1999 ANNUAL REPORT HERMAN MILLER, INC., AND SUBSIDIARIES

HermanMiller

MAKE CONNECTIONS >>

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THEN TURN ON THE POWER! >>

<DEAR SHAREHOLDER>

Connected with Reality >>

This is the fourth consecutive year of record revenue, net income, earnings per share, and Economic Value Added (EVA) for Herman Miller, Inc. We once again registered double-digit growth for net income, earnings per share, and EVA. Net income grew approximately 10 percent. Earnings per share grew 20 percent. EVA grew 16 percent.

Growth in revenue was a different story—it grew 2.8 percent. We aren't satisfied. We want to be a growth company. We were aiming for 15 percent sales growth. We did not reach that goal this year.

Yet our employee-owners did a creditable job of managing expenses and capital, focusing our spending on our strategic objectives. When the numbers are disappointing, it is always a temptation to pull back and become less aggressive. Here is our promise: We will not give in to that temptation. We will continue to invest for the future.

Connecting… >>

We're getting connected. We've worked hard to build an information network that helps us work faster, become smarter, and serve our customers better through network computing and e-commerce—the two most important developments of the latter part of this century. Here's how we are connecting to our customers, our business partners, and you, our owners.

…with Our Customers >>

We've always tried to make a meaningful connection with our customers. Listening, learning, teaching, serving our customers—that's never going to change. Today, we're reaching out and connecting with our customers in new ways. Those connections, both personal and digital, allow us to radically change the character and nature of our relationship with our customers and significantly improve our performance.

Home-based workers are dialing up www.hermanmiller.com, configuring and ordering their home offices through our online store—chairs, desks, even their desk lights.

Small, emerging businesses are sitting down with our dealer salespeople, laying out their offices in real time, in 3-D, viewing them from all angles, and placing the order in a few minutes with the click of a mouse. In as little as a week, they're working in those offices.

Some of our large, multinational customers have their own Herman Miller specification systems and extranet sites from which they place and track orders and communicate their needs and desires to us. They have special sites where employees select the furniture or accessories they need for their work.

Yet, this isn't where the network ends. Scheduling, order tracking, and customer-care data are all generated and compiled instantly. The order is delivered, complete, when the customer expects and needs it to be delivered, not before, not after.

Not all of our products and facilities are on this system today, but this isn't a dream. It's very real, and we're replicating this system across the enterprise.

…with Our Partners >>

While customers are connecting with us, our suppliers are beginning to watch our inventories and manage our needs through supplier extranets. Why? Because that connectivity makes us faster, more responsive, and more reliable.

We're working now to extend our relationships with architects, designers, and facilities managers through online dialogue and research. Our sales organization and dealer communities use an extensive and unparalleled online sales library and marketing tools to introduce our company, products, and services to customers.

We produce an online magazine written for the end-users of our products—people who work. Its readers share their concerns with us. In fact, every information interface we build includes a feedback loop that helps us stay connected. And what we learn keeps us growing, reacting, moving.

…with Our Owners >>

We've created a special place for you on our network—our Investors' Corner website, www.hermanmiller.com/investors, where you can follow our performance, explore our financial history, and watch as the power of our network is unleashed. We'll keep the site updated with useful information and tools to help you track and manage your ownership of Herman Miller.

Connections >>

We built this company by rethinking what work and workplaces mean to people. It's the foundation of our business. We're rethinking our company and redefining the expectations of our customers by making the connections that make our transactions 10 times faster, 10 times more reliable.

Herman Miller is a company that is serious about business, serious about people, and serious about the connections between the two. These are exciting days, and we're enthralled by the possibilities that this next century holds for us—a century in which close and seamless connections will matter more than ever.

Michael A. Volkema
President and Chief Executive Officer

David L. Nelson
Chairman of the Board

FINANCIAL GOALS CONNECT US >>

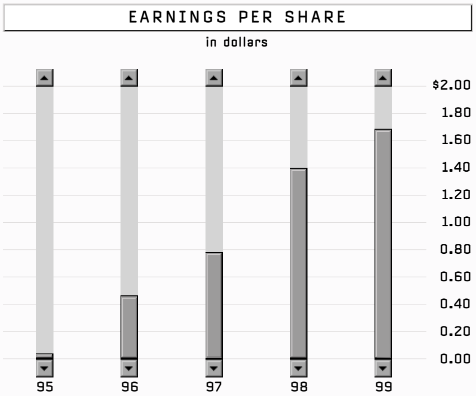
To a certain reality. To investors around the world. To our ability to fund the future at Herman Miller. In the past year, we introduced several new products, results of past and current investments. We also made considerable investments in Herman Miller's electronic infrastructure. This year, more results will follow.

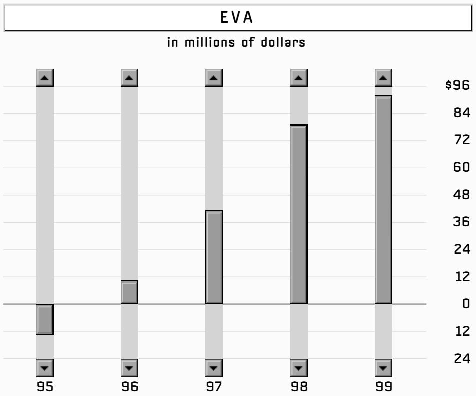
⟨MANAGEMENT'S DISCUSSION AND ANALYSIS⟩

The issues discussed in management's discussion and analysis should be read in conjunction with the company's consolidated financial statements and the notes to the consolidated financial statements.

Forward-Looking Statements >>

This discussion and analysis of financial condition and results of operations, as well as other sections of our Annual Report, contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act, as amended, that are based on management's beliefs, assumptions, current expectations, estimates, and projections about the office furniture industry, the economy, and about the company itself. Words such as "anticipates," "believes," "confident," "estimates," "expects," "forecasts," "likely," "plans," "projects," "should," variations of such words, and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict with regard to timing, extent, likelihood, and degree of occurrence. Therefore, actual results and outcomes may materially differ from what may be expressed or forecasted in such forward-looking statements. Furthermore, Herman Miller, Inc., undertakes no obligation to update, amend, or clarify forward-looking statements, whether as a result of new information, future events, or otherwise.





Overview >>

We had a record-setting year at Herman Miller in a number of categories, including sales, net income, earnings per share and Economic Value Added (EVA). While we set new reference points for all of these critical measures, we did not achieve our goals for sales and net income growth. A key reason for our shortfall was a significant decline in industry demand that began to affect our order entry in the third quarter. We believe the driver behind this change in industry dynamics was the expectation of lower corporate profits in the United States (U.S.). Corporate profits were expected to decline in late calendar 1998 and early 1999. This was a result of economic difficulties in many international regions. As we finished fiscal 1999, the outlook had improved. Corporate profits were stronger than anticipated, the U.S. economy was still growing, and demand for our industry's products appeared to be firming up. This is discussed in more detail under the domestic operations section of this analysis.

This was a year of significant investment for Herman Miller. As we expected, capital expenditures increased to an all-time high of $103.4 million. We also made significant investments in the form of additional operating expenses. In total, our operating expenses increased $14.8 million, or 3.4 percent. Our design and research expenditures increased approximately 12.1 percent. Our investments were in three primary areas: information technology to connect our manufacturing, logistics, customer-care and administrative operations; an electronic sales platform; and new products. These investments are core building blocks that will enable us to implement our strategy, get connected, and change the game in the office furniture industry.

Despite less-than-anticipated sales growth, we continued to invest in our future, improve our profitability and set a new record for EVA performance. This was made possible by the continued efforts of our employee-owners to reduce and eliminate waste, redeploy or eliminate nonproductive assets, and prioritize our expenditures against our strategic imperatives.

Fiscal 1999 marked our third year of utilizing EVA as our business measurement tool. As we indicated when we initiated the program, our Board of Directors had set improvement targets for the initial three-year period, and has now established new targets for the next three years. While establishing targets for the future, we were able to reflect on the EVA program and the impact it has had on the company.

We believe there have been numerous benefits from this program, with the most significant being the business literacy of our employee-owners. Nearly all of our 8,185 employees worldwide have received training in EVA. Our employee-owners know that capital is not free and that sustainable value is created through continuous improvement and growth. They also understand that their compensation is directly tied to EVA results.

Extensive independent market research has demonstrated that EVA more closely correlates with shareholder value, in the long run, than any other measure. And this has been the case for Herman Miller, over the past four years. However, it was not true for Herman Miller in fiscal 1999. Our EVA increased 16.2 percent, while the value of one share of Herman Miller common stock declined 27.1 percent. We believe that this divergence in share price is a short-term phenomenon and that EVA will continue to be the best long-term predictor of shareholder value. Therefore, again this year, we have presented a summarized calculation of our EVA for fiscal 1999, 1998, and 1997. In addition, we have noted throughout our analysis the impact that changes in performance had on EVA.

Calculation of Economic Value Added

(In Thousands)	1999	1998	1997
Operating income	$224,313	$208,295	$130,683
Divestiture	—	—	14,500
Interest expense on noncapitalized leases(1)	4,071	4,166	4,509
Goodwill amortization	3,001	6,161	4,725
Other	4,621	13,765	5,093
Increase (decrease) in reserves	(4,293)	1,290	18,649
Capitalized design and research	3,657	2,101	2,819
Adjusted operating profit	235,370	235,778	180,978
Cash taxes(2)	(83,607)	(90,703)	(72,091)
Net operating profit after taxes (NOPAT)	151,763	145,075	108,887
Weighted-average capital employed(3)	551,600	606,018	617,727
Weighted-average cost of capital(4)	11%	11%	11%
Cost of capital	60,676	66,662	67,950
Economic Value Added	$ 91,087	$ 78,413	$ 40,937

(1) Imputed interest as if the total noncancelable lease payments were capitalized.
(2) The reported current tax provision is adjusted for the statutory tax impact of interest expense.
(3) Total assets less noninterest bearing liabilities plus the LIFO, doubtful accounts and notes receivable reserves, warranty reserve, amortized goodwill, loss on sale of the German manufacturing operation, deferred taxes, restructuring costs, and capitalized design and research expense. Design and research expense is capitalized and amortized over 5 years.
(4) Management's estimate of the weighted average of the minimum equity and debt returns required by the providers of capital.

As you can see, we generated $91.1 million of EVA this year, compared to $78.4 million last year, and $40.9 million in 1997. In 1999, our EVA increased 16.2 percent, after increasing 91.5 percent in 1998.

Key Drivers >>

Net Sales Over the past three years, our sales have increased at a compound rate of 11.2 percent. In fiscal 1999, our sales increased 2.8 percent, after increasing 14.9 percent in 1998, and 16.5 percent in 1997. Our fiscal 1999 result was significantly below our goal of increasing sales 15 percent per annum. These results brought home two facts. First, we will be affected from time to time by macro factors that are not in our control. Second, we have just begun our journey to reinvent our industry and ourselves.

As we stated in the overview, much of the year-over-year decline in growth rates can be attributed to poor industry dynamics in the U.S. Based on industry information, we believe that we have continued to gain market share in the U.S., which is our largest market. Our international markets were also impacted by the economic turmoil in Asia and Latin America. In addition, the strong U.S. dollar made it more difficult to compete as an exporter. Each of these topics is expanded upon below.

Our leadership team began their work together four years ago. The first two years, we concentrated on practicing the fundamentals. We also implemented some of our building blocks, such as EVA and lean manufacturing. In year three, we refined our strategic vision and developed an implementation plan. This year, we began the implementation. Of course, many of the key competencies and capabilities have been in place for some time; however, we also have areas where the development is still in process. In the end, we intend to connect our historical strengths with our new capabilities to form new business models that will redefine the competitive playing field.

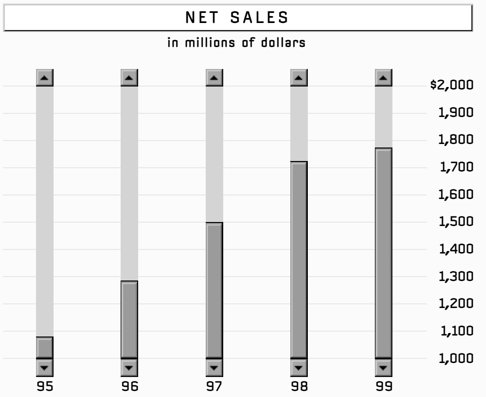
We know that we will not achieve our aggressive growth goals in each and every year. However, we continue to believe that, under normal industry conditions, our overall growth strategy is appropriate and attainable.

Domestic Operations Our domestic sales grew 3.8 percent this year, after growing 16.7 percent in 1998, and 19.2 percent in 1997. Excluding acquisitions, our domestic sales increased 2.3 percent in 1999, 15.9 percent in 1998, and 16.4 percent in 1997. Individually, none of our acquisitions were material. Our domestic growth has been primarily driven by unit volume increases. We have not materially changed list prices in over three years. During 1999, incremental discounts given to customers reduced our net sales by approximately $11 million. Changes in discounts did not have a material impact on our sales in 1998 or 1997.

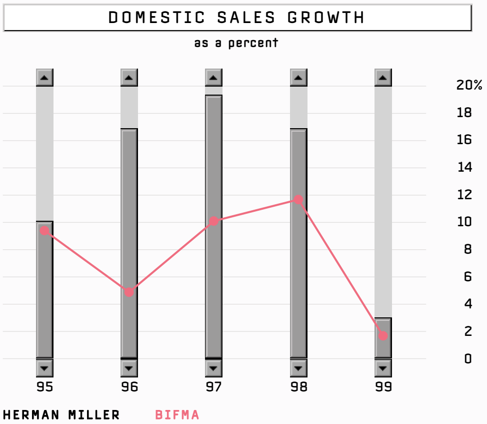
The Business and Institutional Furniture Manufacturers Association (BIFMA) reported that U.S. sales grew approximately 1.9

percent in the 12 months ended May 1999, after increasing 11.9 percent in 1998, and 10.1 percent in 1997. Given that our growth has exceeded the industry's growth, we believe we have gained market share in each of the past three years.

We believe demand for office furniture in the U.S. is driven by three factors in the macro economy: corporate profits, white-collar employment, and nonresidential fixed investments. During fiscal years 1997 and 1998, each of these factors had a positive impact. Secular trends, such as the deployment of technology into work environments and new and emerging work styles, have also positively influenced demand in recent years.



We believe the decline in industry demand experienced in the last two quarters of fiscal 1999 was due to economic forecasts of weaker corporate profits. In late summer and early fall of 1998, many economic analysts began to predict declining corporate profits for the last quarter of calendar 1998 and much of 1999. Additionally, both white-collar employment and nonresidential fixed investment were expected to increase at a lower rate than in 1998 and 1997. This change in the macro economic outlook resulted in many companies delaying or reducing investment plans. The impact of these changes began to negatively affect our order entry at the beginning of our third quarter. This was further exacerbated by our normal pattern of lower order entry during the Christmas and New Year holiday season.

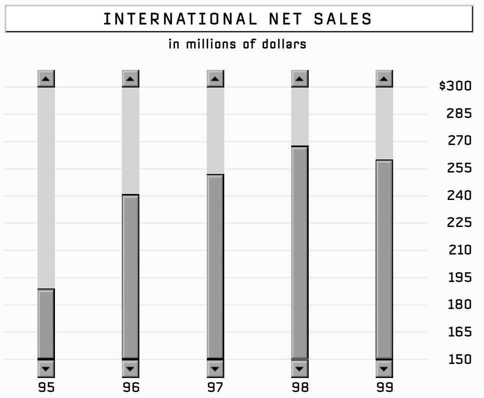


In retrospect, the actual decline in corporate profits was less than expected. The U.S. economy continued to expand and the international markets began to stabilize. Our industry has historically lagged behind changes in the macro economy by approximately six months. Therefore, we continued to experience weak demand throughout much of our fourth quarter. As we ended fiscal 1999, demand patterns had begun to firm up. This was evidenced by a 15.8 percent increase in order entry, from the third quarter to the fourth quarter. A portion of the sequential quarter increase was due to the seasonal impact of the holidays. However, renewed confidence that corporate profits will increase in 1999, coupled with the positive bias in the other macro factors, should enable the industry to return to more normal growth patterns. BIFMA is currently estimating that industry shipments will increase 1 to 3 percent in calendar 1999, and 4 to 6 percent in calendar 2000.

Our next fiscal year will contain 53 weeks. This extra week will be included in our results for the first quarter of fiscal 2000. Excluding the impact of this event, we expect our sales in the first half of fiscal 2000 to be nearly the same as the first half of 1999. Our sales growth in fiscal 2000 is likely to be heavily weighted to the second half of the year, as the year-over-year comparisons will be more favorable. In addition, we will still be rebuilding momentum in the first half of the year.

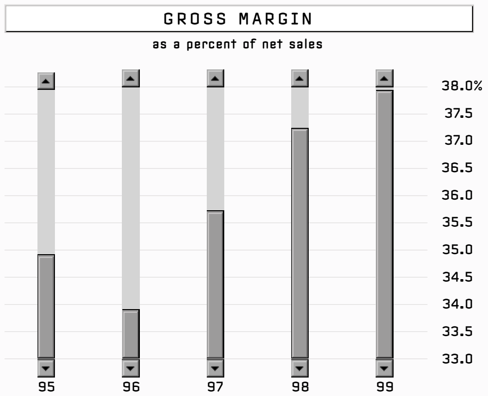
International Operations and Exports from the United States Three years ago, we stated our primary objective for our international business was to improve profitability. We had experienced several years of net operating losses, failed acquisitions and restructuring charges. Our plan was to rightsize the business and to retain those assets and operations that were adding value, as a geographic segment, or supporting our multinational customers. We completed most of this work in fiscal 1997 and 1998. This included the sale of our German manufacturing operation in 1997, the realignment of our Italian operation in 1998, and a turnaround effort in Mexico in 1996.

We are pleased to report that these efforts have all had positive impacts on our profitability with minimal, if any, impact on our sales. Fiscal 1999 marked our second year of positive operating results in our international business as a whole. All of those efforts are now driving tangible results. In spite of a decline in revenue, net income for 1999 was $8.1 million, versus $7.6 million last year. In 1997, we reported a net loss of $4.6 million, excluding the sale of our German manufacturing operation. These numbers are different than we have reported in past years. We have restated all years to conform to our internal reporting, where we allocate the cost of certain corporate functions and assets. This accounting provides a more accurate picture of the economic returns we receive from these operations. While we continue to incur losses in some of our operations, no individual location is generating a significant operating loss.



Net sales of international operations and export sales from the U.S. for the year declined 2.8 percent in 1999 to $259.1 million, compared with $266.7 million last year, and $251.2 million in 1997. The decline in 1999 and increases in 1998 and 1997 were primarily attributable to changes in unit volumes.

This year, our international sales have been negatively impacted by three macro factors. First, the strong U.S. dollar has made it more difficult to compete as an exporter. Our production capacity outside of the U.S. is largely limited to the United Kingdom. Second, the crisis in Asia has led indigenous companies to curtail investments and caused American multinationals to reevaluate the amount of risk they are willing to take in these markets. Last, the economic situation in Latin America has slowed activity levels in that region.



The sales decline for the year was primarily attributable to our Canadian business and, to a lesser extent, South America. The decline in Canada is due, in part, to the weak Canadian dollar. In addition, our sales in Canada are heavily project driven and some project business from last year did not repeat in the current year.

We continue to have very good results in our Mexico and United Kingdom operations. Each of these regions has increased revenue for each of the past three years. While our operations on the continent of Europe showed a decline in revenue in 1999, we are very pleased with the progress we have made in profitability and capability.

Gross Margin Fiscal 1999 marked the third year in a row where we improved our gross margin percentage. Gross margin, as a percent of sales, increased to 37.9 percent for the year, compared to 37.2 percent in the prior year, and 35.7 percent in 1997. This improvement contributed approximately $7.8 million to EVA and net income in the current year.

Three primary factors are responsible for our improvements in gross margin: manufacturing productivity, reductions in material costs, and favorable changes in product mix. A decline in incentive compensation contributed to the improvement in 1999. These incentives are paid to all employees and are tied to year-over-year improvement in EVA. As discussed above, in 1999, these positive factors were partially offset by increased discounts given to customers.

We began to make significant improvements in our manufacturing processes in 1995. At that time, we implemented a series of changes to our manufacturing and logistical operations that eliminated or reduced non value-adding activities. This resulted in the elimination of certain facilities. Those changes continued to pay dividends to us over the past three years. In addition, we are in the process of implementing lean manufacturing techniques throughout our operations. These techniques are a process of continuous improvement that focuses on the elimination of waste in all aspects of our business. While it's difficult to quantify, we believe that this process began to have a significant impact on our costs in 1999. If this is true, the good news is that we are in the very early stages of this work and can anticipate an ongoing positive impact on costs.

Our improvements in manufacturing productivity have also led to a substantial reduction in the amount of money we have invested in working capital. At the end of 1999, the days sales outstanding in the sum of our accounts receivable and inventory had declined to 52.5 days, compared to 56.2 days and 63.3 days at the end of 1998 and 1997, respectively. These improvements are the result of eliminating steps in the physical distribution process, faster cycle times, and improved connectivity with our vendors. In addition, as our operations become more reliable, our customers pay on a more timely basis. These improvements have had a significant impact on EVA. Over the past three years, these improvements have resulted in a cumulative decrease in capital deployed of $28.3 million or a $3.1 million increase in annual EVA.

Our manufacturing operations rely heavily on our supply base. In fact, 63.9 percent of our cost of goods sold is material cost. We believe this is a competitive advantage. Not only are our costs more variable with sales, we can be more flexible in selecting new materials and processes in the research, design, and development of new products. However, to be cost competitive and achieve the reliability and speed we demand, we must be connected with our supply base technologically and in purpose. We are making progress on both fronts. By partnering with our supply base, we were able to reduce our material cost by approximately $10 million in 1999. This work also has had and will continue to have a positive impact on our speed, reliability, and working-capital investment.

Our product mix has continued to shift toward seating products, a trend that started several years ago. Over the past four years, we introduced several new seating products, which we believe have given us the strongest work-seating offering in our industry. As a result, our sales in this product segment have increased at a faster rate than our total sales. On average, these products have higher gross margin levels.

While this has had a beneficial impact on margins, office furniture systems still represent the largest industry segment. We have introduced several new office systems products that we believe will enable us to increase our rate of sales growth in this category. Q system, a product line that was introduced in June of 1997, began to make a significant contribution to our sales in 1999. Passage desk-based system, introduced in June of 1998, became available for order in the third quarter of 1999. In June of 1999, we introduced Resolve system. We believe this product line will set new reference points for function, aesthetics, and costs in the systems furniture segment. Each of these products received a gold award on their introduction at the industry's annual trade show, NeoCon.

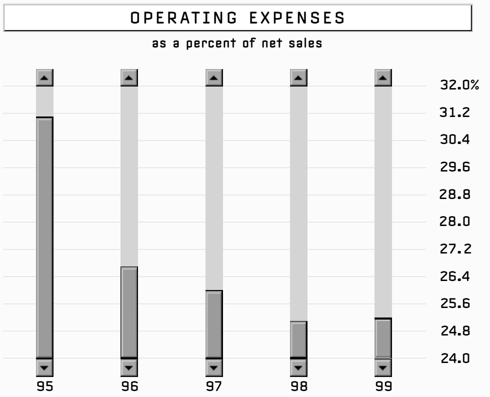
Over the last few years, we have had relatively stable pricing. The increased discounting in 1999 was not confined to any one product. Discounting in 1999 was more pronounced than we had anticipated at the beginning of the year, however, given the slower demand pattern, pricing has remained rational. For the year, the impact of increased discounting was approximately $11 million, or 0.6 percent of sales.

At the end of 1998, we began to implement a new Enterprise Resource Planning (ERP) system in most of our U.S. operations. As part of this implementation, we intend to reengineer many of our operating processes. We believe the implementation of these investments, coupled with our implementation of lean manufacturing techniques, will improve our quality and reliability and reduce lead-times and the cost of producing product. Last year, we estimated the total investment to implement the ERP system would be approximately $80 million. We were wrong. The project will take longer than we anticipated and we now expect the total cost to be $100 million. After a difficult start, we reorganized the implementation, recruited several new information technology professionals, and reduced our reliance on external consultants. While we are not pleased with the increased time and money, we are confident that the revised plan will be achieved and believe this investment will generate positive EVA and improve our competitive position. To date, we have two West-Michigan manufacturing sites operating on the new system. We also are using the system for the financial operations of our largest operation in the U.S. All of these areas implemented these systems with very little, if any, disruption. While it is still early, we are seeing tangible benefits where we had anticipated them. We expect to implement the new system at the majority of our manufacturing sites over the next 12 to 18 months.

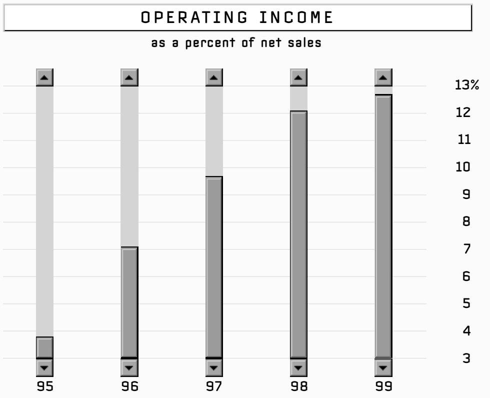
Going forward, we expect gross margins to remain in the range of 37.5 to 38.5 percent of sales. Continued productivity improvements and material cost reductions will be offset, to some degree, by additional discounting. We also could be negatively impacted by the cost of disruptions associated with implementation of our ERP system, a new production facility in Atlanta, Georgia, and new products that will be introduced over the next 12 months.

Operating Expenses Over the last four years, operating expense reductions have been a key driver of our improvement in EVA. Since 1995, we have reduced our operating expenses from 31.1 percent of sales to 25.2 percent in 1999. This reduction accounts for $64.1 million of EVA on an annual basis. This year, we had very little change in operating expenses. The 25.2 percent reported for 1999 is virtually the same as the 25.1 percent we reported in 1998.

Last year, we told you our goal was to reduce operating expenses to 23 percent by 2001. Our goal is still 23 percent of sales, but it will take us until 2002 to achieve it. Two things prevented us from making progress toward our goal in 1999. First, as we discussed above, we did not have a great deal of top line growth. Second, we have been and continue to be in a period of significant investment. We believe these investments, both capital and expense, are critical to building the capabilities we need to have a sustainable competitive advantage. Three areas required significant incremental spending during 1999.



The first of these areas is the continued development of our electronic selling platform, referred to internally as the 1:1 platform. Essentially, using this tool, we are able to design, specify, quote, and place an order, from a laptop personal computer brought to the customer's site. This tool has significantly improved the buying experience for our customers, while having the added benefit of streamlining the order-entry process. Our incremental investment in developing and implementing this capability was $4.2 million, or 0.2 percent of net sales in 1999.



As we have discussed throughout this report, the deployment of technology has been and will continue to be a key focus for us. To support this work, we have increased the size and expertise of our information technology staff. This year, the team was focused on implementing our new ERP system and upgrading our information technology infrastructure. In total, our spending in this area increased $10.6 million. We expect our information technology costs to remain at an increased level for the foreseeable future. This is due, in part, to our ongoing ERP implementation. In addition, we believe that most companies who lead their industry also lead in the deployment of technology.

The third area of incremental expenditure was design and research. Design and research costs, excluding royalty payments, were $33.4 million in 1999, compared to $29.0 million in 1998, and $25.7 million in 1997. Royalty payments made to designers of the company's products as the products are sold are not included in research and development costs, since they are considered to be a variable cost of the product. As a percentage of net sales, research and development costs were 1.9 percent in 1999, 1.7 percent in 1998, and 1.7 percent in 1997. As discussed earlier, new product design and development has been, and continues to be, a key business strategy. The increased expenditures are directly related to the increased number of new products introduced and currently in development.

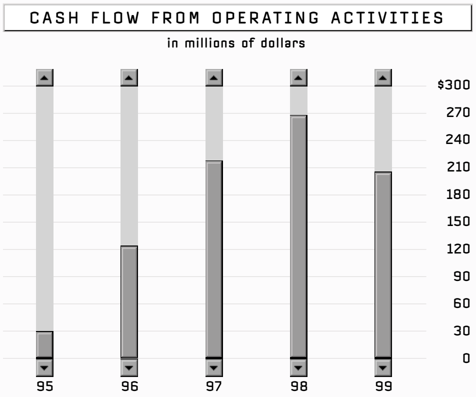
In addition to these areas, we had incremental operating expenses from acquisitions completed during fiscal 1999 and 1998, and increases in wages and benefits of approximately 3 percent. Our incremental expenditures were partially offset by lower incentive compensation payments. Our executive incentives and company-wide gain sharing programs are based on the annual improvement in EVA.

Operating Income The combination of improved gross margins and relatively unchanged operating expenses has resulted in significant improvements in operating income. As a percent of sales, operating income improved to 12.7 percent in 1999, after improving to 12.1 percent in 1998, and 9.7 percent in 1997. The 1997 amount excludes the charge for the sale of our German manufacturing operation. The 12.7

percent recorded in 1999 was the highest reported for a fiscal year in over 10 years.

Income Taxes Our effective tax rate was 38.3 percent in 1999, compared to 38.8 percent and 40.9 percent in 1998 and 1997, respectively. The lower tax rate is due primarily to lower state taxes, international tax benefits and utilization of net operating loss carryforwards. The 1997 tax rate was also negatively impacted by the loss on the sale of the German manufacturing operation, which provided a tax benefit that was lower than our statutory rate.

We expect the effective tax rate for fiscal 2000 to be in the range of 36.5 to 37.5 percent.



Liquidity and Capital Resources The table below shows certain key cash flow and capital highlights:

(In Thousands)	1999	1998	1997
Cash and cash equivalents	$ 79,952	$115,316	$106,161
Cash from operating activities	$205,613	$268,723	$218,170
Days sales in accounts receivable and inventory	52.5	56.2	63.3
Capital expenditures	$103,404	$ 73,561	$ 54,470
Debt-to-EBITDA ratio	.5	.5	.7
EBITDA-to-interest expense ratio	41.0	32.4	20.7
EVA capital	$577,122	$543,789	$615,120
NOPAT to EVA capital	26.3%	26.7%	17.7%

Our cash flow from operations declined 23.5 percent in 1999, to $205.6 million, from the all-time high we recorded last year of $268.7 million. The decrease from last year was due to an incremental increase in working capital of $14.9 million. Last year we were able to reduce our dollars invested in working capital by $85.2 million. As we discussed above, we continued to do an excellent job of managing our working capital in 1999. Days sales outstanding in the total of accounts receivable and inventory declined 3.7 days or 6.6 percent. Over the past four years, we have reduced our days sales outstanding by 38.7 days or 42.4 percent. As noted above, this has significantly increased our return on invested capital. Our progress in 1999 was offset by declines in accounts payable and unfunded checks. These reductions were the result of lower inventory balances and the timing of payments to vendors. We believe the investments we are making in the deployment of lean manufacturing techniques and information technology will allow us to achieve further improvements in working capital.

Fiscal 1999 capital expenditures were primarily for investments in our new ERP system, overall information technology infrastructure, the development and deployment of our electronic selling platform, new products, and machinery and equipment to improve operational performance and expand capacity. At the end of the fiscal year, $25.4 million of capital was committed for future expenditures.

In 1996, we established a plan to reduce the cash we had invested in nonproductive or nonessential assets. This has resulted in the sale of certain real estate assets over the past three years. During 1999, we completed the sale of our manufacturing site and excess land in Roswell, Georgia, a building in Grandville, Michigan, and excess land in the United Kingdom. Total proceeds from the sale of these properties were $26.0 million. Our gain on the sale of these assets, net of other capital losses, was $4.3 million or $.05 per share. The Grandville site is no longer needed and will not be replaced. The Georgia facility will be replaced by a new facility, which will be completed in 2000. The new facility will enable us to consolidate the operations currently performed on our Roswell site with operations performed at two leased locations, thus lowering our total operating costs and providing increased capacity.

We expect capital expenditures, net of redeployments, to increase to between $110 million and $140 million in 2000. The largest planned expenditures will be investments in our ERP system, electronic selling platform, new products, the new facility in Georgia, and facility enhancements in West Michigan.

In 1999, we acquired three privately owned North American dealers as part of our service strategy. These local service organizations were acquired for approximately $4.7 million. We also invested $3.7 million to enter into a joint venture with one of our North American dealers. We expect to invest between $10 million and $20 million in acquiring additional local and regional service operations in 2000.

At the end of 1999, we continued to have a high level of cash and cash equivalents. We intend to utilize the cash to repurchase shares of the company's stock, to fund acquisitions, and to fund future capital expenditures.

In the past year, we reexamined our use of the debt-to-capital ratio as a financial statistic. Our debt-to-capital ratio at the end of 1999 was 41.4 percent, compared to 36.1 percent at the end of 1998. This was the highest debt-to-capital ratio we have had in over 10 years, and is due to the large amount of our common stock repurchased over the past four years.

We determined that it is more important for our company to look at the liquidity of the business and its cash-generating potential than at historical retained earnings. We need the financial flexibility to finance our growth and share repurchase plans and to enable us to effectively manage our capital structure.

The covenants on our long-term debt and revolving credit loan contained minimum net-worth requirements. In 1999, we renegotiated the covenants and obtained a new $300 million unsecured revolving credit facility. Going forward, our capital structure will be managed based on two tenets. First, we will maintain the financial strength and flexibility that would enable our debt to be rated investment grade. Second, we will maintain a minimum EBITDA-to-interest expense ratio and a maximum debt-to-EBITDA ratio. EBITDA stands for Earnings Before Interest Expense, Taxes, Depreciation, and Amortization.

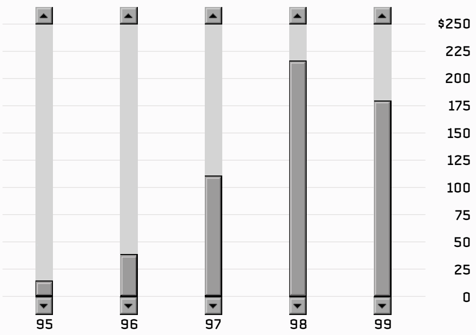
Our available credit, combined with our existing cash and expected cash flow, is adequate to fund our day-to-day operations, strategic investments, and share repurchases. If necessary, we also have informal credit facilities that can be accessed.

Common Stock Transactions

(In Thousands, Except Share and Per Share Data)	1999	1998	1997
Shares acquired	8,379,444	5,222,361	2,765,984
Cost of shares acquired	$167,496	$201,982	$ 97,962
Cost per share acquired	$ 19.99	$ 38.68	$ 35.42
Shares issued	958,347	1,347,483	470,082
Cost per share issued	$ 16.18	$ 21.23	$ 28.13
Cash dividends	$ 11,992	$ 13,361	$ 12,593
Dividends per share	$ .15	$ .15	$ .13

TOTAL CASH RETURNED TO SHAREHOLDERS

in millions of dollars



The Board of Directors first authorized the company to repurchase its common stock in 1984, and has periodically renewed its authorization. During 1999, we repurchased 8.1 million shares of our common stock for $160.5 million under the Board-approved stock repurchase program. Over the past four years, we have repurchased 26,141,915 shares of our common stock for $468.6 million, adjusted for stock splits in fiscal 1998 and 1997. This represents approximately 26.3 percent of the common shares outstanding at the end of 1995. Management and the Board of Directors believe the share repurchase program is an excellent means of returning value to our shareholders and preventing dilution from employee-ownership programs. In January of this year, our Board of Directors approved an additional $100 million to be used for share repurchases. We currently have $56.8 million remaining on this authorization.

Year 2000 >>

This Year 2000 readiness disclosure is the most current information available and replaces all previous disclosures made by the company in its filings on form 10-Q and form 10-K, and in its annual report to shareholders.

During fiscal year 1998, the company performed an analysis of the work necessary to assure that its existing information systems and manufacturing equipment for both domestic and international operations will be able to address the issues surrounding the advent of the year 2000.

Company's State of Readiness Herman Miller has a comprehensive, written plan that is regularly updated and monitored by technical personnel and company management, and reported to senior management and the Board of Directors.

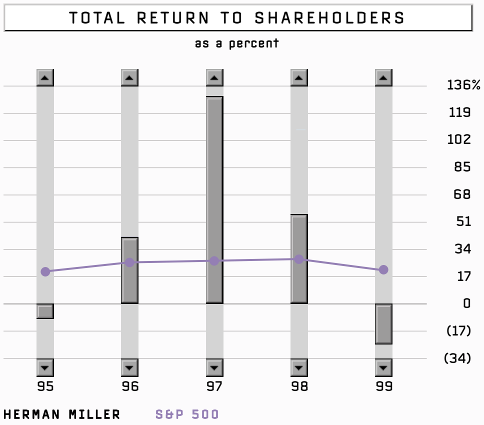
All of our domestic locations are now substantially Year 2000 compliant. For international locations, the company presently believes that all remediation and testing will be completed prior to August 1999.

The company has also verified Year 2000 conversion plans with its significant vendors and independent dealers. All significant vendors and independent dealers confirmed that they were Year 2000 compliant or are in the process of completing their Year 2000 conversion plans.

Costs to Address the Company's Year 2000 Issues To date, the company has spent approximately $5 million on Year 2000 renovations. These are renovations to existing systems and are exclusive of the implementation of our new ERP system. The company does not separately track the internal costs incurred for the Year 2000 project, and such costs incurred are principally related to payroll costs for employees involved with the project.

Based on costs incurred to date, the company does not believe the expenses related to Year 2000 compliance will be material to the results of its operations, financial position, or cash flows.

The company does not expect to spend any significant additional amounts to complete the renovation.



Risks of the Company's Year 2000 Issues The company expects to have completed its Year 2000 remediation plan prior to any Year 2000 issues having an adverse impact on its operations. Due to the uncertain and unprecedented nature of the Year 2000 issue, however, and especially the uncertainty surrounding the readiness of third-party vendors, independent dealers, and customers, the company cannot provide assurance at this time that the consequences of the Year 2000 dating issue will not have a material impact on its results of operations, financial position, or cash flows.

Possible business consequences of the Year 2000 dating issues include, but are not limited to, higher than expected costs of remediation; or a temporary inability to manufacture or ship product, process transactions, communicate with customers, vendors, subsidiary locations and employees, or conduct other similar corporate activities in a normal business environment.

Company's Contingency Plans In the event that additional actions beyond those described above are necessary, the company will immediately, upon identifying the need, begin developing and implementing remedial actions to address the issues.

Contingencies >>

The company, for a number of years, has sold various products to the United States Government under General Services Administration (GSA) multiple award schedule contracts. The GSA is permitted to audit the company's compliance with the GSA contracts. At any point in time, a number of GSA audits are either scheduled or in progress. Management has been notified that the GSA referred an audit of the company to the Department of Justice for consideration of a potential civil False Claims Act case. Management does not expect resolution of the audit to have a material adverse effect on the company's consolidated financial statements. Management does not have information that would indicate a substantive basis for a civil False Claims Act case.

We are not aware of any other litigation or threatened litigation that would have a material impact on the company's consolidated financial statements.

Conclusion >>

In conclusion, we have shared with you the key elements of our financial performance, including how we intend to increase our market opportunity and improve our operational performance. Each of these elements played a key role in our EVA and net income improvement over the past three years and, we believe, will continue to enable us to improve EVA and net income and provide superior returns to our shareholders in the future. We also hope you have gained some insight into the risks and challenges we face.

‹REVIEW OF OPERATIONS›

(In Thousands, Except Per Share Data)	1999	1998	1997	1996
Operating Results				
Net Sales	$1,766,239	$1,718,595	$1,495,885	$1,283,931
Gross Margin	669,705	638,839	533,924	434,946
Selling, General, and Administrative	407,446	396,698	359,601	316,024
Design and Research Expense	37,946	33,846	29,140	27,472
Operating Income	224,313	208,295	130,683	74,935
Income (Loss) Before Income Taxes	229,912	209,531	125,883	70,096
Net Income (Loss)	141,812	128,331	74,398	45,946
Cash Flow from Operating Activities	205,613	268,723	218,170	124,458
Depreciation and Amortization	62,054	50,748	47,985	45,009
Capital Expenditures	103,404	73,561	54,470	54,429
Common Stock Repurchased plus Cash Dividends Paid	179,766	215,498	110,425	38,116
Key Ratios				
Sales Growth	2.8	14.9	16.5	18.5
Gross Margin(1)	37.9	37.2	35.7	33.9
Selling, General, and Administrative(1)	23.1	23.1	24.0	24.6
Design and Research Expense(1)	2.1	2.0	1.9	2.1
Operating Income(1)	12.7	12.1	8.7	5.8
Net Income Growth (Decline)	10.5	72.5	61.9	958.9
After-Tax Return on Net Sales	8.0	7.5	5.0	3.6
After-Tax Return on Average Assets	18.3	16.7	10.3	6.8
After-Tax Return on Average Equity	64.4	49.5	25.0	15.4
Share and Per Share Data(2)				
Earnings (Loss) per Share—Diluted	$1.67	$1.39	$0.77	$0.46
Cash Dividends Declared per Share	0.15	0.15	0.13	0.13
Book Value per Share at Year End	2.46	2.51	2.99	3.07
Market Price per Share at Year End	20.19	27.69	17.88	7.72
Weighted-Average Shares Outstanding—Diluted	84,831	92,039	96,124	100,515
Financial Condition				
Total Assets	$761,506	$784,346	$755,587	$694,911
Working Capital	(1,247)	21,803	100,253	115,878
Current Ratio	1.0	1.06	1.35	1.53
Interest-Bearing Debt	147,590	130,655	127,369	131,710
Shareholders' Equity	209,075	231,002	287,062	308,145
Total Capital	356,665	361,657	414,431	439,855
EBITDA	299,261	268,579	182,711	123,015
Debt-to-EBITDA Ratio	.5	.5	.7	1.1
EBITDA-to-Interest Expense Ratio	41.0	32.4	20.7	15.6

(1) Shown as a percent of net sales.
(2) Retroactively adjusted to reflect two-for-one stock splits occurring in 1998 and 1997.

1995	1994	1993	1992	1991	1990	1989
$1,083,050	$953,200	$855,673	$804,675	$878,732	$865,016	$828,981
378,269	337,138	298,501	277,076	314,159	313,171	294,721
303,621	245,189	230,219	229,392	233,126	209,683	193,403
33,682	30,151	24,513	20,725	23,212	20,784	21,650
9,066	61,798	43,769	1,989	39,206	82,704	72,349
4,039	63,473	42,354	(988)	33,159	74,996	67,902
4,339	40,373	22,054	(14,145)	14,059	46,596	45,702
29,861	69,764	82,588	77,000	86,393	81,706	61,150
39,732	33,207	31,600	30,473	32,761	28,005	25,412
63,359	40,347	43,387	32,024	32,609	34,978	60,765
13,600	38,461	21,157	23,558	18,016	14,782	24,062
13.6	11.4	6.3	(8.4)	1.6	4.3	11.6
34.9	35.4	34.9	34.4	35.8	36.2	35.6
28.0	25.7	26.9	28.5	26.5	24.2	23.3
3.1	3.2	2.9	2.6	2.6	2.4	2.6
0.8	6.5	5.1	0.2	4.5	9.6	8.7
(89.3)	83.1	255.9	(200.6)	(69.8)	2.0	(1.5)
0.4	4.2	2.6	(1.8)	1.6	5.4	5.5
0.7	7.9	4.6	(2.9)	2.7	8.8	9.3
1.5	13.9	7.8	(4.8)	4.5	15.7	17.1
$0.04	$0.40	$0.22	$(0.14)	$0.14	$0.45	$0.44
0.13	0.13	0.13	0.13	0.13	0.13	0.13
2.89	2.93	2.84	2.78	3.08	3.07	2.73
5.42	6.22	6.41	4.75	5.03	5.13	5.25
99,168	101,020	99,972	100,652	102,740	102,572	102,840
$659,012	$533,746	$484,342	$471,268	$492,947	$533,982	$520,806
39,575	50,943	62,711	66,545	113,980	127,003	106,321
1.15	1.29	1.43	1.48	2.06	2.09	1.83
144,188	70,017	39,877	53,975	75,693	109,997	140,268
286,915	296,325	283,942	280,082	314,782	314,315	278,534
431,103	366,342	323,819	334,057	390,475	424,312	418,802
50,070	98,508	76,043	36,364	76,180	114,757	101,630
2.9	.7	.5	1.5	1.0	1.0	1.4
7.9	53.9	36.4	5.3	7.4	9.8	12.2

<SHARE PRICE, EARNINGS, AND DIVIDENDS SUMMARY>

Herman Miller, Inc., common stock is quoted in the NASDAQ-National Market System (NASDAQ-NMS Symbol: MLHR). As of July 30, 1999, there were approximately 24,000 shareholders of record of the company's common stock.

Per Share and Unaudited	Market Price High	Market Price Low	Market Price Close	Earnings Per Share–Diluted	Dividends Per Share
Year Ended May 29, 1999					
First quarter	$ 30.313	$ 23.000	$ 23.000	$ .39	$ .03625
Second quarter	25.438	18.750	22.250	.45	.03625
Third quarter	26.875	15.875	17.000	.35	.03625
Fourth quarter	22.750	15.813	20.188	.48	.03625
Year	30.313	15.813	20.188	1.67	.14500
Year Ended May 30, 1998					
First quarter	$ 25.875	$ 17.344	$ 25.875	$ .30	$ .03625
Second quarter	28.406	22.000	25.375	.33	.03625
Third quarter	31.750	23.250	30.625	.36	.03625
Fourth quarter	35.563	26.030	27.688	.40	.03625
Year	35.563	17.344	27.688	1.39	.14500

<QUARTERLY FINANCIAL DATA>

Summary of the quarterly operating results on a consolidated basis:

May 29, 1999; May 30, 1998; May 31, 1997 (In Thousands, Except Per Share Data)		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1999	Net sales	$ 447,503	$ 464,818	$ 421,550	$ 432,368
	Gross margin	170,212	176,112	155,975	167,406
	Net income	34,005	38,913	29,927	38,967
	Earnings per share–diluted	$ .39	$ .45	$ .35	$ .48
1998	Net sales	$ 401,545	$ 415,086	$ 436,708	$ 465,256
	Gross margin	147,001	151,643	164,896	175,299
	Net income	27,807	30,446	32,639	37,439
	Earnings per share–diluted	$ .30	$ .33	$ .36	$ .40
1997	Net sales	$ 342,484	$ 377,137	$ 365,060	$ 411,204
	Gross margin	118,272	134,300	131,933	149,419
	Net income	15,586	17,852	13,535	27,425
	Earnings per share–diluted	$ .16	$ .18	$ .14	$ .29

‹BOARD OF DIRECTORS›

Bill Brehm
Chairman of the Board, SRA International, Inc.
Systems integrator and information technology consulting
Member of Executive and Nominating Committees

Harold Chandler
President and Chief Operating Officer, UnumProvident Corporation
Insurance company
Member of Executive Compensation Committee

Dave Crockett
General Partner, Aspen Ventures
High-technology venture-capital firm
Member of Financial Audit Committee

Brian Griffiths
International Advisor, Goldman Sachs International Limited
Lord Griffiths of Fforestfach
International investment banking firm and House of Lords, United Kingdom

Dave Nelson
Chairman of the Board, Herman Miller, Inc.
Member of Executive Committee

Bill Pollard
Chairman of the Board, The ServiceMaster Company
Management and consumer services for healthcare, industrial, and educational facilities
Member of Executive and Nominating Committees

Ruth Alkema Reister
Private Investments and Civic and Charitable Activities

Dick Ruch
Former Chairman, President, and Chief Executive Officer, Herman Miller, Inc.
Member of Executive and Financial Audit Committees

Dorothy Terrell
Senior Vice President, Worldwide Sales, and President, Services Group
Natural MicroSystems Corporation
Telecommunications technology company
Member of Executive Compensation Committee

Mike Volkema
President and Chief Executive Officer, Herman Miller, Inc.
Member of Executive Committee

Jim DeBoer, Jr.
Secretary of the Board
Partner, Varnum, Riddering, Schmidt & Howlett LLP
Attorneys at Law

‹EXECUTIVE LEADERSHIP TEAM›

Mike Volkema
President and Chief Executive Officer

Bob Frey
Executive Vice President, President, Herman Miller International

Dave Knibbe
Executive Vice President, Sales and Distribution

Andrew McGregor
Executive Vice President, President, Business Services Group

Gary Miller
Executive Vice President, Product Research and Development

Gene Miyamoto
Executive Vice President, Human Resources and Corporate Communications

Bix Norman
Executive Vice President, Chief Information Officer

Dan Rosema
Executive Vice President, Casegoods and Seating

Vicki TenHaken
Executive Vice President, Strategic Planning

Mike Valz
Executive Vice President, Systems and SQA

Gary Van Spronsen
Executive Vice President, Offer Development and Marketing

Brian Walker
Executive Vice President, Finance and Business Development, and Chief Financial Officer

<LOCATIONS>

Corporate Office >>

Zeeland, Michigan

North American Showrooms and Sales Offices >>

Atlanta, Georgia
Austin, Texas
Boston, Massachusetts
Calgary, Alberta
Chicago, Illinois
Cleveland, Ohio
Dallas, Texas
Denver, Colorado
Detroit, Michigan
Grandville, Michigan
Holland, Michigan
Houston, Texas
Irvine, California
Kansas City, Kansas
Los Angeles, California
Miami, Florida
Minneapolis, Minnesota
Montreal, Quebec
New York, New York
Orlando, Florida
Philadelphia, Pennsylvania
Phoenix, Arizona
Raleigh, North Carolina
San Francisco, California
Santa Clara, California
Seattle, Washington
St. Louis, Missouri
Toronto, Ontario
Vancouver, British Columbia
Washington, D.C.
Zeeland, Michigan

North American Manufacturing and Distribution Facilities >>

Holland, Michigan
Norcross, Georgia
Rocklin, California
Roswell, Georgia
Spring Lake, Michigan
Stone Mountain, Georgia
Zeeland, Michigan

International Showrooms and Sales Offices >>

Amsterdam, Netherlands
Auckland, New Zealand
Berlin, Germany
Bogotá, Colombia
Brussels, Belgium
Bangkok, Thailand
Birmingham, United Kingdom
Júarez, Mexico
Dubai, United Arab Emirates
Düsseldorf, Germany
Geneva, Switzerland
Munich, Germany
Guadalajara, Mexico
Hong Kong, China
Lima, Peru
London, United Kingdom
Madrid, Spain
Melbourne, Australia
Mexico City, Mexico
Miami, Florida, United States
Milan, Italy
Monterrey, Mexico
Paris, France
Rome, Italy
São Paulo, Brazil
Shanghai, China
Singapore
Sydney, Australia
Taipei, Taiwan
Tíjuana, Mexico
Tokyo, Japan

International Manufacturing and Distribution Facilities >>

Bath, United Kingdom
Chippenham, United Kingdom
Mexico City, Mexico
Milan, Italy
Seoul, Korea
Singapore
Sydney, Australia
Venice, Italy

Licensees >>

Barbados
Bogotá, Colombia
Buenos Aires, Argentina
Caracas, Venezuela
Montevideo, Uruguay
Manila, Philippines
São Paulo, Brazil
Santíago, Chile

<SHAREHOLDER REFERENCE INFORMATION>

Line of Business >>

Herman Miller, Inc., is engaged primarily in the design, manufacture, and sale of office systems, products, and services principally for offices, and to a lesser extent, for healthcare facilities and other uses. Through research and design, the company has developed innovative solutions to operational problems in the office, institutional, healthcare, material-handling, and other environments.

Investor Relations and Form 10-K >>

Any shareholder may obtain a copy (without charge) of the Form 10-K (1999 Annual Report filed with the Securities and Exchange Commission) by writing Brian Walker or Bob Dentzman:

Brian Walker, Executive Vice President, Finance and Business Development, and Chief Financial Officer
Email: brian_walker@hermanmiller.com
Telephone: 616 654 8589

Bob Dentzman, Vice President Treasury, Investor Relations
Email: bob_dentzman@hermanmiller.com
Telephone: 616 654 5044

Herman Miller, Inc., 855 East Main Avenue, PO Box 302,
Zeeland, MI 49464-0302

Transfer Agent and Registrar >>

First Chicago Trust Company of New York, PO Box 2500,
Jersey City, NJ 07303-2500
Attention: Herman Miller, Inc., Shareholder Relations
Telephone: 800 446 2617

Common Stock >>

Herman Miller, Inc., common stock is quoted on the NASDAQ-National Market System (NASDAQ-NMS Symbol: MLHR). As of July 30,1999, there were approximately 24,000 shareholders of the company's common stock.

Independent Public Accountants >>

Arthur Andersen LLP, Grand Rapids, Michigan

Affirmative Action >>

Herman Miller, Inc., is an equal opportunity employer and supports affirmative action programs for minorities and women, including the recruitment, education and training, and economic development of businesses.

Internet Address >>

www.hermanmiller.com

FINANCIAL DETAILS ARE CONNECTIONS >>

We sometimes take them for granted. In financial matters, as in matters of design and development, details tell a story all their own. Look for meaning in both. We like to be prepared in both. The laws require it and our investors deserve it.

HermanMiller

FINANCIAL STATEMENTS >>

<CONSOLIDATED STATEMENTS OF INCOME>

May 29, 1999; May 30, 1998; May 31, 1997 (In Thousands, Except Per Share Data)	1999	1998	1997
Net Sales	**$ 1,766,239**	**$ 1,718,595**	**$ 1,495,885**
Cost of Sales	**1,096,534**	**1,079,756**	**961,961**
Gross Margin	**669,705**	**638,839**	**533,924**
Operating Expenses:			
Selling, general, and administrative	407,446	396,698	359,601
Design and research	37,946	33,846	29,140
Loss on divestiture	—	—	14,500
Total Operating Expenses	**445,392**	**430,544**	**403,241**
Operating Income	**224,313**	**208,295**	**130,683**
Other Expenses (Income):			
Interest expense	7,295	8,300	8,843
Interest income	(7,128)	(11,262)	(8,926)
Loss on foreign exchange	300	270	1,687
Other, net	(6,066)	1,456	3,196
Net Other Expenses (Income)	**(5,599)**	**(1,236)**	**4,800**
Income Before Income Taxes	**229,912**	**209,531**	**125,883**
Income Taxes	88,100	81,200	51,485
Net Income	**$ 141,812**	**$ 128,331**	**$ 74,398**
Earnings Per Share—Basic	**$ 1.69**	**$ 1.42**	**$ .79**
Earnings Per Share—Diluted	**$ 1.67**	**$ 1.39**	**$ .77**

The accompanying notes are an integral part of these statements.

<CONSOLIDATED BALANCE SHEETS>

May 29, 1999, and May 30, 1998 (In Thousands, Except Share and Per Share Data)	1999	1998
Assets		
Current Assets:		
Cash and cash equivalents	$ 79,952	$ 115,316
Accounts receivable, less allowances of $14,144 in 1999, and $13,792 in 1998	192,374	192,384
Inventories	32,615	47,657
Prepaid expenses and other	45,161	44,778
Total Current Assets	**350,102**	**400,135**
Property and Equipment:		
Land and improvements	25,073	27,279
Buildings and improvements	137,367	156,605
Machinery and equipment	428,867	364,817
Construction in progress	55,356	47,171
	646,663	595,872
Less: accumulated depreciation	329,944	305,208
Net Property and Equipment	**316,719**	**290,664**
Notes Receivable, less allowances of $5,469 in 1999 and $8,430 in 1998	17,400	27,522
Other Assets	77,285	66,025
Total Assets	**$ 761,506**	**$ 784,346**
Liabilities and Shareholders' Equity		
Current Liabilities:		
Unfunded checks	$ 22,605	$ 35,241
Current portion of long-term debt	10,130	10,203
Notes payable	46,568	19,542
Accounts payable	82,404	92,241
Accrued liabilities	189,642	195,489
Total Current Liabilities	**351,349**	**352,716**
Long-Term Debt, less current portion above	90,892	100,910
Other Liabilities	110,190	99,718
Total Liabilities	**552,431**	**553,344**
Shareholders' Equity:		
Preferred stock, no par value (10,000,000 shares authorized, none issued)	—	—
Common stock, $.20 par value (240,000,000 shares authorized, 79,565,860 and 86,986,957 shares issued and outstanding in 1999 and 1998)	15,913	17,397
Additional paid-in capital	—	—
Retained earnings	210,084	227,464
Accumulated other comprehensive loss	(10,683)	(9,360)
Key executive stock programs	(6,239)	(4,499)
Total Shareholders' Equity	**209,075**	**231,002**
Total Liabilities and Shareholders' Equity	**$ 761,506**	**$ 784,346**

The accompanying notes are an integral part of these balance sheets.

⟨CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY⟩

(In Thousands, Except Share and Per Share Data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Key Executive Stock Programs	Total Shareholders' Equity
Balance June 1, 1996	**$ 4,934**	**$ 14,468**	**$ 303,578**	**$ (11,633)**	**$ (3,202)**	**$ 308,145**
Net income	—	—	74,398	—	—	74,398
Current year translation adjustment	—	—	—	770	—	770
Total comprehensive income						75,168
Cash dividends ($.134 per share)	—	—	(12,593)	—	—	(12,593)
Exercise of stock options	63	9,049	—	—	—	9,112
Employee stock purchase plan	14	2,637	—	—	—	2,651
Repurchase and retirement of 2,765,984 shares of common stock	(553)	(29,374)	(68,414)	—	379	(97,962)
Stock dividend	4,732	—	(4,732)	—	—	—
Directors' fees	1	225	—	—	—	226
Stock grants earned	—	—	—	—	387	387
Stock grants issued	16	2,995	—	—	(1,776)	1,235
Stock purchase assistance plan	—	—	—	—	693	693
Balance May 31, 1997	**$ 9,207**	**$ —**	**$ 292,237**	**$ (10,863)**	**$ (3,519)**	**$ 287,062**
Net income	—	—	128,331	—	—	128,331
Current year translation adjustment	—	—	—	1,503	—	1,503
Total comprehensive income						129,834
Cash dividends ($.145 per share)	—	—	(13,361)	—	—	(13,361)
Exercise of stock options	246	14,105	—	—	—	14,351
Employee stock purchase plan	21	3,831	—	—	—	3,852
Tax benefit relating to employee stock plans	—	10,074	—	—	—	10,074
Repurchase and retirement of 5,222,361 shares of common stock	(1,044)	(30,161)	(170,777)	—	—	(201,982)
Stock dividend	8,966	—	(8,966)	—	—	—
Directors' fees	1	325	—	—	—	326
Stock grants earned	—	—	—	—	718	718
Deferred compensation plan	—	1,826	—	—	(1,826)	—
Stock purchase assistance plan	—	—	—	—	128	128
Balance May 30, 1998	**$ 17,397**	**$ —**	**$ 227,464**	**$ (9,360)**	**$ (4,499)**	**$ 231,002**
Net income	—	—	141,812	—	—	141,812
Current year translation adjustment	—	—	—	(1,323)	—	(1,323)
Total comprehensive income						140,489
Cash dividends ($.145 per share)	—	—	(11,992)	—	—	(11,992)
Exercise of stock options	135	8,662	—	—	—	8,797
Employee stock purchase plan	51	4,345	—	—	—	4,396
Tax benefit relating to employee stock plans	—	1,978	—	—	—	1,978
Repurchase and retirement of 8,379,444 shares of common stock	(1,676)	(18,620)	(147,200)	—	—	(167,496)
Directors' fees	3	314	—	—	—	317
Stock grants earned	—	—	—	—	1,222	1,222
Stock grants issued	3	424	—	—	(409)	18
Deferred compensation plan	—	2,897	—	—	(2,897)	—
Stock purchase assistance plan	—	—	—	—	344	344
Balance May 29, 1999	**$ 15,913**	**$ —**	**$ 210,084**	**$ (10,683)**	**$ (6,239)**	**$ 209,075**

The accompanying notes are an integral part of these statements.

<CONSOLIDATED STATEMENTS OF CASH FLOWS>

May 29, 1999; May 30, 1998; and May 31, 1997 (In Thousands)	1999	1998	1997
Cash Flows from Operating Activities:			
Net Income	$ 141,812	$ 128,331	$ 74,398
Adjustments to reconcile net income to net cash provided by operating activities	63,801	140,392	143,772
Net Cash Provided by Operating Activities	**205,613**	**268,723**	**218,170**
Cash Flows from Investing Activities:			
Notes receivable repayments	491,077	561,923	449,405
Notes receivable issued	(486,525)	(544,182)	(460,956)
Property and equipment additions	(103,404)	(73,561)	(54,470)
Proceeds from sales of property and equipment	28,853	870	5,336
Net cash paid for acquisitions	(4,689)	(4,076)	(9,743)
Other, net	(15,899)	(7,102)	1,548
Net Cash Used for Investing Activities	**(90,587)**	**(66,128)**	**(68,880)**
Cash Flows from Financing Activities:			
Short-term debt borrowings	65,589	192,808	236,627
Short-term debt repayments	(38,563)	(189,619)	(239,417)
Long-term debt repayments, net	(10,091)	(179)	(302)
Dividends paid	(12,270)	(13,516)	(12,463)
Common stock issued	13,528	18,529	11,989
Common stock repurchased and retired	(167,496)	(201,982)	(97,962)
Net Cash Used for Financing Activities	**(149,303)**	**(193,959)**	**(101,528)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(1,087)	519	1,346
Net Increase (Decrease) in Cash and Cash Equivalents	**(35,364)**	**9,155**	**49,108**
Cash and Cash Equivalents, Beginning of Year	115,316	106,161	57,053
Cash and Cash Equivalents, End of Year	**$ 79,952**	**$ 115,316**	**$ 106,161**

The accompanying notes are an integral part of these statements.

<NOTES TO CONSOLIDATED FINANCIAL STATEMENTS>

Significant Accounting and Reporting Policies >>

The following is a summary of significant accounting and reporting policies not reflected elsewhere in the accompanying financial statements.

Principles of Consolidation The consolidated financial statements include the accounts of Herman Miller, Inc., and its wholly owned domestic and foreign subsidiaries (the company). All significant intercompany accounts and transactions have been eliminated.

Description of Business The company is engaged in the design, manufacture, and sale of office systems, products, and services principally for offices and, to a lesser extent, for healthcare facilities and other uses. The company's products are sold primarily to or through independent contract office furniture dealers. Accordingly, accounts and notes receivable in the accompanying balance sheets principally are amounts due from the dealers.

Fiscal Year The company's fiscal year ends on the Saturday closest to May 31. The years ended May 29, 1999, May 30, 1998, and May 31, 1997, each contained 52 weeks.

Foreign Currency Translation The functional currency for most foreign subsidiaries is the local currency. The cumulative effects of translating the balance sheet accounts from the functional currency into the United States dollar at current exchange rates and revenue and expense accounts using average exchange rates for the period are included as a separate component of shareholders' equity. The United States dollar is used as the functional currency for subsidiaries in highly inflationary foreign economies, and the financial results are translated using a combination of current and historical exchange rates, and the resulting translation adjustments are included along with gains or losses arising from remeasuring all foreign currency transactions into the appropriate currency in determining net income.

Cash Equivalents The company invests in certain debt and equity securities as part of its cash management function. Due to the relative short-term maturities and high liquidity of these securities (consisting primarily of money market investments), they are included in the accompanying consolidated balance sheets as cash equivalents at market value and totaled $46.5 million and $67.3 million as of May 29, 1999, and May 30, 1998, respectively. The company's cash equivalents are considered "available for sale." As of May 29, 1999, and May 30, 1998, the market value approximated the securities' cost. All cash and cash equivalents are high-credit quality financial instruments, and the amount of credit exposure to any one financial institution or instrument is limited.

Property, Equipment, and Depreciation Property and equipment are stated at cost. The cost is depreciated over the estimated useful lives of the assets, using the straight-line method. The average useful lives of the assets are 32 years for buildings and seven years for all other property and equipment.

The company capitalizes certain external and internal costs incurred in connection with the development, testing, and installation of software for internal use. Software for internal use is included in property and equipment and is depreciated over an estimated useful life of five years.

Notes Receivable The notes receivable are primarily from certain independent contract office furniture dealers. The notes are collateralized by the assets of the dealers and bear interest based on the prevailing prime rate. Interest income relating to these notes was $3.0, $4.3, and $4.8 million in 1999, 1998, and 1997, respectively.

Long-Lived Assets The company assesses the recoverability of its long-lived assets whenever events or circumstances such as current and projected future operating losses or changes in the business climate indicate that the carrying amount may not be recoverable. Assets are grouped and evaluated at the lowest level for which there are independent and identifiable cash flows. The company considers historical performance and future estimated results in its evaluation of potential impairment and then compares the carrying amount of the asset to the estimated future cash flows (undiscounted and without interest charges) expected to result from the use of the asset. If the carrying amount of the asset exceeds the expected future cash flows, the company measures and records an impairment loss for the excess of the carrying value of the asset over its fair value. The estimation of fair value is made by discounting the expected future cash flows at the rate the company uses to evaluate similar potential investments based on the best information available at that time. If the assets being tested for recoverability were acquired in a purchase business combination, the goodwill that arose in that transaction is included in the asset group's carrying values on a pro-rata basis using the relative fair values.

In situations where goodwill and intangible balances remain after applying the impairment measurements to business unit asset groupings under Statement of Financial Accounting Standards (SFAS) No. 121, the company assesses the recoverability of the remaining balances at the enterprise level under the provisions of Accounting Principles Board (APB) Opinion 17. Applying these provisions, when the estimated undiscounted future operating income (before interest and amortization) for individual business units is not sufficient to recover the remaining carrying value over the remaining amortization period, the company recognizes an impairment loss for the excess.

Excluding the impairment incurred in connection with the divestiture of the company's German manufacturing operation in 1997 (see Acquisitions and Divestitures note), such provisions were not significant in 1999, 1998, or 1997.

Intangible assets included in other assets consist mainly of goodwill, patents, and other acquired intangibles, and are carried at cost, less applicable amortization of $19.5 and $16.0 million in 1999 and 1998, respectively. These assets are amortized using the straight-line method over periods of five to 15 years.

Unfunded Checks As a result of maintaining a consolidated cash management system, the company utilizes controlled disbursement bank accounts. These accounts are funded as checks are presented for payment, not when checks are issued. The resulting book overdraft position is included in current liabilities as unfunded checks.

Self-Insurance The company is partially self-insured for general liability, workers' compensation, and certain employee health benefits. The general and workers' compensation liabilities are managed through a wholly owned insurance captive; the related liabilities are included in the accompanying consolidated financial statements. The company's policy is to accrue amounts equal to the actuarially determined liabilities. The actuarial valuations are based on historical information along with certain assumptions about future events. Changes in assumptions for such matters as legal actions, medical costs, and changes in actual experience could cause these estimates to change in the near term.

Research, Development, Advertising, and Other Related Costs Research, development, advertising materials, preproduction and start-up costs are expensed as incurred. Research and development costs consist of expenditures incurred during the course of planned search and investigation aimed at discovery of new knowledge that will be useful in developing new products or processes, or significantly enhancing existing products or production processes, and the implementation of such through design, testing of product alternatives, or construction of prototypes. Royalty payments made to designers of the company's products as the products are sold are not included in research and development costs, as they are considered to be a variable cost of the product. Research and development costs, included in design and research expense in the accompanying statements of income, were $33.4, $29.0, and $25.7 million in 1999, 1998, and 1997, respectively.

Income Taxes Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities, and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse.

Earnings per Share Basic earnings per share (EPS) exclude the dilutive effect of common shares that could potentially be issued, due to the exercise of stock options, and is computed by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted EPS is computed by dividing net income by the weighted-average number of shares outstanding plus all shares that could potentially be issued.

Revenue Recognition Revenues are recorded when product is shipped and invoiced and performance of services is complete.

Comprehensive Income The company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income," as of May 31, 1998, the beginning of its 1999 fiscal year. SFAS No. 130 establishes new standards for the reporting and display of comprehensive income and its components; however, the adoption of this Statement had no impact on the company's net income or shareholders' equity. The company's comprehensive income consists of net income and foreign currency translation adjustments. Prior years' financial statements have been reclassified to conform to these requirements.

Use of Estimates in the Preparation of Financial Statements The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Standards In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Statement establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability, measured at its fair value. The Statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. SFAS 133 is effective in the company's fiscal year 2002. The company has not yet determined the timing or method of adoption of SFAS 133; however, the Statement is not expected to have a material impact on the company's consolidated financial statements.

Reclassifications Certain prior year information has been reclassified to conform to the current year presentation.

Acquisitions and Divestitures >>

During 1999, 1998, and 1997, the company made several acquisitions, all of which were recorded using the purchase method of accounting. Accordingly, the purchase price of these acquisitions has been allocated to the assets acquired and liabilities assumed based on the estimated fair values at the date of the acquisition. The cost of the acquisitions in excess of net identifiable assets acquired has been recorded as goodwill.

During 1999, 1998, and 1997, the company purchased various privately owned North American dealers. These companies were acquired for approximately $18.5 million in cash, which resulted in approximately $11.1 million of goodwill. The results of the acquisitions were not material to the company's consolidated operating results.

During the second quarter of fiscal 1997, declining sales and continuing losses at the company's German subsidiary led the company, in accordance with its accounting policies, to assess the realizability of the subsidiary's long-lived assets. At that time, estimates of expected future cash flows under various options to improve the company's operating results in Germany were evaluated to determine if any potential impairment existed. Although none of the options were developed to the extent required to enable the company to reach a decision and plan for implementation, based on the results of its various evaluations of potential impairment, the company determined at the enterprise level the goodwill and intangibles associated with the acquisition were no longer recoverable. As a result, a pretax charge of $5.5 million ($4.5 million, or $.05 per share after tax) was recorded for the write-off of the goodwill and brand-name assets of the subsidiary.

During the third quarter of fiscal 1997, management authorized and committed the company to a plan to restructure the manufacturing component of its German operation. Based on the most current information available at that time, management believed that closing the facility was the most viable option. As a result, the company recorded a pretax restructuring charge of $13.7 million ($5.4 million, or $.06 per share after tax).

During the fourth quarter of fiscal 1997, the company sold the German manufacturing operation. The sale had the effect of reducing both the pretax restructuring costs recorded in the third quarter by $4.7 million, and the anticipated tax benefit by $5.2 million.

In summary, after adjusting for the effects of the sale, the divestiture of the company's investments in its German manufacturing operation resulted in a pretax loss of $14.5 million ($10.4 million, or $.11 per share after tax) for fiscal 1997.

Inventories >>

(In Thousands)	1999	1998
Finished products	$ 11,946	$ 19,807
Work in process	7,446	8,844
Raw materials	13,223	19,006
	$ 32,615	$ 47,657

Inventories are valued at the lower of cost or market and include material, labor, and overhead. The inventories of certain subsidiaries are valued using the last-in, first-out (LIFO) method. The inventories of all other subsidiaries are valued using the first-in, first-out method. Inventories valued using the LIFO method amounted to $18.4 and $25.2 million at May 29, 1999, and May 30, 1998, respectively.

If all inventories had been valued using the first-in, first-out method, inventories would have been $11.8 and $13.6 million higher than reported at May 29, 1999, and May 30, 1998, respectively.

Prepaid Expenses and Other >>

(In Thousands)	1999	1998
Current deferred income taxes	$ 20,906	$ 27,154
Other	24,255	17,624
	$ 45,161	$ 44,778

Accrued Liabilities >>

(In Thousands)	1999	1998
Compensation and employee benefits	$ 75,125	$ 85,068
Income taxes	39,499	22,809
Other	75,018	87,612
	$ 189,642	$ 195,489

Other Liabilities >>

(In Thousands)	1999	1998
Pension benefits	$ 41,907	$ 41,898
Postretirement benefits	9,510	9,618
Other	58,773	48,202
	$ 110,190	$ 99,718

Notes Payable >>

(In Thousands)	1999	1998
U.S. dollar currencies	$ 36,000	$ —
Non-U.S. dollar currencies	10,568	19,542
	$ 46,568	$ 19,542

The following information relates to short-term borrowings in 1999:

(In Thousands)	Domestic	Foreign
Weighted-average interest rate at May 29, 1999	5.3%	3.9%
Weighted-average interest rate at May 30, 1998	—	4.8%
Weighted-average interest rate during 1999	5.3%	4.8%
Unused short-term credit lines	$ —	$ 39,400

In addition to the company's formal short-term credit lines shown above, the company has available informal lines of credit totaling $41.5 million.

Long-Term Debt >>

(In Thousands)	1999	1998
Series A senior notes, 6.37%, due March 5, 2006	$ 70,000	$ 70,000
Series B senior notes, 6.08%, due March 5, 2001	15,000	15,000
Series C senior notes, 6.52%, due March 5, 2008	15,000	15,000
Finance lease obligation	—	10,000
Other	1,022	1,113
	101,022	111,113
Less current portion	10,130	10,203
	$ 90,892	$ 100,910

During the third quarter of 1996, the company entered into a private placement of $100.0 million of senior notes with seven insurance companies. The Series A, B, and C notes have interest-only payments until March 5, 2000, March 5, 2001, and March 5, 2004, respectively.

The company has available an unsecured revolving credit loan that provides for a $300.0 million line of credit of which $36.0 million is currently outstanding. The loan permits borrowings in multiple currencies and matures on April 16, 2004. Outstanding borrowings bear interest, at the option of the company, at rates based on the prime rate, certificates of deposit, LIBOR, or negotiated rates. Interest is payable periodically throughout the period a borrowing is outstanding. During 1999 and 1998, the company borrowed at the LIBOR contractual rate or other negotiated rates.

Provisions of the senior notes and the unsecured senior revolving credit loan restrict, without prior consent, the company's borrowings, long-term leases, and sale of certain assets. In addition, the company has agreed to maintain certain financial performance ratios. At May 29, 1999, the company was in compliance with all of these provisions.

Annual maturities of long-term debt for the five years subsequent to May 29, 1999 (in millions), are as follows: 2000—$10.1; 2001—$25.1; 2002—$10.2; 2003—$10.2; 2004—$13.1; thereafter—$32.3.

Operating Leases >>

The company leases real property and equipment under agreements that expire on various dates. Certain leases contain renewal provisions and generally require the company to pay utilities, insurance, taxes, and other operating expenses.

Future minimum rental payments (in millions) required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of May 29, 1999, are as follows: 2000—$20.5; 2001—$12.4; 2002—$9.1; 2003—$7.1; 2004—$5.8; thereafter—$5.4.

Total rental expense charged to operations was $17.6, $20.4, and $20.9 million in 1999, 1998, and 1997, respectively. Substantially all such rental expense represented the minimum rental payments under operating leases.

Employee Benefit Plans >>

The company maintains plans which provide retirement benefits for substantially all employees.

Pension Plans The principal domestic plan is a defined-benefit pension plan. Effective December 1, 1998, the defined-benefit pension plan was converted from the existing average final pay benefit calculation to a cash-balance calculation. As part of the redesign, the company bought out the postretirement healthcare obligation for active employees through a one-time, lump-sum transfer contribution to the cash-balance plan. Benefits under this plan are based upon an employee's years of service and earnings.

The amendment converting the plan to the cash-balance formula was the primary reason for the $43.9 million change in the projected benefit obligation in 1998.

In addition to the domestic pension plan and the retiree healthcare and life insurance plan, one of Herman Miller, Inc.'s wholly owned foreign subsidiaries has a defined-benefit pension plan which is based upon an average final pay benefit calculation. The plan has not been amended and is included in the following information:

	Pension Benefits		Postretirement Benefits	
(In Thousands)	1999	1998	1999	1998
Change in benefit obligations				
Benefit obligations at beginning of year	$ 193,723	$ 188,743	$ 10,387	$ 24,467
Service cost	11,507	11,722	—	1,168
Interest cost	14,293	14,678	773	1,713
Transfer of obligations	—	15,822	—	(15,822)
Actuarial effects of plan redesign	(7)	(43,878)	774	—
Actuarial (gain) loss	4,462	10,018	(185)	(480)
Benefits paid	(7,219)	(4,387)	(968)	(721)
Other	651	1,005	37	62
Benefit obligations at end of year	217,410	193,723	10,818	10,387
Change in plan assets				
Fair value of plan assets at beginning of year	236,568	184,178	—	—
Actual return on plan assets	21,341	47,692	—	—
Employer contribution	1,387	9,085	—	721
Benefits paid	(7,219)	(4,387)	—	(721)
Fair value of plan assets at end of year	252,077	236,568	—	—
Funded status	34,667	42,845	(10,818)	(10,387)
Unrecognized transition amount	(1,448)	(1,975)	—	—
Unrecognized net actuarial (gain) loss	(33,978)	(38,651)	584	769
Unrecognized prior service cost	(41,148)	(44,117)	724	—
Accrued benefit cost	($ 41,907)	($ 41,898)	($ 9,510)	($ 9,618)
Weighted-average assumptions				
Discount rate	7.25%	7.25%	7.25%	7.25%
Expected return on plan assets	9.00%	9.00%	N/A	N/A
Rate of compensation increase	5.00%	5.00%	N/A	N/A

For measurement purposes, a 7.0 percent annual rate of increase in the per-capita cost of covered healthcare benefits was assumed for 2000. The rate was assumed to decrease to 6.0 percent for 2001 and remain at that level thereafter.

	Pension Benefits			Postretirement Benefits		
(In Thousands)	1999	1998	1997	1999	1998	1997
Components of net periodic benefit cost						
Service cost	$ 11,507	$ 11,722	$ 9,620	$ —	$ 1,168	$ 1,132
Interest cost	14,293	14,678	12,683	773	1,713	1,653
Expected return on plan assets	(20,884)	(16,913)	(11,008)	—	—	—
Net amortization	(4,251)	(523)	(514)	50	(50)	(44)
Net periodic benefit cost	$ 665	$ 8,964	$ 10,781	$ 823	$ 2,831	$ 2,741

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A one-percentage-point change in assumed healthcare cost trend rates would have the following effects:

(Dollars in Thousands)	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total of service and interest cost components	$ 48	$ (45)
Effect on postretirement benefit obligation	$ 703	$ (667)

Plan assets consist primarily of listed common stocks, mutual funds, and corporate obligations. Plan assets at May 29, 1999, and May 30, 1998, included 1,043,619 and 888,346 shares of Herman Miller, Inc., common stock, respectively.

Profit Sharing and 401(k) Plan Domestically, Herman Miller, Inc., has a trusteed profit sharing plan that covers substantially all employees. These employees are eligible to begin participating at the beginning of the quarter following the date of hire. The plan provides for discretionary contributions (payable in the company's common stock) of not more than 6.0 percent of employees' wages based on the company's EVA performance. The cost of the plan charged against operations was $14.0, $8.1, and $6.6 million in 1999, 1998, and 1997, respectively.

Effective December 1, 1998, the company began to match the employees' contribution to their 401(k) account. The match is equal to half of the employees' contribution up to the first 6.0 percent of the employees' pay. The company's contribution charged against operations was $2.9 million in fiscal 1999.

Common Stock and Per Share Information >>

On January 20, 1998, the Board of Directors approved a 2-for-1 stock split effected in the form of a 100 percent dividend to shareholders of record on February 27, 1998, payable on March 16, 1998. The distribution increased the number of shares outstanding from 44,831,103 to 89,662,206. All share and per share information, including stock plan information, has been restated to reflect the split.

On March 18, 1997, the Board of Directors approved a 2-for-1 stock split effected in the form of a 100 percent dividend to shareholders of record on March 31, 1997, payable on April 15, 1997. The Board of Directors also approved an increase in the quarterly cash dividend from $.03250 to $.03625 per share for shareholders of record on May 31, 1997.

The following table reconciles the numerators and denominators used in the calculations of basic and diluted EPS for each of the last three years:

(Dollars in Thousands)	1999	1998	1997
Numerators:			
Numerators for both basic and diluted EPS, net income	$ 141,812	$ 128,331	$ 74,398
Denominators:			
Denominators for basic EPS, weighted-average common shares outstanding	83,734,707	90,240,102	94,627,772
Potentially dilutive shares resulting from stock option plans	1,096,375	1,799,067	1,496,428
Denominator for diluted EPS	84,831,082	92,039,169	96,124,200

Certain exercisable stock options were not included in the computations of diluted EPS because the option prices were greater than average quarterly market prices for the periods presented. The number of stock options outstanding at the end of each year presented which were not included in the calculation of diluted EPS and the ranges of exercise prices were: 3,346,421 at $19.88–$32.50 in 1999; and 132,368 at $32.50 in 1998. All exercisable stock options were included in the computation of EPS in 1997 as the option prices were not greater than the average quarterly market prices.

Stock Plans >>

Under the terms of the company's 1995 Employee Stock Purchase Plan, 4.1 million shares of authorized common stock were reserved for purchase by plan participants at 85.0 percent of the market price. At May 29, 1999, 3,356,980 shares remained available for purchase through the plan, and there were 7,109 employees eligible to participate in the plan, of which 2,401, or 33.8 percent, were participants. During 1999, 1998, and 1997, employees purchased 253,076; 107,182; and 71,213 shares, respectively.

The company has stock option plans under which options are granted to employees and nonemployee officers and directors at a price not less than the market price of the company's common stock on the date of grant. All options become exercisable one year from date of grant and expire 10 years from date of grant. At May 29, 1999, there were 164 employees and 11 nonemployee officers and directors eligible, all of whom were participants in the plans. At May 29, 1999, there were 5,044,110 shares available for future options.

The company's Long-Term Incentive Plan, along with the Nonemployee Officer and Director Stock Option Plan, authorize reload options. Reload options provide for the purchase of shares equal to the number of shares delivered upon exercise of the original options plus the number of shares delivered to satisfy the tax liability incurred in the exercise. The reload options retain the expiration date of the original options; however, the exercise price must equal the fair market value on the date the reload options are granted. During fiscal 1999, 252,998 reload options were automatically granted.

A summary of shares subject to options follows:

	1999		1998		1997	
	Shares	Weighted-Average Exercise Prices	Shares	Weighted-Average Exercise Prices	Shares	Weighted-Average Exercise Prices
Outstanding at beginning of year:	3,463,814	$ 14.19	4,028,196	$ 7.27	4,863,840	$ 6.48
Granted	2,174,247	$ 26.50	1,599,152	$ 22.12	338,000	$ 15.92
Exercised	(676,584)	$ 13.01	(2,081,834)	$ 6.90	(1,102,644)	$ 5.78
Terminated	(61,710)	$ 25.86	(81,700)	$ 17.60	(71,000)	$ 7.74
Outstanding at end of year:	4,899,767	$ 19.67	3,463,814	$ 14.19	4,028,196	$ 7.27
Exercisable at end of year:	2,744,960	$ 14.33	1,921,162	$ 7.58	3,770,196	$ 6.68
Weighted-average fair market value of options granted		$ 8.71		$ 6.54		$ 4.42

A summary of stock options outstanding at May 29, 1999, follows:

Range of Exercise Price	Outstanding Stock Options			Exercisable Stock Options	
	Shares (In Thousands)	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Shares (In Thousands)	Weighted-Average Exercise Price
$4.66–$8.00	1,370	5.05 years	$ 6.75	1,370	$ 6.75
$8.04–$22.50	1,698	8.64 years	$ 20.51	897	$ 18.84
$24.44–$32.50	1,832	8.35 years	$ 28.57	478	$ 27.60
Total	4,900	7.53 years	$ 19.67	2,745	$ 14.33

The company accounts for its employee stock purchase plan and its stock option plans under APB Opinion 25; therefore, no compensation costs are recognized when employees purchase stock or when stock options are authorized, granted, or exercised. If compensation costs had been computed under SFAS No. 123, "Accounting for Stock-Based Compensation," the company's net income and earnings per share would have been reduced by approximately $12.8 million, or $.15 per share in 1999, and $7.2 million, or $.08 per share in 1998, and $1.0 million, or $.01 per share in 1997.

For purposes of computing compensation costs of stock options granted, the fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	1999	1998	1997
Risk-free interest rates	4.39%–5.48%	5.39%–6.26%	5.93%–6.35%
Expected term of options	3–5 years	3 years	3 years
Expected volatility	37%–46%	34%	31%
Dividend yield	.5%	.5%	.5%

Black-Scholes is a widely accepted stock option pricing model; however, the ultimate value of stock options granted will be determined by the actual lives of options granted and future price levels of the company's common stock.

Key Executive and Director Stock Programs >>

Restricted Stock Grants The company has granted restricted common shares to certain key employees. Shares were awarded in the name of the employee, who has all rights of a shareholder, subject to certain restrictions on transferability and a risk of forfeiture. The forfeiture provisions on the awards expire annually, over a period not to exceed six years, as certain financial goals are achieved. During fiscal 1999, 8,100 shares were granted under the company's long-term incentive plan, no shares were forfeited, and the forfeiture provisions expired on 72,174 shares. As of May 29, 1999, 96,005 shares remained subject to forfeiture provisions and restrictions on transferability.

The remaining shares subject to forfeiture provisions have been recorded as unearned stock grant compensation and are included as a separate component of shareholders' equity under the caption Key Executive Stock Programs. The unearned compensation is being charged to selling, general, and administrative expense over the five-year vesting period and was $1.2, $.7, and $.4 million in 1999, 1998, and 1997, respectively.

Key Executive Deferred Compensation Plan During fiscal 1997, the company established the Herman Miller, Inc., Key Executive Deferred Compensation Plan, which allows certain executives to defer receipt of all or a portion of their EVA cash incentive. The company may make a matching contribution of 30 percent of the executive's contribution, up to 50 percent of the deferred EVA cash incentive. The company matching contribution vests at the rate of 33⅓ percent annually. In accordance with the terms of the plan, the executive deferral and company matching contribution have been placed in a "Rabbi" trust, which invests solely in the company's common stock. These Rabbi trust arrangements offer the executive a degree of assurance for ultimate payment of benefits without causing constructive receipt for income tax purposes. Distributions to the executive from the Rabbi trust can only be made in the form of the company's common stock. The assets in the Rabbi trust remain subject to the claims of creditors of the company and are not the property of the executive and are, therefore, included as a separate component of shareholders' equity under the caption Key Executive Stock Programs.

Key Executive Stock Purchase Assistance Plan During fiscal 1995, the company adopted a key executive stock purchase assistance plan whereby the company may extend credit to officers and key executives to purchase the company's stock through the exercise of options or on the open market. These loans are secured by the shares acquired and are repayable under full recourse promissory notes. The sale or transfer of shares is restricted for five years after the loan is fully paid. The plan provides for the key executives to earn repayment of a portion of the notes, including interest, based on meeting annual performance objectives as set forth by the Executive Compensation Committee of the Board of Directors. The notes bear interest at 7.0 percent per annum. Interest is payable annually and principal is due on various dates through September 1, 2007. As of May 29, 1999, the notes outstanding relating to the exercise of options were $.3 million and are included as a separate component of shareholders' equity under the caption Key Executive Stock Programs. Notes outstanding related to open-market purchases were $2.6 million and are recorded in other assets. Compensation expense related to earned repayment was $1.7 million in 1999, $2.5 million in 1998, and $3.9 million in 1997.

Director Fees During fiscal 1997, the Board of Directors approved a plan that allows the Board members to elect to receive their director fees in the form of unrestricted company stock at the then fair market value rather than in cash. Under this plan, the Board members received 14,587 and 12,409 shares of the company's stock in fiscal 1999 and 1998, respectively.

Income Taxes >>

Pretax income consisted of the following:

(In Thousands)	1999	1998	1997
Domestic	$ 206,002	$ 186,266	$ 141,742
Foreign	23,910	23,265	(15,859)
	$ 229,912	$ 209,531	$ 125,883

The provision for income taxes consisted of the following:

(In Thousands)	1999	1998	1997
Current: Domestic—Federal	$ 62,534	$ 77,161	$ 66,003
Domestic—State	4,140	4,430	4,957
Foreign	7,923	6,184	(2,287)
	74,597	87,775	68,673
Deferred: Domestic—Federal	13,666	(7,019)	(15,938)
Domestic—State	(258)	321	(677)
Foreign	95	123	(573)
	13,503	(6,575)	(17,188)
Total income tax provision	$ 88,100	$ 81,200	$ 51,485

The following table represents a reconciliation of income taxes at the United States statutory rate with the effective tax rate as follows:

(In Thousands)	1999	1998	1997
Income taxes computed at the United States statutory rate of 35%	$ 80,469	$ 73,336	$ 44,059
Increase (decrease) in taxes resulting from:			
Corporate-owned life insurance	7,629	3,915	1,854
State taxes, net	2,523	3,088	2,782
Other	(2,521)	861	2,790
	$ 88,100	$ 81,200	$ 51,485

The tax effects and types of temporary differences that give rise to significant components of the deferred tax assets and liabilities at May 29, 1999, and May 30, 1998, are presented below:

(In Thousands)	1999	1998
Deferred tax assets:		
Foreign net operating loss carryforwards	$ 1,140	$ 8,114
Book over tax loss on sale of fixed assets	6,828	5,845
Compensation-related accruals	16,653	9,475
Accrued pension and postretirement benefit obligations	19,119	21,743
Reserves for inventory	3,995	4,317
Reserves for uncollectible accounts and notes receivable	4,517	5,756
Other	30,717	31,703
Valuation allowance	(1,140)	(8,114)
	$ 81,829	$ 78,839
Deferred tax liabilities:		
Book basis in property in excess of tax basis	$ (19,079)	$ (19,828)
Capitalized software costs	(15,635)	(5,340)
Prepaid employee benefits	(3,123)	(2,665)
Other	(15,875)	(9,386)
	$ (53,712)	$ (37,219)

The company has foreign net operating loss carryforwards, the tax benefit of which is $1.1 million, of which $.1 million expires at various dates through 2008, and of which $1.0 million has unlimited expiration. For financial statement purposes, the tax benefit of the foreign net operating loss carryforward has been recognized as a deferred tax asset, subject to a valuation allowance.

The company has not provided for United States income taxes on undistributed earnings of foreign subsidiaries totaling $52.5 million. Recording of deferred income taxes on these undistributed earnings is not required, since these earnings have been permanently reinvested. These amounts would be subject to possible U.S. taxation only if remitted as dividends. The determination of the hypothetical amount of unrecognized deferred U.S. taxes on undistributed earnings of foreign entities is not practicable.

Fair Value of Financial Instruments >>

The carrying amount of the company's financial instruments included in current assets and current liabilities approximates their fair value due to their short-term nature. The fair value of the notes receivable is estimated by discounting expected future cash flows using current interest rates at which similar loans would be made to borrowers with similar credit ratings and remaining maturities. As of May 29, 1999, and May 30, 1998, the fair value of the notes receivable approximated the carrying value. The company intends to hold these notes to maturity and has recorded allowances to reflect the terms negotiated for carrying value purposes. As of May 29, 1999, and May 30, 1998, the carrying value approximated the fair value of the company's long-term debt.

Financial Instruments with Off-Balance-Sheet Risk >>

The company utilizes derivative financial instruments to manage its exposure to foreign currency volatility at the transactional level. The majority of these contracts relate to major currencies such as the Japanese yen, the Australian dollar, and the British pound. The exposure to credit risk is minimal, since the counterparties are major financial institutions. The market risk exposure is essentially limited to currency rate movements. The gains or losses arising from these financial instruments are applied to offset exchange gains or losses on related hedged exposures. Realized gains or losses in 1999, 1998, and 1997 were not material to the company's results of operations. At May 29, 1999, and May 30, 1998, the company had no outstanding derivative financial instruments.

Supplemental Disclosures of Cash Flow Information >>

The following table presents the adjustments to reconcile net income to net cash provided by operating activities:

(In Thousands)	1999	1998	1997
Depreciation and amortization	$ 62,054	$ 50,748	$ 47,985
Loss on divestiture	—	—	14,500
Provision for losses on accounts and notes receivable	4,433	5,245	7,302
Loss (gain) on sales of property and equipment	(6,947)	2,243	1,575
Deferred taxes	13,503	(6,575)	(17,188)
Other liabilities	4,479	2,815	17,070
Stock grants earned	1,222	718	387
Changes in current assets and liabilities:			
Decrease (increase) in assets:			
Accounts receivable	5,439	(12,706)	(11,735)
Inventories	15,179	5,237	11,130
Prepaid expenses and other	(6,535)	3,715	(4,096)
Increase (decrease) in liabilities:			
Accounts payable	(11,650)	13,691	15,296
Accrued liabilities	(17,376)	75,261	61,546
Total changes in current assets and liabilities	(14,943)	85,198	72,141
Total adjustments	$ 63,801	$ 140,392	$ 143,772

Cash payments for interest and income taxes were as follows:

(In Thousands)	1999	1998	1997
Interest paid	$ 8,103	$ 7,709	$ 8,759
Income taxes paid	$ 78,674	$ 66,023	$ 53,185

Contingencies >>

The company, for a number of years, has sold various products to the United States Government under General Services Administration (GSA) multiple award schedule contracts. The GSA is permitted to audit the company's compliance with the GSA contracts. At any point in time, a number of GSA audits are either scheduled or in progress. On July 15, 1996, management was notified by the Department of Justice that the GSA referred an audit of the company to the Department of Justice for consideration of a potential civil False Claims Act case. Management does not expect resolution of the audit to have a material adverse effect on the company's consolidated financial statements. Management does not have information that would indicate a substantive basis for a civil False Claims Act case.

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.

Operating Segments >>

The company adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," effective with its 1999 fiscal year beginning May 31, 1998. All prior period information has been restated to conform to this statement.

The company is engaged worldwide in the design, manufacture, and sale of office furniture systems, products, and related services through its wholly owned subsidiaries. Throughout the world the product offerings, the production processes, the methods of distribution, and the customers serviced are consistent. The product lines consist primarily of office furniture systems, seating, storage solutions, and casegoods. Management evaluates the company as one operating segment in the office furniture industry.

Sales to customers are attributed to the geographic areas based on the location of the customer. Long-lived assets consists of property and equipment. Geographic information is as follows:

(In Thousands)	1999	1998	1997
Net sales:			
United States	$ 1,507,107	$ 1,451,885	$ 1,244,645
International	259,132	266,710	251,240
	$ 1,766,239	$ 1,718,595	$ 1,495,885
Long-lived assets:			
United States	$ 305,362	$ 278,185	$ 253,493
International	11,357	12,479	11,734
	$ 316,719	$ 290,664	$ 265,227

‹REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS›

To the Shareholders and Board of Directors of Herman Miller, Inc.:

We have audited the accompanying consolidated balance sheets of Herman Miller, Inc., (a Michigan corporation) and subsidiaries as of May 29, 1999, and May 30, 1998, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended May 29, 1999. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Herman Miller, Inc., and subsidiaries as of May 29, 1999, and May 30, 1998, and the results of their operations and their cash flows for each of the three years in the period ended May 29, 1999, in conformity with generally accepted accounting principles.

Arthur Andersen LLP
Grand Rapids, Michigan
June 25, 1999

‹MANAGEMENT'S REPORT ON FINANCIAL STATEMENTS›

The consolidated financial statements of Herman Miller, Inc., and subsidiaries were prepared by, and are the responsibility of, management. The statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances and include amounts that are based on management's best estimates and judgments.

The company maintains systems of internal accounting controls designed to provide reasonable assurance that all transactions are properly recorded in the company's books and records, that policies and procedures are adhered to, and that assets are protected from unauthorized use. The systems of internal accounting controls are supported by written policies and guidelines and are complemented by a staff of internal auditors and by the selection, training, and development of professional financial managers.

The consolidated financial statements have been audited by the independent public accounting firm Arthur Andersen LLP, whose appointment is ratified annually by shareholders at the annual shareholders' meeting. The independent public accountants conduct a review of internal accounting controls to the extent required by generally accepted auditing standards and perform such tests and related procedures as they deem necessary to arrive at an opinion on the fairness of the financial statements.

The Financial Audit Committee of the Board of Directors, composed solely of directors from outside the company, regularly meets with the independent public accountants, management, and the internal auditors to satisfy itself that they are properly discharging their responsibilities. The independent public accountants have unrestricted access to the Financial Audit Committee, without management present, to discuss the results of their audit and the quality of financial reporting and internal accounting control.

Michael A. Volkema, President and Chief Executive Officer
Brian C. Walker, Executive Vice President, Finance and Business Development, and Chief Financial Officer
June 25, 1999