

STEELCASE INC  
Form 10-K/A  
July 12, 2006

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

**FORM 10-K/A  
(Amendment No. 1)**

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

**For the fiscal year ended February 24, 2006**

**OR**

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

**Commission File Number 1-13873**

**STEELCASE INC.  
(Exact name of Registrant as specified in its Charter)**

**Michigan  
(State of incorporation)**

**38-0819050  
(IRS employer identification number)**

**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  
Securities registered pursuant to Section 12(b) of the Act:**

**Title of each class**

**Name of each exchange on which registered**

Class A Common Stock

New York Stock Exchange

**Securities registered pursuant to 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Edgar Filing: STEELCASE INC - Form 10-K/A

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

The aggregate market value of the voting and non-voting common equity of the registrant held by non-affiliates, computed by reference to the closing price of the Class A Common Stock on the New York Stock Exchange, as of August 26, 2005 (the last day of the registrant's most recently completed second fiscal quarter) was approximately \$738 million. There is no quoted market for registrant's Class B Common Stock, but shares of Class B Common Stock may be converted at any time into an equal number of shares of Class A Common Stock.

As of April 26, 2006, 77,169,035 shares of the registrant's Class A Common Stock and 72,774,442 shares of the registrant's Class B Common Stock were outstanding.

---

---

---

**Explanatory Note**

We are amending our Annual Report on Form 10-K for the year ended February 24, 2006, filed with the Securities and Exchange Commission on May 2, 2006 (the Original 10-K ) to correct certain typographical and clerical errors in the Notes to Consolidated Financial Statements included in Part I. Item 8. Financial Statements and Supplementary Data.

Part I. Item 8. Financial Statements and Supplementary Data is set forth in its entirety below, with the only modifications being corrections to (i) the portion of inventories determined by the LIFO method in Note 3; (ii) the table of estimated amortization expense related to intangible assets for each of the following five years in Note 6; and (iii) the total compensation expense expected to be recognized through fiscal year 2010 for non-vested performance shares and performance units in Note 10.

This amendment does not reflect events occurring after the filing of the Original 10-K and does not modify or update the disclosure in the Original 10-K, other than (i) the corrections referenced above, (ii) the filing of certifications of the Company's chief executive officer and chief financial officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934 and Section 906 of the Sarbanes-Oxley Act of 2002 and (iii) revisions to the Index of Exhibits to include an updated consent from our independent registered public accounting firm.

---

**Item 8. Financial Statements and Supplementary Data:**

**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management is responsible for establishing and maintaining effective internal control over financial reporting of the Company. This system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Further, because of changes in conditions, effectiveness of internal control over financial reporting may vary over time.

Management assessed the effectiveness of the system of internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management determined that the Company's system of internal control over financial reporting was effective as of February 24, 2006.

BDO Seidman, LLP, the independent registered certified public accounting firm that audited our financial statements included in this Form 10-K, has also audited our management's assessment of the effectiveness of the Company's internal control over financial reporting, as stated in their report which is included herein.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

STEELCASE INC.

GRAND RAPIDS, MICHIGAN

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Steelcase Inc. maintained effective internal control over financial reporting as of February 24, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Steelcase Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Steelcase Inc. maintained effective internal control over financial reporting as of February 24, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also in our opinion, Steelcase Inc. maintained, in all material respects, effective internal control over financial reporting as of February 24, 2006, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheets of Steelcase Inc. as of February 24, 2006 and February 25, 2005, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended February 24, 2006 and our report dated April 7, 2006 expressed an unqualified opinion.

BDO SEIDMAN, LLP  
Grand Rapids, Michigan  
April 7, 2006

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

STEELCASE INC.

GRAND RAPIDS, MICHIGAN

We have audited the accompanying consolidated balance sheets of Steelcase Inc. as of February 24, 2006 and February 25, 2005 and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years in the period ended February 24, 2006. Our audits also included the financial statement schedule for the three years in the period ended February 24, 2006 as listed in Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and schedule are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedule. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Steelcase Inc. at February 24, 2006 and February 25, 2005 and the results of their operations and their cash flows for each of the three years in the period ended February 24, 2006, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the financial statement schedule presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2, the Company adopted FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities*, in the year ended February 27, 2004.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Steelcase Inc.'s internal control over financial reporting as of February 24, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated April 7, 2006 expressed an unqualified opinion thereon.

BDO SEIDMAN, LLP  
Grand Rapids, Michigan  
April 7, 2006

**STEELCASE INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(in millions, except per share data)

	Year Ended		
	February 24, 2006	February 25, 2005	February 27, 2004
Revenue	\$ 2,868.9	\$ 2,613.8	\$ 2,345.6
Cost of sales	1,989.4	1,859.9	1,688.0
Restructuring costs	33.2	8.2	42.3
Gross profit	846.3	745.7	615.3
Operating expenses	758.1	722.3	678.5
Restructuring costs	5.7	5.2	11.2
Operating income (loss)	82.5	18.2	(74.4)
Interest expense	(18.1)	(20.9)	(18.5)
Other income, net	12.0	7.7	
Income (loss) from continuing operations before income tax expense (benefit)	76.4	5.0	(92.9)
Income tax expense (benefit)	27.5	(6.7)	(50.9)
Income (loss) from continuing operations	48.9	11.7	(42.0)
Income from discontinued operations, net of income taxes			2.4
Gain on sale of net assets of discontinued operations, net of income taxes		1.0	20.0
Income (loss) before cumulative effect of accounting change, net of income taxes	48.9	12.7	(19.6)
Cumulative effect of accounting change, net of income taxes			(4.2)
Net income (loss)	\$ 48.9	\$ 12.7	\$ (23.8)
Basic and diluted per share data:			
Income (loss) from continuing operations	\$ 0.33	\$ 0.08	\$ (0.28)
Income and gain on sale of discontinued operations		0.01	0.15
Cumulative effect of accounting change			(0.03)
Earnings (loss)	\$ 0.33	\$ 0.09	\$ (0.16)
Dividends declared per common share	\$ 0.33	\$ 0.24	\$ 0.24

See accompanying notes to the consolidated financial statements.





**STEELCASE INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in millions, except share data)

	February 24, 2006	February 25, 2005
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 423.8	\$ 216.6
Short-term investments		131.6
Accounts receivable, net of allowances of \$32.1 and \$41.6	381.9	378.1
Inventories	147.9	132.9
Deferred income taxes	80.3	90.6
Other current assets	94.2	108.0
<b>Total current assets</b>	<b>1,128.1</b>	<b>1,057.8</b>
Property and equipment, net	524.8	606.0
Company-owned life insurance	196.6	186.1
Deferred income taxes	154.6	147.6
Goodwill	211.1	210.2
Other intangible assets, net of accumulated amortization of \$47.9 and \$39.7	73.7	79.8
Other assets	55.6	77.2
<b>Total assets</b>	<b>\$ 2,344.5</b>	<b>\$ 2,364.7</b>

See accompanying notes to the consolidated financial statements.

**STEELCASE INC.**  
**CONSOLIDATED BALANCE SHEETS (Continued)**  
(in millions, except share data)

	February 24, 2006	February 25, 2005
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 189.6	\$ 175.9
Short-term borrowings and current portion of long-term debt	261.8	67.6
Accrued expenses:		
Employee compensation	127.9	123.3
Employee benefit plan obligations	34.1	31.7
Workers compensation claims	28.5	29.1
Income taxes payable	28.9	22.5
Product warranties	21.4	20.9
Other	144.0	140.0
<b>Total current liabilities</b>	<b>836.2</b>	<b>611.0</b>
Long-term liabilities:		
Long-term debt less current maturities	2.2	258.1
Employee benefit plan obligations	239.7	249.7
Other long-term liabilities	61.5	49.3
<b>Total long-term liabilities</b>	<b>303.4</b>	<b>557.1</b>
<b>Total liabilities</b>	<b>1,139.6</b>	<b>1,168.1</b>
Shareholders equity:		
Preferred Stock-no par value; 50,000,000 shares authorized, none issued and outstanding		
Class A Common Stock-no par value; 475,000,000 shares authorized, 72,482,658 and 61,084,925 issued and outstanding	205.5	162.5
Class B Convertible Common Stock-no par value; 475,000,000 shares authorized, 77,007,160 and 87,490,230 issued and outstanding	104.4	134.9
Additional paid in capital	3.4	1.3
Accumulated other comprehensive loss	(39.1)	(33.1)
Deferred compensation restricted stock	(3.1)	(3.1)
Retained earnings	933.8	934.1
<b>Total shareholders equity</b>	<b>1,204.9</b>	<b>1,196.6</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 2,344.5</b>	<b>\$ 2,364.7</b>

See accompanying notes to the consolidated financial statements.



**STEELCASE INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
(in millions)

	Common Stock		Accumulated Other Comprehensive Income (Loss)				Deferred Compensation	Retained Earnings	Total Shareholders' Equity	Total Comprehensive Income (Loss)
	Class A	Class B	Capital	Foreign Currency Translation Adjustments	Minimum Pension Liability, net of tax	Derivative Instruments, net of tax				
February 28, 2003	\$ 93.6	\$ 192.5	\$	\$ (40.3)	\$ (4.0)	\$ (3.3)	\$	\$ 1,016.3	\$ 1,254.8	
Common stock conversion	25.9	(25.9)								
Common stock issuance	1.6								1.6	
Issuance of restricted stock, net	2.1						(2.1)			
Amortization of deferred compensation							0.7		0.7	
Restricted stock units expense			0.2						0.2	
Other comprehensive income (loss)				6.6	(0.4)	0.6			6.8	\$ 6.8
Dividends paid								(35.5)	(35.5)	
Net loss								(23.8)	(23.8)	(23.8)
February 27, 2004	123.2	166.6	0.2	(33.7)	(4.4)	(2.7)	(1.4)	957.0	1,204.8	\$ (17.0)
Common stock conversion	31.7	(31.7)								
Common stock issuance	4.1								4.1	
Issuance of restricted stock, net	3.5						(3.5)			
Amortization of deferred compensation							1.8		1.8	

Edgar Filing: STEELCASE INC - Form 10-K/A

Performance shares and restricted stock units expense			1.1						1.1		
Other comprehensive income (loss)			7.3	(1.2)	1.6				7.7	\$	7.7
Dividends paid								(35.6)	(35.6)		
Net income								12.7	12.7		12.7
February 25, 2005	162.5	134.9	1.3	(26.4)	(5.6)	(1.1)	(3.1)	934.1	1,196.6	\$	20.4
Common stock conversion	30.5	(30.5)									
Common stock issuance	12.2								12.2		
Stock repurchases	(3.4)								(3.4)		
Tax effect of exercise of stock options	1.2								1.2		
Issuance of restricted stock, net	2.5						(2.5)				
Amortization of deferred compensation							2.5		2.5		
Performance shares and restricted stock units expense			2.1						2.1		
Other comprehensive income (loss)				(8.1)	1.0	1.1			(6.0)	\$	(6.0)
Dividends paid								(49.2)	(49.2)		
Net income								48.9	48.9		48.9
February 24, 2006	\$ 205.5	\$ 104.4	\$ 3.4	\$ (34.5)	\$ (4.6)	\$	\$ (3.1)	\$ 933.8	\$ 1,204.9	\$	42.9

See accompanying notes to the consolidated financial statements.

**STEELCASE INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in millions)

	Year Ended		
	February 24, 2006	February 25, 2005	February 27, 2004
<b>OPERATING ACTIVITIES</b>			
Net income (loss)	\$ 48.9	\$ 12.7	\$ (23.8)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	119.4	127.6	141.4
Loss on disposal and write-down of fixed assets, net	4.5	5.8	16.4
Gain on sale of net assets of discontinued operations			(31.9)
(Gain) loss on dealer transitions	0.5	(1.2)	8.7
Deferred income taxes	0.2	(13.7)	(34.2)
Cumulative effect of accounting change			4.2
Pension and post-retirement benefit cost	11.9	17.1	17.3
Restructuring charges (payments)	(2.8)	(7.6)	3.7
Other, net	1.8	(0.7)	(0.2)
Changes in operating assets and liabilities, net of corporate acquisitions:			
Accounts receivable	(1.4)	(5.7)	42.4
Inventories	(17.0)	(15.8)	19.4
Other assets	(24.7)	(21.1)	(34.0)
Accounts payable	16.9	7.9	(1.9)
Accrued expenses and other liabilities	17.3	9.4	(39.6)
Net cash provided by operating activities	175.5	114.7	87.9
<b>INVESTING ACTIVITIES</b>			
Capital expenditures	(71.9)	(49.2)	(43.0)
Short-term investments acquisitions		(459.2)	(346.0)
Short-term investments liquidations	131.6	407.8	266.0
Proceeds from disposal of fixed assets	39.3	19.8	28.8
Proceeds from repayments of lease fundings	17.7	32.3	44.4
Net decrease (increase) in notes receivable	15.3	15.1	(6.2)
Proceeds from sales of leased assets		4.7	48.8
Increase in lease fundings			(21.2)
Acquisitions, net of cash acquired	(8.6)		
Proceeds on sale of net assets of discontinued operations			47.9
Other, net	4.3	3.0	(0.2)
Net cash provided by (used in) investing activities	127.7	(25.7)	19.3
<b>FINANCING ACTIVITIES</b>			

Edgar Filing: STEELCASE INC - Form 10-K/A

Dividends paid	(49.2)	(35.6)	(35.5)
Repayments of long-term debt	(58.9)	(28.0)	(23.4)
Repayments of lines of credit, net	(2.3)	(0.8)	0.5
Common stock issuance	12.2	4.1	1.6
Common stock repurchases	(3.4)		
<b>Net cash used in financing activities</b>	<b>(101.6)</b>	<b>(60.3)</b>	<b>(56.8)</b>
Effect of exchange rate changes on cash and cash equivalents	5.6	5.7	2.9
<b>Net increase in cash and cash equivalents</b>	<b>207.2</b>	<b>34.4</b>	<b>53.3</b>
Cash and cash equivalents, beginning of year	216.6	182.2	128.9
<b>Cash and cash equivalents, end of year</b>	<b>\$ 423.8</b>	<b>\$ 216.6</b>	<b>\$ 182.2</b>
<b>Supplemental Cash Flow Information:</b>			
Income taxes paid	\$ 14.7	\$ 16.2	\$ 14.6
Interest paid	\$ 18.5	\$ 21.6	\$ 20.8

See accompanying notes to the consolidated financial statements.



**STEELCASE INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. NATURE OF OPERATIONS**

Steelcase Inc. is the world's leading designer, marketer, and manufacturer of office furniture. Founded in 1912, we are headquartered in Grand Rapids, Michigan, with approximately 13,000 permanent employees and we operate manufacturing and distribution facilities in 28 principal locations. We distribute products through various channels including independent and company-owned dealers in more than 800 locations throughout the world and have led the global office furniture industry in revenue every year since 1974. We operate under three reportable segments: North America, Steelcase Design Partnership ( SDP ) and International, plus an Other category. Additional information about our reportable segments is contained in Note 14.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Principles of Consolidation***

The consolidated financial statements include the accounts of Steelcase Inc. and its majority-owned subsidiaries, except as noted below in *Majority-owned Dealer Transitions*. Our consolidation policy requires the consolidation of entities where a controlling financial interest is obtained as well as consolidation of variable interest entities in which we are designated as the primary beneficiary in accordance with Financial Accounting Standards Board ( FASB ) Interpretation No. 46, Consolidation of Variable Interest Entities ( FIN 46(R) ), as amended. We adopted FIN 46(R) in 2004 and recorded a \$4.2 net of tax charge in cumulative effect of accounting change upon adoption. All intercompany transactions and balances have been eliminated in consolidation.

In Q1 2006, we began reporting the operating results from our North America segment service activity on a gross basis in our income statement. Previously, this activity was reported on a net cost recovery basis in operating expenses since activities such as asset management and related consulting were viewed as an extension of product sales support. These activities have gradually evolved into revenue generating businesses and are expected to grow in the future as additional resources are dedicated to these and other service activities. Accordingly, we believe it is now appropriate to report revenues and related costs from service activities on a gross basis. The 2006 impact of this reporting change was an increase in revenue of \$49.2, an increase in cost of sales of \$44.0 and an increase in operating expenses of \$5.2. This change has no impact on operating income, but it does slightly reduce operating income as a percent of sales.

***Fiscal Year***

Our fiscal year ends the last Friday in February with each fiscal quarter including 13 weeks. Each of the last three fiscal years being presented, February 24, 2006, February 25, 2005, and February 27, 2004 consisted of 52 weeks.

Unless the context otherwise indicates, reference to a year relates to a fiscal year rather than a calendar year. Additionally, Q1, Q2, Q3, and Q4 2006 reference the first, second, third, and fourth quarter of fiscal 2006, respectively. All amounts are in millions, except per share data, data presented as a percentage or unless otherwise indicated.

***Reclassifications***

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

**STEELCASE INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Majority-owned Dealer Transitions***

From time to time, we obtain equity interests in dealers that we intend to resell as soon as practicable ( dealer transitions ). We use the equity method of accounting for majority-owned dealers with a transition plan in place and where the nature of the relationship is one in which we do not exercise participative control.

In February 2004, we initiated a change in our participative control of eight dealers where we hold a majority position in the voting stock of the dealer. Accordingly, we consolidated the balance sheets of these dealers as of February 27, 2004 and in subsequent periods. The consolidation of these dealers had the effect of increasing our total assets and liabilities by \$10.9 at February 27, 2004. The consolidation of these dealers had the impact of increasing revenue by \$76.2 and \$80.1 in 2006 and 2005, increasing cost of sales by \$46.7 and \$53.3 in 2006 and 2005 and increasing operating expenses by \$29.3 and \$29.0 in 2006 and 2005. There was no effect on net income for those dealers previously accounted for using the equity method of accounting since we have historically recognized our share of income through *Equity in income of unconsolidated ventures*. For those dealers where we do not share in the earnings and losses, the consolidation of the dealers had no impact on net income since the pretax earnings or losses were eliminated in *Other Income (Expense), net*.

***Foreign Currency Translation***

For most international operations, local currencies are considered their functional currencies. We translate assets and liabilities to United States dollar equivalents at exchange rates in effect as of the balance sheet date. We translate Consolidated Statements of Income accounts at average rates for the period. Translation adjustments are not included in determining net income but are disclosed and accumulated in *Other Comprehensive Income (Loss)* within the Consolidated Statements of Changes in Shareholders' Equity until sale or substantially complete liquidation of the net investment in the International subsidiary takes place. Foreign currency transaction gains and losses are recorded in *Other Income (Expense), Net* and included a net gain of \$1.9 in 2006.

***Revenue Recognition***

Revenue consists substantially of product sales and related service revenues. We also have finance revenue associated with Steelcase Financial Services.

Product sales are reported net of discounts and applicable returns and allowances and are recognized when title and risks associated with ownership have passed to the customer or dealer. Typically, this is when the product ships. Service and finance revenue are not material.

***Cash Equivalents***

Cash equivalents include demand bank deposits and highly liquid investment securities with an original maturity of three months or less at the time of purchase. Cash equivalents are reported at cost, which approximates fair value, and were \$141.8 as of February 24, 2006 and \$210.2 as of February 25, 2005.

***Short-term Investments***

Short-term investments represent auction rate securities which are highly liquid, variable-rate debt securities. While the underlying securities have maturities in excess of one year, the interest rate is reset through auctions that are typically held every 7 to 28 days, creating short-term investments. The securities trade at par on the auction dates. Interest is paid at the end of each auction period. Because of the short interest rate reset period, the book value of the securities approximates fair

**STEELCASE INC.**

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

value. In early 2006, we sold and converted all of our short-term investments in auction rate securities to cash.

***Accounts and Notes Receivable***

The Company has accounts receivable for products sold to various unconsolidated affiliates on terms generally similar to those prevailing with unrelated third parties. Affiliates include unconsolidated dealers and minority interests in unconsolidated joint ventures. Accounts receivable from affiliates were not material at February 24, 2006 or February 25, 2005.

Notes receivable includes project financing, asset-based lending and term financing with dealers. Notes receivable of \$37.6 and \$57.3 as of February 24, 2006 and February 25, 2005 are included within *Other Current Assets* and *Other Assets* on the Consolidated Balance Sheets. The allowance for uncollectible notes receivable was \$8.0 and \$6.2 at February 24, 2006 and February 25, 2005, respectively. Notes receivable from affiliates were not material at February 24, 2006 or February 25, 2005.

***Allowance for Credit Losses***

The allowance for credit losses related to accounts receivable, notes receivable and our investments in leases is maintained at a level considered by management to be adequate to absorb an estimate of probable future losses existing at the balance sheet date. In estimating probable losses, we review accounts that are past due or in bankruptcy. We also review accounts that may have higher credit risk using information available about the customer or dealer, such as financial statements, news reports and published credit ratings. We also use general information regarding industry trends, the general economic environment and information gathered through our network of field based employees. Using an estimate of current fair market value of the collateral and other credit enhancements, such as third party guarantees, we arrive at an estimated loss for specific accounts and estimate an additional amount for the remainder of the trade balance based on historical trends. This process is based on estimates, and ultimate losses may differ from those estimates. Receivable balances are written off when we determine that the balance is uncollectible. Subsequent recoveries, if any, are credited to the allowance when received. We consider an accounts receivable balance past due when payment has not been received within the stated terms. We consider a note receivable past due when any installment of the note is unpaid for more than 30 days. There were no accounts past due over 90 days and still accruing interest as of February 24, 2006.

***Inventories***

Inventories are stated at the lower of cost or market. The North America segment primarily uses the last in, first out method to value its inventories. The SDP segment primarily uses the first in, first out or the average cost inventory valuation methods. The International segment values inventories primarily using the first in, first out method.

***Property, Equipment and Other Long-lived Assets***

Property and equipment, including some internally-developed internal use software, is stated at cost. Major improvements that materially extend the useful life of the asset are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred. Depreciation is provided using the straight-line method over the estimated useful life of the assets.

We review the carrying value of our long-lived assets held and used and assets to be disposed of using estimates of future undiscounted cash flows. If the carrying value of a long-lived asset is

**STEELCASE INC.**

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

considered impaired, an impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its fair value.

Due to the restructuring and plant consolidation activities over the past several years, we are currently holding for sale several facilities that are no longer in use. These assets are stated at the lower of cost or net realizable value and are included within *Other Current Assets* on the Consolidated Balance Sheets since we expect them to be sold within one year. See Note 4 for further information.

***Operating Leases***

Rent expense for operating leases is recorded on a straight-line basis over the lease term unless the lease contains an escalation clause which is not fixed and determinable. The lease term begins when we have the right to control the use of the leased property, which is typically before rent payments are due under the terms of the lease. If a lease has a fixed and determinable escalation clause, the difference between rent expense and rent paid is recorded as deferred rent and is included in the Consolidated Balance Sheets. Rent for operating leases that do not have an escalation clause or where escalation is based on an inflation index is expensed over the lease term as it is payable.

***Long-Term Investments***

Long-term investments primarily include privately-held equity securities. These investments are carried at the lower of cost or estimated fair value. For these non-quoted investments, we review the assumptions underlying the performance of the privately-held companies to determine if declines in fair value below cost basis are other-than-temporary. A series of historic and projected operating losses by investees are considered in the review. If a determination is made that a decline in fair value below the cost basis is other-than-temporary, the investment is written down to its estimated fair value. Gains on these investments are recorded when they are realized. At February 24, 2006 and February 25, 2005, the carrying value of these investments was \$6.1 and \$5.8, respectively, and was included within *Other Assets* on the Consolidated Balance Sheets.

***Investment in Leases***

Steelcase Financial Services provides furniture leasing services to end-use customers and showroom financing to dealers. Prior to 2004, we originated both direct financing and operating leases and the remaining lease balance was recorded on our balance sheet. In 2004, we implemented a new strategy in which we originate leases for customers and earn an origination fee for that service, but we use third parties to provide lease funding. Our net investment in leases was \$17.0 and \$34.6 at February 24, 2006 and February 25, 2005, respectively, and was included within *Other Current Assets* and *Other Assets* on the Consolidated Balance Sheets. This investment has decreased over the past few years due to our new strategy as the underlying lease schedules have run-off and certain leases have been sold.

***Goodwill and Other Intangible Assets***

Goodwill represents the difference between the purchase price and the related underlying tangible and intangible net asset values resulting from business acquisitions. Annually, or more frequently if conditions indicate an earlier review is necessary, the carrying value of the goodwill of a reporting unit is compared to an estimate of its fair value. If the estimated fair value is less than the carrying value, goodwill is impaired and is written down to its estimated fair value.

**STEELCASE INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Other intangible assets subject to amortization consist primarily of proprietary technology, trademarks and non-compete agreements and are amortized over their estimated useful economic lives using the straight-line method. Other intangible assets not subject to amortization are accounted for and evaluated for potential impairment in a manner consistent with goodwill.

***Self-Insurance***

We are self-insured for certain losses relating to workers' compensation claims and product liability claims. We have purchased insurance coverage to reduce our exposure to significant levels of these claims. Self-insured losses are accrued based upon estimates of the aggregate liability for uninsured claims incurred but not reported at the balance sheet date using certain actuarial assumptions followed in the insurance industry and our historical experience.

Other accrued expenses in the accompanying Consolidated Balance Sheets include a reserve for estimated future product liability costs of \$8.5 and \$8.7 incurred as of February 24, 2006 and February 25, 2005, respectively. Our accrual for workers' compensation claims included in the accompanying Consolidated Balance Sheets was \$34.3 and \$31.7 as of February 24, 2006 and February 25, 2005, respectively.

We are also self-insured for the majority of domestic employee and retiree medical benefits. On February 28, 2005, we terminated our Voluntary Employees' Beneficiary Association (VEBA) used to fund self-insured employee healthcare costs which included medical, dental, and short-term disability claims. In 2006, we began paying those claims directly from the general assets of the Company. At February 24, 2006 and February 25, 2005, the estimate for incurred but not reported employee medical, dental, and short-term disability claims was \$2.1 and \$3.5, respectively.

***Product Warranty***

We offer a lifetime warranty on most Steelcase and Turnstone brand products delivered in the United States and Canada, subject to certain exceptions. For products delivered in the rest of the world, we offer a 15-year warranty for most Steelcase brand products and a 10-year warranty for most Turnstone brand products, subject to certain exceptions. These warranties provide for the free repair or replacement of any covered product, part or component that fails during normal use because of a defect in materials or workmanship. For all other brands, warranties range from one year to lifetime. The accrued liability for warranty costs is based on an estimated amount needed to cover future warranty obligations incurred as of the balance sheet date determined by historical product data and management's knowledge of current events and actions.

<b>Product Warranty</b>	<b>February 24, 2006</b>	<b>February 25, 2005</b>	<b>February 27, 2004</b>
Balance at beginning of period	\$ 20.9	\$ 20.9	\$ 26.0
Accruals for warranty charges	11.8	5.9	8.5
Settlements and adjustments	(11.3)	(5.9)	(13.6)
Balance at end of period	\$ 21.4	\$ 20.9	\$ 20.9

***Environmental Matters***

Environmental expenditures related to current operations are expensed or capitalized as appropriate. Expenditures related to an existing condition allegedly caused by past operations, that are not associated with current or future revenue generation, are expensed. Liabilities are recorded when material environmental assessments and remedial efforts are probable and the costs can be

**STEELCASE INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

reasonably estimated. Generally, the timing of these accruals coincides with completion of a feasibility study or our commitment to a formal plan of action. The accrued liability for environmental contingencies included in other accrued expenses in the accompanying Consolidated Balance Sheets was \$4.7 as of February 24, 2006 and \$4.3 as of February 25, 2005. Based on our ongoing evaluation of these matters, we believe we have accrued sufficient reserves to absorb the costs of all known environmental assessments and the remediation costs of all known sites.

***Product Related Expenses***

Research and development expenses, which are expensed as incurred, were \$47.4 for 2006, \$41.1 for 2005 and \$46.9 for 2004.

***Income Taxes***

Deferred income tax assets and liabilities are recognized for the estimated future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. These assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to reverse.

The Company has net operating loss carryforwards available in certain jurisdictions to reduce future taxable income. Future tax benefits for net operating loss carryforwards are recognized to the extent that realization of these benefits is considered more likely than not. This determination is based on the expectation that related operations will be sufficiently profitable or various tax, business and other planning strategies will enable us to utilize the operating loss carryforwards. We cannot be assured that we will be able to realize these future tax benefits or that future valuation allowances will not be required. To the extent that available evidence raises doubt about the realization of a deferred income tax asset, a valuation allowance is established.

***Earnings Per Share***

Basic earnings per share is based on the weighted average number of shares of common stock outstanding during each period. It excludes the dilutive effects of additional common shares that would have been outstanding if the shares under our stock incentive plans had been issued and the dilutive effect of restricted shares to the extent those shares have not vested (see Note 10).

Diluted earnings per share 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 1.3 million options for 2006, 4.5 million options for 2005, and 5.2 million options for 2004 because those shares or potential shares were not dilutive.

	<b>Year Ended</b>		
	<b>February 24, 2006</b>	<b>February 25, 2005</b>	<b>February 27, 2004</b>
<b>Weighted Average Number of Shares of Common Stock Outstanding</b>			
Basic	148.3	147.9	147.9
Diluted (1)	148.7	148.2	148.0

(1) The denominator for basic EPS is used for calculating EPS for 2004 because potentially dilutive shares and diluted EPS are not applicable when a loss from continuing operations is reported.

**STEELCASE INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Stock-Based Compensation***

Our stock-based compensation consists of performance shares, performance share units, restricted stock, restricted stock units and non-qualified stock options. In December 2004, the FASB issued SFAS No. 123(R) to expand and clarify SFAS No. 123, *Accounting for Stock-Based Compensation*, in several areas. The Statement requires companies to measure the cost of employee services received in exchange for an award of an equity instrument based on the grant-date fair value of the award and is effective for awards issued beginning in Q1 2007. Our policy is to expense stock-based compensation using the fair-value based method of accounting for all awards granted, modified or settled. Upon adoption, SFAS No. 123(R) will not impact our Consolidated Statements of Income because we currently expense stock-based compensation in accordance with this Statement. Currently, the aggregate market value of restricted shares at the date of issuance is recorded as deferred compensation, a separate component of shareholders equity, and is amortized over the three-year vesting period of the grants. Upon adoption in Q1 2007, *Deferred compensation restricted stock* in the Consolidated Balance sheets will be eliminated and amounts will be reclassified to *Class A Common Stock*.

Restricted stock units, performance shares, and performance units are credited to equity as they are expensed over their vesting periods based on the current market value of the shares to be granted. For stock options, fair value is measured on the grant date of the related equity instrument using the Black-Scholes option-pricing model and is recognized as compensation expense over the applicable vesting period. However no stock options were granted in 2006, 2005, or 2004.

Prior to 2004, our stock-based compensation consisted only of stock options, and we accounted for them under the recognition and measurement principles of Accounting Principles Board ( APB ) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Given the terms of the Company's plans, no stock-based employee compensation cost was recognized, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

The following table illustrates the effect on net income (loss) and earnings (loss) per share if we had applied the fair value recognition provisions of SFAS No. 123 *Accounting for Stock-Based Compensation* to all outstanding awards. Further disclosure of our stock incentive plans is presented in Note 10.

<b>SFAS No. 123 Pro Forma Data</b>	<b>Year Ended</b>		
	<b>February 24, 2006</b>	<b>February 25, 2005</b>	<b>February 27, 2004</b>
Net income (loss), as reported	\$ 48.9	\$ 12.7	\$ (23.8)
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	3.0	2.0	0.6
Deduct: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects	(3.2)	(5.4)	(6.1)
Pro forma net income (loss)	\$ 48.7	\$ 9.3	\$ (29.3)
<b>Earnings (loss) per share:</b>			
Basic and diluted as reported	\$ 0.33	\$ 0.09	\$ (0.16)
Basic and diluted pro forma	\$ 0.33	\$ 0.06	\$ (0.20)





**STEELCASE INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Financial Instruments***

The carrying amount of our financial instruments, consisting of cash equivalents, short-term investments, accounts and notes receivable, accounts and notes payable, short-term borrowings and certain other liabilities, approximate their fair value due to their relatively short maturities. The carrying amount of our long-term debt approximates fair value since the stated rate of interest approximates a market rate of interest.

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

We recognize the fair value of all derivative instruments as either assets or liabilities at fair value on our balance sheet. Fair value is based on market quotes because the instruments that we enter into are actively traded instruments. The accounting for changes in the fair value of a derivative depends on the use of the derivative. We formally document our hedging relationships, including identification of the hedging instruments and the hedged items, as well as our risk management objectives and strategies for undertaking hedge transactions. On the date that a derivative is entered into, we designate it as one of the following types of hedging instruments, and we account for the derivative as follows:

***Cash Flow Hedge***

A hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability is declared as a cash flow hedge. A cash flow hedge requires that the effective portion of the change in the fair value of a derivative instrument be recognized in *Other Comprehensive Income (Loss)*, net of tax, and reclassified into earnings in the same line as the hedged item in the period or periods during which the hedged transaction affects earnings. Any ineffective portion of a derivative instrument's change in fair value is immediately recognized in earnings.

***Net Investment Hedge***

A hedge of a net investment in a foreign operation is declared as a net investment hedge. A net investment hedge requires that the effective portion of the change in fair value of a derivative instrument be recognized in *Other Comprehensive Income (Loss)*, net of tax, and reclassified into earnings in the period in which the net investment is liquidated. We determine if the hedge is effective if the net investment balance exceeds the notional amount of the forward contracts.

***Natural Hedge***

A derivative used as a natural hedging instrument whose change in fair value is recognized to act as an economic hedge against changes in the values of the hedged item is declared as a natural hedge. For derivatives designated as natural hedges, changes in fair value are reported in earnings in the Consolidated Statements of Income.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts and disclosures in the consolidated financial statements and accompanying notes. Although these estimates are based on historical data and management's knowledge of current

**STEELCASE INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

events and actions it may undertake in the future, actual results may differ from these estimates under different assumptions or conditions.

**3. INVENTORIES**

Inventories are stated at the lower of cost or market. The North America segment primarily uses the last in, first out ( LIFO ) method to value its inventories. The SDP segment primarily uses the first in, first out ( FIFO ) or the average cost inventory valuation methods. The International segment values inventories using the FIFO method.

Inventories	February 24, 2006	February 25, 2005
Finished goods	\$ 87.2	\$ 67.3
Work in process	27.8	29.7
Raw materials	60.3	64.9
	175.3	161.9
LIFO reserve	(27.4)	(29.0)
	\$ 147.9	\$ 132.9

The portion of inventories determined by the LIFO method aggregated \$61.9 and \$52.6 as of February 24, 2006 and February 25, 2005, respectively. The effect of LIFO liquidations on net income was not material in 2006 or 2005.

Finished goods inventory increased primarily in the North America and International segments due to increased sales volume, acquisitions (see Note 15), and additional finished goods being produced and held at regional distribution centers in North America as part of a strategy to improve customer service.

**4. PROPERTY AND EQUIPMENT**

Property and Equipment	Estimated Useful Lives (Years)	February 24, 2006	February 25, 2005
Land		\$ 51.1	\$ 46.7
Buildings and improvements	10 50	673.6	725.5
Machinery and equipment	3 15	1,007.4	1,119.6
Furniture and fixtures	5 8	88.4	91.1
Leasehold improvements	3 10	71.7	67.2
Capitalized software	3 10	128.2	128.9
Construction in progress		11.0	19.4
		2,031.4	2,198.4
Accumulated depreciation		(1,506.6)	(1,592.4)
		\$ 524.8	\$ 606.0

The net book value of capitalized software was \$19.1 and \$28.5 as of February 24, 2006 and February 25, 2005, respectively. The majority of capitalized software has an estimated useful life of

50

---

**STEELCASE INC.**

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

3 to 5 years. Approximately 30% of the gross value of capitalized software relates to the Company's core enterprise resource planning system, which has an estimated useful life of 10 years.

Depreciation expense on property and equipment approximated \$110.7 for 2006, \$119.1 for 2005 and \$131.4 for 2004.

The estimated cost to complete construction in progress as of February 24, 2006 was \$12.5. Included in *Other Current Assets* on our Consolidated Balance Sheets is property, plant and equipment reclassified as real estate held for sale, which totaled \$15.8 as of February 24, 2006 and \$31.0 as of February 25, 2005. Of the \$15.8 in property, plant and equipment that is held for sale at February 24, 2006, the majority is related to the Grand Rapids complex which is expected to be sold during 2007. Real estate that is held for sale is stated at the lower of depreciated cost or fair market value.

During 2006, we reclassified \$21.4 of property, plant and equipment that we intend to sell in our International and North America segments out of *Other Current Assets* to *Property and Equipment, net* because we do not believe that it will be sold within a year.

**5. COMPANY-OWNED LIFE INSURANCE**

Investments in company-owned life insurance policies 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 aggregating \$239.2 as of February 24, 2006 (see Note 8) with a related deferred tax asset of approximately \$90.4. However, the assets do not represent a committed funding source. They are subject to claims from creditors, and the Company can designate them to another purpose at any time. The policies are recorded at their net cash surrender values, as reported by the four issuing insurance companies, whose Standard & Poor's credit ratings range from BBB+ to AAA, and totaled \$196.6 as of February 24, 2006 and \$186.1 as of February 25, 2005.

Investments in company-owned life insurance consist of \$95.3 in traditional whole life policies and \$101.3 in variable life insurance policies as of February 24, 2006. In the traditional whole life policies, the investments return a set dividend rate that is periodically adjusted by the insurance companies based on the performance of their long-term investment portfolio. While the amount of the dividend can vary subject to a minimum dividend rate, the cash surrender value of these policies is not subject to market risk declines in that the insurance companies guarantee a minimum dividend rate on these investments. In the variable life policies, we are able to allocate the investments across a set of choices provided by the insurance companies. As of February 24, 2006, the investments in the variable life policies were allocated 52% in fixed income securities and 48% in equity securities. The valuation of these investments is sensitive to changes in market interest rates and equity values. The annual net changes in market valuation, normal insurance expenses and any death benefit gains are reflected in the accompanying Consolidated Statements of Income. The net effect of these changes in 2006 and 2005 resulted in pre-tax income of approximately \$10.6 and \$9.0, respectively, recorded as 60% credits to cost of sales and 40% credits to operating expenses.

**6. GOODWILL & OTHER INTANGIBLE ASSETS**

Goodwill is assigned to and the fair value is tested at the reporting unit level. Goodwill impairment exists if the net book value of a reporting unit exceeds its estimated fair value. We evaluated goodwill using five reporting units: North America, SDP, International, PolyVision and IDEO. PolyVision and IDEO are included in the "Other" category for reportable segment disclosure purposes.

We evaluated goodwill during Q4 2006, and no impairment was necessary for any reporting unit.

## STEELCASE INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of the changes in goodwill at February 24, 2006, by business segment, is as follows:

Business Segment	Goodwill			
	February 25, 2005	Acquisitions	Dispositions & Adjustments	February 24, 2006
North America	\$ 42.2	\$ 1.5	\$	\$ 43.7
Steelcase Design Partnership	63.1			63.1
International	42.7	3.0	(3.6)	42.1
Other	62.2			62.2
<b>Total</b>	<b>\$ 210.2</b>	<b>\$ 4.5</b>	<b>\$ (3.6)</b>	<b>\$ 211.1</b>

As of February 24, 2006 and February 25, 2005, our other intangible assets and related accumulated amortization consisted of the following:

Other Intangible Assets	Weighted Average Useful Lives (Years)	February 24, 2006			February 25, 2005		
		Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
<b>Intangible assets subject to amortization:</b>							
Proprietary technology	12.4	\$ 53.8	\$ 20.2	\$ 33.6	\$ 53.8	\$ 14.2	\$ 39.6
Trademarks	9.9	29.4	25.7	3.7	31.7	24.4	7.3
Non-compete agreements	7.0	1.0	0.1	0.9			
Other	6.7	5.2	1.9	3.3	2.8	1.1	1.7
<b>Total</b>		<b>89.4</b>	<b>47.9</b>	<b>41.5</b>	<b>88.3</b>	<b>39.7</b>	<b>48.6</b>
<b>Intangible assets not subject to amortization:</b>							
Trademarks	n/a	32.2		32.2	31.2		31.2
<b>Total Intangible Assets</b>		<b>\$ 121.6</b>	<b>\$ 47.9</b>	<b>\$ 73.7</b>	<b>\$ 119.5</b>	<b>\$ 39.7</b>	<b>\$ 79.8</b>

During 2006, we completed acquisitions of a small technology services company and three small international dealerships (see Note 15). As a result of the purchase price allocations, goodwill of \$4.5 was recorded. Additionally, intangible assets of \$3.7 were recorded including \$1.0 of non-compete agreements and \$2.7 of intangible assets

classified as other in the table above.

For 2006, we recorded amortization expense of \$8.7 on intangible assets subject to amortization compared to \$8.5 for 2005 and \$10.0 for 2004. Based on the current amount of intangible assets

## STEELCASE INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

subject to amortization, the estimated amortization expense for each of the following five years is as follows:

## Estimated Amortization Expense

Year Ending February	Amount
2007	\$ 8.2
2008	7.3
2009	7.2
2010	5.3
2011	4.1

As events, such as acquisitions, dispositions or impairments, occur in the future, these amounts may vary.

## 7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Debt Obligations	Interest Rates Range at February 24, 2006	Fiscal Year Maturity Range	February 24, 2006	February 25, 2005
U.S. dollar obligations:				
Senior notes (1)	6.4%	2007	\$ 249.8	\$ 249.5
Notes payable (2)	6.0%-7.5%	2007-2011	7.8	63.2
Revolving credit facilities (3)				
Capitalized lease obligations				0.2
			257.6	312.9
Foreign currency obligations:				
Notes payable (2)	7.4%	2007	0.2	3.6
Revolving credit facilities (3)	6.0%-6.5%	2007	4.9	7.8
Capitalized lease obligations	3.2%-4.1%	2007	1.3	1.4
			6.4	12.8
Total short-term borrowings and long-term debt			264.0	325.7
Short-term borrowings and current portion of long-term debt (4)			261.8	67.6
Long-term debt			\$ 2.2	\$ 258.1

- (1) The senior notes, due in November 2006, are unsecured unsubordinated obligations and rank equally with all of our other unsecured unsubordinated indebtedness. We may redeem some or all of the senior notes at any time at the greater of the full principal amount of the notes being redeemed, or the present value of the remaining scheduled payments of principal and interest discounted to the redemption date on a semi-annual basis at the treasury rate plus 35 basis points, plus, in both cases, accrued and unpaid interest. The original notes were priced at 99.48% of par. Although the coupon rate of these senior notes is 6.4%, the effective interest rate is 6.3% after taking into account the impact of this discount, offset by the gain on interest rate locks related to the debt issuance, both of which are amortized over the life of the notes.
- (2) Notes payable represents amounts payable to various banks and other creditors, a portion of which is collateralized by the underlying assets. Certain agreements relating to notes payable



**STEELCASE INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

contain financial covenants that include, among others, a minimum interest coverage ratio and a minimum debt ratio. As of February 24, 2006, we were in compliance with all covenants under these agreements.

The decrease in notes payable was primarily due to the retirement for the debt related to our corporate aircraft.

Approximately \$3.3 of notes payable as of February 24, 2006 and \$6.3 of notes payable as of February 25, 2005 are collateralized by lease receivables.

- (3) During Q2 2006, we entered into a new \$200 global committed bank facility. The facility replaced the \$250 unsecured revolving credit facility that was originally scheduled to expire in July 2006. As of February 24, 2006, we had no borrowings against the new facility. As of February 25, 2005, we had no borrowings against our previous facility. Our obligations under this new facility are unsecured and unsubordinated. The Company may, at its option, and subject to certain conditions, request to increase the aggregate commitment by up to \$100 million by obtaining at least one commitment from one or more lenders. We can use borrowings under this facility for general corporate purposes, including friendly acquisitions. Maturities range from overnight to six months as determined by us, subject to certain limitations. Interest on borrowings of a term of one month or greater is based on LIBOR plus a margin or a base rate, as selected by us. Interest on borrowings of a term of less than one month is based on prime rate plus a margin or a base rate. This facility requires us to satisfy financial covenants including a maximum debt ratio covenant and a minimum interest coverage ratio covenant. As of February 24, 2006, we were in compliance with all covenants under this facility.

Additionally, we have entered into agreements with certain financial institutions, which provide for borrowings on unsecured non-committed short-term credit facilities of up to \$36.6 of U.S. dollar obligations and \$61.4 of foreign currency obligations as of February 24, 2006. Interest rates are variable and determined by agreement at the time of borrowing. These agreements expire within one year, and subject to certain conditions may be renewed annually. Borrowings on these facilities as of February 24, 2006 were \$4.9 and as of February 25, 2005 were \$7.8.

- (4) The weighted average interest rate for short-term borrowings and the current portion of long-term debt were 6.3% and 6.4% at February 24, 2006 and February 25, 2005, respectively.

**Annual Maturities of Short-Term Borrowings and Long-Term Debt**

<b>Year Ending February</b>	<b>Amount</b>
2007	\$ 261.8
2008	2.1
2009	.1
	\$ 264.0

The entire amount of our senior notes has been classified as a current liability because these notes are due in November 2006.



**STEELCASE INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**8. EMPLOYEE BENEFIT PLAN OBLIGATIONS**

Employee Benefit Plan Obligations	February 24, 2006	February 25, 2005
Defined contribution retirement plans	\$ 16.8	\$ 14.6
Post-retirement medical benefits	186.8	191.0
Defined benefit pension plans	38.2	43.6
Deferred compensation plan and agreements	32.0	32.2
	273.8	281.4
Current portion	34.1	31.7
Long-term portion	\$ 239.7	\$ 249.7

***Defined Contribution Retirement Plans***

Substantially all United States employees are eligible to participate in defined contribution retirement plans, primarily the Steelcase Inc. Retirement Plan (the Retirement Plan). Company contributions and 401(k) pre-tax employee contributions fund the Retirement Plan. All contributions are made to a trust, which is held for the sole benefit of participants. For certain participating locations, the Retirement Plan requires minimum annual Company contributions of 5% of eligible annual compensation. Additional Company contributions for this plan are discretionary and declared by the Compensation Committee at the end of each fiscal year. As of February 24, 2006, the Company-funded portion of the trust had net assets of approximately \$1.0 billion. The Company's other defined contribution retirement plans provide for matching contributions and/or discretionary contributions declared by management.

Total expense under all defined contribution retirement plans was \$20.4 for 2006, \$17.7 for 2005 and \$18.7 for 2004. We expect to contribute approximately \$20.8 to our defined contribution plans in 2007.

***Post-retirement Medical Benefits***

We maintain unfunded post-retirement benefit plans that provide medical and life insurance benefits to certain North American based retirees and eligible dependents. We accrue the cost of post-retirement insurance benefits during the service lives of employees based on actuarial calculations for each plan. These plans are unfunded, but we have purchased company-owned life insurance policies with the intention of utilizing them as a long-term funding source for post-retirement medical benefits and other obligations (see Note 5). However, it is likely that over the next several years annual inflows from the policies will not be sufficient to meet annual outflows for the benefit plans. The difference will represent a use of cash.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Medicare Act) was signed into law. The Medicare Act entitles employers who provide certain prescription drug benefits for retirees to receive a federal subsidy beginning in calendar year 2006, thereby creating the potential for significant benefit cost savings. We provide retiree drug benefits through our U.S. post-retirement benefit plans that exceed the value of the benefits that will be provided by Medicare Part D. We remeasured our accumulated post-retirement benefit obligation as of September 1, 2004 based on the preliminary regulations and on February 25, 2005 for the final regulations because we believe the value of our benefits is at least actuarially equivalent to Medicare Part D benefits. The impact of the remeasurement was a reduction of our accumulated



**STEELCASE INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

benefit obligation of \$34.0. In 2006 and 2005, the Medicare Act reduced pre-tax post-retirement expense by \$5.0 and \$1.2, respectively.

During 2004, the plans were amended limiting certain benefits. These amendments resulted in the establishment of unrecognized prior service gains that are being amortized over the remaining service life of the affected plans participants. Due to the workforce reductions in the past three years, curtailment accounting rules were triggered, and we recognized plan curtailment gains of \$2.5 in 2006, \$2.6 in 2005, and \$3.8 in 2004.

In the fourth quarter of 2006, we remeasured our accumulated post-retirement benefit obligation as of November 30, 2005, due to a curtailment as defined in SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, related to our workforce reduction. This remeasurement resulted in a \$16.3 decrease in the accumulated benefit obligation. Additionally, during 2006, we were approved for the Medicare Act subsidy and determined one additional plan qualified for the subsidy. The impact of this additional plan was included in the remeasurement and resulted in an additional \$12.3 reduction to the accumulated benefit obligation.

The changes discussed above contributed to the reduction in total post-retirement expense over the past three years. Total expense under post-retirement medical benefit plans was \$6.7 for 2006, \$11.6 for 2005 and \$14.8 for 2004.

***Defined Benefit Pension Plans***

Our defined benefit pension plans include various qualified domestic and foreign retirement plans as well as non-qualified supplemental retirement plans that are limited to a select group of management or highly compensated employees. The accrued benefit plan obligation for the non-qualified supplemental retirement plan is primarily related to the Steelcase Inc. Executive Supplemental Retirement Plan. This plan is unfunded, but we have purchased company-owned life insurance policies with the intention of utilizing them as a long-term funding source for the plan and other post-retirement benefit plan obligations (see Note 5). Our foreign plans are subject to currency translation impacts. The funded status of our defined benefit pension plans is as follows:

	February 24, 2006			February 25, 2005		
	Qualified Plans		Nonqualified Supplemental Retirement Plan	Qualified Plans		Non-qualified Supplemental Retirement Plans
	Domestic	Foreign		Domestic	Foreign	
Plan assets	\$ 11.2	\$ 38.7	\$	\$ 11.3	\$ 36.2	\$
Projected benefit plan obligations	10.2	56.0	23.6	10.3	57.6	24.4
Funded status	\$ 1.0	\$ (17.2)	\$ (23.6)	\$ 1.0	\$ (21.4)	\$ (24.4)
Accrued benefit plan obligations	\$ 0.6	\$ 17.2	\$ 20.4	\$ 0.6	\$ 22.3	\$ 20.7
Accumulated benefit obligation	\$ 10.2	\$ 52.6	\$ 19.6	\$ 10.3	\$ 53.1	\$ 20.3



**STEELCASE INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Summary Disclosures for Defined Benefit and Post-retirement Plans**

The following tables summarize the required disclosures related to our defined benefit pension and post-retirement plans. We used a measurement date of December 31, 2005 for our foreign pension plans, and February 24, 2006 for our domestic pension plans, non-qualified supplemental retirement plans and foreign and domestic post-retirement plans.

Changes in Projected Benefit Obligations, Assets and Funded Status	Pension Plans		Post-retirement Plans	
	February 24, 2006	February 25, 2005	February 24, 2006	February 25, 2005
<b>Change in benefit obligations:</b>				
Projected benefit plan obligations, beginning of year	\$ 92.3	\$ 85.2	\$ 205.5	\$ 230.8
Service cost	2.9	3.0	1.9	3.2
Interest cost	4.4	4.7	10.6	12.9
Amendments			(8.7)	(0.1)
Net actuarial loss (gain)	4.0	3.0	(34.6)	(27.6)
Plan participants contributions			4.7	4.2
Currency changes	(2.9)	2.7	0.4	0.3
Adjustment due to plan curtailment	(0.6)		(1.0)	(1.8)
Adjustment due to plan settlement	(0.6)			
Adjustment due to special termination benefits			0.1	
Benefits paid	(6.5)	(6.3)	(16.0)	(16.4)
Other adjustments	(3.3)			
Projected benefit plan obligations, end of year	89.7	92.3	162.9	205.5
<b>Change in plan assets:</b>				
Fair value of plan assets, beginning of year	47.5	43.5		
Actual return on plan assets	5.6	3.8		
Employer contributions	4.3	4.8	11.3	12.2
Plan participants contributions			4.7	4.2
Currency changes	(1.0)	1.7		
Benefits paid	(6.5)	(6.3)	(16.0)	(16.4)
Fair value of plan assets, end of year	49.9	47.5		
Funded status	(39.8)	(44.8)	(162.9)	(205.5)
Unrecognized prior service cost (gain)	0.7	0.8	(36.5)	(35.3)
Unrecognized net actuarial loss	14.3	15.3	12.6	49.8
Net amount recognized	\$ (24.8)	\$ (28.7)	\$ (186.8)	\$ (191.0)
<b>Amounts recognized in the consolidated balance sheets:</b>				
Accrued benefit plan obligations	\$ (38.2)	\$ (43.6)	\$ (186.8)	\$ (191.0)

Edgar Filing: STEELCASE INC - Form 10-K/A

Prepaid pension costs	6.0	5.6		
Intangible assets		0.1		
Accumulated other comprehensive income	7.4	9.2		
Net amount recognized	\$ (24.8)	\$ (28.7)	\$ (186.8)	\$ (191.0)



**STEELCASE INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Components of Expense and Weighted-Average Assumptions	Year Ended					
	Pension Plans			Post-retirement Plans		
	February 24, 2006	February 25, 2005	February 27, 2004	February 24, 2006	February 25, 2005	February 27, 2004
<b>Components of expense:</b>						
Service cost	\$ 2.9	\$ 3.0	\$ 2.4	\$ 1.9	\$ 3.2	\$ 4.3
Interest cost	4.4	4.7	4.4	10.6	12.9	14.5
Amortization of prior year service cost (gain)	0.1	0.3	0.7	(5.1)	(5.4)	(3.9)
Expected return on plan assets	(3.1)	(3.0)	(2.6)			
Adjustment due to plan curtailment			0.1	(2.5)	(2.6)	(3.8)
Adjustment due to plan settlement	(0.5)	0.1	(0.3)			
Adjustment due to special termination benefits				0.1		
Amortization of unrecognized net actuarial loss	1.4	0.2	0.5	1.7	3.5	3.7
Net expense	\$ 5.2	\$ 5.3	\$ 5.2	\$ 6.7	\$ 11.6	\$ 14.8
<b>Weighted-average assumptions used to determine benefit obligations:</b>						
Discount rate	5.00%	5.25%	5.75%	5.70%	5.60%	6.10%
Rate of salary progression	3.00%	3.25%	3.00%			
<b>Weighted-average assumptions used to determine net periodic benefit cost (1):</b>						
Discount rate	4.50%	5.70%	5.75%	5.60%	6.05%	6.41%
Expected return on plan assets	5.50%	6.00%	6.80%			
Rate of salary progression	3.00%	3.90%	3.75%	4.50%	n/a	n/a

We set the discount rate assumption annually for each of our retirement-related benefit plans at their respective measurement dates to reflect the yield of a portfolio of high quality, fixed-income debt instruments matched against the timing and amounts of projected future benefits. In evaluating the expected return on plan assets, we have considered the expected long-term rate of return on plan assets based on the specific allocation of assets for each plan, an analysis of current market conditions and the views of leading financial advisors and economists.

The assumed health care cost trend was 10.0% as of February 24, 2006, gradually declining to 4.5% in 2016 and thereafter. At February 25, 2005, the assumed health care cost trend was 11.0%

## STEELCASE INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

gradually declining to 4.5% in 2015 and thereafter. A one percentage point change in assumed health care cost trend rates would have the following effects:

		One percentage point increase		One percentage point decrease
Effect on total of service and interest cost components	\$	1.0	\$	(0.8)
Effect on post-retirement benefit obligation	\$	12.6	\$	(10.6)

Our pension plans' weighted-average investment allocation strategies and weighted-average target asset allocations by asset category as of February 24, 2006 are in the following table. The target allocations are established by the investment committees of each plan. The targets are established in an effort to provide a return after considering the risk and return of the underlying investments. There were no significant changes in the target allocations of our plan investments during 2006. The changes in weighted average target allocations between asset categories in the table below primarily relate to the weighting of our various plans.

Asset Category	February 24, 2006		February 25, 2005	
	Actual Allocations	Target Allocations	Actual Allocations	Target Allocations
Equity securities	50%	50%	50%	48%
Debt securities	30	33	30	31
Real estate	2	2	2	2
Other (1)	18	15	18	19
Total	100%	100%	100%	100%

(1) Represents guaranteed insurance contracts, money market funds and cash.

We expect to contribute approximately \$3.6 to our pension plans and \$10.1 to our post-retirement plans in 2007. Our estimated future cash outflows for benefit payments under our pension and post-retirement plans are as follows:

Year Ending February	Post- retirement Plans			
	Pension Plans	Before Medicare Act Subsidy	Medicare Act Subsidy	After Medicare Act Subsidy
2007	\$ 8.1	\$ 11.6	\$ (1.5)	\$ 10.1
2008	5.0	12.2	(1.8)	10.4

2009	4.9	12.7	(2.1)	10.6
2010	6.1	13.0	(2.3)	10.7
2011	4.0	13.6	(2.6)	11.0
2012-2016	24.6	74.6	(16.8)	57.8

***Deferred Compensation Plans and Agreements***

We have deferred compensation obligations to certain employees who have elected to defer a portion of their salary each year for a period of one to five years. These deferred compensation obligations are unfunded, but we have purchased company-owned life insurance policies, with the intention of utilizing them as a future funding source for the deferred compensation obligation and other post-retirement benefit plan obligations (see further discussion in Note 5). We also maintain a deferred compensation plan that is intended to restore retirement benefits that would otherwise be

**STEELCASE INC.**

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

paid under the Retirement Plan but are lost as a result of the limitations on eligible compensation under Internal Revenue Code Section 401(a)(17). Deferred compensation expense, which represents annual participant earnings on amounts that have been deferred, approximated \$2.8 for 2006, 2005 and 2004.

**9. CAPITAL STRUCTURE**

***Terms of Class A Common Stock and Class B Common Stock***

The holders of Common Stock are generally entitled to vote as a single class on all matters upon which shareholders have a right to vote, subject to the requirements of applicable laws and the rights of any outstanding series of Preferred Stock to vote as a separate class. Each share of Class A Common Stock entitles its holder to one vote and each share of Class B Common Stock entitles its holder to 10 votes. The Class B Common Stock is convertible into Class A Common Stock on a share-for-share basis (i) at the option of the holder at any time, (ii) upon transfer to a person or entity which is not a Permitted Transferee (as defined in our Second Restated Articles of Incorporation), (iii) with respect to shares of Class B Common Stock acquired after February 20, 1998, at such time as a corporation, partnership, limited liability company, trust or charitable organization holding such shares ceases to be controlled or owned 100% by Permitted Transferees and (iv) on the date on which the number of shares of Class B Common Stock outstanding is less than 15% of all of the then outstanding shares of Common Stock (calculated without regard to voting rights).

Except for the voting and conversion features described above, the terms of Class A Common Stock and Class B Common Stock are generally similar. That is, the holders are entitled to equal dividends when declared by the Board and generally will receive the same per share consideration in the event of a merger and be treated on an equal per share basis in the event of a liquidation or winding up of the Company. In addition, the Company is not entitled to issue additional shares of Class B Common Stock, or issue options, rights or warrants to subscribe for additional shares of Class B Common Stock, except that the Company may make a pro rata offer to all holders of Common Stock of rights to purchase additional shares of the class of Common Stock held by them, and any dividend payable in Common Stock will be paid in the form of Class A Common Stock to Class A holders and Class B Common Stock to Class B holders. Neither class of stock may be split, divided, or combined unless the other class is proportionally split, divided or combined.

***Preferred Stock***

Our Second Restated Articles of Incorporation authorize our board of directors, without any vote or action by our shareholders, to create one or more series of Preferred Stock up to the limit of the Company's authorized but unissued shares of Preferred Stock and to fix the designations, preferences, rights, qualifications, limitations and restrictions thereof, including the voting rights, dividend rights, dividend rate, conversion rights, terms of redemption (including sinking fund provisions), redemption price or prices, liquidation preferences and the number of shares constituting any series.

**10. STOCK INCENTIVE PLANS**

Our stock incentive plans include the Steelcase Inc. Employee Stock Purchase Plan (the "Stock Purchase Plan") and the Steelcase Inc. Incentive Compensation Plan (the "Incentive Compensation Plan"). Awards currently outstanding include restricted shares, restricted stock units, performance shares, performance units and non-qualified stock options.

**STEELCASE INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Stock Purchase Plan***

We reserved a maximum of 1,500,000 shares of Class A Common Stock for use under the Stock Purchase Plan, which is intended to qualify under Section 423 of the Internal Revenue Code of 1986, as amended (the Code). Pursuant to the Stock Purchase Plan, each eligible employee, as of the start of any purchase period, is granted an option to purchase a designated number of shares of Class A Common Stock. The purchase price of shares of Class A Common Stock to participating employees is designated by the Compensation Committee but in no event shall be less than 85% of the lower of the fair market values of such shares on the first and last trading days of the relevant purchase period. However, no employee may purchase shares under the Stock Purchase Plan in any calendar year with an aggregate fair market value (as determined on the first day of the relevant purchase period) in excess of \$25,000. As of February 24, 2006, 454,721 shares remain available for purchase under the Stock Purchase Plan. The Board may at any time amend or terminate the Stock Purchase Plan.

***Incentive Compensation Plan***

The Compensation Committee has full authority, subject to the provisions of the Incentive Compensation Plan, to determine:

persons to whom awards under the Incentive Compensation Plan will be made,

exercise price,

vesting,

size and type of such awards, and

specific performance goals, restrictions on transfer and circumstances for forfeiture applicable to awards.

A variety of awards may be granted under the Incentive Compensation Plan including stock options, stock appreciation rights ( SARs ), restricted stock, restricted stock units, performance shares, performance units, cash-based awards, phantom shares and other share-based awards. Outstanding awards under the Incentive Compensation Plan vest over a period of three to five years. Stock options granted under the Incentive Compensation Plan may be either incentive stock options intended to qualify under Section 422 of the Code or non-qualified stock options not so intended. The Board may amend or terminate the Incentive Compensation Plan.

In the event of a change of control, as defined in the Incentive Compensation Plan,

all outstanding options and SARs granted under the Incentive Compensation Plan will become immediately exercisable and remain exercisable throughout their entire term;

any performance-based conditions imposed with respect to outstanding awards shall be deemed to be fully earned and a pro rata portion of each such outstanding award granted for all outstanding performance periods shall become payable in shares of Class A Common Stock, in the case of awards denominated in shares of Class A Common Stock, and in cash, in the case of awards denominated in cash, with the remainder of such award being canceled for no value; and

all restrictions imposed on restricted stock and restricted stock units that are not performance-based shall lapse.

We have reserved for issuance 21,000,000 shares of Class A Common Stock (see further discussion of stock-based compensation in Note 2) under our Incentive Compensation Plan, as

**STEELCASE INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

amended and restated March 1, 2002. As of February 24, 2006, there were 9,931,771 shares remaining for future issuances under our Incentive Compensation Plan.

***Restricted Stock***

Under the Incentive Compensation Plan, the Compensation Committee approved the granting of restricted shares of Class A Common Stock and restricted stock units ( RSUs ) during 2006 and 2005 to key employees. Restricted shares and RSUs will be forfeited if a participant leaves the Company for reasons other than retirement, disability or death prior to the vesting date. These restrictions lapse when the restricted shares and RSUs vest three years from the date of grant. When RSUs vest, they will be converted to unrestricted shares of Class A Common Stock.

The aggregate market value on the grant date of the restricted shares issued during 2006 and 2005 totaled \$3.0 and \$3.7, respectively. These amounts were recorded as common stock and deferred compensation, a separate component of shareholders' equity, and are being expensed over the three-year vesting period of the grants.

RSUs are expensed and recorded in *Additional paid-in capital* within the Consolidated Statements of Changes in Shareholders' Equity over the three-year vesting period based on the value of the shares on the grant date. The amount expensed in 2006 and 2005 was \$0.5 and \$0.2, respectively.

At the time restricted stock or RSUs are forfeited, the expense recognized to date is reversed in the current period. The total compensation expense expected to be recognized through fiscal year 2009 for non-vested restricted stock and RSUs is \$3.9.

Holders of restricted stock receive cash dividends equal to the dividends that the Company declares and pays on the Class A Common Stock, which is included in *Dividends paid* in the Consolidated Statements of Cash Flows. Holders of RSUs receive quarterly cash payments equal to the dividend that the Company declares and pays on its Class A Common Stock, which are expensed as paid.

Additionally, the Board of Directors and the Compensation Committee have delegated to the Chief Executive Officer the administrative authority to award restricted shares to employees in amounts considered immaterial to the Incentive Compensation Plan. The awards are subject to limitations and the provisions of the Incentive Compensation Plan and are reviewed by the Compensation Committee. The limitations include, but are not limited to, the number of shares of restricted stock that may be awarded in any plan year and the number of shares of restricted stock that may be awarded to any individual in one plan year.

The 2006 and 2005 activity for restricted shares of stock and RSUs is as follows:

	<b>Restricted Shares</b>	<b>Restricted Stock Units</b>
February 27, 2004	222,600	48,000
Granted	276,650	58,000
Vested	(3,600)	
Forfeited	(17,750)	(17,000)
February 25, 2005	477,900	89,000
Granted	221,850	32,750
Forfeited	(39,750)	
February 24, 2006	660,000	121,750





**STEELCASE INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Performance Shares***

In 2005 and 2006, the Company made awards of performance shares and performance units ( PSUs ) under the Incentive Compensation Plan. The performance measure for these awards is based on a cumulative three-year cash flow calculation which meets one of the definitions within the Incentive Compensation Plan for performance-based compensation.

After completion of the performance period for performance shares, the number of the shares earned is determined and these shares are issued as Class A Common Stock. One-third of the shares vest immediately and the remaining two-thirds vest over the next two years.

At the end of the performance period for PSUs, the number of units earned is determined. One-third are issued as Class A Common Stock. The remaining two-thirds will vest and will be issued as Class A Common Stock over the next two years. The total compensation expense expected to be recognized through fiscal year 2010 for non-vested performance shares and PSUs is \$3.6.

Performance shares and PSUs are expensed and recorded in *Additional paid in capital* within the Consolidated Statements of Changes in Shareholders' Equity over the five-year performance and vesting period based on the market value on the grant date of the estimated number of shares to be issued. The amount expensed in 2006 and 2005 was \$1.6 and \$0.9, respectively. For both performance shares and PSUs, a dividend equivalent is calculated on the basis of the actual number of shares earned at the end of the three-year performance period. The dividend equivalent is equal to the dividends that would have been payable on the earned shares had they been held during the entire performance period. The dividend equivalent on performance shares and PSU s are expensed and accrued over the three-year performance period. At the end of this period, the dividend equivalents will be paid. The target awards granted in 2006 and 2005 represented a total of 138,000 and 207,000 performance shares and PSUs, respectively. As of February 24, 2006, PSUs forfeited totaled 19,000. The actual number of common shares that ultimately may be issued ranges from zero to 652,000 shares based on actual performance levels.

**STEELCASE INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Stock Options**

Information relating to our stock options, which pursuant to APB Opinion No. 25 did not result in any compensation expense recognized by us, is as follows:

Unexercised Options Outstanding	Number of Shares	Weighted Average Option Price Per Share
February 28, 2003	10,947,633	\$16.76
Options granted		\$
Options exercised	(146,860)	\$10.91
Options forfeited	(558,998)	\$20.12
February 27, 2004	10,241,775	\$16.66
Options granted		\$
Options exercised	(346,181)	\$11.92
Options forfeited	(765,509)	\$23.25
February 25, 2005	9,130,085	\$16.30
Options granted		\$
Options exercised	(1,006,637)	\$12.35
Options forfeited	(519,006)	\$21.52
February 24, 2006	7,604,442	\$16.46
<b>Exercisable options:</b>		
February 27, 2004	7,297,914	\$17.22
February 25, 2005	8,110,381	\$16.33
February 24, 2006	7,604,442	\$16.46

**Stock Option Information**  
**February 24, 2006**

Range of Exercise Prices	Outstanding Options			Exercisable Options	
	Options	Weighted-Average Remaining Contractual Term (Years)	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
\$10.50 to \$15.30	3,515,991	4.5	\$12.33	3,515,991	\$12.33
\$16.03 to \$17.31	2,829,601	6.0	\$16.46	2,829,601	\$16.46
\$28.00 to \$36.50	1,258,850	2.0	\$28.01	1,258,850	\$28.01

Edgar Filing: STEELCASE INC - Form 10-K/A

\$10.50 to \$36.50	7,604,442	4.6	\$16.46	7,604,442	\$16.46
--------------------	-----------	-----	---------	-----------	---------

The exercise price per share of options outstanding ranged from \$10.50 to \$36.50 as of February 24, 2006, February 25, 2005, and February 27, 2004.

**STEELCASE INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**11. OTHER INCOME (EXPENSE), NET**

Other Income (Expense), net	Year Ended		
	February 24, 2006	February 25, 2005	February 27, 2004
Interest income	\$ 11.1	\$ 6.7	\$ 3.5
Unrealized gains on derivative instruments	2.1		
Elimination of minority interest in consolidated dealers	(2.9)	0.3	
Equity in income of unconsolidated ventures	2.0	3.0	1.4
Gain (loss) on disposal of property and equipment	1.2	(0.1)	9.8
Gain (loss) on dealer transitions	(0.5)	1.2	(8.7)
Foreign exchange gain (loss)	1.9		(4.6)
Miscellaneous expense, net	(2.9)	(3.4)	(1.4)
	\$ 12.0	\$ 7.7	\$

Interest income increased in 2006 and 2005 primarily due to higher cash and investment balances and higher interest rates.

The unrealized gains on derivative instruments in 2006 relate to interest rate lock derivative contracts. In anticipation of refinancing our senior notes which mature in November 2006, we entered into derivative contracts with a notional amount of \$225.0 to effectively lock in the five-year treasury note interest rate which is expected to be the base component of the coupon rate for the debt. A gain on these derivatives was recorded to adjust the contracts to fair market value at February 24, 2006. On March 16, 2006, we designated the interest rate locks as hedges. Therefore, beginning on the designation date, all changes in the fair market value of the contracts will be recorded in *Other comprehensive income (loss)*. Although the designation date is later than the date that the contracts were entered into, we expect the hedges to be highly effective as required for hedge accounting.

Our consolidated results include the results of several dealers where either we own a majority interest in the dealer or we maintain participative control but our investments are structured such that we do not share in the profits or losses. Elimination of minority interest in consolidated dealers represents the elimination of earnings where either our class of equity does not share in the earnings or the earnings are allocated to the minority interest holder. These amounts were previously included in *Miscellaneous expense, net*. Prior year amounts have been reclassified. The increase in the current year elimination is due to improved profitability of the dealers.

Equity in income of unconsolidated ventures represents our portion of the income from our joint ventures.

During 2006, the gain on disposal of property and equipment related to the sale of excess idle land in Morocco for net cash proceeds and a pre-tax gain of \$1.2. The gain in 2004 primarily related to property sold in the United Kingdom for net cash proceeds of \$11.5 and a pre-tax non-operating gain of \$7.0. This facility had been idle for about three years prior to the sale as a result of prior restructuring activities.

The loss on dealer transitions recorded in 2006 relates to an additional reserve against a lease that was retained as part of a previous dealer transition. In 2005, we recorded a gain on dealer transitions which represented an equity return related to a previous international dealer transition and

**STEELCASE INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

a recovery on dealer transition financing that was previously reserved. The majority of the loss recorded in 2004 related to an International dealer transition.

The foreign exchange gain in 2006 primarily represents the gain on derivative instruments related to our euro-denominated intercompany loans.

Miscellaneous, net includes items such as gains and losses on the sale of venture investments and royalty income and expense.

**12. INCOME TAXES*****Provision (Benefit) for Income Taxes***

The provision (benefit) for income taxes on income from continuing operations consists of:

Provision (Benefit) for Income Taxes	Year Ended		
	February 24, 2006	February 25, 2005	February 27, 2004
Current income taxes:			
Federal	\$ 11.9	\$ (6.1)	\$ (23.6)
State and local	(5.3)	(4.8)	(1.9)
Foreign	19.0	19.5	13.1
	25.6	8.6	(12.4)
Deferred income taxes:			
Federal	(3.7)	8.7	(12.4)
State and local	2.3	1.0	(3.3)
Foreign	3.3	(25.0)	(22.8)
	1.9	(15.3)	(38.5)
Income tax expense (benefit)	\$ 27.5	\$ (6.7)	\$ (50.9)

Income taxes have been based on the following components of earnings (loss) before income taxes on continuing income:

	Year Ended		
	February 24, 2006	February 25, 2005	February 27, 2004
Domestic	\$ 42.5	\$ 11.8	\$ (126.5)
Foreign	33.9	(6.8)	33.6
	\$ 76.4	\$ 5.0	\$ (92.9)



**STEELCASE INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The total income tax expense (benefit) we recognized is reconciled to that computed under the federal statutory tax rate of 35% as follows:

<b>Income Tax Provision (Benefit) Reconciliation</b>	<b>Year Ended</b>		
	<b>February 24, 2006</b>	<b>February 25, 2005</b>	<b>February 27, 2004</b>
Tax expense (benefit) at federal statutory rate	\$ 26.7	\$ 1.8	\$ (32.4)
State and local income taxes, net of federal tax	(1.6)	(2.3)	(2.7)
Corporate-owned life insurance	(3.7)	(3.2)	(5.3)
Research and experimentation credit	(2.3)	(2.3)	(2.5)
Medicare prescription drug benefit	(2.2)		
Net tax expense relating to foreign operations, less applicable foreign tax credit, net of valuation allowance on foreign losses (1)	12.5	9.4	2.6
Adjustment to tax reserves (2)	(1.3)	(10.9)	(5.3)
Other	(0.6)	0.8	(5.3)
<b>Total income tax expense (benefit) recognized</b>	<b>\$ 27.5</b>	<b>\$ (6.7)</b>	<b>\$ (50.9)</b>

- (1) We increased our valuation allowance reserve for net operating loss carryforwards in certain international jurisdictions, which increased tax expense relating to foreign operations.
- (2) The 2006 reserves were adjusted to better reflect our estimates of potential audit exposure. The change in reserves for 2005 was a result of a favorable IRS appeal settlement for the year ended 1997. The change in reserves for 2004 was based on the results of a completed IRS tax audit for years ended 1999, 2000 and 2001.

***Deferred Taxes***

Deferred tax assets and liabilities are recognized for the estimated future tax effects of temporary differences between tax bases of an asset or liability and its reported amount in the financial statements. The measurement of deferred tax assets and liabilities is based on enacted tax laws and

**STEELCASE INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

rates currently in effect in each of the jurisdictions in which the Company has operations. The significant components of deferred income taxes are as follows:

<b>Deferred Income Taxes</b>	<b>February 24, 2006</b>	<b>February 25, 2005</b>
Deferred income tax assets:		
Employee benefit plan obligations	\$ 124.9	\$ 120.2
Foreign and domestic operating losses, net of valuation allowances of \$36.3 and \$26.0	87.8	99.6
Reserves and accruals	43.6	44.7
Tax credit carryforwards, net of valuation allowances of \$2.3 and \$4.3	26.8	23.4
Other	9.5	12.0
<b>Total deferred income tax assets</b>	<b>292.6</b>	<b>299.9</b>
Deferred income tax liabilities:		
Property and equipment	(44.7)	(53.9)
Intangible assets and other	(15.1)	(10.6)
<b>Total deferred income tax liabilities</b>	<b>(59.8)</b>	<b>(64.5)</b>
<b>Net deferred income taxes</b>	<b>\$ 232.8</b>	<b>\$ 235.4</b>
Net deferred income taxes is comprised of the following components:		
Deferred tax assets, net current	80.3	90.6
Deferred tax assets, net non-current	154.6	147.6
Deferred tax liabilities current	(0.2)	(0.2)
Deferred tax liabilities non-current	(1.9)	(2.6)

No provision has been made for foreign withholding taxes or United States income taxes on undistributed earnings of foreign subsidiaries totaling \$99.9 as of February 24, 2006. Recording deferred income taxes on these undistributed earnings is not required, because these earnings have been deemed to be permanently reinvested. These amounts would be subject to possible withholding taxes or U.S. taxation only if remitted as dividends.

***Operating Loss and Tax Credit Carryforwards***

Operating loss and tax credit carryforwards expire as follows:

<b>Year Ending February</b>	<b>Operating Loss Carryforwards (gross)</b>	<b>Operating Loss Carryforwards (tax effected)</b>	<b>Tax Credit Carryforwards</b>
2008	\$ 6.4	\$ 2.7	\$
2009	12.4	5.5	
2010	9.3	3.5	



Edgar Filing: STEELCASE INC - Form 10-K/A

2011-2026		104.1	45.3	27.7
No expiration		199.8	67.1	1.4
	\$	332.0	124.1	29.1
Valuation allowance			(36.3)	(2.3)
Net benefit			\$ 87.8	\$ 26.8

**STEELCASE INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As of February 24, 2006, we had \$332.0 of foreign and domestic operating loss carryforwards and \$29.1 of tax credit carryforwards. Future tax benefits for operating loss and tax credit carryforwards are recognized to the extent that realization of these benefits is considered more likely than not. It is considered more likely than not that a benefit of \$114.6 will be realized on these carryforwards. This determination is based on the expectation that related operations will be sufficiently profitable or various tax, business and other planning strategies available to us will enable us to utilize the carryforwards. We cannot be assured that we will be able to realize these future tax benefits or that future valuation allowances will not be required.

**13. FINANCIAL INSTRUMENTS, CONCENTRATIONS OF CREDIT RISK, COMMITMENTS, GUARANTEES AND CONTINGENCIES**

***Financial Instruments***

Financial instruments, which potentially subject us to concentrations of investment and credit risk, primarily consist of cash and equivalents, investments, accounts and notes receivable, direct finance lease receivables, company-owned life insurance policies, accounts payable and short-term borrowings and long-term debt. We place our cash and equivalents with high-quality financial institutions and invest in high-quality securities and commercial paper. Under our investment policy, we limit our exposure to any one debtor.

***Foreign Exchange Forward Contracts***

A portion of our revenues and earnings are exposed to changes in foreign exchange rates. We seek to manage our foreign exchange risk in part through operational means, including matching same currency revenues with same currency costs and same currency assets with same currency liabilities. Foreign exchange risk is also managed through the use of foreign exchange forward contracts. These financial instruments serve to protect net income, assets, and liabilities against the impact of the translation into U.S. dollars of certain foreign exchange denominated transactions. The principal currency that we hedge through foreign exchange forward contracts is the European euro. We recorded a net gain of \$1.9 in 2006, in *Other Income (Expense), net* on the Consolidated Income Statements related to these contracts. The notional amounts of all of the outstanding foreign exchange forward contracts were \$225.2 at February 24, 2006 and \$171.8 at February 25, 2005. The fair value of these contracts was \$12.8 and (\$0.7) at February 24, 2006 and February 25, 2005, respectively, and is recorded in *Other current assets* and *Other current liabilities* on the Consolidated Balance Sheets.

***Net Investment Hedge***

In 2005 and 2006, we entered into currency contracts to hedge a portion of our net investment in Steelcase Canada. This hedge serves to protect our net investment in Canada from the impact of translation into U.S. dollars. The notional amount of the currency contracts was \$78.4 and \$36.7 as of February 24, 2006 and February 25, 2005, respectively. An unrealized currency translation adjustment of \$4.0 from the deferred losses on these contracts is recorded in cumulative translation adjustment account within shareholders' equity as of February 24, 2006. In the prior year, the amount recorded in cumulative adjustment account was immaterial. There was no hedge ineffectiveness in 2006 or 2005.

***Interest Rate Locks***

In anticipation of refinancing our senior notes which mature in November 2006, we entered into derivative contracts to lock in the five-year treasury note interest rate ( treasury rate ) which is the base component of the coupon rate for this debt. The notional amount of these interest rate lock

**STEELCASE INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

derivative contracts ( derivative contracts ) was \$225.0 at February 24, 2006, and the fair value of these derivative contracts was \$2.1 at February 24, 2006. We had not designated these derivative contracts as hedging instruments during 2006, and therefore we recorded a gain of \$2.1 in *Other income (expense)* in 2006 to record these derivative contracts at fair value. On March 16, 2006 ( designation date ), we completed documentation to designate the derivative contracts as hedges. When we issue the new senior notes, the coupon rate will be based on the then current treasury rate plus a credit spread. The gain or loss on our derivative contracts will offset the movement in the treasury rate from the designation date until the date that we issue the new senior notes. We are still exposed to changes in the credit spreads in the corporate bond market until the new bonds are issued. The derivative contracts will expire at the same time that the existing debt matures.

***Interest Rate Swaps***

In 2005 and Q1 2006, we had interest rate swap contracts to effectively convert floating rate debt to a fixed rate. These contracts were designated as hedges against possible changes in the amount of future cash flows associated with interest payments of the existing variable-rate obligations. The net effect on our operating results was that interest expense on the variable-rate debt that was hedged was recorded based on fixed interest rates. As of February 25, 2005, we had two of these swap contracts in place. These contracts matured in Q1 2006 at the same time as the underlying debt. There was no ineffectiveness in 2006 or 2005.

Information regarding our interest rate swaps is summarized below.

	<b>February 25, 2005</b>		
<b>Interest Rate Swaps</b>	<b>Fair Value of Liability</b>	<b>Notional Amount</b>	<b>Interest Rate</b>
Cash flow hedges	\$ 0.6	\$ 47.1	6.6%

The notional amounts discussed above do not necessarily represent amounts exchanged by the parties and, therefore, are not a direct measure of our exposure from our use of derivatives. The amounts exchanged are calculated by reference to the notional amounts and by other terms of the derivatives, such as interest rates, exchange rates or other financial indices.

***Concentrations of Credit Risk***

Our trade receivables are primarily due from independent dealers, who in turn carry receivables from their customers. We monitor and manage the credit risk associated with individual dealers. Dealers, rather than the Company, are responsible for assessing and assuming credit risk of their customers and may require their customers to provide deposits, letters of credit or other credit enhancement measures. Some sales contracts are structured such that the customer payment or obligation is direct to the Company. In those cases, the Company assumes the credit risk. Whether from dealers or customers, our trade credit exposures are not concentrated with any particular entity.

We also have net investments in lease assets related to furniture leases originated and funded by Steelcase Financial Services. Because the underlying net investment in leases represents multiple orders from individual customers, there are some concentrations of credit risk with certain customers. Our three largest lease customers make up \$7.6 of gross lease receivables at the end of 2006 which represents 42.6% of our total net investments in lease assets. Although we believe that reserves are adequate in total, a deterioration of one of these larger credit exposures would likely require additional charges and reserves.

**STEELCASE INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Commitments**

We lease certain sales offices, showrooms and equipment under non-cancelable operating leases that expire at various dates through 2018. During the normal course of business, we have entered into several sale-leaseback arrangements for certain facilities. Accordingly, these leases are accounted for as operating leases and any gains from the sale of the original properties were recorded as deferred gains and are amortized over the lease term. The deferred gains are included as a component of *Other Long-term Liabilities*, and amounted to \$22.9 as of February 24, 2006 and \$25.2 as of February 25, 2005.

**Minimum Annual Rental Commitments Under Non-cancelable Operating Leases**

Year Ending February	Amount
2007	\$ 50.8
2008	42.0
2009	34.8
2010	31.0
2011	27.3
Thereafter	84.9
	<b>\$270.8</b>

Rent expense under all operating leases was \$56.7 for 2006, \$57.9 for 2005 and \$57.2 for 2004. Sublease rental income was \$2.6 for 2006, \$2.4 for 2005 and \$1.7 for 2004.

We have an outstanding commitment to purchase a corporate aircraft that is intended to replace an existing aircraft. We currently have \$6.3 on deposit toward this purchase and are committed to make additional payments of \$34.4 in 2007 and 2008. We expect to take delivery of the aircraft in 2008.

**Guarantees and Performance Bonds**

The maximum amount of future payments (undiscounted and without reduction for any amounts that may possibly be recovered from third parties) we could be required to make under the guarantees and performance bonds are as follows:

	February 24, 2006	February 25, 2005
Performance bonds dealers and joint ventures	\$ 7.6	\$ 11.0
Guarantees with dealers and joint ventures	1.4	15.4
Guarantees other	1.0	0.3
Total	\$ 10.0	\$ 26.7

We are party to performance bonds for certain installation or construction activities for a limited number of Steelcase dealers and joint ventures. Under these agreements, we are liable to make financial payments if the

installation or construction activities are not completed under their specified guidelines and claims are filed. Projects with performance bonds have completion dates ranging from one to five years. Where we have supplied performance bonds, we have the ability to step in and cure performance failures thereby mitigating our potential losses. No loss has been experienced under these performance bonds; however, reserves totaling \$0.2 are recorded as of February 24, 2006 to cover potential losses.

**STEELCASE INC.**

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

We are contingently liable under guarantees to third parties for the benefit of certain Steelcase dealers and joint ventures in the event of default of a financial obligation. Reserves totaling \$0.3 are recorded as of February 24, 2006 to cover potential losses for guarantees.

We occasionally provide guarantees of the performance of certain of our dealers to third parties. These performance guarantees typically relate to dealer services such as delivery and installation of products. In the event that a dealer cannot complete these services in a timely manner, we guarantee the completion of these activities. It is not possible to estimate a potential liability under these types of guarantees because of the conditional nature of our obligations and the unique facts and circumstances involved in each particular agreement.

***Contingencies***

We are party to sales contracts with various customers and dealers. There are issues with certain of these contracts that could give rise to claims against us. Based on our continued analysis of available information, we have a reserve for these contract-related contingencies of \$3.3 at February 24, 2006. The amount that may ultimately be required to settle any potential obligation may be lower or higher than our estimated reserve, which we will adjust as appropriate as additional information becomes available. If actual settlements are significantly lower or higher than our estimated reserve, our results of operations may be materially affected.

During 2006, we recorded restructuring charges as we began the consolidation of our operations in the Grand Rapids, Michigan area (see Note 17). We are in the process of marketing several properties in the Grand Rapids complex and have recorded an impairment charge during Q4 2006 for the difference between the estimated net realizable value and the book value of these assets. It is possible that as this project continues, the net realizable value could change.

We are involved in various tax matters. We establish reserves at the time that we determine that it is probable that we will be liable to pay additional taxes related to certain matters. We adjust these reserves, including any impact of related interest and penalties, in light of changing facts and circumstances, such as the progress of tax audits. A number of years may elapse before a particular matter, for which we have established a reserve, is audited and finally resolved or when a tax assessment is raised. The number of years with open tax audits varies depending on the tax jurisdiction. While it is often difficult to predict the final outcome or the timing of resolution of any particular matter, we record a reserve when we determine the likelihood of loss is probable and the amount of loss is reasonably estimable. Such liabilities are recorded in *Income taxes payable* on the Consolidated Balance Sheets. Favorable resolution of tax matters that had been reserved would be recognized as a reduction in our income tax expense when known.

***Litigation***

We are involved in litigation from time to time in the ordinary course of business. Based on known information, management believes we are not currently a party to any material litigation.

**14. REPORTABLE SEGMENTS**

We operate on a worldwide basis within three reportable segments: North America, SDP and International plus an Other category.

The North America segment consists of sales and marketing operations serving customers through a network of over 330 dealer locations in the United States and Canada. This segment sells furniture, technology and architecture products under the Steelcase and Turnstone brands.

**STEELCASE INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The SDP segment is comprised of five brands focused on higher end design furniture products and niche applications. DesignTex is focused on surface materials including textiles, wall covering, shades, screens and surface imaging. Details designs and markets ergonomic tools and accessories for the workplace. Brayton, Vecta, and Metro each provide different furniture products, including solutions for lobby and reception areas, conference rooms, private offices, health care and learning environments. The SDP segment markets and sells its products through many of the same dealers as the North America segment.

The International segment includes all sales and marketing operations of the Steelcase and SDP brands outside the United States and Canada. The International segment serves customers through a network of approximately 470 dealer locations.

In the past year, we continued to evolve towards a more centralized organization structure for manufacturing, rather than decentralized by segment. However, we primarily review and evaluate gross margin and operating income by segment in both our internal review processes and for external financial reporting. Total assets by segment includes manufacturing assets more closely associated with each segment.

The Other category includes PolyVision, IDEO, and Steelcase Financial Services subsidiaries and unallocated corporate expenses. Steelcase Financial Services provides leasing services to customers primarily in North America to facilitate the purchase of our products and provides selected financing services to our dealers. PolyVision designs and manufactures visual communications products, such as static and electronic whiteboards, for learning environments and office settings. IDEO provides product design and innovation services. Approximately 83% of corporate expenses, which represent shared services, are charged to the operating segments as part of a corporate allocation. Unallocated expenses are reported within the Other category.

<b>Operating Segment Data</b>	<b>North America</b>	<b>SDP</b>	<b>International</b>	<b>Other</b>	<b>Consolidated</b>
<b>Fiscal 2006</b>					
Revenue	\$ 1,628.0	\$ 340.8	\$ 644.5	\$ 255.6	\$ 2,868.9
Operating income (loss)	64.6	34.9	(1.3)	(15.7)	82.5
Total assets	1,073.7	140.1	493.4	637.3	2,344.5
Capital expenditures	48.6	3.5	15.9	3.9	71.9
Depreciation & amortization	78.4	6.2	21.8	13.0	119.4
<b>Fiscal 2005</b>					
Revenue	\$ 1,439.4	\$ 322.2	\$ 590.5	\$ 261.7	\$ 2,613.8
Operating income (loss)	5.5	26.2	(5.4)	(8.1)	18.2
Total assets	1,126.2	143.1	523.5	571.8	2,364.6
Capital expenditures	25.4	3.0	16.3	4.5	49.2
Depreciation & amortization	81.6	7.4	26.4	12.2	127.6
<b>Fiscal 2004</b>					
Revenue	\$ 1,280.4	\$ 275.6	\$ 539.2	\$ 250.4	\$ 2,345.6
Operating income (loss)	(46.9)	12.8	(27.5)	(12.8)	(74.4)
Total assets	1,130.5	137.1	454.5	637.3	2,359.4
Capital expenditures	18.2	4.4	16.4	4.0	43.0
Depreciation & amortization	93.6	8.5	27.6	11.7	141.4

**STEELCASE INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

We evaluate performance and allocate resources based on operating income. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies included in Note 2.

During 2004, we sold substantially all of the net assets of our marine hardware and accessories business, Attwood Corporation. The operating results of this business, formerly included within the Other category, have been segregated and reported as discontinued operations for all periods presented.

Reportable geographic information is as follows:

Reportable Geographic Data	Year Ended		
	February 24, 2006	February 25, 2005	February 27, 2004
<b>Revenue:</b>			
United States	\$ 2,107.8	\$ 1,861.9	\$ 1,690.4
France	166.5	142.2	122.7
Other foreign locations	594.6	609.7	532.5
<b>Total</b>	<b>\$ 2,868.9</b>	<b>\$ 2,613.8</b>	<b>\$ 2,345.6</b>
<b>Long-lived Assets:</b>			
United States	\$ 814.7	\$ 870.6	\$ 952.5
France	58.3	69.6	69.2
Other foreign locations	153.3	157.0	182.9
<b>Total</b>	<b>\$ 1,029.3</b>	<b>\$ 1,097.2</b>	<b>\$ 1,204.6</b>

Revenue is attributable to countries based on the location of the customer.

**15. ACQUISITIONS**

During 2006, the Company acquired a small technology services company and three small international dealerships.

In May 2005, we completed the acquisition of 100% of the net assets of GroupComm Systems Inc. ( GroupComm ) for \$5.8 in cash plus incremental payments of \$0.1 plus interest for each of the next five years. As a result of the purchase price allocation, we recorded intangible assets and goodwill of \$3.7 and \$1.5, respectively. We may be required to pay additional consideration of up to \$1.3 million in the form of an earnout payment based on GroupComm meeting cumulative financial performance targets over a five year period. GroupComm designs and implements integrated audiovisual solutions and is consolidated as part of our North America segment.

In June 2005, we completed the acquisition of 100% of the outstanding capital stock of a dealer in the United Kingdom for a net purchase price of \$2.3. As a result of the purchase price allocation, we recorded goodwill of \$2.3. This acquisition was completed as part of our ongoing consolidation and restructuring of our distribution network in the United Kingdom and is consolidated in our International segment.

In February 2006, we completed the acquisition of 100% of the outstanding capital stock of two small French dealers for a net purchase price of \$0.5. As a result of the purchase price allocation, we recorded goodwill of \$0.5. These acquisitions were completed as part of our ongoing consolidation and restructuring of our distribution network



in France and are consolidated in our International segment.

74

---

**STEELCASE INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

These acquisitions were not material individually or in the aggregate.

**16. DISCONTINUED OPERATIONS**

In 2004, the Company sold substantially all of the net assets of its marine hardware and accessories business (previously reported under the Other category) for cash proceeds of \$47.9, resulting in a pre-tax net gain of \$31.9 or \$20.0 after-tax. The operating results of this business have been segregated as discontinued operations for all periods presented and include the amounts indicated in the following table:

<b>Discontinued Operations</b>	<b>Year Ended February 27, 2004</b>
Revenue	\$ 31.2
Income before income taxes	\$ 4.0
Net income	\$ 2.4

During 2005, we reversed pre-tax reserves of \$1.5 originally recorded by our former marine hardware and accessories business. These reserves related to a legal contingency that was favorably resolved in 2005. The \$1.0 after-tax effect of this reversal was included within *Income on sale of discontinued operations* in the 2005 Consolidated Statement of Income.

**17. RESTRUCTURING CHARGES**

During Q1 2006, we announced our plans to continue the consolidation of our North America operations by closing certain facilities in the Grand Rapids, Michigan area over the next two years. At that time, we estimated total restructuring charges of \$22 to \$25, which does not include relocation costs. The 2006 North America charges included \$21.1 related to this initiative including employee termination costs and the impairment of certain fixed assets including the Grand Rapids complex, partially offset by a gain on the sale of a manufacturing plant and curtailment gains for post-retirement and medical benefits. We now estimate that total restructuring charges related to this initiative will be \$25 to \$30 and will be completed in 2007. The remaining 2006 North America restructuring charges of \$1.5 primarily relate to a lease impairment.

We also incurred \$14.3 of restructuring costs as we continued our restructuring activities in our International segment in 2006 to reduce our cost structure. The charges primarily relate to consolidating our French manufacturing operations, outsourcing our European wood manufacturing business, recording an impairment charge for our Strasbourg campus, and restructuring our operations in Malaysia.

We also incurred \$2.0 of restructuring costs in our Other category which primarily related to plant consolidation activities at our PolyVision subsidiary.

**STEELCASE INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Restructuring costs are summarized in the following table:

Restructuring Charges	February 24, 2006	February 25, 2005	February 27, 2004
<b>Cost of sales:</b>			
North America	\$ 22.6	\$ 7.8	\$ 21.6
Steelcase Design Partnership			0.2
International	8.6	(0.6)	20.5
Other	2.0	1.0	
	33.2	8.2	42.3
<b>Operating expenses:</b>			
North America		1.0	5.4
Steelcase Design Partnership			0.9
International	5.7	3.8	1.4
Other		0.4	3.5
	5.7	5.2	11.2
<b>Totals</b>	<b>\$ 38.9</b>	<b>\$ 13.4</b>	<b>\$ 53.5</b>

Below is a summary of the charges, payments, and adjustments to the restructuring reserve balance during 2004, 2005, and 2006.

Restructuring Reserve	Workforce Reductions	Business Exits and Related Costs	Total
Reserve balance as of February 28, 2003	\$ 11.2	\$ 7.2	\$ 18.4
Additions	28.4	25.1	53.5
Payments	(27.2)	(24.4)	(51.6)
Adjustments	(0.2)	2.0	1.8
Reserve balance as of February 27, 2004	12.2	9.9	22.1
Additions	11.9	1.5	13.4
Payments	(18.7)	(3.0)	(21.7)
Adjustments	(0.3)	1.0	0.7
Reserve balance as of February 25, 2005	5.1	9.4	14.5
Additions	15.4	23.5	38.9
Payments	(17.8)	(13.3)	(31.1)
Adjustments	1.2	(12.6)	(11.4)

Reserve balance as of February 24, 2006	\$	3.9	\$	7.0	\$	10.9
---	----	-----	----	-----	----	------

The reserve balance as of February 24, 2006 for business exits and related costs primarily relates to asset impairments and plant consolidation costs within our International and North America segments.

**STEELCASE INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**18. UNAUDITED QUARTERLY RESULTS**

Unaudited Quarterly Results	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
<b>2006</b>					
Revenue	\$ 676.0	\$ 702.9	\$ 750.7	\$ 739.3	\$ 2,868.9
Gross profit	199.9	214.0	223.7	208.7	846.3
Operating income	15.2	25.3	32.7	9.3	82.5
Income from continuing operations	6.7	13.8	19.1	9.3	48.9
Net income	6.7	13.8	19.1	9.3	48.9
Earnings per share (basic and diluted) from continuing operations	0.05	0.09	0.13	0.06	0.33
Earnings per share (basic and diluted)	0.05	0.09	0.13	0.06	0.33
<b>2005</b>					
Revenue	\$ 597.7	\$ 651.0	\$ 674.1	\$ 691.0	\$ 2,613.8
Gross profit	167.3	195.2	188.3	194.9	745.7
Operating income (loss)	(5.1)	16.8	6.2	0.3	18.2
Income (loss) from continuing operations	(6.7)	7.3	10.1	1.0	11.7
Discontinued operations, net	1.0				1.0
Net income (loss)	(5.7)	7.3	10.1	1.0	12.7
Earnings (loss) per share (basic and diluted) from continuing operations	(0.05)	0.05	0.07	0.01	0.08
Earnings per share from discontinued operations	0.01				0.01
Earnings (loss) per share (basic and diluted)	(0.04)	0.05	0.07	0.01	0.09

Following is a summary of the pre-tax restructuring and other selected charges (gains) included in our quarterly results above:

Quarterly Restructuring and Other Items	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
<b>2006</b>					
Restructuring charges:					
Workforce reductions	\$ 8.8	\$ 1.4	\$ 4.5	\$ 0.7	\$ 15.4
Other costs	2.0	8.3	2.8	10.4	23.5
Total restructuring charges	\$ 10.8	\$ 9.7	\$ 7.3	\$ 11.1	\$ 38.9
<b>2005</b>					
Restructuring charges:					
Workforce reductions	\$ 3.5	\$ 2.5	\$ 3.2	\$ 2.7	\$ 11.9
Other costs	1.6	(0.5)	(1.5)	1.9	1.5

Total restructuring charges	\$	5.1	\$	2.0	\$	1.7	\$	4.6	\$	13.4
-----------------------------	----	-----	----	-----	----	-----	----	-----	----	------

**STEELCASE INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**SIGNATURES**

**Pursuant to the requirements of Section 13 or 15(d) 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/ James P. Keane

**James P. Keane**  
**Senior Vice President,**  
**Chief Financial Officer**

Date: July 12, 2006

**Index of Exhibits**

<b>Exhibit No.</b>	<b>Description</b>
23.1	Consent of BDO Seidman, LLP
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, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

E-1