STEELCASE INC
Form 10-Q
July 01, 2009

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

FORM 10-Q

þ	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the quarterly period ended May 29, 2009**
	or
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 1-13873

STEELCASE INC.
(Exact name of registrant as specified in its charter)

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

(Registrant s telephone number, including area code) (616) 247-2710
None
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting Company o
(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 o No þ

As of June 30, 2009, Steelcase Inc. had 77,495,143 shares of Class A Common Stock and 55,360,575 shares of Class B Common Stock outstanding.

STEELCASE INC.
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FOR THE QUARTER ENDED MAY 29, 2009

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements:

STEELCASE INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(in millions, except per share data)

	Three Months Ended	
	May 29, 2009	May 30, 2008
Revenue	$ 545.6	$ 815.7
Cost of sales	387.0	551.0
Restructuring costs	3.1	4.8
Gross profit	155.5	259.9
Operating expenses	161.0	220.7
Restructuring costs	(0.3)	2.4
Operating income (loss)	(5.2)	36.8
Interest expense	(4.4)	(4.3)
Other income, net	1.7	1.5
Income (loss) before income taxes	(7.9)	34.0
Income tax expense (benefit)	(7.9)	11.9
Net income	$	$ 22.1
Earnings per share:		
Basic	$ 0.00	$ 0.16
Diluted	$ 0.00	$ 0.16
Dividends declared and paid per common share	$ 0.08	$ 0.15

See accompanying notes to the condensed consolidated financial statements.

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STEELCASE INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions)

	(Unaudited) May 29, 2009	February 27, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 43.8	$ 117.6
Short-term investments	74.7	76.0
Accounts receivable, net	244.8	280.3
Inventories	126.1	129.9
Other current assets	126.0	147.6
Total current assets	615.4	751.4
Property and equipment, net	450.4	433.3
Company-owned life insurance	189.7	171.6
Goodwill	185.4	181.1
Other intangible assets, net	28.3	29.6
Other assets	172.8	183.0
Total assets	$ 1,642.0	$ 1,750.0
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 140.9	$ 174.6
Short-term borrowings and current maturities of long-term debt	4.6	4.9
Accrued expenses:		
Employee compensation	103.6	141.8
Employee benefit plan obligations	19.7	38.0
Other	162.1	160.3
Total current liabilities	430.9	519.6
Long-term liabilities:		
Long-term debt less current maturities	250.8	250.8
Employee benefit plan obligations	164.0	164.4
Other long-term liabilities	62.5	82.4
Total long-term liabilities	477.3	497.6
Total liabilities	908.2	1,017.2
Shareholders equity:		

Common stock		55.7		59.8
Additional paid-in capital		8.0		4.7
Accumulated other comprehensive income (loss)		(10.0)		(22.5)
Retained earnings		680.1		690.8
Total shareholders equity		733.8		732.8
Total liabilities and shareholders equity	$	1,642.0	$	1,750.0

See accompanying notes to the condensed consolidated financial statements.

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STEELCASE INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(in millions)

	Three Months Ended	
	May 29, 2009	**May 30, 2008**
OPERATING ACTIVITIES		
Net income	$	$ 22.1
Depreciation and amortization	18.5	22.4
Changes in operating assets and liabilities	(85.4)	(113.9)
Other, net	2.5	12.6
Net cash used in operating activities	(64.4)	(56.8)
INVESTING ACTIVITIES		
Capital expenditures	(9.4)	(17.9)
Purchases of short-term investments	(10.5)	
Liquidations of short-term investments	14.6	5.0
Proceeds from disposal of fixed assets	4.4	2.8
Other, net	4.4	4.4
Net cash provided by (used in) investing activities	3.5	(5.7)
FINANCING ACTIVITIES		
Dividends paid	(10.7)	(20.3)
Common stock repurchases	(4.3)	(46.3)
Other, net	(0.4)	3.4
Net cash used in financing activities	(15.4)	(63.2)
Effect of exchange rate changes on cash and cash equivalents	2.5	0.5
Net decrease in cash and cash equivalents	(73.8)	(125.2)
Cash and cash equivalents, beginning of period	117.6	213.9
Cash and cash equivalents, end of period	$ 43.8	$ 88.7
Supplemental Cash Flow Information:		
Trade-in value received for existing corporate aircraft	$ 18.5	
Final progress payment towards replacement corporate aircraft	(13.5)	
Deposit towards future replacement corporate aircraft	(1.0)	
Proceeds from trade-in of corporate aircraft	$ 4.0	

See accompanying notes to the condensed consolidated financial statements.

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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 27, 2009 (Form 10-K). The Condensed Consolidated Balance Sheet at February 27, 2009 was derived from the audited Consolidated Balance Sheet included in our Form 10-K.

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, unless indicated by a specific date. Additionally, Q1, Q2, Q3 and Q4 reference the first, second, third and fourth quarter, respectively, of the fiscal year indicated. 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. In Q4 2009, we completed a review of certain indirect manufacturing costs to improve the consistency of classification of these costs across our business units and reportable segments. Based on our analysis, we adjusted our 2009 results to conform to this presentation by increasing cost of sales and decreasing operating expenses by $6.3 for the three months ended May 30, 2008.

2. NEW ACCOUNTING STANDARDS

SFAS 157 and FSP 157-2

In Q3 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 157, *Fair Value Measurements* (SFAS 157). This statement clarifies the definition of fair value, establishes a framework for measuring fair value and expands the disclosures of fair value measurements. In Q4 2008, the FASB issued FASB Staff Position (FSP) 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2), which delayed the effective date of SFAS 157 for certain non-financial assets and liabilities until fiscal years beginning after November 15, 2008. We adopted SFAS 157 for financial assets and liabilities beginning in Q1 2009, and it did not have a material impact on our consolidated financial statements. We adopted SFAS 157 for non-financial assets and liabilities beginning in Q1 2010, and it did not have a material impact on our consolidated financial statements. See Note 6 for additional information.

SFAS 141(R)

In Q4 2008, the FASB issued SFAS 141(R), *Business Combinations* (SFAS 141(R)). SFAS 141(R) requires that the acquisition method of accounting be applied to a broader set of business combinations and establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed, any noncontrolling interest in the acquiree and any goodwill acquired. SFAS 141(R) also establishes the disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. We adopted SFAS 141(R)

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STEELCASE INC.

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

beginning in Q1 2010, and it had no impact on our consolidated financial statements as no business combinations were completed during the quarter. The impact of SFAS 141 (R) on our consolidated financial statements in the future will be dependent on the size and nature of future business combinations.

SFAS 160

In Q4 2008, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* (SFAS 160). SFAS 160 requires that the noncontrolling interest in the equity of a consolidated subsidiary be accounted for and reported as equity, provides revised guidance on the treatment of net income and losses attributable to the noncontrolling interest and changes in ownership interests in a subsidiary, and requires additional disclosures that identify and distinguish between the interests of the controlling and noncontrolling owners. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. We adopted SFAS 160 beginning in Q1 2010. As the amount of net income and interests of noncontrolling owners are not material, we have not separately presented such information in our condensed consolidated financial statements for the periods presented.

FSP FAS 157-4, FSP FAS 107-1 and APB 28-1, and FSP FAS 115-2 and FAS 124-2

In Q1 2010, the FASB issued three FSP s intended to provide application guidance and revise the disclosures regarding fair value measurements and impairments of securities.

FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP FAS 157-4), addresses the determination of fair values when there is no active market or where the price inputs represent distressed sales. FSP FAS 157-4 reaffirms the view in SFAS 157 that the objective of fair value measurement is to reflect an asset s sale price in an orderly transaction at the date of the financial statements.

FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, enhances consistency in financial reporting by increasing the frequency of fair value disclosures to a quarterly basis for any financial instruments that are not currently reflected on the balance sheet at fair value.

FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, provides additional guidance designed to create greater consistency to the timing of impairment recognition and provide greater clarity about the credit and noncredit components of impaired debt securities that are not expected to be sold.

These pronouncements are effective in Q2 2010. We are currently evaluating the impact of these pronouncements on our consolidated financial statements.

FSP EITF 03-6-1

In Q2 2009, the FASB issued FSP Emerging Issues Task Force (EITF) 03-6-1 *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP EITF 03-6-1). FSP EITF 03-6-1 clarifies that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are considered participating securities and should be included in the computation of earnings per share pursuant to the two-class method. We adopted FSP EITF 03-6-1 in Q1 2010. Upon adoption, we were required to retrospectively adjust earnings per share data to conform to the provisions of FSP EITF 03-6-1. The application of the provisions of FSP EITF 03-6-1 did not change earnings per share amounts for any of the periods presented.

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

SFAS 167

After the end of Q1 2010, the FASB issued SFAS 167 *Amendments to FASB Interpretation No. 46(R)* (SFAS 167), which significantly changes the consolidation model for variable interest entities. SFAS 167 requires companies to qualitatively assess the determination of the primary beneficiary of a variable interest entity (VIE) based on whether the entity (1) has the power to direct matters that most significantly impact the activities of the VIE, and (2) has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. SFAS 167 is effective Q1 2011 and will be applied retrospectively. As a result, we are evaluating the impact on our consolidated financial statements.

3. LIQUIDATION OF UNCONSOLIDATED JOINT VENTURE

In 2000, we made a $2.3 investment in Workstage LLC (Workstage), a real estate development joint venture. We have accounted for our investment in Workstage as an equity investment and have recorded our share of its income and losses as an increase or decrease to our investment. At February 27, 2009, our investment was recorded at $0. Workstage experienced a significant reduction in development activity as a result of the global economic slowdown. In Q1 2010, Workstage faced liquidity challenges due to the slowdown in activity as well as issues associated with projects in development, and the members agreed to facilitate an orderly liquidation of the joint venture. As part of the liquidation, we incurred $2.5 in charges in Q1 2010, which were recorded in *Other income, net* on the Condensed Consolidated Statement of Operations.

4. EARNINGS PER SHARE

During Q1 2010, we adopted the provisions of FSP EITF 03-6-1, which required us to retrospectively adjust earnings per share data. The application of the provisions of FSP EITF 03-6-1 did not change earnings per share amounts for any of the periods presented. However, the effect of dilutive stock-based compensation decreased by 0.2 million shares in Q1 2009 as a result of the adoption.

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 plan. However, diluted earnings per share does not reflect the effects of 3.6 million options for 2010 and 2.8 million options for 2009 because those potential shares were not dilutive.

Computation of Earnings per Share	Three Months Ended May 29, 2009	Three Months Ended May 30, 2008
Net income	$	$ 22.1
Weighted-average shares outstanding for basic earnings per share (in millions)	133.3	136.1
Effect of dilutive stock-based compensation (in millions)		0.3
Adjusted weighted-average shares outstanding for diluted earnings per share (in millions)	133.3	136.4

Earnings per share of common stock: