

STEELCASE INC  
Form 10-Q  
September 30, 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 August 26, 2011**

**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 September 29, 2011, Steelcase Inc. had 87,594,019 shares of Class A Common Stock and 42,574,992 shares of Class B Common Stock outstanding.

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**STEELCASE INC.  
FORM 10-Q**

**FOR THE QUARTERLY PERIOD ENDED AUGUST 26, 2011**

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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)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>August 26, 2011</b>	<b>August 27, 2010</b>	<b>August 26, 2011</b>	<b>August 27, 2010</b>
Revenue	\$ 700.5	\$ 599.8	\$ 1,339.9	\$ 1,141.6
Cost of sales	487.9	417.5	934.2	796.3
Restructuring costs	11.4	11.7	21.4	13.2
Gross profit	201.2	170.6	384.3	332.1
Operating expenses	174.9	162.8	343.1	324.7
Restructuring costs	0.9	1.3	0.8	2.3
Operating income	25.4	6.5	40.4	5.1
Interest expense	(7.6)	(4.6)	(16.0)	(9.1)
Investment income (loss)	(2.6)	2.1	0.3	6.8
Other income (expense), net		2.1	2.0	3.7
Income before income tax expense	15.2	6.1	26.7	6.5
Income tax expense	3.3	3.3	7.3	14.8
Net income (loss)	\$ 11.9	\$ 2.8	\$ 19.4	\$ (8.3)
Earnings per share:				
Basic	\$ 0.09	\$ 0.02	\$ 0.15	\$ (0.06)
Diluted	\$ 0.09	\$ 0.02	\$ 0.14	\$ (0.06)
Dividends declared and paid per common share	\$ 0.06	\$ 0.04	\$ 0.12	\$ 0.08

See accompanying notes to the condensed consolidated financial statements.

**Table of Contents****STEELCASE INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(in millions)**

	<b>(Unaudited)</b> <b>August 26,</b> <b>2011</b>	<b>February 25,</b> <b>2011</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 104.4	\$ 142.2
Short-term investments	51.5	350.8
Accounts receivable, net of allowances of \$24.0 and \$23.1	322.9	271.0
Inventories	137.5	127.1
Deferred income taxes	59.8	58.0
Other current assets	66.8	63.2
Total current assets	742.9	1,012.3
Property, plant and equipment, net of accumulated depreciation of \$1,220.7 and \$1,228.1	345.9	345.8
Company-owned life insurance	222.2	223.1
Deferred income taxes	136.8	132.2
Goodwill	178.8	174.8
Other intangible assets, net	20.1	21.7
Other assets	100.7	86.6
Total assets	\$ 1,747.4	\$ 1,996.5
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 221.6	\$ 195.0
Short-term borrowings and current maturities of long-term debt	2.6	255.5
Accrued expenses:		
Employee compensation	120.3	136.3
Employee benefit obligations	19.6	15.5
Other	140.9	134.5
Total current liabilities	505.0	736.8
Long-term liabilities:		
Long-term debt less current maturities	290.1	291.3
Employee benefit plan obligations	166.4	170.0
Other long-term liabilities	78.8	80.0
Total long-term liabilities	535.3	541.3

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Total liabilities	1,040.3	1,278.1
Shareholders' equity:		
Common stock	25.6	48.5
Additional paid-in capital	28.2	20.2
Accumulated other comprehensive income	0.8	0.6
Retained earnings	652.5	649.1
Total shareholders' equity	707.1	718.4
Total liabilities and shareholders' equity	\$ 1,747.4	\$ 1,996.5

See accompanying notes to the condensed consolidated financial statements.

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

	<b>Six Months Ended</b>	
	<b>August 26, 2011</b>	<b>August 27, 2010</b>
<b>OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 19.4	\$ (8.3)
Depreciation and amortization	27.6	32.2
Changes in cash surrender value of company-owned life insurance	0.9	(7.6)
Changes in deferred income taxes	(2.9)	18.3
Changes in operating assets and liabilities, net of acquisitions and deconsolidations:		
Accounts receivable, inventories and accounts payable	(22.4)	(41.8)
Employee compensation liabilities	(19.7)	(5.5)
Other assets and liabilities	(14.9)	10.5
Other	8.9	12.7
Net cash provided by (used in) operating activities	(3.1)	10.5
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(29.0)	(16.6)
Purchases of short-term investments	(158.2)	(2.6)
Liquidations of short-term investments	456.4	3.9
Acquisition, net of divestiture	(16.4)	
Other	5.9	(9.7)
Net cash provided by (used in) investing activities	258.7	(25.0)
<b>FINANCING ACTIVITIES</b>		
Repayments of long-term debt	(253.2)	(0.9)
Dividends paid	(16.0)	(10.8)
Common stock repurchases	(23.1)	
Other	(1.2)	(0.2)
Net cash used in financing activities	(293.5)	(11.9)
Effect of exchange rate changes on cash and cash equivalents	0.1	(0.5)
Net decrease in cash and cash equivalents	(37.8)	(26.9)
Cash and cash equivalents, beginning of period	142.2	111.1
Cash and cash equivalents, end of period	\$ 104.4	\$ 84.2

See accompanying notes to the condensed consolidated financial statements.





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**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 25, 2011 ( Form 10-K ). The Condensed Consolidated Balance Sheet as of February 25, 2011 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.

As of the end of the first quarter of fiscal year 2012, we realigned our reportable segments for financial reporting purposes primarily as a result of organizational changes to strengthen our position as a globally integrated enterprise. The accompanying segment data for all prior periods has been reclassified to reflect these realignments. See Note 9 for additional information regarding our reportable segments.

**2. NEW ACCOUNTING STANDARDS**

In September 2011, the Financial Accounting Standards Board ( FASB ) amended Accounting Standards Codification ( ASC ) 350, *Intangibles - Goodwill and Other*. This amendment is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a qualitative assessment to determine whether further impairment testing is necessary. The amended provisions are effective for reporting periods beginning on or after December 15, 2011 (the first quarter of fiscal 2013 for the Company). However, early adoption is permitted if an entity's financial statements for the most recent annual or interim period have not yet been issued. This amendment impacts testing steps only, and therefore adoption will not have an impact on the Company's consolidated financial position, results of operations or cash flows.

In September 2011, the FASB amended ASC 715-80, *Compensation - Retirement Benefits - Multiemployer Plans*. This amendment is intended to provide more information about an employer's financial obligations to a multiemployer pension plan and, therefore, help financial statement users better understand the financial health of all of the significant plans in which the employer participates. The amended provisions are effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2011 (the first quarter of fiscal 2013 for the Company). Early adoption is permitted and retrospective application is required. This amendment impacts disclosures only, and therefore adoption will not have an impact on the Company's consolidated financial position, results of

operations or cash flows.

In June 2011, the FASB amended ASC 220, *Comprehensive Income*. This amendment was issued to enhance comparability between entities that report under GAAP and International Financial Reporting Standards ( IFRS ) and to provide a more consistent method of presenting non-owner transactions that

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**STEELCASE INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

affect an entity's equity. The amendment requires companies to present the components of net income and other comprehensive income either as one continuous statement or as two separate but consecutive statements. It eliminates the option to report other comprehensive income and its components as part of the statement of changes in shareholders' equity. The amended provisions are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 (the first quarter of fiscal 2013 for the Company). Early adoption is permitted, and full retrospective application is required. This amendment impacts presentation and disclosure only, and therefore adoption will not have an impact on the Company's consolidated financial position, results of operations or cash flows.

In May 2011, the FASB amended ASC 820, *Fair Value Measurements and Disclosures*. This amendment provides a consistent definition of fair value and ensures that the fair value measurement and disclosure requirements are similar between GAAP and IFRS. The amendment clarifies the application of existing fair value measurements and disclosures, and changes certain principles or requirements for fair value measurements and disclosures. These provisions are effective for reporting periods beginning on or after December 15, 2011 (the first quarter of fiscal 2013 for the Company), applied prospectively. This amendment is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

**3. EARNINGS PER SHARE**

Earnings per share is computed using the two-class method. The two-class method determines earnings per share 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. Basic earnings per share of participating securities is the same as basic earnings per share of common stock for all periods presented. However, participating securities impacted year-to-date 2012 diluted earnings per share by one cent. 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 both the three and six months ended August 26, 2011, diluted earnings per share does not reflect the effects of options totaling 2.3 million, because their effect would have been anti-dilutive. Similarly, for the three and six months ended August 27, 2010, diluted

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earnings per share does not reflect the effects of anti-dilutive options and certain performance units totaling 3.3 million and 3.8 million, respectively.

<b>Computation of Earnings per Share</b>	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>August 26, 2011</b>	<b>August 27, 2010</b>	<b>August 26, 2011</b>	<b>August 27, 2010</b>
Net income (loss)	\$ 11.9	\$ 2.8	\$ 19.4	\$ (8.3)
Weighted-average common shares outstanding for basic earnings per share (in millions)	130.9	133.0	131.4	132.9
Effect of dilutive stock-based compensation (in millions)	0.4		0.4	
Adjusted weighted-average shares outstanding for diluted earnings per share (in millions)	131.3	133.0	131.8	132.9
Earnings per share:				
Basic	\$ 0.09	\$ 0.02	\$ 0.15	\$ (0.06)
Diluted	\$ 0.09	\$ 0.02	\$ 0.14	\$ (0.06)
Total common shares outstanding at period end (in millions)	130.2	133.0	130.2	133.0

**4. COMPREHENSIVE INCOME (LOSS)**

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

<b>Comprehensive Income</b>	<b>Three Months Ended August 26, 2011</b>			<b>Three Months Ended August 27, 2010</b>		
	<b>Before Tax Amount</b>	<b>Tax (Expense) Benefit</b>	<b>Net of Tax Amount</b>	<b>Before Tax Amount</b>	<b>Tax (Expense) Benefit</b>	<b>Net of Tax Amount</b>
Net income			\$ 11.9			\$ 2.8
Other comprehensive income:						
Foreign currency translation adjustments	\$ 0.1	\$	0.1	\$ 12.3	\$	12.3
Unrealized gain (loss) on investments, net	0.1	(0.1)		1.0	(0.4)	0.6
Minimum pension liability	(2.8)	1.5	(1.3)	(1.8)	1.8	

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Derivative adjustments	(0.1)	0.1	(0.1)	(0.1)		
	\$ (2.7)	\$ 1.5	(1.2)	\$ 11.4	\$ 1.4	12.8
Total comprehensive income		\$ 10.7		\$ 15.6		

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## STEELCASE INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Six Months Ended August 26, 2011			Six Months Ended August 27, 2010		
	Before Tax Amount	Tax Benefit	Net of Tax Amount	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
<b>Comprehensive Income (loss)</b>						
Net income (loss)			\$ 19.4			\$ (8.3)
Other comprehensive income:						
Foreign currency translation adjustments	\$ 3.7	\$	3.7	\$ (3.2)	\$	(3.2)
Unrealized gain (loss) on investments, net	(0.1)		(0.1)	1.3	(0.5)	0.8
Minimum pension liability	(5.5)	2.2	(3.3)	(3.5)	2.3	(1.2)
Derivative adjustments	(0.2)	0.1	(0.1)	(0.2)	0.1	(0.1)
	\$ (2.1)	\$ 2.3	0.2	\$ (5.6)	\$ 1.9	(3.7)
Total comprehensive income (loss)			\$ 19.6			\$ (12.0)

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 August 26, 2011, approximately 31% of our assets were denominated in currencies other than the U.S. dollar, the majority of which were denominated in euros.

**5. 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.

Our total debt is carried at cost and was \$292.7 and \$546.8 as of August 26, 2011 and February 25, 2011, 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 \$285 and \$555 as of August 26, 2011 and February 25, 2011, respectively.

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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.

<b>Fair Value of Financial Instruments</b>	<b>August 26, 2011</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Assets</b>				
Cash and cash equivalents	\$ 104.4	\$	\$	\$ 104.4
Corporate debt securities		32.4		32.4
U.S. agency debt securities		16.2		16.2
Auction rate securities			13.4	13.4
U.S. government debt securities	1.5			1.5
Other investments	3.5	0.3		3.8
Canadian asset-backed commercial paper restructuring notes			4.1	4.1
Foreign exchange forward contracts		0.7		0.7
	\$ 109.4	\$ 49.6	\$ 17.5	\$ 176.5
<b>Liabilities</b>				
Foreign exchange forward contracts	\$	\$ (4.8)	\$	\$ (4.8)
	\$	\$ (4.8)	\$	\$ (4.8)
<b>Fair Value of Financial Instruments</b>	<b>February 25, 2011</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Assets</b>				
Cash and cash equivalents	\$ 142.2	\$	\$	\$ 142.2
Corporate debt securities		36.0		36.0
U.S. agency debt securities		254.9		254.9
Auction rate securities			13.8	13.8
U.S. government debt securities	58.9			58.9
Other investments	2.2	1.0		3.2
Canadian asset-backed commercial paper restructuring notes			4.2	4.2
Foreign exchange forward contracts		0.5		0.5
	\$ 203.3	\$ 292.4	\$ 18.0	\$ 513.7
<b>Liabilities</b>				
Foreign exchange forward contracts	\$	\$ (4.0)	\$	\$ (4.0)
	\$	\$ (4.0)	\$	\$ (4.0)





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## STEELCASE INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (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 six months ended August 26, 2011:

<b>Roll-Forward of Fair Value Using Level 3 Inputs</b>	<b>Auction Rate Securities</b>	<b>Canadian Asset-Backed Commercial Paper  Restructuring Notes</b>
Balance as of February 25, 2011	\$ 13.8	\$ 4.2
Unrealized gain (loss) on investments	(0.2)	
Other-than-temporary impairments	(0.2)	
Currency translation adjustment		(0.1)
Balance as of August 26, 2011	\$ 13.4	\$ 4.1

The other-than-temporary impairments recognized on our auction rate securities during the six months ended August 26, 2011 were recognized in *Investment income (loss)* on the Condensed Consolidated Statement of Operations.

**6. INVENTORIES**

<b>Inventories</b>	<b>August 26, 2011</b>	<b>February 25, 2011</b>
Raw materials	\$ 60.9	\$ 55.0
Work-in-process	20.0	13.9
Finished goods	79.0	79.1
	159.9	148.0
LIFO reserve	(22.4)	(20.9)
	\$ 137.5	\$ 127.1

The portion of inventories determined by the LIFO method aggregated \$55.8 as of August 26, 2011 and \$45.5 as of February 25, 2011.

**Table of Contents****STEELCASE INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT**

<b>Debt Obligations</b>	<b>Interest Rate Range as of August 26, 2011</b>	<b>Fiscal Year Maturity Range</b>	<b>August 26, 2011</b>	<b>February 25, 2011</b>
U.S. dollar obligations:				
Senior notes due August 2011	6.5%	2012	\$	\$ 249.9
Senior notes due February 2021	6.375%	2021	249.9	249.9
Revolving credit facilities				
Notes payable	LIBOR + 3.35%	2017	41.9	43.1
Capitalized lease obligations	6.0%-6.5%	2012-2015	0.5	0.5
			292.3	543.4
Foreign currency obligations:				
Revolving credit facilities	6.0%	2012		3.0
Notes payable	6.5%	2013	0.4	0.4
Total short-term borrowings and long-term debt			292.7	546.8
Short-term borrowings and current portion of long-term debt			2.6	255.5
Long-term debt			\$ 290.1	\$ 291.3

In August 2011, we repaid \$250.0 of senior notes.

The annual maturities of short-term borrowings and long-term debt for each of the following five years are as follows:

	<b>Year Ending in February</b>	<b>Amount</b>
2012		\$ 2.6
2013		3.0
2014		2.4
2015		2.4
2016 and thereafter		282.3
		\$ 292.7

**8. STOCK INCENTIVE PLAN***Performance Units*

In Q1 2012, we awarded a target of 485,845 performance units to our executive officers. These performance units are earned after a three-year performance period, from 2012 through 2014, based on our total shareholder return relative to a comparison group of companies. The number of units that may be earned can range from 0% to 200% of the target amount, therefore the maximum number of performance units that can be issued under the award is 971,690. For this award, a dividend equivalent is calculated based on the actual number of units earned at the end of the performance period, equal to the dividends that would have been payable on the earned units had they been held during the entire performance period as Class A Common Stock. At the end of the performance period, the dividend equivalents are paid in the form of cash or Class A Common Stock at the discretion of the Board of Directors. The award will be forfeited if a participant leaves our company for reasons other than retirement, disability or death or if the participant engages in any competition with us, as defined in the plan and determined by the Administrative Committee in its discretion. If a change in control occurs at least six months following the award date, the target award will be deemed to be earned and a pro rata number of units will be vested and paid based upon the length of time within the performance period

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which has elapsed prior to the effective date of the change in control. The fair value of the performance units awarded was calculated on the grant date using the Monte Carlo simulation model with the following assumptions:

	<b>2012 Awards</b>	<b>2011 Awards</b>	<b>2010 Awards</b>
Three-year risk-free interest rate (1)	1.4%	1.7%	1.3%
Expected term	3 years	3 years	3 years
Estimated volatility (2)	50.9%	49.2%	41.3%
Weighted-average grant-date fair value per unit	\$ 16.57	\$ 9.14	\$ 7.20

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

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

The total performance units expense and associated tax benefit for all outstanding awards for the three and six months ended August 26, 2011 and August 27, 2010 are as follows:

<b>Performance Units</b>	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>August 26, 2011</b>	<b>August 27, 2010</b>	<b>August 26, 2011</b>	<b>August 27, 2010</b>
Expense	\$ 1.2	\$ 0.7	\$ 6.1	\$ 4.1
Tax benefit	0.5	0.2	2.4	1.5

The performance units activity for the six months ended August 26, 2011 is as follows:

<b>Maximum Number of Nonvested Units</b>	<b>Total</b>	<b>Weighted-Average Grant Date Fair Value per Unit (2)</b>
Nonvested as of February 25, 2011	3,024,000	4.22
Granted	971,690	8.29
Nonvested as of August 26, 2011 (1)	3,995,690	5.21

(1) Total nonvested units include 390,500 units, which represents the 25% portion of the awards granted in 2011 and 2010 which are not subject to performance conditions.

(2) The fair value per unit presented in this table assumes the awards are at maximum.

As of August 26, 2011, there is \$5.8 of remaining unrecognized compensation cost related to nonvested performance units. That cost is expected to be recognized over a remaining weighted-average period of 2.0 years.

***Restricted Stock and Restricted Stock Units***

For the six months ended August 26, 2011, we awarded 269,805 restricted stock units ( RSUs ), of which 252,655 were to our executive officers in Q1 2012. These RSUs have restrictions on transfer which lapse approximately three years after the date of grant, at which time RSUs are issued as unrestricted shares of Class A Common Stock. These awards are subject to forfeiture if a participant leaves our company for reasons other than retirement, disability, death or termination by us without cause prior to the vesting date.

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

The total restricted stock and RSUs expense and associated tax benefit for all outstanding awards for the three and six months ended August 26, 2011 and August 27, 2010 are as follows:

<b>Restricted Stock and RSUs</b>	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>August 26, 2011</b>	<b>August 27, 2010</b>	<b>August 26, 2011</b>	<b>August 27, 2010</b>
Expense	\$ 0.4	\$ 0.3	\$ 1.8	\$ 0.6
Tax benefit	0.2	0.2	0.7	0.3

The restricted stock and RSUs activity for the six months ended August 26, 2011 is as follows:

<b>Nonvested Shares/Units</b>	<b>Restricted Shares</b>	<b>Restricted Stock Units</b>	<b>Total</b>	<b>Weighted-Average Grant Date Fair Value per Share/Unit</b>
Nonvested as of February 25, 2011	3,566	496,151	499,717	7.71
Granted		269,805	269,805	10.86
Vested	(3,566)	(14,000)	(17,566)	12.26
Forfeited		(8,500)	(8,500)	8.22
Nonvested as of August 26, 2011		743,456	743,456	8.73

As of August 26, 2011, there is \$3.3 of remaining unrecognized compensation cost related to nonvested RSUs. That cost is expected to be recognized over a weighted-average period of 2.5 years.

<b>Grant Date Fair Value per Share/Unit</b>	<b>Six Months Ended</b>	
	<b>August 26, 2011</b>	<b>August 27, 2010</b>
Weighted-average grant date fair value per unit of RSUs granted during the six months ended August 26, 2011 and August 27, 2010	\$ 10.86	\$ 6.96

**9. REPORTABLE SEGMENTS**

As of the end of Q1 2012, we realigned our reportable segments for financial reporting purposes primarily as a result of organizational changes to strengthen our position as a globally integrated enterprise. The organizational changes consisted of the realignment of the reporting structure for the Steelcase brand in North America, Latin America and the region of Europe, the Middle East and Africa ( EMEA ).

As a result of these changes, our reportable segments were realigned to reflect the organizational structure used by the Chief Executive Officer for making operating and investment decisions and assessing performance. Our reportable

segments now consist of (1) the Americas segment, (2) the EMEA segment and (3) the Other category. Unallocated corporate expenses are reported as Corporate.

The Americas segment serves customers in the U.S., Canada and Latin America with a portfolio of integrated architecture, furniture and technology products marketed to corporate, government, healthcare, education and retail customers through the Steelcase, Turnstone, Details and Nurture by Steelcase brands. In addition, the Coalesse operating segment has been aggregated with the Americas.

The EMEA segment serves customers in Europe, the Middle East and Africa primarily under the Steelcase brand, with an emphasis on freestanding furniture systems, storage and seating solutions.

The Other category includes Asia Pacific, PolyVision and Designtex. IDEO was included in the Other category through Q3 2011, but due to the ownership transition, our remaining 20% share of IDEO income has been recorded as a non-operating item since Q4 2011. Asia Pacific serves customers in



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

Asia and Australia primarily under the Steelcase brand with an emphasis on freestanding furniture systems, storage and seating solutions. PolyVision designs and manufactures visual communication products, such as static and interactive electronic whiteboards which are sold into the primary and secondary education markets around the world. Designtex designs and sells surface materials including textiles and wall coverings which are specified by architects and designers directly to end-use customers primarily in North America.

Revenue and operating income (loss) for the three and six months ended August 26, 2011 and August 27, 2010 and total assets as of August 26, 2011 and February 25, 2011 by segment are presented below:

<b>Reportable Segment Statement of Operations Data</b>	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>August 26, 2011</b>	<b>August 27, 2010</b>	<b>August 26, 2011</b>	<b>August 27, 2010</b>
<b>Revenue</b>				
Americas	\$ 485.7	\$ 369.6	\$ 894.2	\$ 701.8
EMEA	133.8	121.8	287.7	232.5
Other	81.0	108.4	158.0	207.3
	\$ 700.5	\$ 599.8	\$ 1,339.9	\$ 1,141.6
<b>Operating income (loss)</b>				
Americas	\$ 42.8	\$ 17.3	\$ 63.9	\$ 28.6
EMEA	(13.8)	(11.3)	(13.9)	(19.0)
Other	0.9	7.1	3.5	8.3
Corporate	(4.5)	(6.6)	(13.1)	(12.8)
	\$ 25.4	\$ 6.5	\$ 40.4	\$ 5.1

<b>Reportable Segment Balance Sheet Data</b>	<b>August 26, 2011</b>	<b>February 25, 2011</b>
	<b>Total assets</b>	
Americas	\$ 764.7	\$ 682.0
EMEA	368.0	351.5
Other	204.2	212.0
Corporate	410.5	751.0
	\$ 1,747.4	\$ 1,996.5

**10. DIVESTITURES, ACQUISITIONS AND OWNERSHIP TRANSITIONS*****Divestiture of PolyVision Division***

In Q2 2012, we completed the sale of PolyVision's remaining low margin whiteboard fabrication business in Europe to a third party for proceeds totaling \$2.3. The transaction included the sale of PolyVision SAS (France) and PolyVision A/S (Denmark) and resulted in a loss of \$1.1 recorded in *Restructuring costs* on the Condensed Consolidated Statements of Operations.

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

For year-to-date 2012 and the year ended February 25, 2011 and the interim periods therein, our Condensed Consolidated Statements of Operations included the following related to PolyVision SAS and PolyVision A/S:

	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Total</b>
<b>2012</b>			
Revenue	\$ 4.1	\$ 4.5	\$ 8.6
Gross profit	0.7	0.9	1.6
Operating income	(0.2)	0.3	0.1

	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>	<b>Total</b>
<b>2011</b>					
Revenue	\$ 3.6	\$ 4.7	\$ 4.2	\$ 4.6	\$ 17.1
Gross profit	0.7	1.0	0.5	1.3	3.5
Operating income		0.3	(0.1)	0.4	0.6

***Dealer Acquisition***

In Q1 2012, Office Environments of New England, LLC ( OENE ), a wholly-owned subsidiary of Steelcase Inc., acquired substantially all the assets of bkm Total Office ( BKM ) for cash consideration of approximately \$18.7. OENE and BKM, both authorized Steelcase dealers, have combined to create a regional enterprise supporting workplace needs that will offer a broadened portfolio of products and services and expanded geographical coverage in New England. As a result of the preliminary purchase price allocation, we recorded goodwill of \$2.3. The combined dealers are included in the Americas segment. We expect to finalize the allocation of the purchase price to the fair value of the assets acquired and liabilities assumed when we obtain information sufficient to complete the formal valuation of intangible assets and working capital adjustments, but in any case, within one year after acquisition. The purchase of BKM did not have a material impact on our condensed consolidated financial statements.

***IDEO Ownership Transition***

In Q4 2011, certain members of the management of IDEO purchased a controlling 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. In Q4 2011, we deconsolidated the operations of IDEO and recorded our share of IDEO's earnings as equity in earnings of unconsolidated joint ventures in *Other income, net* on the Condensed Consolidated Statements of Operations.

For the year ended February 25, 2011 and the interim periods therein, our Condensed Consolidated Statements of Operations included the following related to IDEO:

<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Total</b>
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**2011**

Revenue	\$ 35.1	\$ 35.2	\$ 33.1	\$ 103.4
Gross profit	16.9	14.6	15.6	47.1
Operating income (1)	4.8	3.3	3.7	11.8

- (1) Operating income did not include variable compensation expense of approximately \$7 earned by IDEO management in 2011 related to a contingent stock bonus program that was recognized and applied toward the purchase price in Q4 2011.

**Table of Contents****STEELCASE INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****11. RESTRUCTURING ACTIVITIES**

In Q2 2012, we announced the closure of our Morocco manufacturing facility within our EMEA segment, and we incurred \$5.8 of employee termination costs and \$0.1 of business exit and other related costs.

In Q2 2012, we completed the sale of PolyVision's remaining low margin whiteboard fabrication business in Europe to a third party which resulted in a loss of \$1.1 recorded in the Other category.

In Q4 2011, we announced the planned closure of three additional manufacturing facilities in North America as part of our ongoing efforts to improve the fitness of our business and strengthen the Company's long-term competitiveness. We are in the process of moving production within these facilities to other Steelcase locations in North America and expect the manufacturing consolidation to continue through fiscal year 2013. We currently estimate the cash restructuring costs associated with these actions will be approximately \$40, with approximately \$30 related to workforce reductions and approximately \$10 related to costs associated with manufacturing consolidation and production moves. During the three and six months ended August 26, 2011, we accrued restructuring costs of \$4.9 and \$12.1, respectively. During 2011, we incurred restructuring costs of \$10.1 related to these plant closures. These costs primarily related to workforce reductions and were recorded within the Americas segment.

In Q1 2011, we announced a project to reorganize our European manufacturing operations on the basis of specialized competencies. This project is now substantially complete, and total restructuring costs approximated \$20. The majority of these costs related to workforce reductions and some additional costs for manufacturing consolidation and production moves within the EMEA segment. For the six months ended August 26, 2011, the restructuring costs primarily related to contingencies associated with a former plant in France, which was sold in Q4 2010.

Restructuring costs are summarized in the following table:

<b>Restructuring Costs</b>	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>August 26, 2011</b>	<b>August 27, 2010</b>	<b>August 26, 2011</b>	<b>August 27, 2010</b>
Cost of sales				
Americas	\$ 5.2	\$ 1.9	\$ 12.5	\$ 3.3
EMEA	5.1	9.7	7.8	9.7
Other	1.1	0.1	1.1	0.2
	11.4	11.7	21.4	13.2
Operating expenses				
Americas		0.7		0.7
EMEA	0.8	(0.1)	0.8	0.1
Other	0.1	0.7		1.5
	0.9	1.3	0.8	2.3
	\$ 12.3	\$ 13.0	\$ 22.2	\$ 15.5



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

Below is a summary of the net additions, payments and adjustments to the restructuring reserve balance for the six months ended August 26, 2011:

<b>Restructuring Reserve</b>	<b>Workforce Reductions</b>	<b>Business Exits and Related Costs</b>	<b>Total</b>
Reserve balance as of February 25, 2011	\$ 25.7	\$ 1.3	\$ 27.0
Additions	18.4	3.8	22.2
Payments	(23.2)	(3.1)	(26.3)
Adjustments	0.8	0.1	0.9
Reserve balance as of August 26, 2011	\$ 21.7	\$ 2.1	\$ 23.8

The workforce reductions reserve balance as of August 26, 2011 primarily relates to the employee termination costs related to the Q1 2011 and Q4 2011 announcements.

**12. SUBSEQUENT EVENT**

On September 20, 2011, the French Legislature enacted a tax law change affecting the utilization of net operating losses. Under the new law, net operating loss utilization in any particular period will be limited to 60% of the amount by which net income exceeds 1 million euros. This law change will extend the period of time required to utilize our French net operating losses, however, net operating losses will continue to have an indefinite carryover period. We are currently evaluating the impact of the tax law change and related considerations, but we do not expect it to have a material impact on our consolidated financial statements.

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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 25, 2011. 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 six 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.

**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 (decline), which represents the change in revenue over the prior year excluding currency translation effects and the impacts of the IDEO ownership transition and a recent dealer acquisition, and (2) adjusted operating income (loss), which represents operating income (loss) excluding restructuring costs. 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**

As of the end of the first quarter of fiscal year 2012, we realigned our reportable segments for financial reporting purposes primarily as a result of the previously announced organizational changes to strengthen our position as a globally integrated enterprise. Thus, our reportable segments now consist of (1) the Americas segment, (2) the EMEA segment and (3) the Other category. The accompanying segment data for all prior periods has been reclassified to reflect these realignments. See Note 9 to the condensed consolidated financial statements and Business Segment Review in this Management's Discussion and Analysis of Financial Condition and Results of Operations for further information on our reportable business segments.

Statement of Operations Data	Three Months Ended				Six Months Ended			
	August 26, 2011		August 27, 2010		August 26, 2011		August 27, 2010	
Revenue	\$ 700.5	100.0%	\$ 599.8	100.0%	\$ 1,339.9	100.0%	\$ 1,141.6	100.0%
Cost of sales	487.9	69.7	417.5	69.6	934.2	69.7	796.3	69.7
Structuring costs	11.4	1.6	11.7	2.0	21.4	1.6	13.2	1.2
Gross profit	201.2	28.7	170.6	28.4	384.3	28.7	332.1	29.1
Operating expenses	174.9	25.0	162.8	27.1	343.1	25.6	324.7	28.5
Structuring costs	0.9	0.1	1.3	0.2	0.8	0.1	2.3	0.2
Operating income	25.4	3.6	6.5	1.1	40.4	3.0	5.1	0.4
Interest expense, investment income (loss) and other income (expense), net	(10.2)	(1.4)	(0.4)	(0.1)	(13.7)	(1.0)	1.4	0.2
Income before income tax expense	15.2	2.2	6.1	1.0	26.7	2.0	6.5	0.6
Income tax expense	3.3	0.5	3.3	0.5	7.3	0.6	14.8	1.3
Net income (loss)	\$ 11.9	1.7%	\$ 2.8	0.5%	\$ 19.4	1.4%	\$ (8.3)	(0.7)
Earnings per share:								
Basic	\$ 0.09		\$ 0.02		\$ 0.15		\$ (0.06)	
Diluted	\$ 0.09		\$ 0.02		\$ 0.14		\$ (0.06)	

Organic Revenue Growth	Consolidated	Americas	EMEA	Other	Consolidated
Q2 2011 revenue		\$ 369.6	\$ 121.8	\$ 108.4	\$ 599.8
IDEO ownership transition				(35.0)	(35.0)
Currency translation effects*		2.0	15.0	2.0	19.0
Q2 2011 revenue, adjusted		371.6	136.8	75.4	583.8

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Q2 2012 revenue	485.7	133.8	81.0	700.5
Dealer acquisition	(18.0)			(18.0)
Q2 2012 revenue, adjusted	467.7	133.8	81.0	682.5
Organic revenue growth (decline)	\$ 96.1	\$ (3.0)	\$ 5.6	\$ 98.7
Organic revenue growth (decline) %	26%	(2)%	7%	17%

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<b>Year-to-Date 2012 Organic Revenue Growth</b>	<b>Americas</b>	<b>EMEA</b>	<b>Other</b>	<b>Consolidated</b>
Year-to-date 2011 revenue	\$ 701.8	\$ 232.5	\$ 207.3	\$ 1,141.6