

STEELCASE INC
Form 10-Q
January 04, 2011

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended November 26, 2010

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 1-13873

STEELCASE INC.

(Exact name of registrant as specified in its charter)

Michigan

**(State or other jurisdiction
of incorporation or organization)**

901 44th Street SE

Grand Rapids, Michigan

(Address of principal executive offices)

38-0819050

(I.R.S. employer identification no.)

49508

(Zip Code)

(Registrant's telephone number, including area code) (616) 247-2710

None

(Former name, former address and former fiscal year, if changed since last report)

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

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to submit and post such files). Yes 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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a 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

As of January 3, 2011, Steelcase Inc. had 86,715,083 shares of Class A Common Stock and 46,351,204 shares of Class B Common Stock outstanding.

**STEELCASE INC.
FORM 10-Q**

FOR THE QUARTERLY PERIOD ENDED NOVEMBER 26, 2010

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements:****STEELCASE INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)****(in millions, except per share data)**

	Three Months Ended		Nine Months Ended	
	November 26, 2010	November 27, 2009	November 26, 2010	November 27, 2009
Revenue	\$ 672.6	\$ 616.1	\$ 1,814.2	\$ 1,739.8
Cost of sales	461.8	436.1	1,258.1	1,226.2
Restructuring costs	6.9	2.5	20.1	15.5
Gross profit	203.9	177.5	536.0	498.1
Operating expenses	176.0	160.4	500.7	480.0
Restructuring costs	1.1	2.3	3.4	9.5
Operating income	26.8	14.8	31.9	8.6
Interest expense	(4.8)	(4.5)	(13.9)	(13.5)
Other income (expense), net	3.8	(2.7)	14.3	(0.8)
Income (loss) before income tax expense (benefit)	25.8	7.6	32.3	(5.7)
Income tax expense (benefit)	7.5	7.6	22.3	(5.7)
Net income	\$ 18.3	\$	\$ 10.0	\$
Earnings per share:				
Basic	\$ 0.14	\$ 0.00	\$ 0.07	\$ 0.00
Diluted	\$ 0.14	\$ 0.00	\$ 0.07	\$ 0.00
Dividends declared and paid per common share	\$ 0.04	\$ 0.04	\$ 0.12	\$ 0.16

See accompanying notes to the condensed consolidated financial statements.

Table of Contents**STEELCASE INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in millions)

	(Unaudited) November 26, 2010	February 26, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 119.0	\$ 111.1
Short-term investments	75.4	68.2
Accounts receivable, net of allowances of \$25.4 and \$20.6	301.2	242.5
Inventories	128.3	98.4
Deferred income taxes	48.8	49.6
Other current assets	53.7	65.7
Total current assets	726.4	635.5
Property and equipment, net of accumulated depreciation of \$1,300.5 and \$1,309.9	387.6	415.7
Company-owned life insurance	220.3	209.6
Deferred income taxes	137.8	144.5
Goodwill	179.0	183.8
Other intangible assets, net	22.9	25.0
Other assets	76.3	63.1
Total assets	\$ 1,750.3	\$ 1,677.2
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 191.6	\$ 159.2
Short-term borrowings and current maturities of long-term debt	256.5	7.4
Accrued expenses:		
Employee compensation	128.6	99.1
Other	172.5	146.9
Total current liabilities	749.2	412.6
Long-term liabilities:		
Long-term debt less current maturities	42.1	293.4
Employee benefit plan obligations	172.3	189.5
Other long-term liabilities	75.6	84.1
Total long-term liabilities	290.0	567.0
Total liabilities	1,039.2	979.6

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Shareholders' equity:			
Common stock		58.0	57.0
Additional paid-in capital		13.6	8.2
Accumulated other comprehensive income (loss)		(4.6)	(17.9)
Retained earnings		644.1	650.3
Total shareholders' equity		711.1	697.6
Total liabilities and shareholders' equity	\$	1,750.3	\$ 1,677.2

See accompanying notes to the condensed consolidated financial statements.

Table of Contents**STEELCASE INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**
(in millions)

	Nine Months Ended	
	November 26, 2010	November 27, 2009
OPERATING ACTIVITIES		
Net income	\$ 10.0	\$ 55.6
Depreciation and amortization	49.1	55.6
Changes in accounts receivable, inventories and accounts payable, net of deconsolidation	(68.7)	32.7
Changes in cash surrender value of company-owned life insurance	(10.7)	(35.5)
Changes in deferred income taxes	6.9	(7.0)
Changes in employee compensation liabilities	20.6	(39.2)
Changes in other operating assets and liabilities, net of deconsolidation	33.3	(29.9)
Other	18.3	4.1
Net cash provided by (used in) operating activities	58.8	(19.2)
INVESTING ACTIVITIES		
Capital expenditures	(33.3)	(26.5)
Proceeds from disposal of fixed assets	14.3	6.4
Purchases of short-term investments	(14.8)	(3.9)
Liquidations of short-term investments	3.9	14.9
Other	(3.5)	2.1
Net cash provided by (used in) investing activities	(33.4)	(7.0)
FINANCING ACTIVITIES		
Borrowings of long-term debt	0.4	47.0
Dividends paid	(16.2)	(21.5)
Common stock repurchases	(0.3)	(4.3)
Other	(2.1)	(2.0)
Net cash provided by (used in) financing activities	(18.2)	19.2
Effect of exchange rate changes on cash and cash equivalents	0.7	3.5
Net increase (decrease) in cash and cash equivalents	7.9	(3.5)
Cash and cash equivalents, beginning of period	111.1	117.6
Cash and cash equivalents, end of period	\$ 119.0	\$ 114.1

See accompanying notes to the condensed consolidated financial statements.

Table of Contents**STEELCASE INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)****1. BASIS OF PRESENTATION**

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions in Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and adjustments) considered necessary for a fair presentation of the condensed consolidated financial statements have been included. Results for interim periods should not be considered indicative of results to be expected for a full year. Reference should be made to the consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the fiscal year ended February 26, 2010 (Form 10-K). The Condensed Consolidated Balance Sheet as of February 26, 2010 was derived from the audited Consolidated Balance Sheet included in our Form 10-K.

As used in this Quarterly Report on Form 10-Q (Report), unless otherwise expressly stated or the context otherwise requires, all references to Steelcase, we, our, Company and similar references are to Steelcase Inc. and its subsidiaries in which a controlling interest is maintained. Unless the context otherwise indicates, reference to a year relates to the fiscal year, ended in February of the year indicated, rather than a calendar year. Additionally, Q1, Q2, Q3 and Q4 reference the first, second, third and fourth quarter, respectively, of the fiscal year indicated. All amounts are in millions, except share and per share data, data presented as a percentage or as otherwise indicated.

Certain amounts in the prior year s financial statements have been reclassified and corrected to conform to the current year presentation. The long-term portions of the accrued liabilities for product warranties and self-insured losses related to workers compensation of \$7.1 and \$14.0, respectively, as of February 26, 2010, previously classified as current liabilities on the Condensed Consolidated Balance Sheet, have been reclassified to long-term liabilities. The non-current portions of deferred income taxes related to these liabilities of \$8.1 have also been reclassified from current to non-current deferred income taxes in the Condensed Consolidated Balance Sheet. We did not amend our Form 10-K or any other prior period filing, as the corrections of these amounts were not considered material to the Condensed Consolidated Balance Sheet and they had no impact on the Condensed Consolidated Statements of Operations or Condensed Consolidated Statements of Cash Flows for any of the periods presented.

2. PRODUCT WARRANTIES AND SELF-INSURANCE***Product Warranties***

We offer a 5-year, 10-year or lifetime warranty for most products, subject to certain exceptions. These warranties provide for the free repair or replacement of any covered product, part or component that fails during normal use because of a defect in materials or workmanship. The accrued liability for product warranties is based on an estimated amount needed to cover product warranty costs, including product recall and retrofit costs incurred as of the balance sheet date determined by historical claims experience and our knowledge of current events and actions.

Roll-Forward of Accrued Liability for Product Warranties	Product Warranties
Balance as of February 26, 2010	\$ 22.1
Accruals related to product warranties, recalls and retrofits	13.8

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Adjustments related to changes in estimates	6.0
Reductions for settlements	(10.1)
Currency translation adjustments	(0.2)
Balance as of November 26, 2010	\$ 31.6

Table of Contents**STEELCASE INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

In Q2 2011, we increased the estimate of our general reserve for warranty claims by \$6.0. The increase in our general warranty reserve was linked to implementation of new software supporting our claims management processes, which allowed us to more deeply understand our historical experience as a foundation for estimating future claims. In addition, during Q2 2011, we recorded a specific product warranty charge of \$4.7 for estimated expenses related to a pending retrofit project. Our reserve for estimated settlements expected to be paid within one year as of November 26, 2010 and February 26, 2010 was \$16.5 and \$15.0, respectively, and is included in *Accrued expenses: Other* on the Condensed Consolidated Balance Sheets, while our reserve for estimated settlements expected to be paid beyond one year is included in *Other long-term liabilities* on the Condensed Consolidated Balance Sheets.

Self-Insurance

We are self-insured for certain losses relating to domestic workers' compensation and product liability claims. We purchase insurance coverage to reduce our exposure to significant levels of these claims. Self-insured losses are accrued based upon estimates of the aggregate liability for uninsured claims incurred as of the balance sheet date using current and historical claims experience and certain actuarial assumptions. These estimates are subject to uncertainty due to a variety of factors, including extended lag times in the reporting and resolution of claims, and trends or changes in claim settlement patterns, insurance industry practices and legal interpretations. As a result, actual costs could differ significantly from the estimated amounts. Adjustments to estimated reserves are recorded in the period in which the change in estimate occurs.

Our total reserve for estimated domestic workers' compensation claim costs incurred as of November 26, 2010 and February 26, 2010 was \$16.6 and \$20.0, respectively. Our reserve for estimated domestic workers' compensation claims expected to be paid within one year as of November 26, 2010 and February 26, 2010 was \$6.3 and \$6.0, respectively, and is included in *Accrued expenses: Other* on the Condensed Consolidated Balance Sheets, while our reserve for estimated domestic workers' compensation claims expected to be paid beyond one year is included in *Other long-term liabilities* on the Condensed Consolidated Balance Sheets. During Q2 2011, we recognized a change in estimate, decreasing the reserve for estimated domestic workers' compensation claim costs by \$3.7. The change in estimate was mainly due to the continuation of favorable trends in past experience.

Our reserve for estimated product liability claim costs incurred as of November 26, 2010 and February 26, 2010 was \$5.1 and \$7.1, respectively, and is included in *Accrued expenses: Other* on the Condensed Consolidated Balance Sheets. During Q2 2011, we recognized a change in estimate, decreasing the reserve for estimated product liability claim costs by \$3.0. The change in estimate was due to the continuation of favorable trends in past experience.

3. NEW ACCOUNTING STANDARDS***Fair Value Measurements***

In Q4 2010, the Financial Accounting Standards Board (FASB) issued updated guidance to add new requirements regarding fair value disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. We adopted the new guidance in Q1 2011. See Note 6 for additional information.

Variable Interest Entities

In Q2 2010, the FASB issued a new accounting statement which changed the consolidation guidance for variable interest entities. This statement requires companies to qualitatively assess the

Table of Contents**STEELCASE INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

determination of the primary beneficiary of a variable interest entity (VIE) based on whether the beneficiary (1) has the power to direct matters that most significantly impact the activities of the VIE and (2) has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. We adopted the new guidance in Q1 2011.

Based on this statement, we deconsolidated a variable interest dealer in Q1 2011 which had no effect on net income. In addition, we deconsolidated a variable interest dealer in Q3 2010 after it was purchased by an independent third party. For the year ended February 26, 2010 and the interim periods therein, our Condensed Consolidated Statements of Operations included the following related to the consolidation of these dealers:

Dealer Deconsolidations	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2010					
Revenue	\$ 14.1	\$ 12.9	\$ 21.4	\$ 14.3	\$ 62.7
Gross profit	4.7	6.0	6.2	5.1	22.0
Operating income (loss)	(0.6)	0.6	0.5	0.9	1.4
Net income (loss)					

Financing Receivables

In Q2 2011, the FASB issued new guidance expanding disclosures about the credit quality of financing receivables and the allowance for credit losses. Financing receivables include loans and notes receivable, long-term trade accounts receivable and certain other contractual rights to receive money on demand or on fixed or determinable dates. Trade accounts receivable with contractual maturities of one year or less that arose from the sales of goods or services are excluded from the new guidance. The new guidance requires enhanced disclosures regarding the nature of credit risk inherent in an entity's portfolio of financing receivables, how that risk is analyzed and the changes and reasons for those changes in the allowance for credit losses. The new disclosures will require information for both the financing receivables and the related allowance for credit losses at more disaggregated levels. The disclosure requirements will be effective in Q4 2011.

Table of Contents**STEELCASE INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)****4. EARNINGS PER SHARE**

Earnings per share is computed using the two-class method. The two-class method determines earnings per share for each class of common stock and participating securities according to dividends or dividend equivalents and their respective participation rights in undistributed earnings. Participating securities include performance units and restricted stock units in which the participants have non-forfeitable rights to dividends or dividend equivalents during the performance period. In the nine months ended November 26, 2010, the two-class method changes the basic earnings per share from \$0.08 to \$0.07. Basic earnings per share of participating securities is the same as basic earnings per share of common shares for all periods presented. Diluted earnings per share includes the effects of options and certain performance shares and performance units in which the participants have forfeitable rights to dividends or dividend equivalents during the performance period. However, for the three and nine months ended November 26, 2010 and November 27, 2009, diluted earnings per share does not reflect the effect of options, performance shares and certain performance units totaling 3.3 million and 3.8 million, respectively, because their effect would have been anti-dilutive.

Computation of Earnings per Share	Three Months Ended		Nine Months Ended	
	November 26, 2010	November 27, 2009	November 26, 2010	November 27, 2009
Net income	\$ 18.3	\$	\$ 10.0	\$
Weighted-average common shares outstanding for basic earnings per share (in millions)	133.0	132.8	133.0	133.0
Effect of dilutive stock-based compensation (in millions)				
Adjusted weighted-average shares outstanding for diluted earnings per share (in millions)	133.0	132.8	133.0	133.0
Earnings per share:				
Basic	\$ 0.14	\$ 0.00	\$ 0.07	\$ 0.00
Diluted	\$ 0.14	\$ 0.00	\$ 0.07	\$ 0.00
Total common shares outstanding at period end (in millions)	133.1	132.9	133.1	132.9

Table of Contents**STEELCASE INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)****5. COMPREHENSIVE INCOME**

Comprehensive income is comprised of net income and all changes to shareholders' equity except those due to investments by, and distributions to, shareholders.

	Three Months Ended November 26, 2010			Three Months Ended November 27, 2009		
	Before Tax	Tax (Expense) Benefit	Net of Tax Amount	Before Tax	Tax (Expense) Benefit	Net of Tax Amount
	Amount			Amount		Amount
Comprehensive Income						
Net income			\$ 18.3			\$
Other comprehensive income:						
Foreign currency translation adjustments	\$ 6.3	\$	6.3	\$ 12.2	\$	12.2
Unrealized gain (loss) on investments, net				(0.8)	0.3	(0.5)
Minimum pension liability	17.3	(6.3)	11.0	(1.6)	6.9	5.3
Derivative adjustments	(0.4)	0.1	(0.3)	(0.2)	0.1	(0.1)
	\$ 23.2	\$ (6.2)	17.0	\$ 9.6	\$ 7.3	16.9
Total comprehensive income			\$ 35.3			\$ 16.9

	Nine Months Ended November 26, 2010			Nine Months Ended November 27, 2009		
	Before Tax	Tax (Expense) Benefit	Net of Tax Amount	Before Tax	Tax (Expense) Benefit	Net of Tax Amount
	Amount			Amount		Amount
Comprehensive Income						
Net income			\$ 10.0			\$
Other comprehensive income:						
Foreign currency translation adjustments	\$ 3.1	\$	3.1	\$ 32.0	\$	32.0
Unrealized gain (loss) on investments, net	1.3	(0.5)	0.8	(2.9)	1.1	(1.8)
Minimum pension liability	13.8	(4.1)	9.7	(5.6)	7.7	2.1
Derivative adjustments	(0.4)	0.1	(0.3)			
	\$ 17.8	\$ (4.5)	13.3	\$ 23.5	\$ 8.8	32.3
Total comprehensive income			\$ 23.3			\$ 32.3

As of November 26, 2010, we remeasured our accumulated post-retirement benefit obligation, which resulted in a change in the minimum pension liability of \$11.7, net of tax. See Note 9 for additional information.

Foreign currency translation adjustments reflect the impact of the changes in certain foreign currency values (principally the euro, pound sterling and Canadian dollar) relative to the U.S. dollar. As of November 26, 2010, approximately 29% of our assets were denominated in currencies other than the U.S. dollar, the majority of which were denominated in euros.

6. FAIR VALUE

The carrying amounts for many of our financial instruments, including cash and cash equivalents, accounts and notes receivable, accounts and notes payable, short-term borrowings and certain other liabilities, approximate their fair value due to their relatively short maturities. Our short-term investments, foreign exchange forward contracts and long-term investments are measured at fair value on the Condensed Consolidated Balance Sheets.

Table of Contents**STEELCASE INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

Our total debt is carried at cost and was \$298.6 and \$300.8 as of November 26, 2010 and February 26, 2010, respectively. The fair value of our total debt is measured using a discounted cash flow analysis based on current market interest rates for similar types of instruments and was approximately \$307 and \$309 as of November 26, 2010 and February 26, 2010, respectively.

We periodically use derivative financial instruments to manage exposures to movements in interest rates and foreign exchange rates. The use of these financial instruments modifies the exposure of these risks with the intention to reduce our risk of short-term volatility. We do not use derivatives for speculative or trading purposes.

	November 26, 2010			
Fair Value of Financial Instruments	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 119.0	\$	\$	\$ 119.0
U.S. government debt securities	3.5			3.5
U.S. agency debt securities	50.7			50.7
Corporate debt securities	21.1			21.1
Auction rate securities			21.3	21.3
Canadian asset-backed commercial paper restructuring notes			4.0	4.0
Other long-term investments	2.8			2.8
Foreign exchange forward contracts		0.2		0.2
	\$ 197.1	\$ 0.2	\$ 25.3	\$ 222.6
Liabilities				
Foreign exchange forward contracts		5.3		5.3
	\$	\$ 5.3	\$	\$ 5.3

	February 26, 2010			
Fair Value of Financial Instruments	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 111.1	\$	\$	\$ 111.1
U.S. government debt securities	5.6			5.6
U.S. agency debt securities	43.5			43.5
Corporate debt securities	12.8			12.8
Foreign debt securities	2.9			2.9
Other short-term investments	3.4			3.4
Auction rate securities			19.6	19.6
Canadian asset-backed commercial paper restructuring notes			3.8	3.8
Other long-term investments	0.5			0.5

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Foreign exchange forward contracts		0.4		0.4
	\$ 179.8	\$ 0.4	\$ 23.4	\$ 203.6
Liabilities				
Foreign exchange forward contracts		1.1		1.1
	\$	\$ 1.1	\$	\$ 1.1

Table of Contents**STEELCASE INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

There were no transfers between Level 1 and Level 2 of the fair value hierarchy for any period presented. Below is a roll-forward of assets and liabilities measured at fair value using Level 3 inputs for the nine months ended November 26, 2010:

Roll-Forward of Fair Value Using Level 3 Inputs	Auction Rate Securities	Canadian Asset-Backed Commercial Paper Restructuring Notes
Balance as of February 26, 2010	\$ 19.6	\$ 3.8
Unrealized gain (loss) on investments	1.7	
Currency translation adjustment		0.2
Balance as of November 26, 2010	\$ 21.3	\$ 4.0

7. INVENTORIES

Inventories	November 26, 2010	February 26, 2010
Raw materials	\$ 48.6	\$ 45.8
Work-in-process	15.2	11.9
Finished goods	84.8	62.0
	148.6	119.7
LIFO reserve	(20.3)	(21.3)
	\$ 128.3	\$ 98.4

The portion of inventories determined by the LIFO method aggregated \$49.6 as of November 26, 2010 and \$39.0 as of February 26, 2010.

8. COMPANY-OWNED LIFE INSURANCE

Type	Ability to Choose Investments	Net Return	Target Asset Allocation as of November 26, 2010	Net Cash Surrender Value November 26, 2010	February 26, 2010
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Whole life insurance policies	No ability	A rate of return set periodically by the insurance companies	Not Applicable	\$ 111.6	\$ 109.3
Variable life insurance policies	Can allocate across a set of choices provided by the insurance companies	Fluctuates depending on performance of underlying investments	75% Fixed Income; 25% Equity	108.7	100.3
				\$ 220.3	\$ 209.6

Our investments in company-owned life insurance (COLI) policies are recorded at their net cash surrender value. Our investments in COLI policies, while an available source of liquidity, were made with the intention of utilizing them as a long-term funding source for post-retirement medical benefits, deferred compensation and supplemental retirement plan obligations. The net cash surrender value of our COLI investments exceeds these employee benefit obligations on a tax-adjusted basis, and therefore, to more efficiently manage our balance sheet and liquidity position, in Q1 2011, we began considering our

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investments in variable life COLI policies to be primarily a source of corporate liquidity. As a result of this change, we adjusted the target asset allocation of the investments in variable life COLI policies to more heavily weight the portfolio to fixed income securities; and beginning in Q1 2011, net returns in cash surrender value, normal insurance expenses and any death benefit gains (COLI income) related to our investments in variable life COLI policies have been recorded in *Other income (expense), net* on the Condensed Consolidated Statements of Operations.

We continue our intention to utilize our investments in whole life COLI policies as a funding source for post-retirement medical benefits and other employee benefit obligations. We believe the investments in whole life COLI policies represent a stable source for these long-term benefit obligations. Consequently, we continue to allocate COLI income related to our investments in whole life COLI policies between *Cost of sales* and *Operating expenses* on the Condensed Consolidated Statements of Operations consistent with the costs associated with the long-term employee benefit obligations that the investments in whole life policies are intended to fund.

These designations do not result in our investments in COLI policies representing a committed funding source for liquidity or employee benefit obligations. They are subject to claims from creditors, and we can designate them to another purpose at any time.

Following is a summary of the allocation of COLI income for the three and nine months ended November 26, 2010 and November 27, 2009:

	Three Months Ended November 26, 2010			Three Months Ended November 27, 2009		
	Whole Life Policies	Variable Life Policies	Total Policies	Whole Life Policies	Variable Life Policies	Total Policies
COLI Income						
Cost of sales	\$ 0.3	\$	\$ 0.3	\$ 0.1	\$ 2.5	\$ 2.6
Operating expenses	1.3		1.3	0.9	1.8	2.7
Operating income	1.6		1.6	1.0	4.3	5.3
Other income (expense), net		2.9	2.9			
Income (loss) before income tax expense (benefit)	\$ 1.6	\$ 2.9	\$ 4.5	\$ 1.0	\$ 4.3	\$ 5.3

	Nine Months Ended November 26, 2010			Nine Months Ended November 27, 2009		
	Whole Life Policies	Variable Life Policies	Total Policies	Whole Life Policies	Variable Life Policies	Total Policies
COLI Income						
Cost of sales	\$ 0.9	\$	\$ 0.9	\$ 1.1	\$ 18.2	\$ 19.3
Operating expenses	3.6		3.6	3.5	13.1	16.6

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Operating income	4.5		4.5	4.6	31.3	35.9
Other income (expense), net		8.5	8.5			
Income (loss) before income tax expense (benefit)	\$ 4.5	\$ 8.5	\$ 13.0	\$ 4.6	\$ 31.3	\$ 35.9

Table of Contents**STEELCASE INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)****9. EMPLOYEE BENEFIT PLAN OBLIGATIONS**

Employee Benefit Plan Obligations	November 26, 2010	February 26, 2010
Defined contribution retirement plans	\$ 1.1	\$ 1.3
Post-retirement medical benefit plans	114.0	131.8
Defined benefit pension plans	36.4	38.4
Deferred compensation plans and agreements	37.3	34.7
	188.8	206.2
Current portion	16.5	16.7
Long-term portion	\$ 172.3	\$ 189.5

In Q3 2011, we changed the cost sharing provisions of the post-retirement benefit plan that provides medical benefits to certain North American-based retirees and eligible dependents, which increased the required contributions for certain retirees. Accordingly, we remeasured our accumulated post-retirement benefit obligation (APBO) as of November 26, 2010. In connection with the remeasurement, other assumptions were revised, including the discount rate assumption, which decreased from 5.9% as of February 26, 2010 to 5.3% as of November 26, 2010. The remeasurement resulted in an \$18.9 decrease in the APBO as of November 26, 2010 and these changes will reduce net expense for post-retirement plans by \$1.2 in Q4 2011.

Components of Expense	Three Months Ended			
	Pension Plans		Post-Retirement Plans	
	November 26, 2010	November 27, 2009	November 26, 2010	November 27, 2009
Service cost	\$ 0.5	\$ 0.4	\$ 0.3	\$ 0.2
Interest cost	1.1	1.1	1.9	2.1
Amortization of prior year service gain			(1.8)	(1.7)
Expected return on plan assets	(0.7)	(0.6)		
Amortization of unrecognized net actuarial loss	0.2	0.2		
Net expense	\$ 1.1	\$ 1.1	\$ 0.4	\$ 0.6

	Nine Months Ended			
	Pension Plans		Post-Retirement Plans	
	November 26,	November 27,	November 26,	November 27,

Components of Expense	2010		2009	
Service cost	\$	1.5	\$	1.1
Interest cost		3.2		3.4
Amortization of prior year service gain				(5.4)
Expected return on plan assets		(2.1)		(1.8)
Amortization of unrecognized net actuarial loss		0.6		0.6
Net expense	\$	3.2	\$	3.3
			\$	1.1
			\$	1.7

We expect to contribute approximately \$4 to our pension plans and \$10 to our post-retirement plans in 2011. As of November 26, 2010, contributions of approximately \$3 and \$6 have been made to the respective plans.

Table of Contents**STEELCASE INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)****10. INCOME TAXES**

The provision for income taxes for the nine months ended November 26, 2010 includes a discrete item of \$11.4 to recognize a reduction in deferred tax assets. In Q1 2011, the U.S. enacted significant healthcare reform legislation which changed the tax treatment of the federal subsidies received by employers who provide certain prescription drug benefits for retirees (the Medicare Part D subsidy) for fiscal years beginning after December 31, 2012. We had previously recorded deferred tax assets based on the liability for post-retirement benefit obligations related to prescription drug benefits for retirees. As a result of the law change during Q1 2011, deferred tax assets were reduced as these obligations will no longer be deductible for purposes of determining taxable income to the extent they are reimbursed by the Medicare Part D subsidy.

In addition, for the three and nine months ended November 26, 2010 we recorded (\$0.6) and \$0.5 of other miscellaneous discrete items. Excluding discrete items, income tax expense recorded for the three and nine months ended November 26, 2010 reflects an estimated annual effective tax rate of approximately 32%. The estimated annual effective tax rate, excluding discrete items, decreased from our Q2 2011 estimate of 37% primarily due to benefits associated with the IDEO ownership transition described in Note 14 and higher non-taxable COLI income.

On December 17, 2010, the U.S. Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 was signed into law. The bill includes a two-year retroactive extension of the U.S. research tax credit, and therefore we will record the benefit associated with this change in the law, which we estimate will reduce our income tax expense by \$1.8 in Q4 2011.

11. STOCK INCENTIVE PLAN

In Q3 2011, we awarded a total of 212,000 restricted stock units (RSUs) under the Steelcase Inc. Incentive Compensation Plan (the Incentive Compensation Plan) to certain employees who are not executive officers. These RSUs will vest at the end of a three-year period or at the time the participant becomes a qualified retiree.

Restricted stock and RSUs are expensed and recorded in *Additional paid-in capital* on the Condensed Consolidated Balance Sheets over the vesting period based on the value of the shares on the grant date. The total expense and associated tax benefit related to all restricted stock and RSUs for the three and nine months ended November 26, 2010 and November 27, 2009 were as follows:

Restricted Stock and Restricted Stock Units	Three Months Ended		Nine Months Ended	
	November 26, 2010	November 27, 2009	November 26, 2010	November 27, 2009
Expense	\$ 0.5	\$ 0.5	\$ 1.2	\$ 0.9
Tax benefit	0.2	0.2	0.4	0.4

As of November 26, 2010, there was \$2.4 of remaining unrecognized compensation cost related to nonvested restricted stock and RSUs. That cost is expected to be recognized over a remaining weighted-average period of 2.5 years.

In Q1 2011, we awarded a target of 779,000 performance units under the Incentive Compensation Plan to our executive officers. The performance units are earned after a three-year performance period, from 2011 through 2013, based on our total shareholder return relative to a comparison group of companies. The number of shares that may be earned can range from 25% to 200% of the target amount. A number of units equal to 25% of the target level of each award will be earned if the participant remains employed through the end of 2013 or retires, becomes disabled, dies or is terminated without cause, or a change in control occurs during the performance period, whether or not the minimum performance level is achieved. The minimum award will be forfeited if a participant leaves our company for reasons other than retirement, disability, death or termination without cause prior to the end of the

Table of Contents**STEELCASE INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

performance period. The remainder of the award will be forfeited if a participant leaves our company for reasons other than retirement, disability or death prior to the end of the performance period. During the performance period, participants receive a cash dividend equivalent based on the underlying target award equal to the dividends we declare and pay on our Class A Common Stock. The fair value of the performance units awarded during Q1 2011 was calculated on the grant date using the Monte Carlo simulation model with the following assumptions:

	2011 Awards
Three-year risk-free interest rate (1)	1.7%
Expected term	3 years
Estimated volatility (2)	49.2%
Weighted-average grant date fair value per share	\$ 9.14

(1) Based on the U.S. government bond benchmark on the grant date.

(2) Represents the historical price volatility of our common stock for the three-year period preceding the grant date.

The total expense and associated tax benefit related to all performance shares and performance units for the three and nine months ended November 26, 2010 and November 27, 2009 were as follows:

Performance Shares and Performance Units	Three Months Ended		Nine Months Ended	
	November 26, 2010	November 27, 2009	November 26, 2010	November 27, 2009
Expense	\$ 0.7	\$ 0.4	\$ 4.9	\$ 3.5
Tax benefit	0.2	0.2	1.7	1.3

The performance shares and performance units activity for the nine months ended November 26, 2010 was as follows:

Maximum Number of Nonvested Shares	Total	Weighted-Average Grant Date Fair Value per Share (1)
Nonvested as of February 26, 2010	1,766,000	\$ 3.54
Granted	1,558,000	4.57
Nonvested as of November 26, 2010 (2)	3,324,000	4.02

(1) The fair value per share presented in this table has been adjusted to align with the presentation of the awards at the maximum number of shares that could be awarded.

- (2) Total nonvested shares include 390,500 shares, which represent the 25% portion of the awards granted in 2010 and 2011 that are not subject to performance conditions.

As of November 26, 2010, there was \$4.6 of remaining unrecognized compensation cost related to nonvested performance shares and performance units. That cost is expected to be recognized over a remaining weighted-average period of 1.9 years.

12. REPORTABLE SEGMENTS

We operate within North America and International reportable segments plus an Other category. The Other category includes the Coalesse Group, PolyVision and IDEO. Unallocated corporate expenses are reported as Corporate.

Table of Contents**STEELCASE INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

Revenue and operating income (loss) for the three and nine months ended November 26, 2010 and November 27, 2009 and total assets as of November 26, 2010 and February 26, 2010 by segment are presented below:

Reportable Segment Statement of Operations Data	Three Months Ended		Nine Months Ended	
	November 26, 2010	November 27, 2009	November 26, 2010	November 27, 2009
Revenue				
North America	\$ 358.4	\$ 328.0	\$ 973.4	\$ 944.9
International	201.9	178.7	499.3	477.9
Other	112.3	109.4	341.5	317.0
	\$ 672.6	\$ 616.1	\$ 1,814.2	\$ 1,739.8
Operating income (loss)				
North America	\$ 21.8	\$ 18.8	\$ 44.6	\$ 58.8
International	6.6	(0.2)	(14.0)	(25.7)
Other	5.5		21.2	(10.8)
Corporate	(7.1)	(3.8)	(19.9)	(13.7)
	\$ 26.8	\$ 14.8	\$ 31.9	\$ 8.6

Reportable Segment Balance Sheet Data	November 26,	February 26,
	2010	2010
Total assets		
North America	\$ 669.4	\$ 695.0
International	446.8	382.4
Other	216.5	231.6
Corporate	417.6	368.2
	\$ 1,750.3	\$ 1,677.2

13. RESTRUCTURING ACTIVITIES

In Q1 2011, we announced a project to reorganize our European manufacturing operations on the basis of specialized competencies. The primary drivers of the changes included our continued improvements in manufacturing practices, combined with the need for manufacturing footprint optimization and further cost reductions. We expect to incur approximately \$20 of cash restructuring costs in connection with this project, with the majority relating to workforce reductions and some additional costs for manufacturing consolidation and production moves. For the three and nine months ended November 26, 2010, we incurred \$4.1 and \$13.5, respectively, of restructuring costs related to this project mainly due to workforce reductions.

The remaining restructuring costs for the three and nine months ended November 26, 2010 primarily related to several smaller actions to consolidate manufacturing facilities and reorganize other areas of our business.

Table of Contents**STEELCASE INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

Restructuring costs are summarized in the following table:

Restructuring Costs	Three Months Ended		Nine Months Ended	
	November 26, 2010	November 27, 2009	November 26, 2010	November 27, 2009
Cost of sales				
North America	\$ 2.4	\$ 0.5	\$ 5.7	\$ 4.5
International	4.1	1.2	13.8	8.1
Other	0.4	0.8	0.6	2.9
	6.9	2.5	20.1	15.5
Operating expenses				
North America	0.2	0.1	0.8	2.9
International	0.4	1.9	1.0	4.2
Other	0.5	0.3	1.6	2.4
	1.1	2.3	3.4	9.5
	\$ 8.0	\$ 4.8	\$ 23.5	\$ 25.0

Below is a summary of the net additions, payments and adjustments to the restructuring reserve balance for the nine months ended November 26, 2010:

Restructuring Reserve	Workforce Reductions	Business Exits and Related Costs	Total
Reserve balance as of February 26, 2010	\$ 6.8	\$ 3.5	\$ 10.3
Additions	22.2	1.3	23.5
Payments	(13.9)	(2.7)	(16.6)
Adjustments	0.7	(0.3)	0.4
Reserve balance as of November 26, 2010	\$ 15.8	\$ 1.8	\$ 17.6

The workforce reductions reserve balance as of November 26, 2010 primarily related to estimated employee termination costs associated with the reorganization of our European manufacturing operations.

14. SUBSEQUENT EVENTS***IDEO Ownership Transition***

On December 14, 2010, certain members of the management of IDEO purchased an additional 60% equity interest in IDEO pursuant to an agreement entered into during 2008. We retained a 20% equity interest in IDEO, and we expect to continue our collaborative relationship after this transition. This transaction generated \$30 of cash and is estimated to result in a Q4 2011 pre-tax gain of approximately \$9, net of incremental variable compensation expense. Beginning in Q4 2011, we will no longer consolidate the operations of IDEO and will record our share of IDEO's earnings as equity in income of unconsolidated ventures in *Other income (expense), net* on the Condensed Consolidated Statements of Operations.

Table of Contents**STEELCASE INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)**

For the nine months ended November 26, 2010 and the interim periods therein, our Condensed Consolidated Statements of Operations included the following related to IDEO:

	IDEO	First Quarter	Second Quarter	Third Quarter	Total
2011					
Revenue		\$ 35.1	\$ 35.2	\$ 33.1	\$ 103.4
Gross profit		16.9	14.6	15.6	47.1
Operating income		4.8	3.3	3.7	11.8

For the year ended February 26, 2010 and the interim periods therein, our Condensed Consolidated Statements of Operations included the following related to IDEO:

	IDEO	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2010						
Revenue		\$ 27.1	\$ 28.4	\$ 28.3	\$ 29.1	\$ 112.9
Gross profit		11.4	11.0	11.3	12.9	46.6
Operating income		1.0	0.8	3.4	2.6	7.8

Sale-Leaseback of Facility in Canada

On November 30, 2010, we completed the sale and leaseback of a facility in Canada, which generated \$25 of cash and resulted in a \$16 pre-tax gain. We will recognize \$11 of this gain in Q4 2011 and will defer the remaining gain over the five-year lease term associated with the space we are leasing back to support our current level of activity. The Q4 2011 gain will be reflected as a restructuring item in the North America segment and will result in approximately \$4 of incremental variable compensation expense, which will be recorded in *Cost of sales* and *Operating expenses* on the Condensed Consolidated Statement of Operations.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations:

This management's discussion and analysis of financial condition and results of operations should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended February 26, 2010. Reference to a year relates to the fiscal year, ended in February of the year indicated, rather than the calendar year, unless indicated by a specific date. Additionally, Q1, Q2, Q3 and Q4 reference the first, second, third and fourth quarter, respectively, of the fiscal year indicated. Year-to-date references the nine months ended for the fiscal year indicated. All amounts are in millions, except share and per share data, data presented as a percentage or as otherwise indicated.

Certain amounts in the prior years' financial statements have been reclassified to conform to the current year's presentation.

Non-GAAP Financial Measures

This item contains certain non-GAAP financial measures. A non-GAAP financial measure is defined as a numerical measure of a company's financial performance that excludes or includes amounts so as to be different than the most directly comparable measure calculated and presented in accordance with GAAP in the consolidated statements of operations, balance sheets or statements of cash flows of the company. Pursuant to the requirements of Regulation G, we have provided a reconciliation below of non-GAAP financial measures to the most directly comparable GAAP financial measure.

The non-GAAP financial measures used are: (1) organic revenue growth, which represents the change in revenue over the prior year excluding estimated currency translation effects and the impact from dealer deconsolidations, and (2) adjusted operating income (loss), which represents operating income (loss) excluding restructuring costs and the net returns in cash surrender value, normal insurance expenses and any death benefit gains related to our investments in variable life company-owned life insurance policies (variable life COLI income). These measures are presented because management uses this information to monitor and evaluate financial results and trends. Therefore, management believes this information is also useful for investors.

Table of Contents**Financial Summary****Results of Operations**

Statement of Operations Data	Three Months Ended				Nine Months Ended			
	November 26, 2010		November 27, 2009		November 26, 2010		November 27, 2009	
Revenue	\$ 672.6	100.0%	\$ 616.1	100.0%	\$ 1,814.2	100.0%	\$ 1,739.8	100.0%
Cost of sales	461.8	68.7	436.1	70.8	1,258.1	69.3	1,226.2	70.5
Restructuring costs	6.9	1.0	2.5	0.4	20.1	1.1	15.5	0.9
Gross profit	203.9	30.3	177.5	28.8	536.0	29.6	498.1	28.6
Operating expenses	176.0	26.1	160.4	26.0	500.7	27.6	480.0	27.6
Restructuring costs	1.1	0.2	2.3	0.4	3.4	0.2	9.5	0.5
Operating income	26.8	4.0	14.8	2.4	31.9	1.8	8.6	0.5
Interest expense and other								
Income (expense), net	(1.0)	(0.2)	(7.2)	(1.2)	0.4	0.0	(14.3)	(0.8)
Income (loss) before income tax								
Expense (benefit)	25.8	3.8	7.6	1.2	32.3	1.8	(5.7)	(0.3)
Income tax expense (benefit)	7.5	1.1	7.6	1.2	22.3	1.2	(5.7)	(0.3)
Net income	\$ 18.3	2.7%	\$		\$ 10.0	0.6%	\$	
Earnings per share:								
Basic	\$ 0.14		\$ 0.00		\$ 0.07		\$ 0.00	
Diluted	\$ 0.14		\$ 0.00		\$ 0.07		\$ 0.00	

Reconciliation of Operating Income (Loss) to Adjusted Operating Income (Loss)	Three Months Ended				Nine Months Ended			
	November 26, 2010		November 27, 2009		November 26, 2010		November 27, 2009	
Operating income (loss)	\$ 26.8	4.0%	\$ 14.8	2.4%	\$ 31.9	1.8%	\$ 8.6	0.5%
Add: Restructuring costs	8.0	1.2	4.8	0.8	23.5	1.3	25.0	1.4
Less: Variable life COLI income			4.3	0.7			31.3	1.8
Adjusted operating income (loss)	\$ 34.8	5.2%	\$ 15.3	2.5%	\$ 55.4	3.1%	\$ 2.3	0.1%

Q3 2011 Organic Revenue Growth	North			
	America	International	Other	Consolidated
Q3 2010 revenue	\$ 328.0	\$ 178.7	\$ 109.4	\$ 616.1
Dealer deconsolidations	(21.0)			(21.0)

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Currency translation effects(1)	1.0	(11.0)		(10.0)
Q3 2010 revenue, adjusted	308.0	167.7	109.4	585.1
Q3 2011 revenue	358.4	201.9	112.3	672.6
Organic revenue growth	\$ 50.4	\$ 34.2	\$ 2.9	\$ 87.5
Organic revenue growth %	16%	20%	3%	15%

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Year-to-Date 2011 Organic Revenue Growth	North America	International	Other	Consolidated
Year-to-date 2010 revenue	\$ 944.9	\$ 477.9	\$ 317.0	\$ 1,739.8
Dealer deconsolidations	(48.0)			(48.0)
Currency translation effects(2)	8.0	(23.0)		(15.0)
Year-to-date 2010 revenue, adjusted	904.9	454.9	317.0	1,676.8
Year-to-date 2011 revenue	973.4	499.3	341.5	1,814.2
Organic revenue growth	\$ 68.5	\$ 44.4	\$ 24.5	\$ 137.4
Organic revenue growth %	8%	10%	8%	8%

- (1) Currency translation effects represent the estimated net effect of translating Q3 2010 foreign currency revenues using the average exchange rates during Q3 2011.
- (2) Currency translation effects represent the estimated net effect of translating Q3 2010, Q2 2010 and Q1 2010 foreign currency revenues using the average exchange rates during Q3 2011, Q2 2011 and Q1 2011, respectively.

Overview

Following a significant reduction in our revenue during 2009 and 2010 in connection with the global economic recession and downturn in our industry, we began experiencing organic revenue growth in our business beginning in Q1 2011 as a result of the broader global economic recovery. This trend strengthened in Q2 2011 as a result of increased project business and accelerated in Q3 2011 when we posted organic revenue growth over the prior year more broadly across all reporting segments and in most geographies. This growth is consistent with general trends in our industry as companies have been increasing corporate spending.

Q3 2011 Compared to Q3 2010

We recorded Q3 2011 net income of \$18.3 compared to net income of \$0 in Q3 2010. The increase in net income was driven by higher operating income across all of our reporting segments, reduced miscellaneous expenses in other income (expense), net and a lower effective tax rate.

Revenue for Q3 2011 was \$672.6 compared to \$616.1 in Q3 2010, representing organic revenue growth of 15% after adjusting for dealer deconsolidations and currency translation effects. The organic revenue growth was broad-based, with growth of 16% in the North America segment, 20% in the International segment and 3% in the Other category.

Operating income grew to \$26.8 in Q3 2011, compared to operating income of \$14.8 in the prior year. Q3 2011 adjusted operating income of \$34.8 represented an improvement of \$19.5 compared to the prior year, which was primarily due to operating leverage from organic revenue growth and benefits from restructuring activities and other cost reduction efforts, partially offset by:

increased commodity costs of approximately \$6,

additional bad debt reserves of \$3,

higher compensation costs of \$3 related to the reinstatement of employee salaries to 2009 levels and increases in other operating costs.

Cost of sales decreased to 68.7% of revenue in Q3 2011, a 210 basis point improvement compared to Q3 2010. The benefits from restructuring activities and other cost reduction efforts and higher absorption of fixed costs associated with the organic revenue growth in the quarter were partially offset by increased commodity costs compared to the prior year and the exclusion of variable life COLI income, which beginning in Q1 2011 is reported in *Other income (expense), net*.

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Operating expenses increased by \$15.6 in Q3 2011 compared to the same period last year. The increase was primarily due to:

\$9 of higher variable compensation expense related to our Economic Value Added (EVA)-based compensation plans,

\$3 of additional bad debt reserves,

\$2 of higher compensation costs related to the reinstatement of employee salaries to 2009 levels,

variable life COLI income in the prior year of \$1.8 and

increases in other operating costs.

These increases were partially offset by a reduction of \$5.5 from dealer deconsolidations within the last twelve months, favorable currency translation effects of approximately \$4 and benefits of restructuring activities and other cost reduction efforts.

Year-to-Date 2011 Compared to Year-to-Date 2010

We recorded year-to-date 2011 net income of \$10.0 compared to year-to-date 2010 net income of \$0. Year-to-date 2011 results were affected by the same factors as our Q3 2011 results, as well as the negative impact of a Q1 2011 income tax charge of \$11.4 resulting from the U.S. healthcare reform legislation.

The \$53.1 improvement in year-to-date 2011 adjusted operating income was driven by items similar to those affecting Q3 2011. All segments reported year-to-date 2011 organic revenue growth. Year-to-date 2011 cost of sales was 69.3%, a 120 basis point improvement compared to year-to-date 2010. Year-to-date 2011 cost of sales was also negatively impacted by a product specific warranty charge of \$5 related to a pending retrofit project in Q2 2011. Year-to-date 2011 operating expenses benefited from a reduction of \$16.2 from dealer deconsolidations and favorable currency translation effects of approximately \$7. These decreases were more than offset by:

higher variable compensation expense of \$11 related to our EVA-based compensation plans,

variable life COLI income in the prior year of \$13.1,

higher compensation costs of \$6 related to the reinstatement of employee salaries to 2009 levels and

a Q2 2010 gain of \$2 recorded in connection with a settlement of a property tax dispute.

We recorded restructuring costs of \$8.0 in Q3 2011 and \$23.5 year-to-date 2011 compared to \$4.8 in Q3 2010 and \$25.0 year-to-date 2010. In Q3 2011 and year-to-date 2011, we recorded \$4.1 and \$13.5, respectively, related to the project to reorganize our European manufacturing operations. The remaining restructuring costs for Q3 2011 and year-to-date 2011 primarily related to several smaller actions to consolidate manufacturing facilities and reorganize other areas of our business.

The provision for income taxes for year-to-date 2011 includes a discrete item of \$11.4 to recognize a reduction in deferred tax assets resulting from the enacted U.S. healthcare reform legislation. In addition, for year-to-date 2011 we recorded \$0.5 of other miscellaneous discrete items. Excluding discrete items, income tax expense recorded for year-to-date 2011 reflects an estimated annual effective tax rate of approximately 32%. The estimated annual effective

tax rate, excluding discrete items, decreased from our Q2 2011 estimate of 37% primarily due to benefits associated with the IDEO ownership transition and higher non-taxable COLI income. See Note 10 and Note 14 to the condensed consolidated financial statements for additional information.

On December 17, 2010, the U.S. Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 was signed into law. The bill includes a two-year retroactive extension of the U.S. research tax credit, and therefore we will record the benefit associated with this change in the law, which we estimate will reduce our income tax expense by \$1.8 in Q4 2011.

Table of Contents**Interest Expense and Other Income (Expense), Net**

Interest Expense and Other Income (Expense), Net	Three Months Ended		Nine Months Ended	
	November 26, 2010	November 27, 2009	November 26, 2010	November 27, 2009
Interest expense	\$ (4.8)	\$ (4.5)	\$ (13.9)	\$ (13.5)
Other income (expense), net:				
Variable life COLI income	2.9		8.5	
Interest income	0.7	0.9	2.1	2.3
Equity in income of unconsolidated ventures	1.5	0.3	3.4	0.6
Foreign exchange gain (loss)	(0.5)	0.1		(0.5)
Miscellaneous, net	(0.8)	(4.0)	0.3	(3.2)
Total other income (expense), net	3.8	(2.7)	14.3	(0.8)
Total interest expense and other income (expense), net	\$ (1.0)	\$ (7.2)	\$ 0.4	\$ (14.3)

Beginning in Q1 2011, *Other income (expense), net* includes gains and losses from variable life COLI policies. See Note 8 to the condensed consolidated financial statements for additional information.

In addition, within *Miscellaneous, net*, Q3 2010 included \$1.3 of demolition costs related to an idle facility and a \$1.3 charge related to a dealer that was deconsolidated.

Business Segment Review

See Note 12 to the condensed consolidated financial statements for additional information regarding our business segments.

North America

Component of Operations Data	North America	Three Months Ended				Nine Months Ended			
		November 26, 2010		November 27, 2009		November 26, 2010		November 27, 2009	
Sales		\$ 358.4	100.0%	\$ 328.0	100.0%	\$ 973.4	100.0%	\$ 944.9	
Operating costs		253.4	70.7	233.8	71.2	692.0	71.1	664.4	
Profit		2.4	0.7	0.5	0.2	5.7	0.6	4.5	
Operating expenses		102.6	28.6	93.7	28.6	275.7	28.3	276.0	
Operating costs		80.6	22.5	74.8	22.9	230.3	23.6	214.3	
Operating income (loss)		0.2	0.0	0.1		0.8	0.1	2.9	
		\$ 21.8	6.1%	\$ 18.8	5.7%	\$ 44.6	4.6%	\$ 58.8	

Reconciliation of Operating Income (Loss) to Adjusted Operating Income (Loss) North America	Three Months Ended				Nine Months Ended			
	November 26, 2010		November 27, 2009		November 26, 2010		November 27, 2009	
Operating income (loss)	\$ 21.8	6.1%	\$ 18.8	5.7%	\$ 44.6	4.6%	\$ 58.8	6.2%
Add: Restructuring costs	2.6	0.7	0.6	0.2	6.5	0.7	7.4	0.8
Less: Variable life COLI income			4.3	1.3			31.1	3.3
Adjusted operating income (loss)	\$ 24.4	6.8%	\$ 15.1	4.6%	\$ 51.1	5.3%	\$ 35.1	3.7%

Operating income in the North America segment increased by \$3.0 in Q3 2011 compared to the same period last year, which included \$4.3 of variable life COLI income. Adjusted operating income increased by \$9.3 in Q3 2011 compared to Q3 2010, primarily driven by operating leverage from organic

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revenue growth and benefits from restructuring activities and other cost reduction efforts, partially offset by:

increased commodity costs of approximately \$4,

higher compensation costs of \$2 related to the reinstatement of employee salaries to 2009 levels and

increases in other operating costs.

The \$16.0 improvement in year-to-date 2011 adjusted operating income was impacted by similar items, but was also negatively impacted by a Q2 2011 product specific warranty charge of \$4 and a Q2 2010 gain of \$3 recorded in connection with a settlement of a property tax dispute.

North America revenue represented 53.3% of consolidated revenue in Q3 2011. Revenue for Q3 2011 was \$358.4 compared to \$328.0 in Q3 2010, representing organic revenue growth of 16% after adjusting for dealer deconsolidations and currency translation effects. Year-to-date 2011 organic revenue growth was \$69 or 8%. Revenue growth is categorized as follows:

Vertical markets Revenue growth in Q3 2011 was broad-based with notable growth reflected in Information Technology, Healthcare, Education, State and Local Governments and Insurance Services. Year-to-date 2011 revenue increased mainly due to strength in Financial Services, Education, Healthcare and Federal Government, which accounted for the majority of the revenue growth in North America.

Product categories Seating led revenue growth in Q3 2011 and year-to-date 2011 along with double-digit growth in most other categories for the quarter and modest growth year-to-date 2011.

Contract type Continuing business (day-to-day sales to larger customers) and marketing program business (mostly sales to smaller and mid-sized customers) both grew at a faster rate than project business in Q3 2011 compared to the same period in the prior year. All contract types grew over the prior year on a year-to-date basis in 2011, with the strongest growth coming from marketing program business.

Cost of sales decreased to 70.7% of revenue in Q3 2011, a 50 basis point improvement compared to Q3 2010. Excluding the 70 basis point impact of variable life COLI income in Q3 2010, cost of sales decreased by 120 basis points, which was largely driven by benefits from restructuring activities and other cost reduction efforts and higher absorption of fixed costs associated with the organic revenue growth, partially offset by increased commodity costs. Excluding the 190 basis point impact of variable life COLI income in year-to-date 2010, year-to-date 2011 cost of sales improved by 110 basis points and was affected by the same factors as Q3 2011 results, except that year-to-date 2011 cost of sales was negatively impacted by 40 basis points resulting from a Q2 2011 product specific warranty charge related to a pending retrofit project.

Operating expenses increased by \$5.8 in Q3 2011 compared to the same period last year. The increase was driven by:

\$7 of higher variable compensation expense related to our EVA-based incentive compensation plans,

\$2 of higher compensation costs related to the reinstatement of employee salaries to 2009 levels and

lower variable life COLI income in the prior year of \$1.8.

These increases were partially offset by a reduction of \$5.5 from dealer deconsolidations within the last twelve months, as well as benefits of restructuring activities and other cost reduction efforts.

Year-to-date 2011 operating expenses increased by \$16.0 due to items similar to those affecting the Q3 2011 increase in operating expenses. In addition, the year-to-date 2011 operating expenses increase was impacted by a Q2 2010 gain of \$2 recorded in connection with a settlement of a property tax dispute.

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Restructuring costs of \$2.6 incurred in Q3 2011 and \$6.5 year-to-date 2011 primarily related to the consolidation of manufacturing facilities.

International

Component of Operations Data	International	Three Months Ended				Nine Months Ended			
		November 26, 2010		November 27, 2009		November 26, 2010		November 2009	
		\$ 201.9	100.0%	\$ 178.7	100.0%	\$ 499.3	100.0%	\$ 477.9	
Sales		138.0	68.4	124.8	69.8	352.0	70.5	339.0	
Restructuring costs		4.1	2.0	1.2	0.7	13.8	2.8	8.1	
Profit		59.8	29.6	52.7	29.5	133.5	26.7	130.8	
Operating expenses		52.8	26.1	51.0	28.5	146.5	29.3	152.3	
Restructuring costs		0.4	0.2	1.9	1.1	1.0	0.2	4.2	
Operating income (loss)		\$ 6.6	3.3%	\$ (0.2)	(0.1)%	\$ (14.0)	(2.8)%	\$ (25.7)	

Reconciliation of Operating Income (Loss) to Adjusted Operating Income (Loss)	International	Three Months Ended				Nine Months Ended			
		November 26, 2010		November 27, 2009		November 26, 2010		November 27, 2009	
Operating income (loss)		\$ 6.6	3.3%	\$ (0.2)	(0.1)%	\$ (14.0)	(2.8)%	\$ (25.7)	(5.4)%
Add: Restructuring costs		4.5	2.2	3.1	1.8	14.8	3.0	12.3	2.6
Less: Variable life COLI income									
Adjusted operating income (loss)		\$ 11.1	5.5%	\$ 2.9	1.7%	\$ 0.8	0.2%	\$ (13.4)	(2.8)%

Operating income in the International segment increased by \$6.8 in Q3 2011. Q3 2011 and year-to-date 2011 adjusted operating income improvements of \$8.2 and \$14.2, respectively, were largely driven by operating leverage from organic revenue growth and benefits from prior restructuring activities and other cost reduction efforts.

International revenue represented 30.0% of consolidated revenue in Q3 2011. Revenue for Q3 2011 was \$201.9 compared to \$178.7 in Q3 2010, representing organic revenue growth of 20% after adjusting for currency translation effects. Year-to-date 2011 organic revenue growth was \$44 or 10%. During Q3 2011, substantially all regions reported double-digit organic revenue growth compared to the same period last year. All regions except parts of Northern Europe experienced year-to-date organic revenue growth.

Cost of sales decreased to 68.4% of revenue in Q3 2011, a 140 basis point improvement compared to Q3 2010. The improvement was mainly due to higher absorption of fixed costs associated with the organic revenue growth in the quarter and benefits from prior restructuring activities and other cost reduction efforts. The improvement in year-to-date 2011 cost of sales was lower than Q3 2011 due to lower absorption of fixed costs associated with lower levels of organic revenue growth in the first half of 2011 and disruption related costs associated with recently initiated restructuring activities.

Q3 2011 operating expenses increased slightly due to \$2 of additional bad debt reserves, higher variable compensation expense related to our EVA-based compensation plans and increases in other operating costs, offset by favorable currency translation effects of approximately \$4. Year-to-date 2011 operating expenses decreased by \$5.8 primarily due to benefits from prior restructuring activities and other cost reduction efforts and the favorable impact of currency translation effects in the first nine months of 2011.

Restructuring costs of \$4.5 incurred in Q3 2011 and \$14.8 year-to-date 2011 primarily related to the project to reorganize our European manufacturing operations. We expect to incur a total of approximately \$20 of cash restructuring costs in connection with this project, with the majority relating to workforce reductions and some additional costs for manufacturing consolidation and production moves.

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We anticipate annualized savings from these actions to be approximately \$7 when fully implemented by the end of 2011.

Other

Statement of Operations Data	Other	Three Months Ended				Nine Months Ended			
		November 26, 2010		November 27, 2009		November 26, 2010		November 27, 2009	
Revenue		\$ 112.3	100.0%	\$ 109.4	100.0%	\$ 341.5	100.0%	\$ 317.0	100.0%
Cost of sales		70.4	62.7	77.5	70.9	214.1	62.7	222.8	70.3
Restructuring costs		0.4	0.4	0.8	0.7	0.6	0.2	2.9	0.9
Gross profit		41.5	36.9	31.1	28.4	126.8	37.1	91.3	28.8
Operating expenses		35.5	31.6	30.8	28.1	104.0	30.4	99.7	31.5
Restructuring costs		0.5	0.4	0.3	0.3	1.6	0.5	2.4	0.7
Operating income (loss)		\$ 5.5	4.9%	\$	%	\$ 21.2	6.2%	\$ (10.8)	(3.4)%

Reconciliation of Operating Income (Loss) to Adjusted		Three Months Ended				Nine Months Ended			
Operating Income (Loss)	Other	November 26, 2010		November 27, 2009		November 26, 2010		November 27, 2009	
		Operating income (loss)		\$ 5.5	4.9%	\$	%	\$ 21.2	6.2%
Add: Restructuring costs		0.9	0.8	1.1	1.0	2.2	0.7	5.3	1.6
Less: Variable life COLI income									