MILLER HERMAN INC
Form 10-Q
October 10, 2018

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

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

For Quarter Ended September 1, 2018   Commission File No. 001-15141

HERMAN MILLER, INC.

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

Indicate by check mark whether the registrant:
(1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [_]

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act [__]

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

Common Stock Outstanding at October 8, 2018 - 59,336,291 shares

Herman Miller, Inc. Form 10-Q
Table of Contents

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

	Three Months Ended	
	September 1, 2018	September 2, 2017
Net sales	$624.6	$ 580.3
Cost of sales	399.5	363.4
Gross margin	225.1	216.9
Operating expenses:		
Selling, general and administrative	159.5	146.8
Restructuring and impairment expenses	1.1	1.4
Design and research	18.5	19.2
Total operating expenses	179.1	167.4
Operating earnings	46.0	49.5
Other expenses:		
Interest expense	2.9	3.7
Other, net	(1.0)	(0.7)
Earnings before income taxes and equity income	44.1	46.5
Income tax expense	8.9	14.2
Equity income from nonconsolidated affiliates, net of tax	0.7	0.8
Net earnings	35.9	33.1
Net earnings attributable to noncontrolling interests	0.1	—
Net earnings attributable to Herman Miller, Inc.	**$35.8**	**$ 33.1**
Earnings per share — basic	$0.60	$ 0.55
Earnings per share — diluted	$0.60	$ 0.55
Dividends declared, per share	$0.1975	$ 0.1800
Other comprehensive income (loss), net of tax		
Foreign currency translation adjustments	$(7.9)	$ 4.4
Pension and other post-retirement plans	0.7	0.8
Interest rate swaps	(0.5)	(1.6)
Unrealized holding loss	(0.1)	—
Other comprehensive (loss) income	(7.8)	3.6
Comprehensive income	28.1	36.7
Comprehensive income attributable to noncontrolling interests	0.1	—
Comprehensive income attributable to Herman Miller, Inc.	**$28.0**	**$ 36.7**

See accompanying notes to condensed consolidated financial statements.

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

	September 1, 2018	June 2, 2018
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 101.7	$203.9
Short-term investments	8.5	8.6
Accounts and notes receivable, net	205.4	217.4
Unbilled accounts receivable	25.4	1.9
Inventories, net	163.8	162.4
Prepaid expenses and other	51.2	51.2
Total current assets	**556.0**	**645.4**
Property and equipment, at cost	1,031.0	1,020.8
Less — accumulated depreciation	(701.2)	(689.4)
Net property and equipment	**329.8**	**331.4**
Goodwill	303.9	304.1
Indefinite-lived intangibles	78.1	78.1
Other amortizable intangibles, net	45.1	41.3
Other noncurrent assets	150.8	79.2
Total Assets	**$ 1,463.7**	**$1,479.5**
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS & STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 170.2	$171.4
Accrued compensation and benefits	68.8	86.3
Accrued warranty	52.1	51.5
Customer deposits	27.3	27.6
Other accrued liabilities	73.0	77.0
Total current liabilities	**391.4**	**413.8**
Long-term debt	281.9	275.0
Pension and post-retirement benefits	14.6	15.6
Other liabilities	81.9	79.8
Total Liabilities	**769.8**	**784.2**
Redeemable noncontrolling interests	20.7	30.5
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, 59,302,918 and 59,774,490 shares issued and outstanding in 2019 and 2018, respectively)	11.9	11.7
Additional paid-in capital	106.5	116.6
Retained earnings	624.5	598.3
Accumulated other comprehensive loss	(69.2)	(61.3)
Key executive deferred compensation plans	(0.7)	(0.7)
Herman Miller, Inc. Stockholders' Equity	**673.0**	**664.6**
Noncontrolling Interests	0.2	0.2
Total Stockholders' Equity	**673.2**	**664.8**

Total Liabilities, Redeemable Noncontrolling Interests, and Stockholders' Equity	**$ 1,463.7**	**$1,479.5**

See accompanying notes to condensed consolidated financial statements.

4

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

	Three Months Ended	
	September 1, 2018	September 2, 2017
Cash Flows from Operating Activities:		
Net earnings	$35.9	$ 33.1
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	19.0	15.5
Stock-based compensation	2.5	1.3
Pension and post-retirement expenses	0.3	0.4
Pension contributions	—	(12.0)
Earnings from nonconsolidated affiliates net of dividends received	(0.7)	(0.1)
Deferred taxes	—	(0.2)
Gain on sales of property and dealers	—	(1.1)
Restructuring and impairment expenses	1.1	1.4
Increase in current assets	(7.6)	(13.9)
Decrease in current liabilities	(18.3)	(7.6)
Increase in non-current liabilities	0.6	1.6
Other, net	0.1	0.5
Net Cash Provided by Operating Activities	**32.9**	**18.9**
Cash Flows from Investing Activities:		
Proceeds from sale of property and dealers	—	2.0
Marketable securities sales	0.1	—
Equity investment in non-controlled entities	(71.6)	—
Capital expenditures	(22.0)	(24.9)
Purchase of HAY licensing agreement	(4.8)	—
Net advances on notes receivable	—	(1.0)
Other, net	(1.4)	(0.3)
Net Cash Used in Investing Activities	**(99.7)**	**(24.2)**
Cash Flows from Financing Activities:		
Dividends paid	(10.7)	(10.2)
Proceeds from issuance of long-term debt	—	89.4
Payments of long-term debt	—	(85.4)
Common stock issued	8.5	4.4
Common stock repurchased and retired	(20.8)	(11.1)
Purchase of redeemable noncontrolling interests	(10.0)	(1.0)
Net proceeds from supplier financing program	—	0.8
Payment of contingent consideration	(0.1)	—
Other, net	0.1	0.1
Net Cash Used in by Financing Activities	**(33.0)**	**(13.0)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(2.4)	2.1
Net Decrease in Cash and Cash Equivalents	(102.2)	(16.2)

Cash and Cash Equivalents, Beginning of Period	203.9	96.2
Cash and Cash Equivalents, End of Period	**$101.7**	**$ 80.0**

See accompanying notes to condensed consolidated financial statements.

5

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

	Three Months Ended	
	September 1, 2018	September 2, 2017
Preferred Stock		
Balance at beginning of year and end of period	$—	$ —
Common Stock		
Balance at beginning of year	$11.7	$ 11.9
Exercise of stock options	0.2	0.1
Restricted stock units released	0.1	—
Repurchase and retirement of common stock	(0.1)	—
Balance at end of period	**$11.9**	**$ 12.0**
Additional Paid-in Capital		
Balance at beginning of year	$116.6	$ 139.3
Cumulative effect of accounting change	—	(0.3)
Repurchase and retirement of common stock	(20.7)	(11.1)
Exercise of stock options	7.9	3.8
Stock-based compensation expense	2.2	1.6
Restricted stock units released	—	0.1
Employee stock purchase plan issuances	0.5	0.5
Balance at end of period	**$106.5**	**$ 133.9**
Retained Earnings		
Balance at beginning of year	$598.3	$ 519.5
Cumulative effect of accounting changes	2.0	0.2
Net income attributable to Herman Miller, Inc.	35.8	33.1
Dividends declared on common stock (per share - 2019: $0.1975; 2018; $0.1800)	(11.6)	(10.8)
Redeemable noncontrolling interests valuation adjustment	—	0.2
Balance at end of period	**$624.5**	**$ 542.2**
Accumulated Other Comprehensive Loss		
Balance at beginning of year	$(61.3)	$ (82.2)
Cumulative effect of accounting change	(0.1)	—
Other comprehensive income (loss)	(7.8)	3.6
Balance at end of period	**$(69.2)**	**$ (78.6)**
Key Executive Deferred Compensation		
Balance at beginning of year and end of period	$(0.7)	$ (1.0)
Herman Miller, Inc. Stockholders' Equity	**$673.0**	**$ 608.5**
Noncontrolling Interests		
Balance at beginning of year and end of period	$0.2	$ 0.2
Total Stockholders' Equity	**$673.2**	**$ 608.7**

See accompanying notes to condensed consolidated financial statements.

6

Notes to Condensed Consolidated Financial Statements
Three Months Ended September 1, 2018
(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 September 1, 2018. Operating results for the three months ended months ended September 1, 2018, are not necessarily indicative of the results that may be expected for the year ending June 1, 2019. 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 June 2, 2018.

2. Recently Issued Accounting Standards

Recently Adopted Accounting Standards

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
Revenue from Contracts with Customers	The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard is designed to create greater comparability for financial statement users across industries and jurisdictions and also requires enhanced disclosures. The standard allows for two adoption	June 3, 2018	The company adopted the standard effective June 3, 2018 using the modified retrospective method. Refer to Note 3 to the financial statements for further information regarding the adoption of the standard.

	methods, a full retrospective or modified retrospective approach.		
Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities	The standard provides guidance for the measurement, presentation and disclosure of financial assets and liabilities. The standard requires entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any change in fair value in net income. The standard does not permit early adoption and at adoption a cumulative-effect adjustment to beginning retained earnings should be recorded.	June 3, 2018	The company adopted the standard effective June 3, 2018 using the modified retrospective method. As a result, the company reclassified $0.1 million of net gains on mutual fund equity securities, that were formerly classified as available for sale securities before the adoption of the new standard, from Accumulated Other Comprehensive Loss to Retained earnings. The impact of adoption also resulted in certain disclosure changes. Refer to Note 11 of the financial statements for further information.
Compensation - Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost	This standard changes the rules related to the income statement presentation of the components of net periodic benefit cost for defined benefit pension and other postretirement benefit plans. Under the new guidance, entities must present the service cost component of net periodic benefit cost in the same income statement line items as other employee compensation costs related to services rendered during the period. Other components of net periodic benefit cost will be presented separately from the line items that include the service cost. Early adoption is permitted.	June 3, 2018	The company retrospectively adopted the standard effective June 3, 2018. Prior to adoption, the company recorded net periodic benefit costs related to its defined benefit pension and post-retirement medical plans within Selling, general and administrative expenses. As a result of adoption, these costs are recorded within Other, net. The company retrospectively reclassified these costs in the Condensed Consolidated Statements of Comprehensive Income for the period ending September 2, 2017 from Selling, general and administrative to Other, net. Refer to Note 7 of the financial statements for further information.

Recently Issued Accounting Standards Not Yet Adopted

Standard	**Description**	**Effective Date**	**Effect on the Financial Statements or Other Significant Matters**
Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	This update allows for the reclassification to retained earnings of the tax effects stranded in Accumulated Other Comprehensive Income resulting from The Tax Cuts and Jobs Act. Early adoption is permitted.	June 2, 2019	The company is still evaluating these amendments and has not determined its accounting policy and whether or not an election will be made to reclassify the stranded effects.
Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities	This update amends the hedge accounting recognition and presentation with the objectives of improving the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities and simplifying the application of hedge accounting. The update expands the strategies eligible for hedge accounting, relaxes the timing requirements of hedge documentation and effectiveness assessments and permits the use of qualitative assessments on an ongoing basis to assess hedge effectiveness. The new guidance also requires new disclosures and presentation.	June 2, 2019	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. The company does not expect the Statement of Comprehensive Income to be significantly impacted. However, the impact to the balance sheet of recording right of use assets and lease liabilities for the company’s operating leases, as well as the necessary financial statement disclosures, is expected to be significant. The company has assembled a project team and is working towards implementation of the lease accounting standard.

Measurement of Credit Losses on Financial Instruments	This guidance replaces the existing incurred loss impairment model with an expected loss model and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates.	May 30, 2020	The company is currently evaluating the impact of adopting this guidance.

3. Revenue from Contracts with Customers

Impact of Adoption

The company adopted *ASC 606 - Revenue from Contracts with Customers* at the beginning of fiscal 2019. The company completed its review of the impact of the new standard and identified certain key accounting policy changes that resulted from adopting the new standard. These included changes to the identification of performance obligations for commercial contracts in which the company sells directly to end customers. Under previous accounting rules, which were codified under ASC 605, the company generally delayed revenue recognition until the products were shipped and installed as the company had concluded that contracts that contained both products and services represented a single, combined deliverable. However, under ASC 606, the company has determined that products and services are distinct and as such, represent separate performance obligations. The company also determined that under ASC 606, certain product pricing elements related to its direct customer sales should be recorded within Cost of sales rather than net within Net sales as had been historical practice under ASC 605.

The company adopted ASC 606 using the modified retrospective approach. As a result of these changes in accounting, the company recorded a cumulative adjustment to retained earnings of $1.9 million on the date of adoption. With the change in performance obligations under ASC 606, product revenue recognition is accelerated on certain direct commercial customer sales. As a result, the cumulative adjustment recorded upon the adoption of ASC 606 had the impact of reducing inventory for sales transactions that would have been recognized in a prior period under ASC 606 and recording unbilled receivables for the amounts owed prior to invoicing. Additionally, the cumulative adjustment reflects the change in accrued expenses, including income taxes payable, related to these sales transactions. The cumulative impact to our Condensed Consolidated Balance Sheet as of June 3, 2018 was as follows:

(In millions)	Balance at June 2, 2018	Adjustments due to ASC 606	Balance at June 3, 2018
Balance Sheet			
Assets:			
Unbilled accounts receivable	$ 1.9	$ 11.1	$ 13.0
Inventories, net	162.4	(7.1)	155.3
Liabilities:			
Accrued compensation and benefits	86.3	0.2	86.5
Other accrued liabilities	77.0	1.9	78.9
Equity:			
Retained earnings	598.3	1.9	600.2

In accordance with the modified retrospective adoption rules per ASC 606, the company has disclosed in the tables below the differences in our financial statements due to the adoption of the standard. The “As reported” column represents the financial statement values recorded in accordance with ASC 606, while the “Legacy GAAP” column represents what the financial statement values would have been under ASC 605, had the new standard not been adopted.

	For the period ended September 1, 2018			
(In millions)	As reported	Performance Obligation Change	Gross vs. Net Change	Legacy GAAP
Statement of Comprehensive Income				
Net sales	$624.6	$ (10.7)	$ (8.5)	$605.4
Cost of sales	399.5	(5.8)	(8.5)	385.2
Gross margin	225.1	(4.9)		220.2
Total operating expenses	179.1	(0.1)		179.0
Operating earnings	46.0	(4.8)		41.2
Income tax expense	8.9	(1.1)		7.8
Net earnings	35.9	(3.7)		32.2

	For the period ended September 1, 2018			
(In millions)	As reported	Performance Obligation Change	Gross vs. Net Change	Legacy GAAP
Balance Sheet				
Assets:				
Unbilled accounts receivable	$25.4	(21.8)		$ 3.6
Inventories, net	163.8	12.5		176.3
Liabilities:				
Accrued compensation and benefits	68.8	(0.3)		68.5
Other accrued liabilities	73.0	(3.4)		69.6

Equity:			
Retained earnings	624.5	(5.6)	618.9

There was no impact on Net Cash Provided by Operating Activities within the company's Condensed Consolidated Statement of Cash Flows as a result of adopting ASC 606.

Accounting Policies

The company recognizes revenue as performance obligations based on the terms of contracts with customers are satisfied. This happens when control of goods and services based on the contract have been conveyed to the customer. Revenue for the sale of products is typically recognized at the point in time when control transfers, generally upon transfer of title and risk of loss to the customer. Revenue for services, including the installation of products by the company's owned dealers, is recognized over time as the services are provided. The method of revenue recognition may vary, depending on the type of contract with the customer, as noted in the section Disaggregated Revenue further below.

The company's contracts with customers include master agreements and certain other forms of contracts, which do not reach the level of a performance obligation until a purchase order is received from a customer. At the point in time that a purchase order under a contract is received by the company, the collective group of documents represent an enforceable contract between the company and the customer. While certain customer contracts may have a duration of greater than a year, all purchase orders are less than a year in duration. As of September 1, 2018, all unfulfilled performance obligations are expected to be fulfilled in the next twelve months.

Variable consideration exists within certain contracts that the company has with customers. When variable consideration is present in a contract with a customer, the company estimates the amount that should be included in the transaction price utilizing either the expected value method or the most likely amount method, depending on the nature of the variable consideration. Variable consideration is included in the transaction price if, in the company's judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur. Adjustments to Net sales from changes in variable consideration related to performance obligations completed in previous periods are not material to the company's financial statements. Also, the company has no contracts with significant financing components.

The company adopted the following accounting policies as a result of adopting the new standard on revenue recognition:

Shipping and Handling Activities - the company accounts for shipping and handling activities as fulfillment activities and these costs are accrued within Cost of sales at the same time revenue is recognized.

Sales Taxes - the company does not record revenue for sales tax, value added tax or other taxes that are collected on behalf of government entities. The company's revenue is recorded net of these taxes as they are passed through to the relevant government entities.

Incremental Costs of Obtaining a Contract - the company has recognized incremental costs to obtain a contract as an expense when incurred as the amortization period is less than one year.

Significant Financing Component - the company has not adjusted the amount of consideration to be received for any significant financing components as the company's contracts have a duration of one year or less.

Disaggregated Revenue

The company's revenue is comprised primarily of sales of products and installation services. Depending on the type of contract, the method of accounting and timing of revenue recognition may differ. Below, descriptions have been provided that summarize the company's different types of contracts and how revenue is recognized for each.

Single Performance Obligation - these contracts are transacted with customers and include only the product performance obligation. Most commonly, these contracts represent master agreements with independent third-party dealers in which a purchase order represents the customer contract, point of sale transactions through the Consumer reportable segment, as well as customer purchase orders for the Maharam subsidiary within the Specialty reportable segment. For contracts that include a single performance obligation, the company records revenue at the point in time when title and risk of loss has transferred to the customer.

Multiple Performance Obligations - these contracts are transacted with customers and include more than one performance obligation; products, which are shipped to the customer by the company and installation and other services, which are primarily fulfilled by independent third-party dealers. For contracts that include multiple performance obligations, the company records revenue for the product performance obligation at the point in time when control transfers, generally upon transfer of title and risk of loss to the customer. In most cases, the company has concluded that it is the agent for the installation services performance obligation and as such, the revenue and costs of these services are recorded net within "Net sales" in the company's Condensed Consolidated Statements of Comprehensive Income.

In certain instances, entities owned by the company, rather than independent third-party dealers, perform installation and other services. In these cases, Service revenue is generated by the company's entities that provide installation services, which include owned dealers, and is recognized by the company over time as the services are provided. For contracts with multiple performance obligations, the company allocates the transaction price to each performance obligation based on relative standalone selling prices.

Other - these contracts are comprised mainly of alliance fee arrangements, whereby the company earns revenue for allowing other furniture sellers access to its dealer distribution channel, as well as other miscellaneous selling arrangements. Revenue from alliance contracts are recorded at the point in time in which the sale is made by other furniture sellers through the company's sales channel.

Revenue disaggregated by contract type has been provided in the table below:

(In millions)	Three Months Ended September 1, 2018
Net Sales:	
Single performance obligation	
Product revenue	$ 535.2
Multiple performance obligations	
Product revenue	84.8
Service revenue	2.7
Other	1.9
Total	$ 624.6

Revenue disaggregated by product type and reportable segment has been provided in the table below:

(In millions)	Three Months Ended September 1, 2018
North American Furniture Solutions:	
Systems	$ 144.5
Seating	96.6
Freestanding and storage	74.7
Other	27.9
Total North American Furniture Solutions	$ 343.7
ELA Furniture Solutions:	
Systems	$ 22.8
Seating	68.7
Freestanding and storage	10.4
Other	13.5
Total ELA Furniture Solutions	$ 115.4
Specialty:	
Systems	$ 1.6
Seating	29.0
Freestanding and storage	12.9
Textiles	28.8
Other	5.0
Total Specialty	$ 77.3
Consumer:	
Seating	53.7
Freestanding and storage	17.2
Other	17.3
Total Consumer	$ 88.2
Total	$ 624.6

Refer to Note 16 of the Condensed Consolidated Financial Statements for further information related to our reportable segments.

Contract Assets and Contract Liabilities

The company records contract assets and contract liabilities related to its revenue generating activities. Contract assets include certain receivables from customers that are unconditional as all performance obligations with respect to the contract with the customer have been completed. These amounts represent trade receivables and they are recorded within the caption “Accounts and notes receivable, net” in the Condensed Consolidated Balance Sheets. The payment terms for the company's customers differs depending on the type of customer. For third party dealers and commercial contract customers, standard credit terms apply. Sales transacted through the company's direct to consumer channels are generally paid for by the customer at point of sale.

Contract assets also include amounts that are conditional because certain performance obligations in the contract with the customer are incomplete as of the balance sheet date. These contract assets generally arise due to contracts with the customer that include multiple performance obligations, both the product that is shipped to the customer by the company, as well as installation services provided by independent third-party dealers. For these contracts, the company recognizes revenue upon satisfaction of the product performance obligation. However, the asset is conditional and the customer is not invoiced by the company until the installation performance obligation is completed. These contract assets are included in the caption "Unbilled accounts receivable" in the Condensed Consolidated Balance Sheets until all performance obligations in the contract with the customer have been satisfied.

Contract liabilities represent deposits made by customers before the satisfaction of performance obligation(s) are complete and revenue is recognized. Upon completion of the performance obligation(s) that the company has with the customer based on the terms of the contract, the liability for the customer deposit is relieved and revenue is recognized. These customer deposits are included within the caption “Customer deposits” in the Condensed Consolidated Balance Sheets. During the three month period ended September 1, 2018, the company recognized Net sales of $27.6 million related to customer deposits there were included in the balance sheet as of June 2, 2018.

4. Acquisitions and Divestitures

Maars Holding B.V.
On August 31, 2018, Herman Miller Holdings Limited, a wholly owned subsidiary of the company, acquired 48 percent of the outstanding equity of Maars Holding B.V. ("Maars"), a Harderwijk, Netherlands-based worldwide leader in the design and manufacturing of interior wall solutions. The company acquired its 48 percent ownership interest in Maars for approximately $6.1 million in cash. The entity is accounted for using the equity method of accounting as the company has significant influence, but not control, over the entity.

Nine United Denmark A/S
On June 7, 2018, Herman Miller Holdings Limited, a wholly owned subsidiary of the company acquired 33 percent of the outstanding equity of Nine United Denmark A/S, d/b/a HAY ("HAY"), a Copenhagen, Denmark-based, design leader in furniture and ancillary furnishings for residential and contract markets in Europe and Asia. The company acquired its 33 percent ownership interest in HAY for approximately $65.5 million in cash. The entity is accounted for using the equity method of accounting as the company has significant influence, but not control, over the entity.

The company also acquired the rights to the HAY brand in North America under a long-term license agreement for approximately $4.8 million in cash. This licensing agreement is recorded as an amortizing intangible asset and is being amortized over its 15 year useful life. This asset is recoded within Other amortizable intangibles, net within the Condensed Consolidated Balance Sheets.

Contract Furniture Dealerships
On July 31, 2017, the company completed the sale of a wholly-owned contract furniture dealership in Vancouver, Canada for initial cash consideration of $2.0 million. A pre-tax gain of $1.1 million was recognized as a result of the sale within the caption Selling, general and administrative within the Condensed Consolidated Statements of Comprehensive Income.

On January 1, 2017, the company completed the sale of a wholly-owned contract furniture dealership in Philadelphia, Pennsylvania in exchange for $3.0 million, that was comprised of both a term note receivable and a line of credit. A pre-tax gain of $0.7 million was recognized as a result of the sale within the caption Selling, general and administrative within the Condensed Consolidated Statements of Comprehensive Income. These long-term receivables were deemed to be variable interests in a variable interest entity. The carrying value of the long-term receivables was $2.5 million as of September 1, 2018 and June 2, 2018, and represents the company's maximum exposure to loss. The company is not deemed to be the primary beneficiary of the variable interest entity as the buyers of the dealership control the activities that most significantly impact the entity's economic performance, including sales, marketing and operations.

5. Inventories, net

(In millions)	September 1, 2018	June 2, 2018
Finished goods	$ 125.2	$ 124.2
Raw materials	38.6	38.2
Total	$ 163.8	$ 162.4

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.

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 September 1, 2018 and June 2, 2018:

(In millions)	Goodwill	Indefinite-lived Intangible Assets	Total Goodwill and Indefinite-lived Intangible Assets
June 2, 2018	$ 304.1	$ 78.1	$ 382.2
Foreign currency translation adjustments	(0.2)	—	(0.2)
September 1, 2018	$ 303.9	$ 78.1	$ 382.0

7. 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 three months ended:

(In millions)	September 1, 2018	September 2, 2017
Interest cost	$ 0.7	$ 0.8
Expected return on plan assets	(1.2)	(1.7)
Net amortization loss	0.8	1.3
Net periodic benefit cost	$ 0.3	$ 0.4

The company retrospectively adopted *ASU 2017-07 - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* on June 3, 2018. As the company's pension and post retirement medical plans are frozen and not open to new plan participants, these plans no longer have a service component to the net periodic benefit cost. Prior to adoption, the company recorded net periodic benefit costs related to its defined benefit pension and post-retirement medical plans within Selling, general and administrative expenses. As a result of adoption, these costs are recorded within Other, net. The company retrospectively reclassified $0.4 million of net periodic benefit cost in the Condensed Consolidated Statements of Comprehensive Income for the period ending September 2, 2017 from Selling, general and administrative to Other, net.

8. Earnings Per Share

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

	September 1, 2018	September 2, 2017
Numerators:		
Numerator for both basic and diluted EPS, Net earnings attributable to Herman Miller, Inc. - in millions	$ 35.8	$ 33.1
Denominators:		
Denominator for basic EPS, weighted-average common shares outstanding	59,370,160	59,758,610
Potentially dilutive shares resulting from stock plans	498,954	570,659
Denominator for diluted EPS	59,869,114	60,329,269
Antidilutive equity awards not included in weighted-average common shares - diluted	161,457	536,418

9. Stock-Based Compensation

The following table summarizes the stock-based compensation expense and related income tax effect for the three months ended:

(In millions)	September 1, 2018	September 2, 2017
Stock-based compensation expense	$ 2.5	$ 1.3
Related income tax effect	0.6	0.5

The following table includes common stock issued by the company related to the exercise of stock options, vesting of restricted stock units and vesting of performance share units.

(Shares)	Three Months Ended	
	September 1, 2018	September 2, 2017
Stock Options	265,739	150,556
Restricted Stock Units	95,587	90,671
Performance Share Units	239,679	130,179

10. Income Taxes

The company recognizes interest and penalties related to uncertain tax benefits through income tax expense in its Condensed Consolidated Statement of Comprehensive Income. Interest and penalties recognized in the company's Condensed Consolidated Statement of Comprehensive Income were negligible for the three months ended September 1, 2018 and September 2, 2017.

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

(In millions)	September 1, 2018	June 2, 2018
Liability for interest and penalties	$ 0.8	$ 1.0
Liability for uncertain tax positions, current	3.0	3.2

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was signed into law in the United States. The effects of the Act included the reduction of the federal corporate income tax rate from 35 percent to 21 percent and a new participation exemption system of taxation on foreign earnings, among other provisions.

In accordance with SAB 118, for the three-month period ended September 1, 2018, the company has not completed its accounting for all the effects of the Act, as the U.S. Treasury Department and the Internal Revenue Service continue to provide additional guidance. Provisional amounts remain for the one-time U.S. tax liability on certain undistributed foreign earnings and remeasurement of net deferred tax liabilities.

Besides the one-time U.S. tax liability on undistributed foreign earnings as required by the Act, no other provision was made for income taxes that may result from future remittances of undistributed earnings of foreign subsidiaries that are determined to be indefinitely reinvested. Determination of the total amount of unrecognized deferred income tax on undistributed earnings of foreign subsidiaries is not practicable.

For tax years beginning after December 31, 2017, the Act subjects a U.S. shareholder to tax on global intangible low-taxed income (“GILTI”) earned by certain foreign subsidiaries. The FASB Staff Q&A, Topic 740, No. 5, Accounting for Global Intangible Low-Taxed Income, states that an entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred. The company has not yet made its accounting policy election regarding GILTI deferred taxes.

In determining the provision for income taxes for the three-month period ended September 1, 2018, the company used an estimated annual effective tax rate which was based on expected annual income and statutory tax rates across the various jurisdictions in which it operates, which included effects of the Act. The effective tax rates were 20.0 percent and 30.5 percent, respectively, for the three-month periods ended September 1, 2018 and September 2, 2017. The year over year decrease in the effective tax rate for the three-month period ended September 1, 2018 was the result of the Act. The effective tax rates for the three-month periods ended September 1, 2018 and September 2, 2017 are lower than the United States federal statutory rate due to the mix of earnings in taxing jurisdictions that had rates that were lower than the United States federal statutory rate, along with the research and development tax credit under the Protecting Americans from Tax Hikes ("PATH") Act of 2015. The effective tax rate for the three-month period ended September 1, 2018 was also lower than United States federal statutory rate due to excess tax benefits from share-based compensation that were recorded during the period.

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 because of the audits. Tax payments related to these audits, if any, are not expected to be material to the company's Condensed Consolidated Statements of Comprehensive Income.

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

11. Fair Value Measurements

The company's financial instruments consist of cash equivalents, marketable securities, accounts and notes receivable, deferred compensation plan, accounts payable, debt, redeemable noncontrolling interests, interest rate swaps 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)	September 1, 2018	June 2, 2018
Carrying value	$ 285.6	$285.8
Fair value	$ 288.9	$288.6

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:

Cash and cash equivalents — The company invests excess cash in short term investments in the form of commercial paper and money market funds. Commercial paper is valued at amortized costs while money market funds are valued using net asset value.

Equity securities — The company's equity securities primarily include equity mutual funds. The equity mutual fund investments are recorded at fair value using quoted prices for similar securities.

Available-for-sale securities — The company's available-for-sale marketable securities primarily include 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 agreements — The value of the company's interest rate swap agreements is determined using a market approach based on rates obtained from active markets. The interest rate swap agreements are designated as cash flow hedging instruments.

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.

Other — The company's contingent consideration liabilities and redeemable noncontrolling interests are deemed to be nonrecurring level 3 fair value measurement. Refer to Note 14 for further information regarding redeemable noncontrolling interests.

The following table sets forth financial assets and liabilities measured at fair value through net income and the respective pricing levels to which the fair value measurements are classified within the fair value hierarchy as of September 1, 2018 and June 2, 2018.

(In millions)	September 1, 2018		June 2, 2018	
Financial Assets	Quoted Prices with Other Observable Inputs (Level 2)	Management Estimate (Level 3)	Quoted Prices with Other Observable Inputs (Level 2)	Management Estimate (Level 3)
Cash equivalents:				
Money market funds	$ 25.8	$ —	$ 121.0	$ —
Mutual funds - equity	0.9	—	0.9	—
Foreign currency forward contracts	0.3	—	0.4	—
Deferred compensation plan	16.1	—	15.1	—
Total	$ 43.1	$ —	$ 137.4	$ —
Financial Liabilities				
Foreign currency forward contracts	$ 0.4	$ —	$ 0.3	$ —
Contingent consideration	—	0.4	—	0.5
Total	$ 0.4	$ 0.4	$ 0.3	$ 0.5

The following table sets forth financial assets measured at fair value through other comprehensive income and the respective pricing levels to which the fair value measurements are classified within the fair value hierarchy as of September 1, 2018 and June 2, 2018.

(In millions)	September 1, 2018		June 2, 2018	
Financial Assets	Quoted Prices with Other Observable Inputs (Level 2)	Management Estimate (Level 3)	Quoted Prices with Other Observable Inputs (Level 2)	Management Estimate (Level 3)
Mutual funds - fixed income	7.6	—	7.7	—
Interest rate swap agreement	14.4	—	15.0	—
Total	$ 22.0	$ —	$ 22.7	$ —

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

Contingent Consideration	September 1, 2018	September 2, 2017

Beginning balance	$ 0.5	$ 0.5
Payments	(0.1)	—
Ending balance	$ 0.4	$ 0.5

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 fixed income mutual funds and equity mutual funds as of the respective dates:

	September 1, 2018			June 2, 2018		
(In millions)	Cost	Unrealized Gain/(loss)	Market Value	Cost	Unrealized Gain/(Loss)	Market Value
Mutual funds - fixed income	$7.7	$ (0.1)	$ 7.6	$7.8	$ (0.1)	$ 7.7
Mutual funds - equity	0.7	0.2	0.9	0.7	0.2	0.9
Total	$8.4	$ 0.1	$ 8.5	$8.5	$ 0.1	$ 8.6

Adjustments to the fair value of fixed income mutual funds 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 losses recognized in the company's Condensed Consolidated Statement of Comprehensive Income related to fixed income mutual funds were $0.1 million for the three month periods ended September 1, 2018 and September 2, 2017.

Adjustments to the fair value of equity mutual funds are recorded as increases or decreases, net of income taxes, in the Condensed Consolidated Statements of Comprehensive Income within "Other, net". Unrealized gains recognized in the company's Condensed Consolidated Statement of Comprehensive Income related to equity mutual funds were $0.1 million for the three month periods ended September 1, 2018 and September 2, 2017.

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 equity and fixed income mutual funds as available for use in its current operations. Accordingly, the investments are recorded within Current Assets within the Condensed Consolidated Balance Sheets.

On June 3, 2018, as a result of the adoption of *ASU 2016-01 - Financial Instruments*, the company reclassified net gains on mutual fund equity securities, that were formerly classified as available for sale securities before the adoption of the new standard, from Accumulated Other Comprehensive Loss to Retained earnings. The impact of adoption was not material to the company's financial statements.

Derivative Instruments and Hedging Activities

Foreign Currency Forward Contracts

The company transacts business in various foreign currencies and has established a program that primarily utilizes foreign currency forward contracts to reduce the risks associated with the effects of certain foreign currency exposures. Under this program, the company's strategy is to have increases or decreases in our foreign currency exposures offset by gains or losses on the foreign currency forward contracts to mitigate the risks and volatility associated with foreign currency transaction gains or losses. Foreign currency exposures typically arise from net liability or asset exposures in non-functional currencies on the balance sheets of our foreign subsidiaries. Foreign currency forward contracts generally settle within 30 days and are not used for trading purposes. These forward contracts are not designated as hedging instruments. Accordingly, we record the fair value of these contracts as of the end of the reporting period in the Consolidated Balance Sheets with changes in fair value recorded within the Consolidated Statements of Comprehensive Income. The balance sheet classification for the fair values of these forward contracts is to Other current assets for unrealized gains and to Other accrued liabilities for unrealized losses. The Consolidated Statements of Comprehensive Income classification for the fair values of these forward contracts is to Other expenses (income): Other, net, for both realized and unrealized gains and losses. The realized gain on foreign currency forward contracts for the three months ended September 1, 2018 and September 2, 2017, was $0.4 million and zero, respectively.

Interest Rate Swaps

The company enters into interest rate swap agreements to manage its exposure to interest rate changes and its overall cost of borrowing. The company's interest rate swap agreements were 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 agreements 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 agreements is recognized as an adjustment to interest expense.

The interest rate swaps were designated cash flow hedges at inception and remain an effective accounting hedge as of September 1, 2018. 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 derivatives is immediately recognized in earnings. The interest rate swap agreements are assessed for hedge effectiveness on a quarterly basis.

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 converted indebtedness anticipated to be borrowed on the company's revolving line of credit up to the notional amount 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.

On June 12, 2017, the company entered into an interest rate swap agreement. The interest rate swap is for an aggregate notional amount of $75.0 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 converted the company's revolving line of credit up to the notional amountfrom a LIBOR-based floating interest rate plus applicable margin to a 2.387 percent fixed interest rate plus applicable margin under the agreement as of the forward start date.

As of September 1, 2018, the fair value of the company's two outstanding interest rate swap agreements, which are designated cash flow hedges, was an asset of $14.4 million. The asset fair value was recorded within Other noncurrent assets within the Condensed Consolidated Balance Sheets. The net unrealized gain recorded within Other comprehensive loss, net of tax, for the effective portion of the company's designated cash flow hedges was $0.5 million and $1.6 million for the three months ended September 1, 2018 and September 2, 2017, respectively.

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 for three month periods ended September 1, 2018 and September 2, 2017, respectively.

12. Commitments and Contingencies

Product Warranties
The company provides coverage to the end-user for parts and labor on products sold under its warranty policy and for other product-related matters. The standard length of warranty is 12 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. The company

provides an assurance-type warranty that ensures that products will function as intended. As such, the company's estimated warranty obligation is accounted for as a liability.

(In millions)	September 1, 2018	September 2, 2017
Accrual Balance — beginning	$ 51.5	$ 47.7
Accrual for product-related matters	5.6	9.4
Settlements and adjustments	(5.0)	(4.5)
Accrual Balance — ending	$ 52.1	$ 52.6

Guarantees

The company is periodically required to provide performance bonds to do business with certain customers. These arrangements are common in the industry 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 September 1, 2018, the company had a maximum financial exposure related to performance bonds totaling approximately $6.1 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 September 1, 2018 or June 2, 2018.

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 September 1, 2018, the company had a maximum financial exposure from these standby letters of credit totaling approximately $9.8 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 September 1, 2018 and June 2, 2018.

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

13. Debt

Long-term debt as of September 1, 2018 and June 2, 2018 consisted of the following obligations:

(In millions)	September 1, 2018	June 2, 2018
Debt securities, due March 1, 2021	50.0	50.0
Syndicated revolving line of credit, due September 2021	225.0	225.0
Construction-Type Lease	6.9	7.0
Supplier financing program	3.7	$3.8
Total debt	$ 285.6	$285.8
Less: Current debt	(3.7)	(10.8)
Long-term debt	$ 281.9	$275.0

The company's syndicated revolving line of credit 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 September 1, 2018, the total debt outstanding related to borrowings under the syndicated revolving line of credit was $225.0 million. Available borrowings against this facility were $165.2 million due to $9.8 million related to outstanding letters of credit. As of June 2, 2018, total debt outstanding related to borrowings under the syndicated revolving line of credit was $225.0 million and available borrowings were $166.8 million due to $8.2 million outstanding letters of credit.

Supplier Financing Program
The company has an agreement with a third party financial institution to provide a platform that allows certain participating suppliers the ability to finance payment obligations from the company. Under this program, participating suppliers may finance payment obligations of the company, prior to their scheduled due dates, at a discounted price to the third party financial institution.

The company has lengthened the payment terms for certain suppliers that have chosen to participate in the program. As a result, certain amounts due to suppliers have payment terms that are longer than standard industry practice and as such, these amounts have been excluded from the caption “Accounts payable” in the Condensed Consolidated Balance Sheets as the amounts have been accounted for by the company as a current debt obligation. Accordingly, $3.7 million and $3.8 million have been recorded within the caption “Other accrued liabilities” for the periods ended September 1, 2018 and June 2, 2018, respectively.

Construction-Type Lease

During fiscal 2015, the company entered into a lease agreement for the occupancy of a new studio facility in Palo Alto, California which runs through fiscal 2026. In fiscal 2017, the company became the deemed owner of the leased building for accounting purposes as a result of the company's involvement during the construction phase of the project. The lease is therefore accounted for as a financing transaction and the building and related financing liability were initially recorded at fair value in the Consolidated Balance Sheets within both Construction in progress and Other accrued liabilities. The fair value of the building and financing liability was determined through a blend of an income approach, comparable property sales approach and a replacement cost approach.

During the first quarter of fiscal 2018, the construction was substantially completed, and the property was placed in service. As a result, the company began depreciating the assets over their estimated useful lives. The company also reclassified the related financing liability to Long-term debt. Additionally, the company began allocating its monthly lease payments between land rent, which is recorded as an operating lease expense, interest expense and the reduction of the related lease obligation. The imputed interest rate on the financing liability is 2.9 percent, our incremental borrowing rate. The carrying value of the building and the related financing liability at September 1, 2018 was $7.0 million and $6.9 million, respectively. The carrying value of the building and the related financing liability were both $7.0 million at June 2, 2018.

14. Accumulated Other Comprehensive Loss

The following table provides an analysis of the changes in accumulated other comprehensive loss for the three months ended September 1, 2018 and September 2, 2017:

(In millions)	Cumulative Translation Adjustments	Pension and Other Post-retirement Benefit Plans	Unrealized Gains on Available-for-Sale Securities	Interest Rate Swap Agreement	Accumulated Other Comprehensive Loss
Balance at June 3, 2017	$ (36.8)	$ (47.6)	$ 0.1	$ 2.1	$ (82.2)
Other comprehensive income (loss) before reclassifications	4.4	—	—	(1.6)	2.8
Reclassification from accumulated other comprehensive loss - Selling, general and administrative	—	1.0	—	—	1.0
Tax benefit	—	(0.2)	—	—	(0.2)
Net reclassifications	—	0.8	—	—	0.8
Net current period other comprehensive income	4.4	0.8	—	(1.6)	3.6
Balance at September 2, 2017	$ (32.4)	(46.8)	$ 0.1	$ 0.5	$ (78.6)