MILLER HERMAN INC
Form 10-Q
April 09, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

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

For Quarter Ended March 1, 2008 Commission File No. 001-15141

HERMAN MILLER, INC.

A Michigan Corporation ID No. 38-0837640

855 East Main Avenue, Zeeland, MI 49464-0302 Phone (616) 654 3000

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

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

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

Common Stock Outstanding at April 2, 2008 56,114,652 shares

HERMAN MILLER, INC. FORM 10-Q
FOR THE QUARTER ENDED MARCH 1, 2008
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HERMAN MILLER, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in Millions Except Share Data)
(Unaudited)

	March 1, 2008	June 2, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 81.4	$ 76.4
Short-term investments	18.3	15.9
Accounts receivable, net	215.8	188.1
Inventories:		
Finished goods	32.0	27.6
Work in process	16.3	14.3
Raw materials	16.7	14.1
Total inventories	65.0	56.0
Prepaid expenses and other	57.3	48.3
Total current assets	**437.8**	**384.7**
Property and Equipment, at cost	722.6	717.0
Less accumulated depreciation	(528.8)	(520.4)
Net property and equipment	**193.8**	**196.6**
Other Assets:		
Notes receivable, net	1.1	2.0
Goodwill	50.4	39.1
Intangible assets, net	8.5	9.4
Other noncurrent assets	37.1	34.4
Total other assets	**97.1**	**84.9**
Total Assets	**$ 728.7**	**$ 666.2**
LIABILITIES & SHAREHOLDERS' EQUITY		
Current Liabilities:		
Unfunded checks	$ 8.6	$ 7.4
Current maturities of long-term debt	3.0	3.0
Accounts payable	116.7	110.5
Accrued compensation and benefits	78.3	95.0
Unearned revenue	21.6	13.3
Other accrued liabilities	62.5	55.3
Total current liabilities	**290.7**	**284.5**
Long-term Liabilities:		
Long-term debt, less current maturities	377.5	173.2
Pension and post-retirement benefits	22.5	22.4
Income tax liabilities	9.2	
Other liabilities	29.2	30.5
Total Liabilities	**729.1**	**510.6**
Minority Interest	**0.2**	**0.3**
Shareholders' Equity (Deficit):		
Preferred stock, no par value (10,000,000 shares authorized, none issued)		
Common stock, $0.20 par value (240,000,000 shares authorized)	11.2	12.6

	March 1, 2008	June 2, 2007
Retained earnings	39.9	197.8
Accumulated other comprehensive loss	(47.5)	(51.6)
Key executive deferred compensation plans	(4.2)	(3.5)
Total Shareholders' Equity (Deficit)	**(0.6)**	**155.3**
Total Liabilities and Shareholders' Equity	**$ 728.7**	**$ 666.2**

See accompanying notes to condensed consolidated financial statements

HERMAN MILLER, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in Millions, Except Per Share Data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	March 1, 2008	**March 3, 2007**	**March 1, 2008**	**March 3, 2007**
Net Sales	$ 495.4	$ 484.8	$ 1,493.0	$ 1,433.6
Cost of Sales	325.4	324.8	975.3	950.8
Gross Margin	**170.0**	**160.0**	**517.7**	**482.8**
Operating Expenses	108.3	110.9	331.9	329.2
Restructuring Expenses			5.2	
Operating Earnings	**61.7**	**49.1**	**180.6**	**153.6**
Other Expenses (Income):				
Interest expense	5.0	3.5	12.6	10.3
Other, net	(0.4)	(0.7)	(1.5)	(1.7)
Earnings Before Income Taxes and Minority Interest	57.1	46.3	169.5	145.0
Income Tax Expense	18.8	14.0	56.8	47.6
Earnings Before Minority Interest	38.3	32.3	112.7	97.4
Minority Interest, net of income taxes			(0.1)	
Net Earnings	**$ 38.3**	**$ 32.3**	**$ 112.8**	**$ 97.4**
Earnings Per Share Basic	$ 0.66	$ 0.50	$ 1.87	$ 1.51
Earnings Per Share Diluted	$ 0.65	$ 0.50	$ 1.86	$ 1.49
Dividends Declared, per share	$ 0.0880	$ 0.0800	$ 0.2640	$ 0.2400

See accompanying notes to condensed consolidated financial statements

HERMAN MILLER, INC.
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY
(Dollars in Millions Except Share Data)
(Unaudited)

	Shares of Common Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Key Exec. Deferred Comp.	Total Shareholders' Equity
Balance, June 2, 2007	**62,919,425**	**$ 12.6**	**$**	**$ 197.8**	**$ (51.6)**	**$ (3.5)**	**$ 155.3**
Net earnings				112.8			112.8
Foreign currency translation adjustment					3.9		3.9
Unrealized holding gain on available-for-sale securities					0.2		0.2
Total comprehensive income							**116.9**
Cash dividends declared				(15.7)			(15.7)
Exercise of stock options	124,701		3.0				3.0
Employee stock purchase plan	88,850		2.5				2.5
Excess tax benefit related to stock-based compensation			0.2				0.2
Repurchase and retirement of common stock	(7,049,195)	(1.4)	(11.3)	(254.0)			(266.7)
Restricted stock units compensation expense			0.5				0.5
Restricted stock units released	1,356						
Stock grants compensation expense			0.5				0.5
Stock grants issued	11,922						
Stock option compensation expense			2.3				2.3
Deferred compensation plan			0.6			(0.7)	(0.1)
Directors' Fees	16,086		0.5				0.5
Performance share units compensation expense			1.2				1.2
Cumulative effect of adopting FIN 48, net of tax				(1.0)			(1.0)
Balance, March 1, 2008	**56,113,145**	**$ 11.2**	**$**	**$ 39.9**	**$ (47.5)**	**$ (4.2)**	**$ (0.6)**

See accompanying notes to condensed consolidated financial statements

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

	Nine Months Ended	
	March 1, 2008	March 3, 2007
Cash Flows from Operating Activities:		
Net earnings	$ 112.8	$ 97.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	32.8	30.7
Stock-based compensation	4.8	3.8
Excess tax benefits from stock-based compensation	(0.2)	(4.7)
Pension benefits	3.3	3.3
Gain on sale of dealership	(0.6)	
Restructuring expenses	5.2	
Cash payments related to restructuring	(3.2)	
Other, net	0.1	(1.1)
Increase in current assets	(40.4)	(31.0)
Increase (decrease) in current liabilities	8.6	(7.0)
Net Cash Provided by Operating Activities	**123.2**	**91.4**
Cash Flows from Investing Activities:		
Changes in notes receivable, net	0.2	(0.6)
Short-term investment purchases	(9.2)	(5.1)
Short-term investment sales	7.2	5.4
Capital expenditures	(28.2)	(28.5)
Proceeds from sales of property and equipment	0.3	0.2
Proceeds from sale of dealership	0.6	
Acquisitions, net of cash	(11.7)	
Other, net	(0.9)	0.1
Net Cash Used for Investing Activities	**(41.7)**	**(28.5)**
Cash Flows from Financing Activities:		
Net short-term debt repayments	(1.2)	
Net long-term debt repayments	(0.9)	
Net long-term debt borrowings	200.0	
Dividends paid	(16.3)	(15.6)
Common stock issued	5.7	38.5
Common stock repurchased and retired	(266.7)	(93.4)
Excess tax benefits from stock-based compensation	0.2	4.7
Net Cash Used for Financing Activities	**(79.2)**	**(65.8)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	2.7	(0.4)
Net Increase (Decrease) in Cash and Cash Equivalents	5.0	(3.3)
Cash and Cash Equivalents, Beginning of Period	76.4	106.8

	Nine Months Ended	
Cash and Cash Equivalents, End of Period	**$ 81.4**	**$ 103.5**

See accompanying notes to condensed consolidated financial statements.

HERMAN MILLER, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION
The condensed consolidated financial statements have been prepared by Herman Miller, Inc. (the company), without audit, in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. Management believes the disclosures made in this document are adequate so as not to make the information presented misleading.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements, taken as a whole, contain all adjustments which are of a normal recurring nature necessary to present fairly the financial position of the company as of March 1, 2008, and the results of its operations and cash flows for the interim periods presented. Operating results for the nine-month period ended March 1, 2008, are not necessarily indicative of the results that may be expected for the year ending May 31, 2008. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the company s Form 10-K filing for the year ended June 2, 2007.

2. FISCAL YEAR
The company s fiscal year ends on the Saturday closest to May 31. Fiscal 2008, the year ending May 31, 2008, contains 52 weeks. Fiscal 2007, the year ended June 2, 2007, contained 52 weeks. The first nine months of fiscal 2008 and 2007 each contained 39 weeks. The three-month periods ended March 1, 2008, and March 3, 2007, each contained 13 weeks.

3. FOREIGN CURRENCY TRANSLATION
The functional currency for foreign subsidiaries is the local currency. The cumulative effects of translating the balance sheet accounts from the functional currency into the United States dollar using period-end exchange rates and translating revenue and expense accounts using average exchange rates for the period is reflected as a component of Accumulated other comprehensive loss in the Condensed Consolidated Balance Sheets. The financial statement impact resulting from remeasuring all foreign currency transactions into the appropriate functional currency, which was included in Other Expenses (Income) in the Condensed Consolidated Statements of Operations was a net loss of $0.3 million for the three months ended March 1, 2008, and a net loss of $0.1 million for the nine months ended March 1, 2008. For the three and nine-month periods ended March 3, 2007, the financial statement impact was a negligible net loss and net loss of $0.1 million, respectively.

4. COMPREHENSIVE INCOME
Comprehensive income consists of net earnings, foreign currency translation adjustments, pension and post-retirement liability adjustments and unrealized holding gain (loss) on available-for-sale securities. Comprehensive income was $37.5 million and $31.2 million for the three months ended March 1, 2008, and March 3, 2007, respectively. For the nine months ended March 1, 2008, and March 3, 2007, comprehensive income was $116.9 million and $98.0 million, respectively. The following table presents the components of Accumulated other comprehensive loss for the period indicated.

(In Millions)	Foreign Currency Translation Adjustments	Pension and Post-Retirement Liability Adjustments (net of tax)	Unrealized Holding Period Gain (Loss) (net of tax)	Total Accumulated Other Comprehensive Income (Loss)
Balance, June 2, 2007	$ 0.5	$ (51.9)	$ (0.2)	$ (51.6)
Other comprehensive income (loss) for the nine months ended March 1, 2008	3.9		0.2	4.1
Balance, March 1, 2008	$ 4.4	$ (51.9)	$	$ (47.5)

5. COMMON STOCK AND EARNINGS PER SHARE

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

	Three Months Ended		Nine Months Ended	
	March 1, 2008	March 3, 2007	March 1, 2008	March 3, 2007
Numerators:				
Numerator for both basic and diluted EPS, net earnings (In Millions)	$ 38.3	$ 32.3	$ 112.8	$ 97.4
Denominators:				
Denominator for basic EPS, weighted-average common shares outstanding	58,053,044	64,406,138	60,231,369	64,693,620
Potentially dilutive shares resulting from stock plans	537,717	817,842	507,180	774,310
Denominator for diluted EPS	58,590,761	65,223,980	60,738,549	65,467,930

Options to purchase 1,063,284 and 1,257,319 shares of common stock for the three and nine months ended March 1, 2008, respectively and 89,719 and 684,558 shares for the three and nine months ended March 3, 2007 respectively, have not been included in the denominator for the computation of diluted earnings per share because they were anti-dilutive.

On January 3, 2008, Herman Miller, Inc. entered into two agreements to purchase shares of its common stock from Morgan Stanley & Co. Inc., for an aggregate purchase price of $200 million, plus fees, under an Accelerated Share Repurchase (ASR) program. The company entered into these agreements as part of a repurchase program approved by its Board of Directors. The amount paid was reflected in the company s Condensed Consolidated Balance Sheet at March 1, 2008 as a reduction to Shareholders Equity.

On January 4, 2008, the company received an initial delivery of 4.4 million shares, representing 70% of the shares that could have been purchased, based on the closing price of its common stock on January 3, 2008. An additional 0.6 million shares were delivered on February 4, 2008, in accordance with the terms of the agreement. The company expects all ASR program purchases to be completed no later than September 4, 2008. The total number of shares to be repurchased will be determined at the completion of the ASR program based on the volume weighted-average-price of the company s stock during the term of the agreement.

On a year-to-date basis, share repurchases totaled $266.7 million as of March 1, 2008.

6. STOCK-BASED COMPENSATION

The company adopted the fair value recognition provisions of SFAS No. 123(R), Share-Based Payment (SFAS 123(R)), at the beginning of fiscal 2007, using the modified prospective transition method. Compensation costs related to the company s stock-based compensation plans were $1.4 million and $1.3 million for the three months ended March 1, 2008 and March 3, 2007, respectively. The related income tax benefits for the respective three-month periods were $0.5 million and $0.4 million. For the nine months ended March 1, 2008 and March 3, 2007, stock-based compensation costs were $4.8 million and $3.8 million, respectively. The related income tax benefits for the respective nine-month periods were $1.7 million and $1.3 million.

Stock-based compensation expense recognized in the Condensed Consolidated Statements of Operations for the three months ended March 1, 2008 and March 3, 2007 has been reduced for estimated forfeitures, as it is based on awards ultimately expected to vest. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience.

Stock Option Plans

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

The company estimated the fair value of employee stock options on the date of grant using the Black-Scholes model. In determining these values, the following weighted-average assumptions were used for the periods indicated.

	Three Months Ended		**Nine Months Ended**	
	March 1, 2008	**March 3, 2007**	**March 1, 2008**	**March 3, 2007**
Risk-free interest rates (1)	3.1%	4.4%	3.1 4.8%	4.3 5.0%
Expected term of options (2)	6 years	5 years	2 6 years	2 5 years
Expected volatility (3)	28%	28%	28%	28%
Dividend yield (4)	1.0%	1.0%	1.0%	1.0%
Weighted-average grant-date fair value of stock options:				
Granted with exercise prices equal to the fair market value of the stock on the date of grant	$ 8.22	$ 11.27	$ 9.55	$ 9.38
Granted with exercise prices greater than the fair market value of the stock on the date of grant	$	$	$	$ 7.48

(1) Represents the U.S. Treasury yield over the same period as the expected option term.
(2) Represents the period of time that options granted are expected to be outstanding. Based on analysis of historical option exercise activity, the company has determined that all employee groups exhibit similar exercise and post-vesting termination behavior.
(3) Amount is determined based on analysis of historical price volatility of the company s common stock over a period equal to the expected term of the options. The company also utilizes a market-based or implied volatility measure, on exchange-traded options in the company s common stock, as a reference in determining this assumption.
(4) Represents the company s estimated cash dividend yield over the expected term of options.

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

Restricted Stock Units
The company has previously granted restricted stock units to certain key employees. This program provided that the actual number of restricted stock units awarded was tied in part to the company s annual financial performance for the year on which the grant was based. The awards generally cliff-vest after a five year service period, with prorated vesting under certain circumstances and continued vesting into retirement. Each restricted stock unit represents one equivalent share of the company s common stock to be awarded, free of restrictions, after the vesting period. Compensation expense related to these awards is recognized over the requisite service period, which includes any applicable performance period. Dividend-equivalent awards are granted quarterly.

Performance Share Units
The company grants performance share units to certain key employees. The number of units initially awarded is based on the value of a portion of the participant s long-term incentive compensation, divided by the fair value of the company s common stock on the date of grant. Each unit represents one equivalent share of the company s common stock. The number of common shares ultimately issued in connection with these performance share units is determined based on the company s financial performance over the related three-year service period. Compensation expense is determined based on the grant-date fair value and the number of common shares projected to be issued, and is recognized over the requisite service period.

Employee Stock Purchase Program
Under the terms of the company s Employee Stock Purchase Plan, 4 million shares of authorized common stock were reserved for purchase by plan participants at 85.0 percent of the market price. The company recognizes pre-tax compensation expense related to the market value discount.

7. SUPPLEMENTAL CASH FLOW INFORMATION
The company holds cash equivalents as part of its cash management function. Cash equivalents include money market funds, time deposit investments and treasury bills with original maturities of less than three months. All cash equivalents are high-credit quality financial instruments and the amount of credit exposure to any one financial institution or instrument is limited.

Cash payments for income taxes and interest were as follows.

	Three Months Ended		**Nine Months Ended**	
(In Millions)	**March 1, 2008**	**March 3, 2007**	**March 1, 2008**	**March 3, 2007**
Income taxes paid, net	$ 22.4	$ 12.4	$ 57.0	$ 41.8
Interest paid	$	$	$ 7.2	$ 6.8

8. SHORT-TERM INVESTMENTS
The company maintains a portfolio of short-term investments primarily comprised of investment grade fixed-income securities. These investments are held by the company s wholly-owned insurance captive and are considered available-for-sale as defined in SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. Accordingly, they have been recorded at fair market value based on quoted market prices, with the resulting net unrealized holding gains or losses reflected, net of tax, as a component of Accumulated other comprehensive loss in the Condensed Consolidated Balance Sheets (see Note 4).

Net investment income recognized in the Condensed Consolidated Statements of Operations resulting from these investments totaled approximately $0.2 million for each of the three-month periods ended March 1, 2008, and March 3, 2007. Net investment income totaled approximately $0.5 million for each of the nine-month periods ended March 1, 2008, and March 3, 2007, respectively.

The following is a summary of the carrying and market values of the company s short-term investments as of the respective dates.

	March 1, 2008			
(In Millions)	**Cost**	**Unrealized Gain**	**Unrealized Loss**	**Market Value**
U.S. Government & Agency Debt	$ 5.7	$ 0.3	$	$ 6.0
Corporate Investments	7.6		(0.1)	7.5
Mortgage-Backed	4.1			4.1
Other Debt	0.7			0.7
Total	$ 18.1	$ 0.3	$ (0.1)	$ 18.3

	June 2, 2007			
(In Millions)	**Cost**	**Unrealized Gain**	**Unrealized Loss**	**Market Value**
U.S. Government & Agency Debt	$ 3.9	$	$ (0.1)	$ 3.8
Corporate Investments	6.0		(0.1)	5.9
Mortgage-Backed	5.5		(0.1)	5.4
Other Debt	0.8			0.8
Total	$ 16.2	$	$ (0.3)	$ 15.9

9. OPERATING SEGMENTS

The company is comprised of two primary reportable operating segments as defined in SFAS 131, Disclosures about Segments of an Enterprise and Related Information (SFAS 131); North American Furniture Solutions and non-North American Furniture Solutions.

The North American Furniture Solutions segment includes the operations associated with the design, manufacture and sale of furniture products for work-related settings, including office, healthcare and educational environments, throughout the United States, Canada and Mexico. The business associated with the company s owned contract furniture dealers is also included in the North American Furniture Solutions segment. The non-North American Furniture Solutions segment includes the operations associated with the design, manufacture and sale of furniture products primarily for work-related settings outside of North America.

The company also reports an Other category consisting primarily of its North American Home and start-up businesses, and certain unallocated corporate expenses, if any. North American Home includes the operations associated with the design, manufacture and sale of furniture products for residential settings in the United States, Canada and Mexico. The start-up businesses are discrete operations, such as Convia, Inc., or activities aimed at developing innovative products to serve current and new markets.

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

(In Millions)	Three Months Ended March 1, 2008	Three Months Ended March 3, 2007	Nine Months Ended March 1, 2008	Nine Months Ended March 3, 2007
Net Sales:				
North American Furniture Solutions	$ 409.1	$ 394.7	$ 1,223.0	$ 1,174.7
Non-North American Furniture Solutions	71.9	67.7	228.9	201.5
Other	14.4	22.4	41.1	57.4
Total	$ 495.4	$ 484.8	$ 1,493.0	$ 1,433.6
Depreciation and Amortization:				
North American Furniture Solutions	$ 8.9	$ 8.7	$ 27.6	$ 26.6
Non-North American Furniture Solutions	1.3	1.1	3.7	3.3
Other	0.5	0.4	1.5	0.8
Total	$ 10.7	$ 10.2	$ 32.8	$ 30.7
Operating Earnings:				
North American Furniture Solutions	$ 49.5	$ 39.8	$ 145.2	$ 127.9
Non-North American Furniture Solutions	10.2	7.0	33.6	20.3
Other	2.0	2.3	1.8	5.4
Total	$ 61.7	$ 49.1	$ 180.6	$ 153.6
Capital Expenditures:				
North American Furniture Solutions	$ 8.0	$ 7.9	$ 23.1	$ 23.6
Non-North American Furniture Solutions	0.9	1.2	3.8	2.9
Other	0.3	0.6	1.3	2.0
Total	$ 9.2	$ 9.7	$ 28.2	$ 28.5

(In Millions)	March 1 2008	June 2, 2007
Total Assets:		
North American Furniture Solutions	$ 550.9	$ 507.0
Non-North American Furniture Solutions	150.9	133.1
Other	26.9	26.1
Total	$ 728.7	$ 666.2

The accounting policies of the reportable operating segments are the same as those of the company. Additionally, the company employs a methodology for allocating corporate costs and assets to the operating segments. The underlying objective of this methodology is to allocate corporate costs according to the relative usage of the underlying resources and to allocate corporate assets according to the relative expected benefit. The company has determined that allocation based on relative net sales is most appropriate for all expenses. The majority of corporate costs are allocated to the operating segments, however, certain costs that are generally considered the result of isolated business decisions are not subject to allocation and are evaluated separately from the rest of the regular ongoing business operations. Restructuring charges of $5.2 million recorded in the second fiscal quarter of 2008 and discussed in Note 16 were allocated to the Other category.

10. NEW ACCOUNTING STANDARDS

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement

No. 109 (FIN 48), which clarifies the accounting for uncertainty in tax positions. Under FIN 48, the tax effects of a position should be recognized only if it is more-likely-than-not to be sustained based solely on its technical merits as of the reporting date. FIN 48 also requires significant new annual disclosures in the notes to the financial statements. The effect of adjustments at adoption is required to be recorded directly to beginning retaining earnings in the period of adoption and reported as a change in accounting principle. Retroactive application is prohibited under FIN 48. The company adopted the provisions of FIN 48 at the beginning of fiscal 2008. Further information regarding the adoption of FIN 48 is provided in Note 14.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). This new standard establishes a framework for measuring the fair value of assets and liabilities. This framework is intended to provide increased consistency in how fair value determinations are made under various existing accounting standards which permit, or in some cases require, estimates of fair market value. SFAS 157 also expands financial statement disclosure requirements about a company s use of fair value measurements, including the effect of such measures on earnings. The company is required to adopt this new accounting guidance at the beginning of fiscal 2009. In February 2008, the FASB issued FASB Staff Position (FSP) 157-2, Partial Deferral of the Effective Date of Statement 157 (FSP 157-2). FSP 157-2 delays the effective date of SFAS 157 for all nonfinancial assets and liabilities except those items recognized or disclosed at fair value on an annual or more frequently recurring basis beginning in fiscal 2010. While the company is currently evaluating the provisions of SFAS 157 and FSP 157-2, the adoption is not expected to have a material impact on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159 The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 expands the use of fair value measurement by permitting entities to choose to measure at fair value, many financial instruments and certain other items that are not currently required to be measured at fair value. The company is required to adopt SFAS 159 at the beginning of fiscal 2009 and is in the process of evaluating the applicability and potential impact to its financial statements.

In December 2007, the FASB issued a revised version of SFAS No. 141 Business Combinations (revised 2007) (SFAS 141(R)). The revision is intended to simplify existing guidance, and partially converge reporting under U.S. Generally Accepted Accounting Principles (GAAP) with international accounting rules.

The FASB also issued SFAS No. 160 Noncontrolling Interests in Consolidated Financial Statements-An Amendment of ARB No. 51 (SFAS 160) at the same time it issued SFAS 141(R). SFAS 160 requires all entities to report noncontrolling (minority) interests in subsidiaries as equity in the consolidated financial statements, except as required under FIN 46 (required consolidation with respect to Variable Interest Entities). Its intention is to eliminate the diversity in practice regarding the accounting for transactions between an entity and noncontrolling interests.

The company is required to adopt the provisions of both SFAS 141(R) and SFAS 160 simultaneously at the beginning of fiscal 2010. Earlier adoption is prohibited. The company is currently evaluating the provisions of these pronouncements, and the potential impact on its consolidated financial statements.

11. OTHER INTANGIBLE ASSETS

Other intangible assets are comprised of patents, trademarks and intellectual property rights. As of March 1, 2008, the combined gross carrying value and accumulated amortization was $15.4 million and $6.9 million, respectively. As of June 2, 2007, these amounts totaled $14.9 million and $5.5 million, respectively. The company amortizes its intangible assets over periods ranging from 5 to 17 years.

Amortization expense related to intangible assets totaled approximately $0.5 million and $0.2 million for the three-month periods ended March 1, 2008, and March 3, 2007, respectively. For the nine months ended March 1, 2008, and March 3, 2007, amort