



“It ain’t braggin’ if you’ve done it.”



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Dear members of the Herman Miller community,

Hall of Fame St. Louis Cardinals pitcher Dizzy Dean was a real character. He's remembered for many brash claims, one of which we've paraphrased on the front of this year's annual report. It may seem a little pushy, but for me, it is an honest reaction to a great year at Herman Miller.

Where do I begin to talk about last year? It was full of achievement—and the results of hard work on many people's parts last year and in previous years. Since I really like saying thank you, I'll enjoy the next few pages of this letter. I'm addressing "the Herman Miller community," a group that includes employees, shareholders, customers, designers, salespeople, suppliers, dealers, contractors, and retailers. I'm thanking all of you. Of course the future is full of things we haven't done yet—we won't be braggin' about them, but I will spend some time talking about our plans.

Last year we talked to you about our strategy. We're sticking to it.

The bulk of our business lies in creating great places to work. This continues to be a core strength and extremely important to our future. Add long-standing and


A Message from Brian Walker, CEO

growing strengths in creating places to live, heal, and learn—and you have our core and adjacent problem areas. Naturally we have committed resources to these areas—you will see the results in this letter—and we will continue to do so.

But this is only part of our strategy. For Herman Miller to grow, we must move into new problem areas and expand our geographical footprint. Our future lies in extending our ability to innovate into new areas and improving in many ways what designer Bill Stumpf calls "the arts of daily living." Add our proven ability (developed in our Operations group's Herman Miller Production System) to deliver cost-effective solutions on time, every time, with impeccable quality, and we are a team with a very powerful playbook.

A progress report, financial and otherwise

Two years ago we laid out goals for ourselves regarding many different aspects of Herman Miller—not only financial performance, but our environmental performance, our progress toward making Herman Miller as inclusive a place to work as possible, and strategic drivers. We call these our "Powers of Ten" goals, because we are aiming to achieve them by 2010. We established these goals to guide the implementation of our strategy and to frame a bigger sense of purpose



• We launched My Studio Environments, designed by Doug Ball for knowledge workers who need both concentration and connection. My Studio took "Best of Competition" and a Gold Award in the Systems category at NeoCon in June 2006. • Herman Miller received a Sustainable Leadership Award at the CoreNet Global Summit for our exemplary practices and commitment to a completely sustainable business. • Architecture magazine named us #1 in the "Most Innovative" and "Most Respected" categories of its 2005 Architect's Choice for Excellence (ACE) Awards. • Esquire magazine included Babble, our innovative sound management tool from Sonare Technologies, a Herman Miller Company, in its annual listing of "America's Best & Brightest." • Herman Miller is one of 16 companies – and the lone representative in the contract furniture industry – to be included in a pair of prestigious and rigorous indexes for social responsibility: KLD's Domini 400 Social Index and the KLD Global Climate 100 Index. • Our National Design Center in Dallas achieved a Silver LEED certification; our Front Door space at the Design Yard facility achieved Gold; our National Design Center in Washington, DC, achieved Gold. • Human Resource Executive magazine included Herman Miller among its 50 "Most Admired" companies for human resources practices.

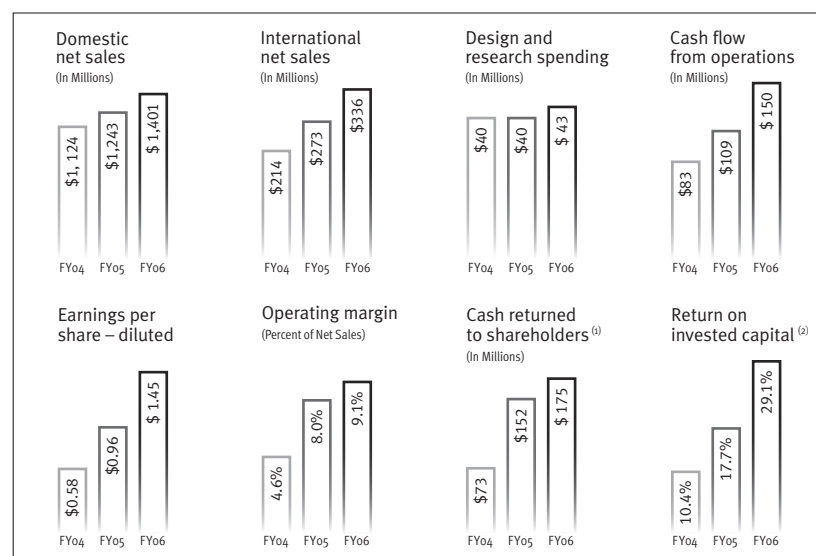
**A new standard for knowledge-work support—My Studio Environments—
designed by Doug Ball.**

Selected Financial Data

(In Millions Except Per Share Data)

	FY04	FY05	FY06
Net Sales	\$1,338	\$1,516	\$1,737
Operating Earnings	61	122	158
Net Earnings	42	68	99
Earnings Per Share - Diluted	0.58	0.96	1.45
End of Period Balances:			
Cash and Cash Equivalents	189	154	107
Total Assets	715	708	668
Interest-Bearing Debt	207	194	179
Total Liabilities	520	537	529
Total Equity	\$195	\$171	\$139

Our achievement this year resulted from great performance in sales, outstanding improvements in productivity, a disciplined investment plan, and the success of our highly flexible business model. These are the highlights.



(1) Defined as cash dividends paid plus share repurchases.

(2) Capital is defined as the average interest-bearing debt plus average shareholders' equity in the period.

Our VillageGreen facility in Chippenham, UK, received Britain's **BREEM (Building Research Establishment's Environmental Assessment Method) Award** ("Excellent") for green building standards. Our Babble sound management tool received the **Editor's Choice Award** from *Buildings* magazine and the **Best of Innovations Award** from the Consumer Electronics Association at its global exhibition. The Michigan Minority Business Development Council named us **Corporation of the Year, Commercial Products Sector**. Herman Miller's Celle task chair received the **People's Choice Award** at the National Ergonomics Conference and Exposition. Herman Miller was again included in the **Dow Jones Sustainability Index**, an international index, evaluating corporate performance using economic, environmental, and social criteria. Our dealer in Peoria, Widmer's, was named **Small Business of the Year for Illinois** by Loyola School of Business. In an interview in *EDUCAUSE* review, the founding president of Estrella Mountain Community College credited Herman Miller's Learning team and our dealer Goodmans Interior Structures with important contributions to the college's "radically flexible" "Learning Studios." For the 18th time in the last 20 years, Herman Miller was listed as **"America's Most Admired"** furniture company in *Fortune* magazine's annual poll of industry executives and financial analysts.

Our new facility in Chippenham, UK, designed by Gensler, earned a top environmental award.

for our community. I am happy to report we made great progress against them during this past year.

Financial performance

As I said last year, financial measures really tell a story about human decisions and human performance. Bottom line? Our achievements this year resulted from great performance in sales, outstanding improvements in productivity, a disciplined investment plan, and the success of our highly flexible business model. Here are a few highlights. You can find the details in the 2006 Annual Financial Statements mailed along with this letter.

- Sales rose 14.6 percent from last year. We had good top-line performance in each of our customer-facing business units. The efforts of our people were compounded by robust demand and a favorable pricing environment. Our goal is to double our business by 2010 to \$2.6 billion. After 24 months, we are right on track.
- Operating Income was 9.1 percent of sales. Our goal is to reach at least 11 percent of sales by 2010. We had a significant improvement in gross margin this year, driven by productivity improvements, fixed cost leverage, and favorable pricing. Applying the Herman Miller Production System (HMPS) to an ever-increasing array of business processes will enable us to continue to make productivity gains and improve customer satisfaction.
- Return on Invested Capital increased from 17.7 percent to 29.1 percent. This improvement results from our highly flexible business model and our focus on increasing Economic Value Added, or EVA®. We use an EVA incentive plan to reward all of our people for improving the return we generate on the capital we have invested in the business. This was a great year for our people, and they deserve a lot of credit.
- Cash Flow from Operations increased 38 percent to \$150 million. This improvement is a direct result of improved profitability and outstanding management of working capital. Our effective use of working capital was driven by our HMPS efforts and a very healthy and engaged distribution network.
- Diluted Earnings per Share rose 51 percent to \$1.45, the highest level of earnings per share recorded in the past five years, and one of the best years in our history.

In addition to these achievements, I should mention one measure we don't feel good about—our stock price. The short-term change for the year isn't consistent with our financial performance and disappoints us, along with all of our shareholders. Nevertheless we feel strongly that our strategy will lead to long-term gains in this measure, as in others.

The image shows the cover of Metropolis magazine, June 2006 issue. The title 'METROPOLIS' is at the top in large blue letters. Below it, the subtitle 'ARCHITECTURE < CULTURE > DESIGN' and the date 'June 2006' are visible. A large, vibrant red sculpture of a modern chair, the 'Leaf' personal light, dominates the right side of the cover. A man in a black t-shirt and blue jeans stands to the left of the chair, looking up at it. The cover also features several headlines in red and black text, including 'Will Yves Béhar's new Leaf personal light, a low-energy, LED, high-style task light designed by Yves Béhar, won Buildings magazine's Grand Prize for Energy Efficiency and a Gold Award in the Lighting category at NeoCon. Leaf cuts energy use by 40% compared to compact fluorescent lights.' and 'DiversityInc magazine named Herman Miller (the only company in our industry selected) as one of its Top 10 Corporations for Supplier Diversity, as well as one of "25 Noteworthy Companies" for our "overall diversity" record.' The bottom of the cover has a barcode and the website 'WWW.METROPOLIS.COM'.

Will Yves Béhar's new Leaf personal light, a low-energy, LED, high-style task light designed by Yves Béhar, won *Buildings* magazine's **Grand Prize for Energy Efficiency** and a **Gold Award** in the Lighting category at NeoCon. Leaf cuts energy use by 40% compared to compact fluorescent lights.

• *DiversityInc* magazine named Herman Miller (the only company in our industry selected) as one of its **Top 10 Corporations for Supplier Diversity**, as well as one of "25 Noteworthy Companies" for our "overall diversity" record. • Our *SEE* magazine rocks! This year the knowledge-based communication to the A&D community received **Best of Show** from the Mohawk Show, **Gold Addy** from the Addy Awards, **Silver** pencil from the One Show, **Award of Excellence** from *Communication Arts*, **Outstanding Editorial Award** from *How*, **Certificate of Excellence** from the American Institute of Graphic Arts, and **Finalist**, in the London International Advertising Awards. • The State of Michigan's **Clean Corporate Citizen Award** went to Herman Miller's GreenHouse manufacturing facility for its environmental management system and record for active pollution prevention. • *Metropolis* magazine called the Aeron chair "the king of office chairs" in an article about Aeron and its imitators, 12 years after Aeron was introduced at the Orgatec furniture fair.

The result of a new design and development process: Our award-winning, energy-saving, LED Leaf personal light, designed by Yves Béhar.

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WWW.METROPOLIS.COM
USA \$5.95 | CANA

New products, new markets, new ways to grow

One of our goals is to launch 10 new product platforms by 2010. This past year we made great progress toward this goal. Never before has Herman Miller launched two new systems products simultaneously. With the addition of My Studio Environments™ and Vivo™ interiors to our line-up, we now have the most comprehensive, purposefully designed, innovative systems offering in our industry. A lot of people worked many hours to make this possible. At NeoCon, our industry's annual event in Chicago's Merchandise Mart, My Studio, designed by Doug Ball specifically to give knowledge workers more control over privacy and collaboration, won Best of Show and Gold for the best new systems product.


Our subsidiary Geiger introduced a new executive task chair—the Foray™ chair—designed by Eric Chan. The combination of Eric, Herman Miller's knowledge of seating technology, and Geiger's keen understanding of its customers' needs resulted in a beautiful chair that delivers a new level of performance in this category. What's more, this combination also resulted in a shorter development cycle, lower up-front investment, and a product that meets our environmental stewardship goals. Foray is 49 percent recycled content and 93 percent recyclable at the end of its life. This product also was a hit at NeoCon, winning a Silver Award for ergonomic seating.

We recently introduced the Leaf personal light, designed by Yves Béhar, an example of developing and engineering a product in a network coordinated by Herman Miller. This innovative and literally “cool” LED task light won *Buildings* magazine's award for energy efficiency.

Another of our goals is to derive 50 percent of our revenue growth from new markets—problem areas like healing, living, learning—and regions like China and India. We had record sales in our Healthcare group. Herman Miller for the Home continues to be a growing and vibrant business. This past year we added three new products, including the Leaf light, to our line-up of products for the home.

We are pleased that our international business is growing and profitable; sales last year increased 23.1 percent. This past year we began to build our commercial presence in India and China. And we started construction of an operational center in Ningbo, China. We are confident that our formula of product innovation, solution delivery, and operational excellence will enable us to succeed in these markets.

The Herman Miller Creative Office has a special charge to explore new problem areas. This past year, two of this team's research projects became formal subsidiaries: Sonare Technologies and Purple. Sonare's business in products for sound management is off and running. Code-named Purple, our other new business is successfully testing its products for radical flexibility and programmable interiors.

A black Herman Miller Foray executive task chair is displayed on a white rectangular pedestal. The chair features a high-back design with a black leather-like upholstery, adjustable armrests, and a five-point base with casters. The background is a warm, yellow-orange gradient with vertical lines, suggesting a modern interior setting.

📌 Subsidiary Geiger's new Foray chair won a **Silver Award** for ergonomic seating at **NeoCon**. This executive task chair was developed in record time and with significantly reduced development costs. Foray consists of 49% recycled content and is 93% recyclable at the end of its life. 📌 Herman Miller received the **Elite Award** in the work-life balance category of “West Michigan's 101 Best and Brightest Companies to Work For.” 📌 The U.S. Environmental Protection Agency presented Herman Miller with its **WasteWise 2005 Product Stewardship Gold Achievement Award** in the Design category. We also received Honorable Mention in the Large Business category for our recycling efforts. 📌 The Brooklyn Museum presented its **Lifetime Achievement Award** to Herman Miller for our partnerships with some of the 20th Century's outstanding designers, as well as our long history of innovation. 📌 An editorial in the *Chicago Tribune*, wishing the Eames Lounge Chair and Ottoman a happy 50th birthday, called it “one of the most beautiful, iconic, and, remarkably, comfortable chairs of the 20th Century.” 📌 For the first time, we won the **Gold Award as Manufacturer of the Year** from the Office Furniture Dealer Association (OFDA), which is decided by office furniture dealers from all manufacturers.

The new breed of elegant, environmentally sound, ergonomically superior, executive task chair—Foray, designed by Eric Chan for our subsidiary Geiger.

We expect to launch this business under its permanent name in the coming year. The Herman Miller Creative Office, meanwhile, has turned to researching problem areas in healthcare in cooperation with our Healthcare group.

Like many other aspects of corporate life, design, development, and engineering are entering a new world. We intend to bring our considerable strengths in design and development into new problem areas of work and life. We have a lot to offer, and we have a lot to learn. That ain't braggin', it's a fact.

Other kinds of goals, different kinds of progress

Beyond financial measures and new products (and markets), we have set goals for our performance along other dimensions. Like many companies, Herman Miller contributes to charitable causes. We also encourage and celebrate the way Herman Miller people give of their time and talents. We think this gives us all a larger sense of purpose.

Herman Miller employees have always been generous of spirit. We have set a goal of donating more than 50,000 (10,000 annually) hours of our time as volunteers by 2010. Little did we know when we set this goal that it was far too easy a target. At the end of this year, Herman Miller people had volunteered more than 37,872 hours in the past two years alone. This will give you some idea of what kind of company you hold shares in. As proud as I am of our financial performance, this kind of *human performance*, so to speak, makes me even prouder.

With the board of directors' approval, we have also established a mission to use our creative network to improve environments for humanity. As a result, in July 2006 a team from Herman Miller went to southern India to furnish and paint a school in a small town. Employees all over the company donated vacation time so that the team could be gone for 10 days. The school looks great. The kids are overjoyed.

We also have goals to become a more inclusive community. Last May, I accepted an award from the Michigan Minority Business Council for minority supplier program of the year. *DiversityInc* magazine also named us in its top 10 supplier diversity programs in the country. Becoming a more inclusive community—employees, customers, dealers, suppliers, and contractors—is a top goal at Herman Miller. These awards don't mean we're anywhere close to finishing our journey—we aren't—but they do mean we're making progress.

One of our environmental goals is to generate 50 percent of our sales from products that meet our design for the environment (DfE) protocol. To be frank, we are nowhere near this goal, but we are building the foundation that will make this a reality. The Caper®, Mirra®, and Celle™ chairs now meet this criterion, as does our new Foray chair. We have evaluated all of our products and developed a



📌 For the fourth consecutive year, we are among SustainableBusiness.com's list (in *Progressive Investor*) of the "Top 20 Sustainable Stocks" among public companies worldwide—"world leaders in terms of both sustainability and financial strength." 📌 In a March, 2006, article, *Fast Company* magazine named Doug Ball, designer of our new systems My Studio and Vivo, one of 50 people "who will change how we work and live over the next 10 years." 📌 A College for Creative Studies Spring exhibition titled "Meeting, Design + Business" includes Herman Miller, Apple Computer, Target, and the Walker Arts Center. 📌 A writer for *Canadian Interiors* called "the service of people" the central idea behind our "stunning new National Design Centre" in Toronto. 📌 The Celle chair received a Best of NeoCon "Innovation" award in 2005, a Bronze in the Industrial Design Excellence Award (IDEA) competition sponsored by *Business Week* and the Industrial Designers Society of America, and an Editor's Choice Award from *Buildings* magazine. 📌 *Vanity Fair* magazine cited Herman Miller in its Green Issue for our efforts to reduce waste and our goal of nothing to the landfill by 2020. 📌 *InformationWeek* magazine ranked Herman Miller 23rd among the IW500, the "most innovative corporate users of information technology."

Two happy faces—one from Michigan and one from Tharangambadi, India, where a Herman Miller team left new furniture, murals, and soccer balls in a local school.

road map for what it would take for them to meet this protocol. The other major environmental goal—to reduce our operational footprint on the environment by 80 percent—is a real stretch. This past year, our progress here was not up to our expectations. This is too important a goal to back away from, and even though it's going to be a long haul, we will work persistently toward it.

The future is what we haven't done yet. No bragging here. Just resolve.

As I've said, our future depends more and more on our ability to bring research-based, problem-solving design to many areas of human activity—to improve the ways people and organizations experience their habitats and environments. For the Herman Miller community to realize this future, from my point of view, we need three things—innovation, talent, and purpose.

Innovation: Everybody talks about it. Ninety percent of CEOs polled in 2004 said innovation was one of their top three priorities. Fewer than half said their organizations were making sufficient progress toward actually achieving it. I'm happy to say Herman Miller has always been innovative—we've got the record to prove it. From “modern” furniture to Action Office® to the Aeron® chair, Resolve®, and My Studio—this is a string of innovations unmatched by our competitors.

Doesn't mean we can sit still. The stunning success of the people in operations has come from innovative thinking on many people's parts. Innovation in all areas of our business—operations, engineering, facilities, HR—will help us succeed in new problem areas and compete better in old ones. Innovation depends on many things, some of which are unpredictable, but it always needs one ingredient, talented people.

Talent: Like many companies, Herman Miller is competing for talent, not only in the U.S. but around the world. As a sign of this race for talent, foreign students no longer routinely stay in the U.S. to find jobs. According to writer Eamonn Kelly, 80 percent of the Chinese students now studying in the U.S. say they will return to China after graduating.

Just this year, a poll by ManPower found that almost half of its clients could not fill the vacant permanent positions they had open. The Spherion Emergent Workforce Study has found that 40 percent of workers are interested in seeking a new job next year.

Here in the United States, the retirement—or semi-retirement—of the Baby Boomers, combined with the booming economies in Asia, is squeezing the supply of talented people. Another fact: The supply of young people 25-35 in the U.S., after growing on average 42 percent over the past 20 years, will grow only 7 percent between 2000 and 2020.

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- 📍 The Museum of Arts and Design in New York is honoring the 50th year of the Eames Lounge Chair and Ottoman with an exhibition. Yes, the emblem of “modern” design has been in production for all 50 years. The exhibit travels to Michigan this fall and may go to Montreal, Miami, Atlanta, and Japan.
 - 📍 The American Society of Interior Designers honored Herman Miller with its annual **Patron's Prize** for “support and promotion of innovative design and quality design.”
 - 📍 The Commonwealth of Massachusetts and the Alliance to Save Energy presented the **Business Environmental Purchasing and Sustainability Award** to Herman Miller's Boston sales office and local dealer Creative Office Pavilion for outstanding performance in recycling and sustainable purchasing practices.
 - 📍 *Architectural Record* magazine placed Babble among its **Editor's Picks** for 2005.
 - 📍 During the past year, the Caper, Mirra, and Cella chairs were certified by the McDonough/Braungart “cradle-to-cradle” design protocol, design for the environment (DfE) criteria.
 - 📍 *Business Ethics* named Herman Miller one of its “**100 Best Corporate Citizens**” in America, an honor we've received for several years. We were cited for environmental leadership and sustainable practices, and our commitment to inclusiveness and diversity.

The Eames Lounge Chair and Ottoman first wowed the world 50 years ago. We're still making it, and it's still going strong.

We are aware of these trends, and planning the new connections and new ways for Herman Miller to attract and keep talent is part of our agenda and the agendas of many of our customers. Again, as with innovation, we have a leg up. Our ability to work with a network of designers over the years has given us insight into what it takes to collaborate with talent without owning it.

Purpose: Finally, what gives a larger context to innovation and talent? In our case, it's a history of defining and stating a broader purpose to our business. I believe more than ever that, in the future, the entire Herman Miller community—customers, employees, suppliers, dealers, shareholders, designers—will demand a sense of purpose beyond the making and selling of products.

An expression of this desire shows up in the responses to the 2006 Spherion Emergent Workforce study I've been citing. Eighty-six percent of workers say that a balance between work and life is among their career objectives. Remember: Work is part of life, not the other way around. Seventy-three percent of the people in this study say that they would put their careers on hold for their families. I'd say these statistics point to a huge shift in priorities over the past 25 years.

Building a sense of purpose into our lives may be the most important—and the most difficult—factor in our ability to attract creative and educated talent. Having a sense of purpose beyond a paycheck may seem pretty obvious to most of us, but being able to offer people that at work and in their communities doesn't happen automatically.

A sense of purpose, making a place for talented people at Herman Miller, encouraging and upping the odds for innovation—these three goals are right up there with financial performance and market share. More than ever, my team and I believe that success for Herman Miller will be a holistic effort involving many dimensions and many people. We will continue to bring problem-solving design and bullet-proof execution to multiple dimensions of the human experience. Now that really excites me.

Thanks again, and sometimes I wish we were playing baseball.

A former CEO and chairman of the board at Herman Miller believes a leader should define reality and then say thank you. I agree. I hope this brief letter has given you an idea of the realities we face and the possible realities we are preparing for. Dizzy Dean's baseball seasons always came to an end. There isn't a break between our seasons. We had a great year in 2006, but by the time you read this report, we will be well under way with 2007. We will have to forget about braggin' for another year and see what we can accomplish as we move ahead.

Our ability to anticipate future realities depends on our acquisition and use of

knowledge—both in the form of research data and human ability. These assets have been a core part of Herman Miller since the 1950s, and they continue to be.

On behalf of our Executive Leadership Team—Don Goeman (Research, Design & Development), Ken Goodson (Operations), Andy Lock (Chief Administrative Officer), Kris Manos (North America Office and Learning Environments), John Portlock (International), Gary Miller (Chief Development Officer), Beth Nickels (Chief Financial Officer), and Charley Vranian (North America Emerging Markets)—I'd like to thank each and every member of the Herman Miller community for his or her contribution over the past year. I am deeply grateful.

I'd also like to thank our shareholders. In this time of uncertainty and global competition, your support continues to be important. I hope you will look forward with us to the year ahead.

A handwritten signature in black ink, reading "Brian C. Wall". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

If the past year has made us proud, the complexities of the future will keep us humble. Yes, Herman Miller has talent, design, great products, and a wonderful network of salespeople and dealers. We also face global competitors, economic uncertainty, and increasingly complex problems to solve in our customers' lives. The challenges energize us, and we can't wait to see our future unfold.





 Herman Miller