergies.

Order growth within our North American reportable segment was slower than anticipated; however, the business generated sales growth of 6.1 percent and a significant improvement in earnings. Operating earnings increased by \$151 million and Adjusted EBITDA⁽¹⁾ improved by \$6 million compared to the same quarter of the prior year. The slowness of the order pattern within the North American segment was driven by the rollout of our Living Office solutions framework and our new insight-led sales strategy, which has impacted our near term performance as team members continue to learn and master the new approach. Selling capacity issues stemming from open sales positions in the field and delays in bringing our newest products to market have also contributed to the lagging order pace within our North American business. However, we have amplified our focus and resources in support of ameliorating these issues and believe we will have the majority of them behind us in the third quarter.

Our ELA segment delivered growth in sales (10.9 percent), orders (7.7 percent), operating earnings (\$2 million), and Adjusted EBITDA⁽¹⁾ (\$3 million). The strength of the ELA segment this quarter was centered mainly in the EMEA region, although, we continue to see positive signs and future opportunities for growth in other parts of the globe, particularly within the Asia Pacific region.

Net sales in the second quarter within Herman Miller's Specialty segment totaled \$55.4 million, which represented a 4.1 percent increase over sales in the same quarter last year. The increase in sales was bolstered by our Geiger subsidiary, which has capitalized on momentum from its strong showing at the NeoCon trade show in June of this year.

The reported net sales of \$80.4 million for the Consumer segment were augmented by the acquisition of DWR. Moreover, we were pleased that the organic sales growth rate, which excludes DWR, was 14.0 percent. Additionally, on a pro-forma basis⁽²⁾, the combined Herman Miller consumer and DWR businesses had revenue growth of approximately 12 percent compared to the same quarter last year.

Capital expenditures totaled \$26.7 million for the six months ended November 29, 2014, an increase of \$6.7 million compared to the same six month period of fiscal 2014. We anticipate our full year capital spending to be between \$65.0 million and \$70.0 million.

(1) Non-GAAP measurements; see accompanying reconciliations and explanations.

(2) Obtained by comparing the results for the combined DWR and existing Herman Miller consumer business for the current year and prior year three month period ended November 29, 2014.

At the macro level, we believe the overall economic environment is positive for the segments in which we compete. We also believe that our growing global presence, our consumer business and channel, and our expanded product offering in the specialty contract businesses are enabling us to compete in and capture a broader part of the continued economic recovery.

The remaining sections within Item 2 include additional analysis of our three and six months ended November 29, 2014, including discussion of significant variances compared to the prior year periods.

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Reconciliation of Non-GAAP Financial Measures

This report contains references to Adjusted gross margin, Adjusted operating expenses, Adjusted operating earnings, Adjusted EBITDA and Adjusted earnings per share – diluted, all of which are non-GAAP financial measures (referred to collectively as the "Adjusted financial measures"). The Adjusted financial measures are calculated by excluding from Gross Margin, Operating expenses, Operating earnings, EBITDA and Earnings per share – diluted items that we believe are not indicative of our ongoing operating performance. Such items consist of expenses associated with restructuring actions taken to adjust our cost structure to the current business climate, transition-related expenses, including amortization and settlement expenses, relating to defined benefit pension plans that we have terminated ("legacy pension expenses"), expenses associated with acquisition-related inventory adjustments, and transaction expenses associated with our acquisition of DWR. The legacy pension expenses include settlements caused by the transition to a defined contribution program and the net periodic benefit expenses associated with the terminated plans, subsequent to September 1, 2012. We present the Adjusted financial measures because we consider them to be important supplemental measures of our performance and believe them to be useful in analyzing ongoing results from operations.

The Adjusted financial measures are not measurements of our financial performance under GAAP and should not be considered an alternative to Gross margin, Operating expenses, Operating earnings and Earnings per share – diluted under GAAP. The Adjusted financial measures 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. In addition, in evaluating the Adjusted financial measures, you should be aware that in the future we may incur expenses similar to the adjustments in this presentation. Our presentation of the Adjusted financial 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 Adjusted financial measures only as a supplement.

The following table reconciles Gross margin to Adjusted gross margin for the periods indicated.

(Dollars in millions)	Three Months Ended		Six Months Ended		
	November 29, 2014	November 30, 2013	November 29, 2014	November 30, 2013	
Gross margin	\$205.7	\$118.9	\$391.3	\$288.9	
Percentage of net sales	36.4	%25.3	% 36.4	%30.8	%
Add: Acquisition-related inventory adjustments	4.8	—	7.8	1.4	
Add: Legacy pension expenses	—	50.3	—	51.3	
Adjusted gross margin	\$210.5	\$169.2	\$399.1	\$341.6	
Adjusted gross margin as a percentage of net sales	37.2	%36.0	% 37.1	%36.4	%

The following table reconciles Operating expenses to Adjusted operating expenses for the periods indicated.

(Dollars in millions)	Three Months Ended		Six Months Ended		
	November 29, 2014	November 30, 2013	November 29, 2014	November 30, 2013	
Operating expenses	\$159.0	\$244.1	\$302.4	\$375.0	
Percentage of net sales	28.1	%51.9	% 28.1	%40.0	%
Less: Restructuring and impairment expenses	—	(4.0)	) —	(4.0))
Less: Acquisition expenses	(0.2)	) —	(2.2)) —)
Less: Legacy pension expenses	—	(111.0)	) —	(113.1))
Adjusted operating expenses	\$158.8	\$129.1	\$300.2	\$257.9	
Adjusted operating expenses as a percentage of net sales	28.1	%27.4	% 27.9	%27.5	%

The following table reconciles Operating earnings to Adjusted operating earnings and Adjusted EBITDA for the periods indicated.

(Dollars in millions)	Three Months Ended		Six Months Ended		
	November 29, 2014	November 30, 2013	November 29, 2014	November 30, 2013	
Operating earnings (loss)	\$46.7	\$(125.2)	) \$88.9	\$(86.1))
Percentage of net sales	8.3	%(26.6)	)% 8.3	%(9.2))%
Add: Restructuring and impairment expenses	—	4.0	—	4.0	
Add: Acquisition-related inventory adjustments	4.8	—	7.8	1.4	
Add: Acquisition expenses	0.2	—	2.2	—	
Add: Legacy pension expenses	—	161.3	—	164.4	
Adjusted operating earnings	\$51.7	\$40.1	\$98.9	\$83.7	
Less: Other, net	0.1	(0.2)	) 0.1	(0.1))
Add: Depreciation and amortization	13.2	10.5	25.2	21.6	
Adjusted EBITDA	64.8	50.8	124.0	105.4	
Adjusted operating earnings as a percentage of net sales	9.1	% 8.5	% 9.2	% 8.9	%

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

	Three Months Ended		Six Months Ended		
	November 29, 2014	November 30, 2013	November 29, 2014	November 30, 2013	
Earnings (loss) per share – diluted	\$0.46	\$(1.37)	) \$0.88	\$(0.99))
Add: Restructuring and impairment expenses	—	0.05	—	0.05	
Add: Acquisition-related inventory adjustments	0.05	—	0.08	0.01	
Add: Acquisition expenses	—	—	0.02	—	
Add: Legacy pension expenses	—	1.74	—	1.77	
Adjusted earnings per share – diluted	\$0.51	\$0.42	\$0.98	\$0.84	

Analysis of Second Quarter Results

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			Six Months Ended		
November 29, 2014	November 30, 2013	Percent Change	November 29, 2014	November 30, 2013	Percent Change