

STEELCASE INC
Form 10-Q
January 07, 2009

Table of Contents

**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 November 28, 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)

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 ☐ 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.

Edgar Filing: STEELCASE INC - Form 10-Q

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

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

As of January 6, 2009, Steelcase Inc. had 78,127,932 shares of Class A Common Stock and 55,604,152 shares of Class B Common Stock outstanding.

**STEELCASE INC.
FORM 10-Q**

FOR THE QUARTER ENDED NOVEMBER 28, 2008

INDEX

	Page No.
<u>Part I</u>	
<u>Financial Information</u>	
<u>Item 1.</u>	
<u>Financial Statements</u>	1
<u>Condensed Consolidated Statements of Income for the Three and Nine Months Ended November 28, 2008 and November 23, 2007</u>	1
<u>Condensed Consolidated Balance Sheets as of November 28, 2008 and February 29, 2008</u>	2
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended November 28, 2008 and November 23, 2007</u>	3
<u>Notes to Condensed Consolidated Financial Statements</u>	4
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	24
<u>Item 4.</u>	
<u>Controls and Procedures</u>	24
<u>PART II</u>	
<u>Other Information</u>	25
<u>Item 1A.</u>	
<u>Risk Factors</u>	25
<u>Item 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	25
<u>Item 6.</u>	
<u>Exhibits</u>	25
<u>Signatures</u>	26
<u>Exhibit Index</u>	27
<u>EX-10.1</u>	
<u>EX-10.2</u>	
<u>EX-10.3</u>	
<u>EX-10.4</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	

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)**

	Three Months Ended		Nine Months Ended	
	November 28, 2008	November 23, 2007	November 28, 2008	November 23, 2007
Revenue	\$ 811.3	\$ 885.9	\$ 2,528.9	\$ 2,519.5
Cost of sales	577.0	589.1	1,736.8	1,680.9
Restructuring costs	3.8	(0.1)	17.3	(0.1)
Gross profit	230.5	296.9	774.8	838.7
Operating expenses	214.6	244.2	673.4	682.7
Restructuring costs	0.9		3.6	
Operating income	15.0	52.7	97.8	156.0
Interest expense	(4.3)	(4.2)	(12.8)	(12.6)
Other (expense) income, net	(1.3)	3.6	4.3	21.8
Income before income tax expense	9.4	52.1	89.3	165.2
Income tax expense	9.0	20.8	35.3	62.6
Net income	\$ 0.4	\$ 31.3	\$ 54.0	\$ 102.6
Earnings per share:				
Basic	\$ 0.00	\$ 0.22	\$ 0.40	\$ 0.72
Diluted	\$ 0.00	\$ 0.22	\$ 0.40	\$ 0.71
Dividends declared and paid per common share	\$ 0.15	\$ 0.15	\$ 0.45	\$ 0.45

See accompanying notes to the condensed consolidated financial statements.

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

	(Unaudited) November 28, 2008	(Restated) February 29, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 163.4	\$ 213.9
Short-term investments	56.6	50.1
Accounts receivable, net	368.3	397.0
Inventories	154.4	146.7
Other current assets	124.5	127.0
Total current assets	867.2	934.7
Property and equipment, net	464.7	478.4
Company-owned life insurance	184.1	210.6
Goodwill and other intangible assets, net	277.9	301.0
Other assets	165.3	199.7
Total assets	\$ 1,959.2	\$ 2,124.4
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 237.4	\$ 246.9
Short-term borrowings and current maturities of long-term debt	4.3	8.2
Accrued expenses:		
Employee compensation	149.4	181.3
Employee benefit plan obligations	32.2	39.0
Other	209.0	207.6
Total current liabilities	632.3	683.0
Long-term liabilities:		
Long-term debt less current maturities	251.0	250.5
Employee benefit plan obligations	180.3	183.4
Other long-term liabilities	84.9	96.6
Total long-term liabilities	516.2	530.5
Total liabilities	1,148.5	1,213.5
Shareholders' equity:		
Common stock	59.8	114.7

Edgar Filing: STEELCASE INC - Form 10-Q

Additional paid-in capital	6.6	5.0
Accumulated other comprehensive (loss) income	(22.8)	17.4
Retained earnings	767.1	773.8
Total shareholders' equity	810.7	910.9
Total liabilities and shareholders' equity	\$ 1,959.2	\$ 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)

	Nine Months Ended	
	November 28, 2008	November 23, 2007
OPERATING ACTIVITIES		
Net income	\$ 54.0	\$ 102.6
Depreciation and amortization	67.5	70.1
Impairment of goodwill and intangible assets		21.1
Changes in operating assets and liabilities	(25.6)	(35.3)
Other, net	15.8	9.3
Net cash provided by operating activities	111.7	167.8
INVESTING ACTIVITIES		
Capital expenditures	(66.2)	(52.6)
Net purchases of investments	(1.3)	(43.1)
Proceeds from disposal of fixed assets	4.8	26.0
Business divestitures (acquisitions), net of cash sold or acquired	15.8	(7.6)
Other, net	11.7	11.9
Net cash used in investing activities	(35.2)	(65.4)
FINANCING ACTIVITIES		
Dividends paid	(60.7)	(64.9)
Common stock repurchases	(59.0)	(124.5)
Common stock issuances	0.4	11.0
Other, net	(0.7)	4.3
Net cash used in financing activities	(120.0)	(174.1)
Effect of exchange rate changes on cash and cash equivalents	(7.0)	12.1
Net decrease in cash and cash equivalents	(50.5)	(59.6)
Cash and cash equivalents, beginning of period	213.9	527.2
Cash and cash equivalents, end of period	\$ 163.4	\$ 467.6

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

STEELCASE INC.

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

1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions in Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and adjustments) considered necessary for a fair presentation of the condensed consolidated financial statements have been included. Results for interim periods should not be considered indicative of results to be expected for a full year. Reference should be made to the consolidated financial statements 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 of SFAS No. 157 for nonfinancial assets and liabilities 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 do not believe the adoption of this statement will have a material impact on our future disclosures.

FSP No. 142-3

In April 2008, the FASB issued FASB Staff Position No. 142-3, *Determination of the Useful Life of Intangible Assets* (FSP No. 142-3), which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. The intent of FSP No. 142-3 is to improve the consistency between the useful life of an intangible asset and the period of expected cash flows used to measure its fair value. FSP No. 142-3 applies to fiscal years beginning after December 15, 2008. Earlier adoption is prohibited. We do not believe the adoption of this statement will have a material impact on our financial statements.

FSP No. 157-3

In October 2008, the FASB issued FASB Staff Position on Statement 157, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* (FSP No. 157-3), which clarifies the application of SFAS No. 157 and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that asset is not active. FSP No. 157-3 was effective on October 10, 2008, the date of issuance. The provisions of FSP No. 157-3 did not have

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

a significant impact on the techniques used to value the fair value of our investments in auction rate securities and Canadian asset-backed commercial paper during Q3 2009 and did not have a material impact on our financial statements. See Note 6 for additional information.

FSP No. FAS 140-4 and FIN 46(R)-8

In December 2008, the FASB issued FASB Staff Position No. FAS 140-4 and FIN 46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities*, to provide additional disclosures about transferors' continuing involvements with transferred financial assets and involvement with variable interest entities. This pronouncement applies to fiscal years and interim periods beginning after December 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 during Q2 2009 and expect to record net tax benefits of approximately \$2 during fiscal 2009. Our Condensed Consolidated Statement of Income for the nine months ended November 28, 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.

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 4.4 million options for 2009 and 3.4 million options for 2008 because those potential shares were not dilutive.

Computation of Earnings per Share	Three Months Ended		Nine Months Ended	
	November 28, 2008	November 23, 2007	November 28, 2008	November 23, 2007
Net income	\$ 0.4	\$ 31.3	\$ 54.0	\$ 102.6
Weighted-average shares outstanding for basic earnings per share (in millions)	133.8	140.9	134.8	143.1
Effect of dilutive stock-based compensation (in millions)	0.3	1.0	0.5	1.2
Adjusted weighted-average shares outstanding for diluted earnings per share (in millions)	134.1	141.9	135.3	144.3

Earnings per share of common stock:

Edgar Filing: STEELCASE INC - Form 10-Q

Basic	\$	0.00	\$	0.22	\$	0.40	\$	0.72
Diluted	\$	0.00	\$	0.22	\$	0.40	\$	0.71
Total shares outstanding at period end (in millions)		133.7		141.4		133.7		141.4

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

Comprehensive (loss) 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 (Loss) Income	Three Months Ended	
	November 28, 2008	November 23, 2007
Net income	\$ 0.4	\$ 31.3
Other comprehensive (loss) income:		
Foreign currency translation	(36.7)	13.3
Derivative adjustments, net of tax of \$0.0 and \$(0.2)	(0.1)	0.3
Unrealized net loss on investments, net of tax of \$0.2 and \$0.0	(0.3)	
Minimum pension liability, net of tax of \$0.5 and \$0.7	(0.8)	(1.2)
Total	(37.9)	12.4
Comprehensive (loss) income	\$ (37.5)	\$ 43.7

Components of Comprehensive Income	Nine Months Ended	
	November 28, 2008	November 23, 2007
Net income	\$ 54.0	\$ 102.6
Other comprehensive (loss) income:		
Foreign currency translation	(39.6)	26.5
Derivative adjustments, net of tax of \$0.1 and \$(0.1)	(0.2)	0.1
Unrealized net gain on investments, net of tax of \$(1.5) and \$0.0	2.6	
Minimum pension liability, net of tax of \$1.6 and \$2.3	(3.0)	(3.8)
Total	(40.2)	22.8
Comprehensive income	\$ 13.8	\$ 125.4

Foreign currency translation adjustments of \$36.7 and \$39.6 for the three and nine months ended November 28, 2008, respectively, reflect the impact of the decline in certain foreign currency values relative to the U.S. dollar during each period. As of November 28, 2008, approximately 30% of our net assets were denominated in currencies other than the U.S. dollar, the majority of which are denominated in Euros.

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.

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

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 November 28, 2008 are summarized below:

Fair Value of Financial Instruments	Level 1	Level 2	Level 3	Total
Assets:				
Managed investment portfolio	\$ 51.9	\$	\$	\$ 51.9
Auction rate securities			23.7	23.7
Available-for-sale securities	4.7			4.7
Canadian asset-backed commercial paper			3.3	3.3
Foreign exchange forward contracts		8.6		8.6
Privately-held equity investments			0.3	0.3
Total assets	\$ 56.6	\$ 8.6	\$ 27.3	\$ 92.5

Managed Investment Portfolio and Available-for-Sale Securities

Our managed investment portfolio consists of short-term investments in U.S. Treasury, 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 November 28, 2008, we held auction rate securities (ARS) totaling \$26.5 of par value for which the auction market remains effectively shut-down. We have the intent and ability to hold these securities until a recovery in market value occurs given our current liquidity and capital structure. Our estimates of the fair value of these securities have been 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.

During Q3 2009, we determined through published reports and other data that the issuer of one of our ARS invested a material portion of their investment portfolio in asset-backed securities and other low-grade investments. The parent of this issuer carries a non-investment grade credit rating from Standard & Poor s. The par value of this security was

\$3.3 and we estimated the market value as of November 28, 2008 to approximate \$2.5 based on a discounted cash flow model using a risk premium and discount rate commensurate with the risk related to the security. As a result of our analysis, we recorded a \$0.8 other-than-temporary impairment to this ARS during Q3 2009.

During Q3 2009, we reduced our reserve for unrealized losses on our other ARS investments by \$0.6 based on an increase in the estimated fair value of these securities. As of November 28, 2008, we have unrealized losses related to these securities of \$2.0 recorded in *Accumulated other comprehensive*

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

(loss) *income* on the Condensed Consolidated Balance Sheet, as we believe the impairments are temporary. We concluded no other-than-temporary impairment loss occurred on these securities as of the end of Q3 2009 as we believe the decline in market value is due to general market conditions and not specific underlying credit issues.

Canadian Asset-Backed Commercial Paper

As of November 28, 2008, we held one investment in Canadian asset-backed commercial paper (ABCP) with an original par value 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 Canadian \$0.9. A restructuring plan was approved by the Superior Court of Ontario in June 2008. Under the restructuring, we will exchange our ABCP for a bundle of new long-term floating-rate notes. Consummation of the restructuring has been delayed as a result of additional legal actions and turmoil in global financial markets. As a result of a recent agreement by the Canadian federal government and some Canadian provincial governments to provide financial support to the restructuring, we now expect to receive replacement securities under a revised restructuring plan during Q4 2009.

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 November 28, 2008. Our analysis concluded that no additional impairment was necessary.

Foreign Exchange Forward Contract

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 currency flows from intercompany 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.

Below is a roll-forward of assets and liabilities measured at fair value using Level 3 inputs for the nine months ended November 28, 2008.

	Auction Rate Securities	Canadian Asset-Backed Commercial Paper	Privately- Held Equity Investments
Rollforward of Fair Value Using Level 3 Inputs			
Balance as of March 1, 2008	\$ 23.9	\$ 4.1	\$ 1.7

Edgar Filing: STEELCASE INC - Form 10-Q

Reclassified to Level 1 available-for-sale securities				(1.3)		
Unrealized loss on investments	(0.2)			(0.1)		
Reclassified to other-than-temporary impairment	0.8					
Other-than-temporary impairment	(0.8)					
Currency translation adjustment			(0.8)			
Balance as of November 28, 2008	\$	23.7	\$	3.3	\$	0.3

Table of Contents**STEELCASE INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)****7. INVENTORIES**

Following is a summary of inventories as of November 28, 2008 and February 29, 2008:

Inventories	November 28, 2008	February 29, 2008
Finished goods	\$ 100.6	\$ 87.9
Work in process	20.5	20.9
Raw materials	67.1	67.5
	188.2	176.3
LIFO reserve	(33.8)	(29.6)
	\$ 154.4	\$ 146.7

The portion of inventories determined by the LIFO method aggregated \$57.4 as of November 28, 2008 and \$54.4 as of February 29, 2008.

8. COMPANY-OWNED LIFE INSURANCE

Investments in company-owned life insurance policies (COLI) were made with the intention of utilizing them as a long-term funding source for post-retirement medical benefits, deferred compensation and supplemental retirement plan obligations, which at November 28, 2008 aggregated \$207.7, with a related deferred tax asset of \$79.6. However, they do not represent a committed funding source for these obligations. They are subject to claims from creditors, and we can designate them to another purpose at any time.

Following is a summary of COLI as of November 28, 2008 and February 29, 2008:

Type	Ability to Choose Investments	Net Return	Target Asset Allocation	November 28, 2008	February 29, 2008
Whole Life Insurance Policies	No ability	A set dividend rate periodically adjusted by insurance companies	Not Applicable	\$ 104.7	\$ 100.8
Variable Life Insurance Policies	Can allocate across a set of choices provided by the insurance companies	Fluctuates depending on changes in market interest rates and equity values	25% Fixed Income 75% Equity	79.4	109.8

\$ 184.1 \$ 210.6

During Q3 2009, significant declines in global equity markets had the effect of reducing the cash surrender value of our variable life insurance policies by \$(28.8). During that same period, the cash surrender value associated with our whole life policies increased by \$1.3. The net changes in cash surrender value, normal insurance expenses and any death benefit gains are generally allocated 60% to *Cost of sales* and 40% to *Operating expenses* on the Condensed Consolidated Statements of Income. This allocation is consistent with the costs associated with the long-term employee benefit obligations that COLI is intended to fund.

Table of Contents

STEELCASE INC.

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

9. EMPLOYEE BENEFIT PLAN OBLIGATIONS

Components of Expense	Three Months Ended			
	Pension Plans		Post-Retirement Plans	
	November 28, 2008	November 23, 2007	November 28, 2008	November 23, 2007
Service cost	\$ 0.5	\$ 0.6	\$ 0.2	\$ 0.3
Interest cost	1.2	1.2	2.1	1.9
Amortization of prior year service gain			(1.8)	(1.8)
Expected return on plan assets	(0.8)	(1.0)		
Adjustment due to plan curtailment				(0.4)
Amortization of unrecognized net actuarial loss	0.1	0.1		
Net expense	\$ 1.0	\$ 0.9	\$ 0.5	\$

Components of Expense	Nine Months Ended			
	Pension Plans		Post-Retirement Plans	
	November 28, 2008	November 23, 2007	November 28, 2008	November 23, 2007
Service cost	\$ 1.5	\$ 1.7	\$ 0.7	\$