

STEELCASE INC  
Form 10-Q  
October 07, 2008

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

**FORM 10-Q**

- ☐ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended August 29, 2008**
- or**
- 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)**

|   |  |
|---|--|
| <b>Michigan</b><br><b>(State or other jurisdiction</b><br><b>of incorporation or organization)</b>            | <b>38-0819050</b><br><b>(I.R.S. employer identification no.)</b> |
| <b>901 44th Street SE</b><br><b>Grand Rapids, Michigan</b><br><b>(Address of principal executive offices)</b> | <b>49508</b><br><b>(Zip Code)</b>                                |

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

**N/A**

**(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  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):

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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 October 6, 2008, Steelcase Inc. had 78,573,663 shares of Class A Common Stock and 55,703,531 shares of Class B Common Stock outstanding.

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**STEELCASE INC.  
FORM 10-Q**

**FOR THE QUARTER ENDED AUGUST 29, 2008**

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

|  | <b>Three Months Ended</b>  |                            | <b>Six Months Ended</b>    |                            |
|--|----------------------------|----------------------------|----------------------------|----------------------------|
|  | <b>August 29,<br/>2008</b> | <b>August 24,<br/>2007</b> | <b>August 29,<br/>2008</b> | <b>August 24,<br/>2007</b> |
| Revenue                                      | \$ 901.8                   | \$ 825.2                   | \$ 1,717.5                 | \$ 1,633.6                 |
| Cost of sales                                | 615.1                      | 549.1                      | 1,159.7                    | 1,091.7                    |
| Restructuring costs                          | 8.7                        | (1.7)                      | 13.5                       |                            |
| Gross profit                                 | 278.0                      | 277.8                      | 544.3                      | 541.9                      |
| Operating expenses                           | 231.7                      | 222.8                      | 458.8                      | 438.6                      |
| Restructuring costs                          | 0.3                        |                            | 2.7                        |                            |
| Operating income                             | 46.0                       | 55.0                       | 82.8                       | 103.3                      |
| Interest expense                             | (4.3)                      | (4.0)                      | (8.6)                      | (8.3)                      |
| Other income, net                            | 4.3                        | 10.8                       | 5.8                        | 18.2                       |
| Income before income tax expense             | 46.0                       | 61.8                       | 80.0                       | 113.2                      |
| Income tax expense                           | 14.6                       | 24.1                       | 26.4                       | 41.9                       |
| Net income                                   | \$ 31.4                    | \$ 37.7                    | \$ 53.6                    | \$ 71.3                    |
| Earnings per share:                          |                            |                            |                            |                            |
| Basic  | \$ 0.23                    | \$ 0.26                    | \$ 0.40                    | \$ 0.50                    |
| Diluted                                      | \$ 0.23                    | \$ 0.26                    | \$ 0.39                    | \$ 0.49                    |
| Dividends declared and paid per common share | \$ 0.15                    | \$ 0.15                    | \$ 0.30                    | \$ 0.30                    |

See accompanying notes to the condensed consolidated financial statements.

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

(in millions)

|  | <b>(Unaudited)<br/>August 29,<br/>2008</b> | <b>(Restated)<br/>February 29,<br/>2008</b> |
|--|--|---|
| <b>ASSETS</b>  |  |   |
| Current assets:  |  |   |
| Cash and cash equivalents                                      | \$ 70.8                                    | \$ 213.9                                    |
| Short-term investments   | 57.9                                       | 50.1  |
| Accounts receivable, net                                       | 430.8                                      | 397.0                                       |
| Inventories  | 159.0                                      | 146.7                                       |
| Other current assets   | 126.2                                      | 127.0                                       |
| Total current assets   | 844.7                                      | 934.7                                       |
| Property and equipment, net                                    | 482.6                                      | 478.4                                       |
| Company-owned life insurance                                   | 211.6                                      | 210.6                                       |
| Goodwill and other intangible assets, net                      | 285.9                                      | 301.0                                       |
| Other assets   | 195.6                                      | 199.7                                       |
| Total assets   | \$ 2,020.4                                 | \$ 2,124.4                                  |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>                     |  |   |
| Current liabilities:   |  |   |
| Accounts payable   | \$ 233.5                                   | \$ 246.9                                    |
| Short-term borrowings and current maturities of long-term debt | 6.6  | 8.2   |
| Accrued expenses:  |  |   |
| Employee compensation  | 148.9                                      | 181.3                                       |
| Employee benefit plan obligations                              | 26.3                                       | 39.0  |
| Other  | 209.5                                      | 207.6                                       |
| Total current liabilities                                      | 624.8                                      | 683.0                                       |
| Long-term liabilities:   |  |   |
| Long-term debt less current maturities                         | 251.3                                      | 250.5                                       |
| Employee benefit plan obligations                              | 184.1                                      | 183.4                                       |
| Other long-term liabilities                                    | 85.8                                       | 96.6  |
| Total long-term liabilities                                    | 521.2                                      | 530.5                                       |
| Total liabilities  | 1,146.0                                    | 1,213.5                                     |
| Shareholders' equity:  |  |   |
| Common stock   | 66.3                                       | 114.7                                       |

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|  |            |            |
|--|------------|------------|
| Additional paid-in capital                 | 6.2        | 5.0        |
| Accumulated other comprehensive income     | 15.1       | 17.4       |
| Retained earnings                          | 786.8      | 773.8      |
| Total shareholders' equity                 | 874.4      | 910.9      |
| Total liabilities and shareholders' equity | \$ 2,020.4 | \$ 2,124.4 |

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 29,<br/>2008</b> | <b>August 24,<br/>2007</b> |
| <b>OPERATING ACTIVITIES</b>                                  |                            |                            |
| Net income   | \$ 53.6                    | \$ 71.3                    |
| Depreciation and amortization                                | 45.3                       | 44.7                       |
| Changes in operating assets and liabilities                  | (146.9)                    | (59.4)                     |
| Other, net   | 14.1                       | 5.8                        |
| Net cash (used in) provided by operating activities          | (33.9)                     | 62.4                       |
| <b>INVESTING ACTIVITIES</b>                                  |                            |                            |
| Capital expenditures   | (44.9)                     | (31.2)                     |
| Net purchases of investments                                 | (0.9)                      | (35.7)                     |
| Proceeds from disposal of fixed assets                       | 4.0                        | 14.8                       |
| Business divestitures  | 15.8                       | (3.0)                      |
| Other, net   | 10.1                       | 9.3                        |
| Net cash used in investing activities                        | (15.9)                     | (45.8)                     |
| <b>FINANCING ACTIVITIES</b>                                  |                            |                            |
| Dividends paid   | (40.5)                     | (43.7)                     |
| Common stock repurchases                                     | (54.2)                     | (109.8)                    |
| Common stock issuances                                       | 0.3                        | 10.5                       |
| Other, net   | 3.0                        | 3.9                        |
| Net cash used in financing activities                        | (91.4)                     | (139.1)                    |
| Effect of exchange rate changes on cash and cash equivalents | (1.9)                      | 5.2                        |
| Net decrease in cash and cash equivalents                    | (143.1)                    | (117.3)                    |
| Cash and cash equivalents, beginning of period               | 213.9                      | 527.2                      |
| Cash and cash equivalents, end of period                     | \$ 70.8                    | \$ 409.9                   |

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 contained in our Annual Report on Form 10-K for the fiscal year ended February 29, 2008 ( Form 10-K ).

The Condensed Consolidated Balance Sheet at February 29, 2008 was derived from the audited Consolidated Balance Sheet included in our Form 10-K. During Q2 2009, we determined that we had not appropriately recorded deferred tax liabilities on certain intangible assets acquired prior to February 29, 2008. Accordingly, we restated our February 29, 2008 balance sheet to correct goodwill and deferred tax liabilities related to prior acquisitions. These corrections increased goodwill by \$35.4 (\$32.8 in our Other category, \$1.4 in our North America segment and \$1.2 in our International segment) as reported in the Condensed Consolidated Balance Sheet as *Goodwill and other intangibles, net* and decreased deferred tax assets by a corresponding amount as reported in the Condensed Consolidated Balance Sheet as *Other assets*. We did not amend our February 29, 2008 Form 10-K or any other prior period filing, as these corrections were not considered material to the Consolidated Balance Sheet and had no impact on our Consolidated Statements of Income, earnings per share, retained earnings or our cash flows from operating, financing or investing activities.

As used in this Report, unless otherwise expressly stated or the content otherwise requires, all references to Steelcase, we, our, Company and similar references are to Steelcase Inc. and its majority-owned subsidiaries. In addition, reference to a year relates to the fiscal year, ended in February of the year indicated, rather than the 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 to conform to the current year presentation.

**2. NEW ACCOUNTING STANDARDS**

***SFAS No. 141(R)***

In December 2007, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 141(R), *Business Combinations* ( SFAS No. 141(R) ), to create greater consistency in the accounting and financial reporting of business combinations. SFAS No. 141(R) establishes principles and requirements for how the acquirer in a business combination (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any controlling interest, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the

business combination. SFAS No. 141(R) applies to fiscal years beginning after December 15, 2008. Earlier adoption is prohibited.

**Table of Contents****STEELCASE INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)*****SFAS No. 160***

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB No. 51* ( SFAS No. 160 ), to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 establishes accounting and reporting standards that require (i) the ownership interest in subsidiaries held by parties other than the parent to be clearly identified and presented on the balance sheet within equity, but separate from the parent's equity, (ii) the amount of net income attributable to the parent and the noncontrolling interest to be clearly identified and presented on the face of the statement of income and (iii) changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary to be accounted for consistently. SFAS No. 160 applies to fiscal years beginning after December 15, 2008. Earlier adoption is prohibited.

***FSP No. 157-2***

In February 2008, the FASB issued FASB Staff Position on Statement 157, *Effective Date of FASB Statement No. 157* ( FSP No. 157-2 ). FSP No. 157-2 delays the effective date of SFAS No. 157, *Fair Value Measurements* ( SFAS No. 157 ), for all nonfinancial assets and liabilities that are not remeasured at fair value on a recurring basis, to fiscal years beginning after November 15, 2008. Although we believe the adoption may impact the way in which we calculate fair value of goodwill, indefinite-lived intangible assets, and other long-lived assets, we do not believe the adoption of FSP No. 157-2 will have a material impact on our consolidated financial statements. We applied SFAS No. 157 to all other fair value measurements effective March 1, 2008. See Note 6 for additional information.

***SFAS No. 161***

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an Amendment of FASB Statement No. 133* ( SFAS No. 161 ), to improve financial reporting of derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance and cash flows. SFAS No. 161 applies to fiscal years and interim periods beginning after November 15, 2008. We have not determined the effect, if any, the adoption of this statement will have on our future disclosures.

**3. BUSINESS DIVESTITURE**

During Q2 2009, we sold Custom Cable Industries, Inc. ( Custom Cable ), a wholly-owned subsidiary in our North America segment. Total proceeds, including limited seller financing are expected to aggregate \$17.7. In connection with the sale, we recorded an operating loss of \$1.8 within our Corporate costs and also recorded net tax benefits of \$2.3. As a result, the net income impact of the sale was a gain of \$0.5. Our Condensed Consolidated Statement of Income for the six months ended August 29, 2008 includes \$11.2 of revenue, \$3.9 of gross profit, \$2.1 of operating expenses and \$1.8 of operating income related to Custom Cable.

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

Basic earnings per share is based on the weighted-average number of shares of common stock outstanding during each period. Diluted earnings per share also includes the effects of shares and potential shares issued under our stock incentive plans. However, diluted earnings per share does not reflect the effects of 4.1 million options for 2009 and 1.1 million options for 2008 because those potential shares were not dilutive.

| Computation of Earnings per Share   | Three Months Ended |                    | Six Months Ended   |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | August 29,<br>2008 | August 24,<br>2007 | August 29,<br>2008 | August 24,<br>2007 |
| Net income  | \$ 31.4            | \$ 37.7            | \$ 53.6            | \$ 71.3            |
| Weighted-average shares outstanding for basic earnings per share (in millions)            | 134.4              | 143.2              | 135.3              | 144.3              |
| Effect of dilutive stock-based compensation (in millions)                                 | 0.4                | 1.1                | 0.4                | 1.2                |
| Adjusted weighted-average shares outstanding for diluted earnings per share (in millions) | 134.8              | 144.3              | 135.7              | 145.5              |
| Earnings per share of common stock:   |                    |                    |                    |                    |
| Basic   | \$ 0.23            | \$ 0.26            | \$ 0.40            | \$ 0.50            |
| Diluted   | \$ 0.23            | \$ 0.26            | \$ 0.39            | \$ 0.49            |
| Total shares outstanding at period end (in millions)                                      | 134.3              | 142.2              | 134.3              | 142.2              |

**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.

| Components of Comprehensive Income                       | Three Months Ended |                    |
|--|--------------------|--------------------|
|  | August 29,<br>2008 | August 24,<br>2007 |
| Net income   | \$ 31.4            | \$ 37.7            |
| Other comprehensive (loss) income:                       |                    |                    |
| Foreign currency translation                             | (10.4)             | 3.2                |
| Derivative adjustments, net of tax of \$0.0 and \$0.1    | (0.1)              | (0.1)              |
| Unrealized net loss on investments, net of tax of \$0.8  | (1.3)              |                    |
| Minimum pension liability, net of tax of \$0.7 and \$1.0 | (1.1)              | (1.5)              |

|                      |         |         |
|----------------------|---------|---------|
| Total                | (12.9)  | 1.6     |
| Comprehensive income | \$ 18.5 | \$ 39.3 |

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

| <b>Components of Comprehensive Income</b>                 | <b>Six Months Ended</b>    |                            |
|---|----------------------------|----------------------------|
|   | <b>August 29,<br/>2008</b> | <b>August 24,<br/>2007</b> |
| Net income  | \$ 53.6                    | \$ 71.3                    |
| Other comprehensive (loss) income:                        |                            |                            |
| Foreign currency translation                              | (2.9)                      | 13.2                       |
| Derivative adjustments, net of tax of \$0.0 and \$0.1     | (0.1)                      | (0.2)                      |
| Unrealized net gain on investments, net of tax of \$(1.3) | 2.9                        |                            |
| Minimum pension liability, net of tax of \$1.1 and \$1.6  | (2.2)                      | (2.6)                      |
| Total   | (2.3)                      | 10.4                       |
| Comprehensive income                                      | \$ 51.3                    | \$ 81.7                    |

**6. FAIR VALUE**

We adopted SFAS No. 157 as of March 1, 2008. SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. SFAS No. 157 also specifies a fair value hierarchy based upon the observability of inputs used in valuation techniques. Observable inputs (highest level) reflect market data obtained from independent sources, while unobservable inputs (lowest level) reflect internally developed market assumptions. In accordance with SFAS No. 157, fair value measurements are classified under the following hierarchy:

*Level 1* Quoted prices for identical instruments in active markets.

*Level 2* Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs or significant value-drivers are observable in active markets.

*Level 3* Model-derived valuations in which one or more significant inputs or significant value-drivers are unobservable.

Fair value measurements are classified according to the lowest level input or value-driver that is significant to the valuation. A measurement may therefore be classified within Level 3 even though there may be other significant inputs that are readily observable.

Assets and liabilities measured at fair value in our Condensed Consolidated Balance Sheet as of August 29, 2008 are summarized below:

| <b>Fair Value of Financial Instruments</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
|--|----------------|----------------|----------------|--------------|
|--|----------------|----------------|----------------|--------------|

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|  |         |        |         |         |
|--|---------|--------|---------|---------|
| Assets:                                |         |        |         |         |
| Managed investment portfolio           | \$ 50.8 | \$     | \$      | \$ 50.8 |
| Auction rate securities                |         |        | 23.1    | 23.1    |
| Available-for-sale securities          | 7.1     |        |         | 7.1     |
| Canadian asset-backed commercial paper |         |        | 3.9     | 3.9     |
| Foreign exchange forward contracts     |         | 3.2    |         | 3.2     |
| Privately-held equity investments      |         |        | 0.3     | 0.3     |
| Total assets                           | \$ 57.9 | \$ 3.2 | \$ 27.3 | \$ 88.4 |

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**STEELCASE INC.**

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

***Managed Investment Portfolio and Available-for-Sale Securities***

Our managed investment portfolio consists of short-term investments, U.S. Government agency and corporate debt instruments. Fair values for investments in our managed investment portfolio and our available-for-sale securities are based upon valuations for identical instruments in active markets.

***Auction Rate Securities***

As of August 29, 2008, we held auction rate securities ( ARS ) totaling \$26.5 of par value for which the auction market remains effectively shut-down. We recorded unrealized losses of \$2.9 in previous quarters in *Accumulated other comprehensive income* on the Condensed Consolidated Balance Sheet, as we believe the impairment is temporary. During Q2 2009, we recorded an additional unrealized loss of \$0.5. We concluded no permanent impairment loss occurred as of the end of Q2 2009 as the decline in market value is due to general market conditions. We have the intent and ability to hold these securities until a recovery in market value occurs given our current liquidity and capital structure. We estimated the fair value of the ARS based on prices provided by the firm holding our investments, supported by our own analysis. Our estimates were based on assumptions we believe market participants would use in pricing the assets in a current transaction, which could change significantly over time based on market conditions.

***Canadian Asset-Backed Commercial Paper***

As of August 29, 2008, we held one investment in Canadian asset-backed commercial paper ( ABCP ) with an original cost of Canadian \$5.0. As a result of a lack of liquidity in the Canadian ABCP market, the ABCP did not settle on maturity and is considered to be in default. We recorded an impairment of our investment in Q4 2008 of \$0.9. A restructuring was effected in June 2008 which will result in the exchange of the ABCP currently held by investors for a variety of new long-term floating-rate notes. The restructuring is expected to close in October 2008. We expect the majority of our replacement notes to receive a AA credit rating by Dominion Bond Rating Service, the highest credit rating issued for Canadian commercial paper.

Using a discounted cash flow analysis, based on the types of securities we expect to receive from the restructuring plan, we evaluated our investment for impairment as of August 29, 2008. Our analysis concluded that no additional impairment was necessary.

***Foreign Exchange Forward Contracts***

From time to time, we enter into forward contracts to mitigate the risk of translation into U.S. dollars of certain foreign-denominated net income, assets and liabilities. We primarily hedge intercompany working capital loans and certain forecasted transactions. The fair value of foreign exchange forward contracts is based on a valuation model that discounts cash flows resulting from the differential between the contract price and the market-based forward rate.

***Privately-Held Equity Investments***

Privately-held equity investments are carried at the lower of cost or estimated fair value. For these non-quoted investments, we review the underlying performance of the privately-held companies to determine if potential declines in estimated fair value exist and are other than temporary.





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

Below is a roll-forward of assets and liabilities measured at fair value using Level 3 inputs for the six months ended August 29, 2008.

| <b>Rollforward of Fair Value Using Level 3 Inputs</b> | <b>Auction<br/>Rate<br/>Securities</b> | <b>Canadian<br/>Asset-Backed<br/>Commercial<br/>Paper</b> | <b>Privately-<br/>Held<br/>Equity<br/>Investments</b> |
|---|--|---|---|
| Balance as of March 1, 2008                           | \$ 23.9                                | \$ 4.1  | \$ 1.7  |
| Reclassified to Level 1 available-for-sale securities |  |   | (1.3)   |
| Unrealized loss on investments                        | (0.8)                                  |   | (0.1)   |
| Currency translation adjustment                       |  | (0.2)   |   |
| Balance as of August 29, 2008                         | \$ 23.1                                | \$ 3.9  | \$ 0.3  |

**7. INVENTORIES**

Following is a summary of inventories as of August 29, 2008 and February 29, 2008:

| <b>Inventories</b> | <b>August 29,<br/>2008</b> | <b>February 29,<br/>2008</b> |
|--------------------|----------------------------|------------------------------|
| Finished goods     | \$ 97.2                    | \$ 87.9                      |
| Work in process    | 21.8                       | 20.9                         |
| Raw materials      | 73.9                       | 67.5                         |
|                    | 192.9                      | 176.3                        |
| LIFO reserve       | (33.9)                     | (29.6)                       |
|                    | \$ 159.0                   | \$ 146.7                     |

The portion of inventories determined by the LIFO method aggregated \$59.8 as of August 29, 2008 and \$54.4 as of February 29, 2008.

**8. EMPLOYEE BENEFIT PLAN OBLIGATIONS**

| <b>Components of Expense</b> | <b>Three Months Ended</b>  |                            |                              |                            |
|------------------------------|----------------------------|----------------------------|------------------------------|----------------------------|
|                              | <b>Pension Plans</b>       |                            | <b>Post-Retirement Plans</b> |                            |
|                              | <b>August 29,<br/>2008</b> | <b>August 24,<br/>2007</b> | <b>August 29,<br/>2008</b>   | <b>August 24,<br/>2007</b> |

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|   |    |       |    |       |    |       |    |       |
|---|----|-------|----|-------|----|-------|----|-------|
| Service cost                                    | \$ | 0.5   | \$ | 0.6   | \$ | 0.2   | \$ | 0.3   |
| Interest cost                                   |    | 1.3   |    | 1.1   |    | 2.1   |    | 1.9   |
| Amortization of prior year service gain         |    |       |    |       |    | (1.8) |    | (1.8) |
| Expected return on plan assets                  |    | (0.9) |    | (0.9) |    |       |    |       |
| Adjustment due to plan curtailment              |    |       |    |       |    |       |    | (0.1) |
| Amortization of unrecognized net actuarial loss |    | 0.1   |    | 0.1   |    |       |    |       |
| Net expense                                     | \$ | 1.0   | \$ | 0.9   | \$ | 0.5   | \$ | 0.3   |

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

| Components of Expense                           | Six Months Ended   |                    |                       |                    |
|---|--------------------|--------------------|-----------------------|--------------------|
|   | Pension Plans      |                    | Post-Retirement Plans |                    |
|   | August 29,<br>2008 | August 24,<br>2007 | August 29,<br>2008    | August 24,<br>2007 |
| Service cost                                    | \$ 1.0             | \$ 1.1             | \$ 0.5                | \$ 0.6             |
| Interest cost                                   | 2.6                | 2.3                | 4.1                   | 3.8                |
| Amortization of prior year service gain         |                    |                    | (3.6)                 | (3.5)              |
| Expected return on plan assets                  | (1.8)              | (1.8)              |                       |                    |
| Adjustment due to plan curtailment              |                    |                    |                       | (0.5)              |
| Amortization of unrecognized net actuarial loss | 0.2                | 0.2                |                       |                    |
| Net expense                                     | \$ 2.0             | \$ 1.8             | \$ 1.0                | \$ 0.4             |

We expect to contribute approximately \$3 to our pension plans and \$12 to our post-retirement benefit plans during 2009. As of August 29, 2008, contributions of approximately \$1.6 and \$6.1 have been made to our pension and post-retirement plans, respectively.

We expect to receive approximately \$1.2 in Medicare Part D subsidy reimbursements during 2009. During the first two quarters of 2009, we received \$0.1 in Medicare Part D subsidy reimbursements.

**9. PRODUCT WARRANTY**

The accrued liability for warranty costs, included within *Accrued expenses: Other* on the Condensed Consolidated Balance Sheets, is based on an estimated amount needed to cover future warranty obligations for products sold as of the balance sheet date and is determined by historical product data and management's knowledge of current events and actions.

|                                 | Product Warranty | Amount  |
|---------------------------------|------------------|---------|
| Balance as of February 29, 2008 |                  | \$ 21.6 |
| Accruals for warranty charges   |                  | 6.1     |
| Settlements and adjustments     |                  | (7.8)   |
| Balance as of August 29, 2008   |                  | \$ 19.9 |

**10. REPORTABLE SEGMENTS**

We operate within two reportable segments (North America and International), plus an *Other* category. Our *Other* category includes the Coalesse Group (formerly the Premium Group), PolyVision and IDEO subsidiaries.

Prior to Q1 2009, the Other category also included our Financial Services subsidiary. In recent years, we have significantly reduced the capital invested in, and related operations of, Financial Services. We now use third parties to provide lease funding to customers and have reduced the nature and level of financing services provided to our dealers. As a result, we integrated the remaining operations of Financial Services into the North America segment beginning in Q1 2009. Due to the change in the nature of the operations, we have not reclassified prior year financial results of Financial Services to North America; accordingly, the 2008 financial results remain in the Other category. 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 six months ended August 29, 2008 and August 24, 2007 and total assets as of August 29, 2008 and February 29, 2008 by segment are presented below:

| <b>Reportable Segment Income Statement Data</b> | <b>Three Months Ended</b>  |                            | <b>Six Months Ended</b>    |                            |
|---|----------------------------|----------------------------|----------------------------|----------------------------|
|   | <b>August 29,<br/>2008</b> | <b>August 24,<br/>2007</b> | <b>August 29,<br/>2008</b> | <b>August 24,<br/>2007</b> |
| <b>Revenue</b>                                  |                            |                            |                            |                            |
| North America                                   | \$ 499.7                   | \$ 489.2                   | \$ 930.4                   | \$ 962.4                   |
| International                                   | 253.2                      | 188.9                      | 506.0                      | 384.8                      |
| Other   | 148.9                      | 147.1                      | 281.1                      | 286.4                      |
| Consolidated revenue                            | \$ 901.8                   | \$ 825.2                   | \$ 1,717.5                 | \$ 1,633.6                 |
| <b>Operating income (loss)</b>                  |                            |                            |                            |                            |
| North America                                   | \$ 40.1                    | \$ 49.5                    | \$ 74.4                    | \$ 83.9                    |
| International                                   | 12.9                       | 5.9                        | 25.3                       | 19.0                       |
| Other   | 1.4                        | 6.3                        | (2.8)                      | 14.0                       |
| Corporate                                       | (8.4)                      | (6.7)                      | (14.1)                     | (13.6)                     |
| Consolidated operating income                   | \$ 46.0                    | \$ 55.0                    | \$ 82.8                    | \$ 103.3                   |

| <b>Reportable Segment Balance Sheet Data</b> | <b>August 29,<br/>2008</b> | <b>(Restated)<br/>February 29,<br/>2008</b> |
|--|----------------------------|---|
|  | <b>Total assets</b>        |   |
| North America                                | \$ 794.6                   | \$ 743.0                                    |
| International                                | 534.8                      | 546.8                                       |
| Other  | 310.9                      | 375.4                                       |
| Corporate                                    | 380.1                      | 459.2                                       |
| Consolidated total assets                    | \$ 2,020.4                 | \$ 2,124.4                                  |

**11. RESTRUCTURING ACTIVITIES**

The following actions announced in March 2008 are targeted toward further modernizing our industrial system, rebalancing our workforce to better align with our growth opportunities and improving profitability at PolyVision.

Within the North America segment, we are closing one manufacturing facility and transferring its production, along with certain products from another facility, to other manufacturing facilities within our network. We expect these actions to be completed by the end of Q3 2009. During Q2 2009, we recorded \$4.7 in costs associated with these

actions which included employee termination costs, impairment of certain fixed assets and relocation costs. We have incurred a cumulative total of \$9.0 in costs related to this initiative.

We recorded a charge of \$3.7 in our Other category during Q2 2009 related to the closure of our Oakland, California (Metro) manufacturing facility, as we continue to consolidate front office and manufacturing operations with other Coalesse Group and North America locations. As of the end of Q2 2009, we incurred a cumulative total of \$7.0 in costs related to employee termination, relocation and impairment of certain fixed assets in connection with this initiative. We expect to complete this initiative by the end of Q3 2009.

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Also within the Other Category, we closed a PolyVision facility during Q1 2009. This closure was linked to a decision to exit a portion of the public-bid contractor whiteboard fabrication business where profit margins are the lowest. During Q2 2009, we incurred \$0.5 in employee termination costs and relocation costs associated with this action, resulting in cumulative costs of \$1.2. We also recorded a credit of \$0.9 related to the disposition of a product line within PolyVision's business.

We launched various white-collar reinvention initiatives across our business in an effort to curb the automatic replacement of future attrition and retirements and to rebalance our workforce to better align with our growth opportunities. In connection with these efforts, we are estimating a net reduction of 200 to 250 white-collar jobs across our North America segment and Other category by the end of 2010. Some of those jobs will relocate to a company-owned shared service center, some to third parties and some may be eliminated as we continue to modernize our processes. We incurred \$1.0 in costs in Q2 2009, for a cumulative total of \$3.5 in employee termination costs associated with these initiatives.

Restructuring costs are summarized in the following table:

| Restructuring Costs | Three Months Ended |                    | Six Months Ended   |                    |
|---------------------|--------------------|--------------------|--------------------|--------------------|
|                     | August 29,<br>2008 | August 24,<br>2007 | August 29,<br>2008 | August 24,<br>2007 |
| Cost of sales:      |                    |                    |                    |                    |
| North America       | \$ 5.1             |                    | \$ 7.9             | \$ 1.7             |
| International       |                    | \$ (1.6)           | (0.4)              | (1.6)              |
| Other               | 3.6                | (0.1)              | 6.0                | (0.1)              |
|                     | 8.7                | (1.7)              | 13.5               |                    |
| Operating expenses: |                    |                    |                    |                    |
| North America       | 0.6                |                    | 1.4                |                    |
| International       |                    |                    | 0.7                |                    |
| Other               | (0.3)              |                    | 0.6                |                    |
|                     | 0.3                |                    | 2.7                |                    |
| Totals              | \$ 9.0             | \$ (1.7)           | \$ 16.2            | \$                 |

Below is a summary of the net additions, payments and adjustments to the restructuring reserve balance during 2009:

| Restructuring Reserve                   | Workforce<br>Reductions | Business<br>Exits<br>and Related<br>Costs | Total  |
|---|-------------------------|---|--------|
| Reserve balance as of February 29, 2008 | \$ 2.5                  | \$ 2.6                                    | \$ 5.1 |
| Additions, net                          | 15.1                    | 1.1                                       | 16.2   |
| Payments, net                           | (8.5)                   | (0.6)                                     | (9.1)  |
| Adjustments                             |                         | (2.0)                                     | (2.0)  |



|                                       |    |     |    |     |    |      |
|---------------------------------------|----|-----|----|-----|----|------|
| Reserve balance as of August 29, 2008 | \$ | 9.1 | \$ | 1.1 | \$ | 10.2 |
|---------------------------------------|----|-----|----|-----|----|------|

The reserve balance as of August 29, 2008 is primarily related to employee termination costs associated with our recently announced restructuring activities.

**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 February 29, 2008 Annual Report on Form 10-K, filed with the U.S. Securities and Exchange Commission on April 28, 2008. Unless the context otherwise indicates, reference to a year relates to the fiscal year, ended in February of the year indicated, rather than the calendar year. Additionally, Q1, Q2, Q3 and Q4 reference the first, second, third and fourth quarter,

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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.

**Financial Summary****Results of Operations (Unaudited)**

| Income Statement Data      | Three Months Ended |        |                    |        | Six Months Ended   |        |                    |        |
|----------------------------|--------------------|--------|--------------------|--------|--------------------|--------|--------------------|--------|
|                            | August 29,<br>2008 |        | August 24,<br>2007 |        | August 29,<br>2008 |        | August 24,<br>2007 |        |
| Revenue                    | \$ 901.8           | 100.0% | \$ 825.2           | 100.0% | \$ 1,717.5         | 100.0% | \$ 1,633.6         | 100.0% |
| Cost of sales              | 615.1              | 68.2   | 549.1              | 66.5   | 1,159.7            | 67.5   | 1,091.7            | 66.8   |
| Restructuring costs        | 8.7                | 1.0    | (1.7)              | (0.2)  | 13.5               | 0.8    |                    |        |
| Gross profit               | 278.0              | 30.8   | 277.8              | 33.7   | 544.3              | 31.7   | 541.9              | 33.2   |
| Operating expenses         | 231.7              | 25.7   | 222.8              | 27.0   | 458.8              | 26.7   | 438.6              | 26.9   |
| Restructuring costs        | 0.3                |        |                    |        | 2.7                | 0.2    |                    |        |
| Operating income           | 46.0               | 5.1    | 55.0               | 6.7    | 82.8               | 4.8    | 103.3              | 6.3    |
| Interest expense and other |                    |        |                    |        |                    |        |                    |        |
| Income, net                |                    |        | 6.8                | 0.8    | (2.8)              | (0.2)  | 9.9                | 0.6    |
| Income before income tax   |                    |        |                    |        |                    |        |                    |        |
| Expense                    | 46.0               | 5.1    | 61.8               | 7.5    | 80.0               | 4.6    | 113.2              | 6.9    |
| Income tax expense         | 14.6               | 1.6    | 24.1               | 2.9    | 26.4               | 1.5    | 41.9               | 2.5    |
| Net income                 | \$ 31.4            | 3.5%   | \$ 37.7            | 4.6%   | \$ 53.6            | 3.1%   | \$ 71.3            | 4.4%   |

**Overview**

Net income decreased by \$6.3 in Q2 2009 to \$31.4, or \$0.23 per share, compared to \$37.7, or \$0.26 per share, in the same quarter last year. The decrease was primarily the result of increased restructuring costs, less interest income, lower performance within our Other category and significant commodity inflation, which has out-paced benefits of previous pricing actions.

Net income decreased by \$17.7 year-to-date to \$53.6, or \$0.39 per diluted share, compared to \$71.3, or \$0.49 per diluted share, in the same period last year. The year-to-date decrease was primarily the result of lower performance within our Other category, increased restructuring costs and less interest income.

Revenue was \$901.8 in Q2 2009, compared to \$825.2 in the same quarter last year. Revenue increased by 34.0% in our International segment primarily due to strength in Germany, China, the United Kingdom, Angola, Mexico and India. In addition, International revenue included approximately \$22 of favorable currency translation effects versus the same quarter last year and a \$4 unfavorable impact due to net dispositions during the last four quarters. Revenue increased by 2.1% in our North America segment, which included a \$14 unfavorable impact related to net dispositions during the last four quarters.

Year-to-date revenue increased \$83.9 or 5.1% compared to the same period last year. Revenue increased by 31.5% in our International segment offset in part by a 3.3% decrease in our North America segment compared to the same period last year. Year-to-date revenue included approximately \$53 of favorable currency translation effects and an unfavorable impact of \$15 related to net dispositions during the last four quarters.

Cost of sales increased as a percentage of revenue by 170 basis points during Q2 2009 and 70 basis points year-to-date, compared to the same periods last year, primarily due to significant commodity inflation. In addition, cost of sales continued to be negatively impacted by International business mix shifts and currency effects in the United Kingdom, and temporary inefficiencies related to

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restructuring actions in the Other category. The 2009 increase in cost of sales and higher restructuring charges resulted in gross margin of 30.8% in Q2 2009 compared to 33.7% in Q2 2008, and 31.7% year-to-date compared to 33.2% in the same period last year.

Operating expenses increased by \$8.9 in Q2 2009 and by \$20.2 year-to-date, compared to the same periods last year, but decreased significantly as a percentage of revenue due to volume leverage. The increase in operating expenses for the quarter was primarily due to unfavorable currency translation effects. The year-to-date increase in operating expenses was due to unfavorable currency translation effects, increased product development and showroom spending, increased spending related to the launch of our Coalesse brand and additional growth-related spending in Asia.

Q2 2009 operating income was \$46.0, a decrease of \$9.0 compared to the prior year. Year-to-date operating income of \$82.8 decreased by \$20.5 compared to the prior year. The decrease was primarily due to higher restructuring costs and lower performance in our Other category.

Restructuring costs of \$9.0 incurred in Q2 2009 and \$16.2 year-to-date primarily related to the restructuring activities we announced in March 2008. See Note 11 to the condensed consolidated financial statements for additional information.

Our effective tax rate in Q2 2009 was 31.7%, which included certain tax adjustments associated with the sale of a non-core business in our North America segment. See Note 3 to the condensed consolidated financial statements for additional information. We expect our effective tax rate to approximate 35% for 2009.

**Interest Expense and Other Income, Net**

| <b>Interest Expense and Other Income, Net</b>            | <b>Three Months Ended</b>  |                            | <b>Six Months Ended</b>    |                            |
|--|----------------------------|----------------------------|----------------------------|----------------------------|
|  | <b>August 29,<br/>2008</b> | <b>August 24,<br/>2007</b> | <b>August 29,<br/>2008</b> | <b>August 24,<br/>2007</b> |
| Interest expense   | \$ (4.3)                   | \$ (4.0)                   | \$ (8.6)                   | \$ (8.3)                   |
| Other income, net:                                       |                            |                            |                            |                            |
| Interest income  | 1.4                        | 6.4                        | 3.6                        | 12.8                       |
| Equity in income of unconsolidated ventures              | 1.2                        | 1.1                        | 2.2                        | 2.2                        |
| Elimination of minority interest in consolidated dealers | (2.0)                      | (2.8)                      | (2.6)                      | (4.0)                      |
| Foreign exchange (loss) gain                             | (0.8)                      | 0.8                        | (1.1)                      | 1.4                        |
| Other income, net  | 4.5                        | 5.3                        | 3.7                        | 5.8                        |
| Total other income, net                                  | 4.3                        | 10.8                       | 5.8                        | 18.2                       |
| Total interest expense and other income, net             | \$                         | 6.8                        | \$ (2.8)                   | 9.9                        |

Interest income in Q2 2009 and year-to-date was lower than the prior year due to lower average cash balances as a result of the \$1.75 per share special cash dividend paid in Q4 2008 and lower interest rates earned on those balances.

**Business Segment Review**

See additional information regarding our business segments in Note 10 to the condensed consolidated financial statements.

**Table of Contents****North America**

| e Statement Data    | North America | Three Months Ended |        |                    |        | Six Months Ended   |        |                    |  |
|---------------------|---------------|--------------------|--------|--------------------|--------|--------------------|--------|--------------------|--|
|                     |               | August 29,<br>2008 |        | August 24,<br>2007 |        | August 29,<br>2008 |        | August 24,<br>2007 |  |
|                     |               | \$ 499.7           | 100.0% | \$ 489.2           | 100.0% | \$ 930.4           | 100.0% | \$ 962.4           |  |
| Sales               |               | 344.0              | 68.8   | 328.0              | 67.0   | 632.2              | 68.0   | 653.6              |  |
| Restructuring costs |               | 5.1                | 1.1    |                    |        | 7.9                | 0.8    | 1.7                |  |
| Operating profit    |               | 150.6              | 30.1   | 161.2              | 33.0   | 290.3              | 31.2   | 307.1              |  |
| Operating expenses  |               | 109.9              | 22.0   | 111.7              | 22.9   | 214.5              | 23.0   | 223.2              |  |
| Restructuring costs |               | 0.6                | 0.1    |                    |        | 1.4                | 0.2    |                    |  |
| Operating income    |               | \$ 40.1            | 8.0%   | \$ 49.5            | 10.1%  | \$ 74.4            | 8.0%   | \$ 83.9            |  |

Operating income was 8.0% of revenue in Q2 2009 compared to 10.1% of revenue in the same quarter last year. Year-to-date operating income was 8.0% of revenue compared to 8.7% of revenue in the prior year. The decrease was due to increased restructuring charges and significant commodity inflation within cost of sales, which has out-paced benefits of previous pricing actions. During Q2, we increased list prices and announced a commodity surcharge in North America effective September 1, 2008.

North America revenue, which accounted for approximately 54% of consolidated year-to-date revenue, increased by 2.1% from the prior year quarter and decreased by 3.3% year-to-date, including unfavorable impacts from dispositions of approximately \$14 and \$34, respectively. Current year revenue otherwise reflected decreased volume in the financial services sector, offset by increases in the energy, government, higher education, healthcare, and technical/professional sectors. Most other sectors posted modest increases or decreases in revenue versus the same periods last year.

Cost of sales increased as a percentage of revenue by 180 basis points in the current quarter versus the same quarter last year and by 10 basis points year-to-date. The Q2 deterioration was driven by significant commodity inflation and a decrease in the cash surrender value of our company owned life insurance. The year-to-date deterioration was due to significant commodity inflation, partially offset by a favorable property tax settlement, improved pricing yield and continued plant efficiencies. We expect the negative effects of commodity inflation to continue during Q3 2009.

Operating expenses decreased in both dollars and as a percentage of revenue during the quarter and year-to-date. The decrease in operating expense dollars was primarily due to dispositions during the last four quarters.

Restructuring costs of \$5.7 incurred in Q2 2009 and \$9.3 year-to-date primarily related to the restructuring activities we announced in March 2008. See Note 11 to the condensed consolidated financial statements for additional information.

**International**

| e Statement Data | International | Three Months Ended |                    | Six Months Ended   |                    |
|------------------|---------------|--------------------|--------------------|--------------------|--------------------|
|                  |               | August 29,<br>2008 | August 24,<br>2007 | August 29,<br>2008 | August 24,<br>2007 |

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|                       |          |        |          |        |          |        |          |   |
|-----------------------|----------|--------|----------|--------|----------|--------|----------|---|
| e                     | \$ 253.2 | 100.0% | \$ 188.9 | 100.0% | \$ 506.0 | 100.0% | \$ 384.8 | 1 |
| sales                 | 174.4    | 68.9   | 127.7    | 67.6   | 344.7    | 68.1   | 256.2    |   |
| manufacturing credits |          |        | (1.6)    | (0.8)  | (0.4)    | (0.1)  | (1.6)    |   |
| profit                | 78.8     | 31.1   | 62.8     | 33.2   | 161.7    | 32.0   | 130.2    |   |
| ing expenses          | 65.9     | 26.0   | 56.9     | 30.1   | 135.7    | 26.9   | 111.2    |   |
| manufacturing costs   |          |        |          |        | 0.7      | 0.1    |          |   |
| ing income            | \$ 12.9  | 5.1%   | \$ 5.9   | 3.1%   | \$ 25.3  | 5.0%   | \$ 19.0  |   |

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International reported operating income of 5.1% of revenue in Q2 2009 compared to 3.1% of revenue in the same quarter last year. Year-to-date operating income was 5.0% of revenue compared to 4.9% of revenue in the prior year. The increases were driven by a significant improvement in operating expense leverage and higher volume, partially offset by increases in cost of sales due to commodity inflation, unfavorable currency impacts, and higher costs in a few small markets.

International revenue represented approximately 30% of consolidated year-to-date revenue. Revenue increased by 34.0% from the same quarter last year and 31.5% year-to-date. The Q2 and year-to-date revenue growth was primarily due to increases across the majority of our markets, particularly in Germany, Asia-Pacific, Africa and the United Kingdom. Currency translation had the effect of increasing revenue by approximately \$21 during Q2 2009 and \$47 year-to-date as compared to the same periods last year. Net acquisitions completed during the last four quarters had the effect of increasing revenue by approximately \$10 during Q2 2009 and \$19 year-to-date as compared to the same periods last year.

Cost of sales as a percentage of revenue increased by 130 basis points in Q2 2009 and 150 basis points year-to-date compared to 2008. The deterioration was due to commodity inflation, unfavorable currency impacts in the United Kingdom and higher costs in a few of our smaller markets, including China and Morocco.

Operating expenses increased by \$9.0 during Q2 2009 and \$24.5 year-to-date compared to the same periods last year, but decreased significantly as a percentage of revenue due to volume leverage. The Q2 and year-to-date increases were driven by unfavorable currency translation effects and net acquisitions completed during the last four quarters. The year-to-date increase was also due to additional growth-related spending in Asia.

**Other**

| Income Statement Data   | Other | Three Months Ended |        |                 |        | Six Months Ended |        |                 |        |
|-------------------------|-------|--------------------|--------|-----------------|--------|------------------|--------|-----------------|--------|
|                         |       | August 29, 2008    |        | August 24, 2007 |        | August 29, 2008  |        | August 24, 2007 |        |
| Revenue                 |       | \$ 148.9           | 100.0% | \$ 147.1        | 100.0% | \$ 281.1         | 100.0% | \$ 286.4        | 100.0% |
| Cost of sales           |       | 96.7               | 64.9   | 93.4            | 63.5   | 182.8            | 65.0   | 181.9           | 63.3   |
| Restructuring costs     |       | 3.6                | 2.5    | (0.1)           | (0.1)  | 6.0              | 2.2    | (0.1)           |        |
| Gross profit            |       | 48.6               | 32.6   | 53.8            | 36.6   | 92.3             | 32.8   | 104.6           | 36.7   |
| Operating expenses      |       | 47.5               | 31.9   | 47.5            | 32.3   | 94.5             | 33.6   | 90.6            | 31.3   |
| Restructuring costs     |       | (0.3)              | (0.2)  |                 |        | 0.6              | 0.2    |                 |        |
| Operating income (loss) |       | \$ 1.4             | 0.9%   | \$ 6.3          | 4.3%   | \$ (2.8)         | (1.0)% | \$ 14.0         | 4.9%   |

Our Other category includes the Coalesse Group, PolyVision and IDEO subsidiaries. As discussed in Note 10 to the condensed consolidated financial statements, prior to Q1 2009, the Other category also included our Financial Services subsidiary. The Other category included approximately \$1 of operating income from Financial Services in Q2 2008 and \$5 in the first two quarters of 2008 which primarily related to residual gains from early lease terminations that we had originated and funded in prior years.

The Other category had \$1.4 of operating income during Q2 2009 and an operating loss of \$2.8 year-to-date, representing a decrease of \$4.9 and \$16.8, compared to respective prior periods. The decreases were primarily due to lower operating income performance within the Coalesse Group, current year restructuring costs and prior year gains



within Financial Services. Net restructuring costs of \$3.3 incurred in Q2 2009 and \$6.6 year-to-date primarily related to the closure of two manufacturing facilities; one within the Coalesse Group and one at PolyVision.

The Coalesse Group recorded lower operating income in both quarters of 2009 versus the same quarters last year due to higher cost of sales as a result of temporary inefficiencies associated with the

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consolidation of manufacturing activities announced in March 2008 and investments related to the launch of the Coalesse brand and various new products.

PolyVision results improved compared to Q2 2008 on a quarter and year-to-date basis despite lower sales associated with exiting a portion of the public-bid contractor whiteboard fabrication business. We incurred restructuring costs in Q1 and Q2 2009 related to the closure of a manufacturing facility that supported this portion of the business.

Q2 and year-to-date sales and operating income at IDEO increased modestly compared to the same periods in the prior year.

**Corporate**

| Income Statement Data | Corporate | Three Months Ended |                    | Six Months Ended   |                    |
|-----------------------|-----------|--------------------|--------------------|--------------------|--------------------|
|                       |           | August 29,<br>2008 | August 24,<br>2007 | August 29,<br>2008 | August 24,<br>2007 |
| Operating expenses    |           | \$ 8.4             | \$ 6.7             | \$ 14.1            | \$ 13.6            |

Approximately 85% of corporate expenses are charged to the operating segments as part of a corporate allocation. Unallocated portions of these expenses are considered general corporate costs and are reported as Corporate. Corporate costs include executive and portions of shared service functions such as information technology, human resources, finance, legal, research and development and corporate facilities.

**Liquidity and Capital Resources**

The following table summarizes our statements of cash flows for the six months ended August 29, 2008 and August 24, 2007:

| Cash Flow Data   | Six Months Ended   |                    |
|--|--------------------|--------------------|
|  | August 29,<br>2008 | August 24,<br>2007 |
| Net cash (used in) provided by:                              |                    |                    |
| Operating activities   | \$ (33.9)          | \$ 62.4            |
| Investing activities   | (15.9)             | (45.8)             |
| Financing activities   | (91.4)             | (139.1)            |
| Effect of exchange rate changes on cash and cash equivalents | (1.9)              | 5.2                |
| Net decrease in cash and cash equivalents                    | (143.1)            | (117.3)            |
| Cash and cash equivalents, beginning of period               | 213.9              | 527.2              |
| Cash and cash equivalents, end of period                     | \$ 70.8            | \$ 409.9           |

We believe we currently need approximately \$50 to fund the day-to-day operations of our business. Our current target is to maintain an additional \$100 of cash and short-term investments as available liquidity for funding investments in growth initiatives and as a cushion against volatility in the economy. Our actual cash and short-term investment balances will fluctuate from quarter to quarter due to slight seasonality in our business and the timing of certain

disbursements. These are general guidelines; we may modify our approach in response to changing market conditions or opportunities. As of the end of Q2 2009, we held a total of \$128.7 in cash and short-term investments. We plan to modestly build cash over the next two quarters by retaining cash generated from operations.

**Table of Contents****Cash (used in) provided by operating activities**

|   | <b>Cash Flow Data</b>       | <b>Six Months Ended</b>    |                            |
|---|-----------------------------|----------------------------|----------------------------|
|   |                             | <b>August 29,<br/>2008</b> | <b>August 24,<br/>2007</b> |
|   | <b>Operating Activities</b> |                            |                            |
| Net income  |                             | \$ 53.6                    | \$ 71.3                    |
| Depreciation and amortization                       |                             | 45.3                       | 44.7                       |
| Changes in operating assets and liabilities         |                             | (146.9)                    | (59.4)                     |
| Other, net  |                             | 14.1                       | 5.8                        |
| Net cash (used in) provided by operating activities |                             | \$ (33.9)                  | \$ 62.4                    |

The change in net cash used in operating activities during the first two quarters of 2009 compared to the prior year primarily related to changes in accrued expenses and employee compensation, utilization of prior year tax receivables in lieu of tax payments and higher working capital requirements to support the increases in revenue.

**Cash used in investing activities**

|  | <b>Cash Flow Data</b>       | <b>Six Months Ended</b>    |                            |
|--|-----------------------------|----------------------------|----------------------------|
|  |                             | <b>August 29,<br/>2008</b> | <b>August 24,<br/>2007</b> |
|  | <b>Investing Activities</b> |                            |                            |
| Capital expenditures                   |                             | \$ (44.9)                  | \$ (31.2)                  |
| Net purchases of investments           |                             | (0.9)                      | (35.7)                     |
| Proceeds from disposal of fixed assets |                             | 4.0                        | 14.8                       |
| Business divestitures                  |                             | 15.8                       | (3.0)                      |
| Other, net                             |                             | 10.1                       | 9.3                        |
| Net cash used in investing activities  |                             | \$ (15.9)                  | \$ (45.8)                  |

Cash used in investing activities during the current year primarily related to capital expenditures. The increase in capital expenditures compared to the prior year is primarily related to an \$11.8 progress payment in the second quarter associated with a replacement corporate aircraft. Business divestitures in the current year related to the sale of a non-core business in our North America segment in Q2 2009.

**Cash used in financing activities**

|                          | <b>Cash Flow Data</b>       | <b>Six Months Ended</b>    |                            |
|--------------------------|-----------------------------|----------------------------|----------------------------|
|                          |                             | <b>August 29,<br/>2008</b> | <b>August 24,<br/>2007</b> |
|                          | <b>Financing Activities</b> |                            |                            |
| Dividends paid           |                             | \$ (40.5)                  | \$ (43.7)                  |
| Common stock repurchases |                             | (54.2)                     | (109.8)                    |
| Common stock issuances   |                             | 0.3                        | 10.5                       |
| Other, net               |                             | 3.0                        | 3.9                        |

|                                       |           |            |
|---------------------------------------|-----------|------------|
| Net cash used in financing activities | \$ (91.4) | \$ (139.1) |
|---------------------------------------|-----------|------------|

The primary uses of cash in financing activities continue to relate to share repurchases and dividends.

We paid common stock dividends of \$0.15 per share during each of the first two quarters of 2009 and 2008.

During the first two quarters of 2009, we repurchased 4.6 million shares of common stock for \$54.2, which included \$24.2 repurchased under a \$100 share repurchase program completed in March 2008. As of the end of Q2 2009, we had \$220 available under the \$250 share repurchase

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program approved by our Board of Directors in December 2007. We have no outstanding share repurchase commitments.

Share repurchases of Class A common stock to enable participants to satisfy tax withholding obligations upon vesting of restricted stock and restricted stock units, pursuant to the terms of our Incentive Compensation Plan, were \$1.7 in 2009 and \$2.7 in 2008.

**Off-Balance Sheet Arrangements**

During the first two quarters of 2009, no material change in our off-balance sheet arrangements occurred.

**Contractual Obligations**

During the first two quarters of 2009, there were no material changes to our contractual obligations.

**Liquidity Facilities**

Our total liquidity facilities as of August 29, 2008 consisted of:

|  | <b>Liquidity Facilities</b> | <b>Amount</b> |
|--|-----------------------------|---------------|
| Global committed bank facility                       |                             | \$ 200.0      |
| Various uncommitted lines                            |                             | 113.8         |
| Total credit lines available                         |                             | 313.8         |
| Less:  |                             |               |
| Borrowings outstanding                               |                             | 7.0           |
| Standby letters of credit                            |                             | 22.0          |
| Available capacity (subject to covenant constraints) |                             | \$ 284.8      |

We have the option of increasing the global committed bank facility from \$200 to \$300, subject to customary conditions. Borrowings under this facility are unsecured and unsubordinated. There are currently no borrowings outstanding under this facility. The facility requires us to satisfy financial covenants including a maximum debt ratio covenant and a minimum interest coverage ratio covenant. We were in compliance with all covenants under our financing facilities during Q2 2009, and they are fully available for our use, although the various uncommitted lines are subject to change or cancellation by the banks at any time.

Total consolidated debt as of August 29, 2008 was \$257.9. Our debt primarily consisted of \$249.6 in term notes due in 2012 with an effective interest rate of 6.3%.

We currently have investments in auction rate securities ( ARS ) and one Canadian asset-backed commercial paper ( ABCP ) investment with a total par value of \$31.2 and an estimated fair value of \$27.0. These securities are included in *Other assets* on the Condensed Consolidated Balance Sheets due to the tightening of the U.S. credit markets, failure of ARS to clear at auctions and lack of liquid markets for ARS or ABCP. We intend to hold these investments until the market recovers and do not anticipate the need to sell these investments in order to operate our business. See Note 6 to the condensed consolidated financial statements for additional information.

The current cash and short-term investment balances, cash generated from future operations and available credit facilities are expected to be sufficient to finance our known or foreseeable liquidity needs.

Our long-term debt rating is BBB with a stable outlook from Standard & Poor's and Baa3 with a stable outlook from Moody's Investor Services.

**Recently Issued Accounting Standards**

See Note 2 to the condensed consolidated financial statements.

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**Forward-looking Statements**

From time to time, in written and oral statements, we discuss our expectations regarding future events and our plans and objectives for future operations. These forward-looking statements generally are accompanied by words such as anticipate, believe, could, estimate, expect, forecast, intend, may, possible, potential, predict, words, phrases or expressions. Forward-looking statements involve a number of risks and uncertainties that could cause actual results to vary from our expectations because of factors such as, but not limited to, competitive and general economic conditions domestically and internationally; acts of terrorism, war, governmental action, natural disasters and other Force Majeure events; changes in the legal and regulatory environment; our restructuring activities; currency fluctuations; changes in customer demand; and the other risks and contingencies detailed in this Report, our most recent Annual Report on Form 10-K and our other filings with the Securities and Exchange Commission. We undertake no obligation to update, amend, or clarify forward-looking statements, whether as a result of new information, future events, or otherwise.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk:**

**Foreign Exchange Risk**

During the first two quarters of 2009, no material change in foreign exchange risk occurred.

**Interest Rate Risk**

During the first two quarters of 2009, no material change in interest rate risk occurred.

**Fixed Income and Equity Price Risk**

During the first two quarters of 2009, no material change in fixed income and equity price risk occurred.

**Item 4. Controls and Procedures:**

(a) *Disclosure Controls and Procedures.* Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), as of August 29, 2008. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of August 29, 2008, our disclosure controls and procedures were effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act.

(b) *Internal Control Over Financial Reporting.* There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) under the Exchange Act) during our second fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



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The following is a summary of share repurchase activity during Q2 2009.

| Period  |         | (a)<br>Total Number<br>of<br>Shares<br>Purchased | (b)<br>Average<br>Price<br>Paid per<br>Share | (c)<br>Total Number of<br>Shares Purchased<br>as<br>Part of Publicly<br>Announced Plans<br>or Programs (1) | (d)<br>Approximate<br>Dollar<br>Value of Shares<br>that May Yet be<br>Purchased<br>Under the Plans<br>or Programs (1) |
|---------|---------|--|--|--|---|
|         |         |  |  |  |   |
| 5/31/08 | 7/4/08  |  | \$   |  | \$ 227.8  |
| 7/5/08  | 8/1/08  | 724,200  | \$ 9.74                                      | 724,200  | \$ 220.8  |
| 8/2/08  | 8/29/08 | 78,067   | \$ 9.98                                      | 77,800   | \$ 220.0  |
| Total   |         | 802,267(2)                                       | \$ 9.77                                      | 802,000  |   |

(1) In December 2007, our Board of Directors approved a share repurchase program permitting the repurchase of up to \$250 of shares of our common stock. This program has no specific expiration date.

(2) 267 of these shares were repurchased to satisfy participants' tax withholding obligations upon the vesting of restricted stock and restricted stock unit grants, pursuant to the terms of our Incentive Compensation Plan.

**Item 4. Submission of Matters to a Vote of Security Holders**

The Company held its annual meeting of shareholders on June 26, 2008. At that meeting, shareholders voted on one proposal presented in the Company's definitive proxy statement. The results of the votes follow:

Proposal to elect four directors to serve three-year terms expiring at the 2011 annual meeting.

|                      | For         | Withheld  |
|----------------------|-------------|-----------|
| Earl D. Holton       | 561,060,799 | 1,932,869 |
| Michael J. Jandernoa | 556,475,917 | 6,517,750 |
| Peter M. Wege II     | 557,638,487 | 5,355,180 |
| Kate Pew Wolters     | 561,272,047 | 1,721,620 |

There were no votes cast against, abstentions or broker non-votes with respect to any nominee named above. Directors continuing in office: William P. Crawford, James P. Hackett, David W. Joos, Elizabeth Valk Long, Robert C. Pew III, Cathy D. Ross and P. Craig Welch, Jr.

**Item 5. Other Information:**

On October 1, 2008, the Compensation Committee of our Board of Directors approved the amendment and restatement of the Steelcase Inc. Restoration Retirement Plan. This plan is intended to restore, to an extent, the retirement benefits lost by executives due to the limits on the compensation that may be considered under qualified retirement plans by the Internal Revenue Code. This amendment and restatement changes the vesting period for the plan from five-year tiered vesting to two-year cliff vesting and amends certain other provisions to comply with Section 409A of the Internal Revenue Code. The amended and restated Restoration Retirement Plan will be effective January 1, 2009 and is filed as Exhibit 10.1 to this Form 10-Q.

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Also on October 1, 2008, the Compensation Committee approved the following:

- (1) Amended and Restated Steelcase Inc. Non-Employee Director Deferred Compensation Plan;
- (2) Amended and Restated Steelcase Inc. Deferred Compensation Plan;
- (3) 2009-1 Amendment to the Steelcase Inc. Management Incentive Plan;
- (4) 2009-1 Amendment to the Steelcase Inc. Incentive Compensation Plan;
- (5) 2009-1 Amendment to the Steelcase Inc. Executive Severance Plan;
- (6) 2009-1 Amendment to the Steelcase Inc. Executive Supplemental Retirement Plan; and
- (7) 2009-1 Amendment to the Steelcase Inc. Deferred Compensation Agreement between Steelcase Inc. and James P. Hackett.

These amendments and restatements reflect changes being made to comply with Section 409A of the Internal Revenue Code and are filed as Exhibits 10.2 through 10.8 to this Form 10-Q. Items (1) and (2) will be effective January 1, 2009, and items (3) through (7) were effective October 1, 2008.

**Item 6. Exhibits:**

See Exhibit Index.

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**SIGNATURES**

**Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.**

STEELCASE INC.

By:  
/s/ Mark T. Mossing

**Mark T. Mossing  
Corporate Controller and  
Chief Accounting Officer  
(Duly Authorized Officer and  
Principal Accounting Officer)**

Date: October 7, 2008

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**Exhibit Index**

| <b>Exhibit<br/>No.</b> | <b>Description</b>  |
|------------------------|---|
| 10.1                   | Steelcase Inc. Restoration Retirement Plan, as amended and restated effective January 1, 2009                               |
| 10.2                   | Steelcase inc. Non-Employee Director Deferred Compensation Plan, as amended and restated effective January 1, 2009          |
| 10.3                   | Steelcase Inc. Deferred Compensation Plan, as amended and restated effective January 1, 2009                                |
| 10.4                   | 2009-1 Amendment to the Steelcase Inc. Management Incentive Plan, as amended and restated as of February 24, 2007           |
| 10.5                   | 2009-1 Amendment to the Steelcase Inc. Incentive Compensation Plan, as amended and restated as of February 24, 2007         |
| 10.6                   | 2009-1 Amendment to the Steelcase Inc. Executive Severance Plan   |
| 10.7                   | 2009-1 Amendment to the Steelcase Inc. Executive Supplemental Retirement Plan, as amended and restated as of March 27, 2003 |
| 10.8                   | 2009-1 Amendment to Deferred Compensation Agreement dated January 12, 1998, between Steelcase Inc. and James P. Hackett     |
| 31.1                   | Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 31.2                   | Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 32.1                   | Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |