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Director, Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re FIN 46 Implementation Concerns

Dear Director

This letter outlines certain questions and concerns related to the implementation of FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). Our concern is whether or not FIN 46 will improve the quality and transparency of financial reporting when applied to the facts and circumstances particular to our business. Based on our current understanding of the requirements of FIN 46, our belief is that adoption of the interpretation will result in confusing and potentially misleading financial statements. Additionally, we have specific concerns regarding our ability to meet the certification responsibilities under Sarbanes-Oxley as it relates to the implementation of FIN 46.

General Background

Herman Miller is one of the leading manufacturers of office furniture in the world. We specialize in the design, manufacture, and distribution of a wide range of seating, systems, and freestanding office furniture products. The majority of our products are distributed through a network of office furniture dealerships. In North America, there are more than 170 separate dealerships located in over 250 locations. In addition, there are dealer locations in place overseas to service our international markets. Collectively, this dealer network is viewed as one of our key competitive strengths. With the exception of a small number of owned dealer subsidiaries located within the US, Canada, and Mexico, these dealerships are independently owned and operated. Finally, no single dealer accounted for more than 3 percent of our consolidated net sales in fiscal year 2003.

Dealer Financing

From time-to-time (and on a very limited basis) we have extended financial assistance to non-owned dealers in the form of term loans, lines of credit, and/or bank guarantees. This assistance is generally provided in situations where the dealer has little or no book equity and is unable to obtain bank financing.

As of May 31, 2003, we had financing arrangements with eight independent dealers. The notes receivable associated with these arrangements totaled \$4.6 million at that time, net of recorded reserves totaling \$4.4 million. In addition, we had dealer-related financial guarantees totaling \$1.6 million. These guarantees have been properly valued and recorded under FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others".

Although we have not yet completed our analysis of these financing relationships under FIN 46, we believe that we will qualify as the *Primary Beneficiary* in at least some instances. Accordingly, we understand our obligation will be to consolidate the financial statements of these "qualifying" dealerships beginning in our fiscal 2004 third quarter.

Valuation Concerns

Appendix C of FIN 46 states that an enterprise, "...may receive benefits similar to those received from a controlling financial interest and be exposed to risks similar to those received from a controlling financial interest without holding a majority voting interest (or without holding any voting interest). Risks, benefits, or both are the determinants of consolidation in this Interpretation."

While it is our belief that Herman Miller does not gain a significant controlling interest in the dealers to which it provides financial assistance, this is not our primary area of concern under FIN 46. In fact, we acknowledge there are strong arguments both for and against the notion of implied control.

Instead, the focus of our concern involves the valuation and presentation of the risks and benefits resulting from our dealer financing arrangements. In our opinion, the requirement under FIN 46 to consolidate the financial statements of these dealerships will result in misleading financial statement presentation.

In each of these arrangements, the financial risk to Herman Miller is limited to the amount of the gross note receivable and/or financial guarantee. We have no legal obligation to "step in" and honor any of the dealer's liabilities. Furthermore, we have no legal claim to assets beyond those secured as collateral against our loan.

Once consolidated, the gross assets and liabilities of the various dealers would take the place of our existing notes receivable and FIN 45 liabilities. The recorded reserves associated with the notes receivable would be taken into income in the period of consolidation. Similarly, recorded FIN 45 liabilities would be reversed into income. Finally, as a dealer's debt is paid off in the future, that dealer's assets and liabilities and results of operations would be removed from our financial statements.

The FASB adopted the consolidation framework of FIN 46 with the intent to create more transparency in financial statements. Discussion within appendix C of FIN 46 explains the Board's decision to reject one proposed alternative to the consolidation requirement, "...because there are many instances in which an enterprise's interest is represented more faithfully by a gross presentation of assets and liabilities."

We believe the specific facts and circumstances in our case do not support the Board's conclusion. On both the asset and liability side of the balance sheet, the application of FIN 46 creates less transparency in our financial statements than the current presentation.

Under "Pre-FIN 46" accounting, the recorded notes receivable balance (net of related reserves) represented our best estimate of the future value to be received as a result of our dealer financing transactions. How does replacing this amount with the total assets of the dealership(s) provide a better estimation of this future expected benefit? Our ONLY claim to the assets of the dealers is derived from the notes receivable.

Similarly, as it stands today, the recorded estimated fair value of our FIN 45 guarantees represents our best estimate of the future claims against Herman Miller's assets. How does replacing these recorded liabilities with 100% of the liabilities of the dealerships provide a better estimate of these future claims?

One simple illustration of this point is to assume two future scenarios for one of these non-owned dealerships. In the first scenario, the dealer has positive financial performance and, as a result, creates positive cash flows. In this case, Herman Miller would not be entitled (under any circumstance) to more of this cash than is already represented by the recorded gross note receivable. Consolidation of the dealer's assets and liabilities and results of operations, however, would imply otherwise to the readers of our financial statements.

Conversely, in the second scenario, the dealership has poor performance and is forced to declare bankruptcy. In this case, there would be no legal claim against Herman Miller beyond the value of its financial guarantees. As stated, these guarantees are already properly valued under FIN 45. Furthermore, a liquidation of the dealer in bankruptcy could lead to a sudden decrease in liabilities shown on our balance sheet. This "improvement" in our reported financial position would seem not only counter-intuitive but also misleading.

Other Considerations – Sarbanes-Oxley

Our presumption is that financial statements consolidated under FIN 46 will be included within the scope of sections 302 and 906 of the Sarbanes-Oxley Act of 2002 (Sarbanes). Given our contention that we lack meaningful control over decision making within these dealerships, we have serious concern about our ability to draw the conclusions necessary to complete the required Sarbanes-Oxley certifications. We currently have no assurance that the financial statements of these dealerships are prepared in accordance with GAAP. We also have no right under existing arrangements to send in auditors.

We also presume that entities consolidated under FIN 46 would be subject to the internal control reporting requirements of Sarbanes section 404. This will create a situation where we are asked to report on the internal control effectiveness of an entity(s) over which we have no authority to impose mitigating internal control procedures.

Conclusion

Upon adoption of FIN 46, we believe it is likely that we will be required to consolidate the financial statements of certain dealers with which we have entered into financing transactions. It is our opinion that this will result in misleading financial statement presentation to the readers of our financial statements. We also believe that, in our case, consolidation of dealer financial statements under FIN 46 will conflict with our ability to meet some of the requirements under Sarbanes.

We would like to have an opportunity to discuss our concerns with you further. Additionally, we respectfully ask that you consider these concerns in any future deliberations on the impact of FIN 46 on the quality of financial reporting.

Sincerely

Michael A. Volkema
Chief Executive Officer

Elizabeth A. Nickels
Chief Financial Officer

cc David C. Hoogendoorn, Ernst & Young, LLP
Ian MacKay, AICPA