

STEELCASE INC
Form 10-Q
June 26, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended May 29, 2015

or

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

For the transition period from _____ to _____
Commission File Number 1-13873

STEELCASE INC.

(Exact name of registrant as specified in its charter)

Michigan

38-0819050

(State or other jurisdiction
of incorporation or organization)

(I.R.S. employer identification no.)

901 44th Street SE

49508

Grand Rapids, Michigan

(Zip Code)

(Address of principal executive offices)

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

None

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

As of June 19, 2015, Steelcase Inc. had 90,192,901 shares of Class A Common Stock and 31,950,413 shares of Class B Common Stock outstanding.

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FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MAY 29, 2015

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements:

STEELCASE INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(in millions, except per share data)

	Three Months Ended	
	May 29, 2015	May 30, 2014
Revenue	\$705.5	\$723.1
Cost of sales	485.0	504.5
Restructuring costs (benefits)	3.9	(10.5)
Gross profit	216.6	229.1
Operating expenses	185.1	191.9
Restructuring costs (benefits)	(2.0)	) 0.8
Operating income	33.5	36.4
Interest expense	(4.4)	) (4.4)
Investment income	0.4	0.4
Other income, net	2.0	3.5
Income before income tax expense	31.5	35.9
Income tax expense	11.5	14.9
Net income	\$20.0	\$21.0
Earnings per share:		
Basic	\$0.16	\$0.17
Diluted	\$0.16	\$0.17
Dividends declared and paid per common share	\$0.1125	\$0.1050

See accompanying notes to the condensed consolidated financial statements.

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STEELCASE INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(in millions)

	Three Months Ended	
	May 29, 2015	May 30, 2014
Net income	\$20.0	\$21.0
Other comprehensive income (loss), net:		
Unrealized gain on investments	—	0.1
Pension and other post-retirement liability adjustments	(1.1	) (1.3
Foreign currency translation adjustments	(3.6	) 0.7
Total other comprehensive loss, net	(4.7	) (0.5
Comprehensive income	\$15.3	\$20.5

See accompanying notes to the condensed consolidated financial statements.

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STEELCASE INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (in millions)

	(Unaudited)	
	May 29, 2015	February 27, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 110.5	\$ 176.5
Short-term investments	45.5	68.3
Accounts receivable, net of allowances of \$14.5 and \$14.6	331.7	325.6
Inventories	183.7	166.2
Deferred income taxes	34.4	46.4
Prepaid expenses	22.6	16.5
Other current assets	54.8	55.5
Total current assets	783.2	855.0
Property, plant and equipment, net of accumulated depreciation of \$944.7 and \$1,055.9	394.9	389.5
Company-owned life insurance ("COLI")	161.0	159.5
Deferred income taxes	87.6	100.1
Goodwill	107.1	107.2
Other intangible assets, net of accumulated amortization of \$41.5 and \$41.1	15.2	14.7
Investments in unconsolidated affiliates	59.2	59.1
Other assets	39.8	34.5
Total assets	\$ 1,648.0	\$ 1,719.6
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 222.0	\$ 215.0
Short-term borrowings and current maturities of long-term debt	2.5	2.5
Accrued expenses:		
Employee compensation	85.3	151.9
Employee benefit plan obligations	17.4	29.4
Customer deposits	29.8	25.1
Product warranties	21.1	22.4
Other	115.0	99.0
Total current liabilities	493.1	545.3
Long-term liabilities:		
Long-term debt less current maturities	279.3	279.6
Employee benefit plan obligations	154.2	158.2
Other long-term liabilities	57.5	72.7
Total long-term liabilities	491.0	510.5
Total liabilities	984.1	1,055.8
Shareholders' equity:		
Common stock	—	—
Additional paid-in capital	4.9	5.0
Accumulated other comprehensive loss	(34.1	) (29.4
Retained earnings	693.1	688.2
Total shareholders' equity	663.9	663.8
Total liabilities and shareholders' equity	\$ 1,648.0	\$ 1,719.6
See accompanying notes to the condensed consolidated financial statements.		

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

	Three Months Ended	
	May 29, 2015	May 30, 2014
OPERATING ACTIVITIES		
Net income	\$20.0	\$21.0
Depreciation and amortization	16.2	14.7
Deferred income taxes	24.8	13.0
Non-cash restructuring costs (benefits)	1.9	(9.7)
Non-cash stock compensation	8.8	9.6
Equity in income of unconsolidated affiliates	(3.3)	(3.7)
Dividends received from unconsolidated affiliates	3.2	2.3
Other	(1.4)	(1.7)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(5.6)	(15.0)
Inventories	(15.2)	(9.5)
Assets related to derivative instruments	22.5	(1.5)
Other assets	(32.1)	(9.1)
Accounts payable	7.7	7.6
Employee compensation liabilities	(78.5)	(74.4)
Employee benefit obligations	(17.2)	(14.6)
Accrued expenses and other liabilities	12.4	(1.6)
Net cash used in operating activities	(35.8)	(72.6)
INVESTING ACTIVITIES		
Capital expenditures	(24.2)	(15.8)
Proceeds from disposal of fixed assets	4.1	19.0
Purchases of short-term investments	(6.9)	(27.0)
Liquidations of short-term investments	29.7	62.8
Acquisitions, net of cash acquired	(6.6)	—
Other	0.1	9.8
Net cash provided by (used in) investing activities	(3.8)	48.8
FINANCING ACTIVITIES		
Dividends paid	(15.1)	(13.6)
Common stock repurchases	(11.5)	(5.9)
Excess tax benefit from vesting of stock awards	1.5	—
Repayments of long-term debt	(0.5)	(0.6)
Net cash used in financing activities	(25.6)	(20.1)
Effect of exchange rate changes on cash and cash equivalents	(0.8)	0.4
Net decrease in cash and cash equivalents	(66.0)	(43.5)
Cash and cash equivalents, beginning of period	176.5	201.8
Cash and cash equivalents, end of period	\$110.5	\$158.3

See accompanying notes to the condensed consolidated financial statements.

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STEELCASE INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions in Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and adjustments) considered necessary for a fair presentation of the condensed consolidated financial statements have been included. Results for interim periods should not be considered indicative of results to be expected for a full year. Reference should be made to the consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the fiscal year ended February 27, 2015 (“Form 10-K”). The Condensed Consolidated Balance Sheet as of February 27, 2015 was derived from the audited Consolidated Balance Sheet included in our Form 10-K.

As used in this Quarterly Report on Form 10-Q (“Report”), unless otherwise expressly stated or the context otherwise requires, all references to “Steelcase,” “we,” “our,” “Company” and similar references are to Steelcase Inc. and its subsidiaries in which a controlling interest is maintained. Unless the context otherwise indicates, reference to a year relates to the fiscal year, ended in February of the year indicated, rather than a calendar year. Additionally, Q1, Q2, Q3 and Q4 reference the first, second, third and fourth quarter, respectively, of the fiscal year indicated. All amounts are in millions, except share and per share data, data presented as a percentage or as otherwise indicated.

2. NEW ACCOUNTING STANDARDS

In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. The update changes the presentation of debt issuance costs to a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. Early adoption is permitted, and the new guidance is to be applied on a retrospective basis to all prior periods. We chose to adopt these provisions in Q1 2016, which impacted our Consolidated Balance Sheet as of February 27, 2015, by reducing Other current assets and Other assets by \$0.5 and \$1.7, respectively, and decreasing Long-term debt by \$2.2 and impacted our Consolidated Statement of Cash Flows as of May 30, 2014 by increasing Operating Activities - Other by \$0.1 and decreasing Changes in operating assets and liabilities - Other assets by \$0.1.

In May 2014, the FASB issued a new standard on revenue recognition. The new standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard is designed to create greater comparability for financial statement users across industries and jurisdictions and also requires enhanced disclosures. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is not permitted. We are currently evaluating the impact of the adoption of this standard on our consolidated financial statements.

3. EARNINGS PER SHARE

Earnings per share is computed using the two-class method. The two-class method determines earnings per share for each class of common stock and participating securities according to dividends or dividend equivalents and their respective participation rights in undistributed earnings. Participating securities represent restricted stock units in which the participants have non-forfeitable rights to dividend equivalents during the performance period. Diluted earnings per share includes the effects of certain performance units in which the participants have forfeitable rights to dividend equivalents during the performance period.

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STEELCASE INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Three Months Ended	
	May 29, 2015	May 30, 2014
Computation of Earnings per Share		
Net income	\$20.0	\$21.0
Adjustment for earnings attributable to participating securities	(0.4	) (0.4
Net income used in calculating earnings per share	\$19.6	\$20.6
Weighted-average common shares outstanding including participating securities (in millions)	124.4	125.3
Adjustment for participating securities (in millions)	(2.4	) (2.2
Shares used in calculating basic earnings per share (in millions)	122.0	123.1
Effect of dilutive stock-based compensation (in millions)	0.9	1.3
Shares used in calculating diluted earnings per share (in millions)	122.9	124.4
Earnings per share:		
Basic	\$0.16	\$0.17
Diluted	\$0.16	\$0.17
Total common shares outstanding at period end (in millions)	122.2	123.1
Anti-dilutive performance units excluded from computation of diluted earnings per share (in millions)	0.1	0.1

4. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table summarizes the changes in accumulated balances of other comprehensive income (loss) for the three months ended May 29, 2015:

	Unrealized gain on investments	Pension and other post-retirement liability adjustments	Foreign currency translation adjustments	Total
Balance as of February 27, 2015	\$0.8	\$ 8.5	\$(38.7	) \$(29.4
Other comprehensive income (loss) before reclassifications	—	0.1	(3.6	) (3.5
Amounts reclassified from accumulated other comprehensive income (loss)	—	(1.2	) —	(1.2
Net current period other comprehensive income (loss)	—	(1.1) (3.6) (4.7
Balance as of May 29, 2015	\$0.8	\$ 7.4	\$(42.3) \$(34.1

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STEELCASE INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table provides details about reclassifications out of accumulated other comprehensive income for the three months ended May 29, 2015 and May 30, 2014:

Detail of Accumulated Other Comprehensive Income (Loss) Components	Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) Three Months Ended		Affected Line in the Condensed Consolidated Statements of Income
	May 29, 2015	May 30, 2014	
Amortization of pension and other post-retirement liability adjustments			
Actuarial losses (gains)	0.1	—	Cost of sales
Actuarial losses (gains)	0.2	0.1	Operating expenses
Prior service cost (credit)	(1.1	) (1.1	) Cost of sales
Prior service cost (credit)	(1.2	) (1.2	) Operating expenses
	0.8	0.9	Income tax expense
Total reclassifications	(1.2	) (1.3	) Net income

5. FAIR VALUE

The carrying amounts for many of our financial instruments, including cash and cash equivalents, accounts and notes receivable, accounts and notes payable, short-term borrowings and certain other liabilities, approximate their fair value due to their relatively short maturities. Our short-term investments, foreign exchange forward contracts and long-term investments are measured at fair value on the Condensed Consolidated Balance Sheets.

Our total debt is carried at cost and was \$281.8 and \$282.1 as of May 29, 2015 and February 27, 2015, respectively.

The fair value of our total debt is measured using a discounted cash flow analysis based on current market interest rates for similar types of instruments and was approximately \$320 and \$323 as of May 29, 2015 and February 27, 2015, respectively. The estimation of the fair value of our total debt is based on Level 2 fair value measurements.

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

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STEELCASE INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Assets and liabilities measured at fair value in our Consolidated Balance Sheets as of May 29, 2015 and February 27, 2015 are summarized below:

Fair Value of Financial Instruments	May 29, 2015			Total
	Level 1	Level 2	Level 3	
Assets:				
Cash and cash equivalents	\$110.5	\$—	\$—	\$110.5
Restricted cash	2.5	—	—	2.5
Managed investment portfolio and other investments				
Corporate debt securities	—	16.8	—	16.8
U.S. agency debt securities	—	17.3	—	17.3
Asset backed securities	—	5.2	—	5.2
U.S. government debt securities	5.2	—	—	5.2
Municipal debt securities	—	0.3	—	0.3
Other investments	—	0.7	—	0.7
Foreign exchange forward contracts	—	1.6	—	1.6
Canadian asset-backed commercial paper restructuring notes	—	3.3	—	3.3
Auction rate securities	\$—	\$—	\$9.7	\$9.7
	\$118.2	\$45.2	\$9.7	\$173.1
Liabilities				
Foreign exchange forward contracts	\$—	\$(4.6)	) \$—	\$(4.6)
	\$—	\$(4.6)	) \$—	\$(4.6)
February 27, 2015				
Fair Value of Financial Instruments	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$176.5	\$—	\$—	\$176.5
Restricted cash	2.5	—	—	2.5
Managed investment portfolio and other investments				
Corporate debt securities	—	30.7	—	30.7
U.S. agency debt securities	—	24.1	—	24.1
Asset backed securities	—	7.7	—	7.7
U.S. government debt securities	4.3	—	—	4.3
Municipal debt securities	—	0.8	—	0.8
Other investments	—	0.7	—	0.7
Foreign exchange forward contracts	—	24.1	—	24.1
Canadian asset-backed commercial paper restructuring notes	—	3.4	—	3.4
Auction rate securities	—	—	9.7	9.7
	\$183.3	\$91.5	\$9.7	\$284.5
Liabilities				
Foreign exchange forward contracts	\$—	\$(3.1)) \$—	\$(3.1)
	\$—	\$(3.1)) \$—	\$(3.1)

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STEELCASE INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Below is a roll-forward of assets and liabilities measured at fair value using Level 3 inputs for the three months ended May 29, 2015:

Roll-Forward of Fair Value Using Level 3 Inputs	Auction Rate Securities
Balance as of February 27, 2015	\$9.7
Unrealized gain on investments	—
Other-than-temporary impairments	—
Currency translation adjustment	—
Balance as of May 29, 2015	\$9.7

6. INVENTORIES

Inventories	May 29, 2015	February 27, 2015
Raw materials and work-in-process	\$99.5	\$96.9
Finished goods	104.5	90.4
	204.0	187.3
Revaluation to LIFO	20.3	21.1
	\$183.7	\$166.2

The portion of inventories determined by the LIFO method was \$84.3 as of May 29, 2015 and \$78.1 as of February 27, 2015.

7. INCOME TAXES

In Q4 2015, we implemented changes in EMEA to align our tax structure with the management of our globally integrated business. Our U.S. parent company became the principal in a contract manufacturing model with our Steelcase European subsidiaries.

As of February 27, 2015, we maintained a full valuation allowance against our French net deferred tax assets due to the long history of large net operating losses in France, including losses generated in 2015 due to the fact that the contract manufacturing model was not fully implemented in 2015. In Q1 2016, this new model generated taxable income for our French subsidiaries and allowed for partial utilization of the net operating loss carryforwards in France. It is possible that sufficient positive evidence of sustained profitability may become available in 2016 to reach a conclusion that the remaining French valuation allowance which totaled \$57.0 as of May 29, 2015, could be reversed by the end of 2016. A change in judgment regarding our expected ability to realize net deferred tax assets would be accounted for as a discrete tax benefit in the period in which it occurs.

8. SHARE-BASED COMPENSATION

Performance Units

In Q1 2016, we awarded 265,814 performance units ("PSUs") to our executive officers. Of the PSUs awarded, 132,907 units are earned after a three-year performance period, from 2016 through 2018, based on our total shareholder return relative to a comparison group of companies, which is a market condition, and, if earned, will be issued in the form of shares of Class A Common Stock. The number of shares that may be earned can range from 0% to 200% of the target amount; therefore, the maximum number of shares that can be issued under this award is 265,814. These PSUs are expensed and recorded in Additional paid-in capital on the Condensed Consolidated Balance Sheets over the performance period. We used the Monte Carlo simulation model to calculate the fair value of these PSUs on the date of grant. The model resulted in a weighted average grant date fair value of \$24.16 per unit for these PSUs, compared to \$23.25 and \$15.50 per unit for PSUs granted in 2015 and 2014, respectively.

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STEELCASE INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The weighted average grant date fair values were determined using the following assumptions:

	2016 Awards	2015 Awards	2014 Awards	
Three-year risk-free interest rate (1)	0.8	%0.7	%0.3	%
Expected term	3 years	3 years	3 years	
Estimated volatility (2)	29.4	%42.2	%44.7	%

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

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

The remaining 132,907 PSUs awarded during Q1 2016 are earned after a three-year performance period, from 2016 through 2018, based on our three-year average return on invested capital, which is a performance condition, and, if earned, will be issued in the form of shares of Class A Common Stock. The number of shares that may be earned can range from 0% to 200% of the target amount; therefore, the maximum number of shares that can be issued under this award is 265,814. These units are expensed and recorded in Additional paid-in capital on the Condensed Consolidated Balance Sheets over the performance periods based on the probability that the performance condition will be met. The expense recorded will be adjusted as the estimate of the total number of PSUs that will ultimately be earned changes. The weighted average grant date fair value of these PSUs was \$18.68. The fair value is equal to the closing stock price on the date of grant.

For all PSUs awarded in Q1 2016, dividend equivalents are calculated based on the actual number of shares earned at the end of the performance period equal to the dividends that would have been payable on the earned shares had they been held during the entire performance period as Class A Common Stock. At the end of the performance period, the dividend equivalents are paid in the form of cash or Class A Common Stock at the discretion of the Board of Directors. In addition, these awards will be forfeited if the participant leaves the Company for reasons other than retirement, disability or death or if the participant engages in any competition with us, as set forth in the Steelcase Inc. Incentive Compensation Plan ("Incentive Compensation Plan") and the applicable award agreements and as determined by the Administrative Committee in its discretion.

The total PSU expense and associated tax benefit for all outstanding awards for the three months ended May 29, 2015 and May 30, 2014 are as follows:

Performance Units	Three Months Ended	
	May 29, 2015	May 30, 2014
Expense	\$2.5	\$2.6
Tax benefit	0.9	1.0

As of May 29, 2015, there was \$9.9 of remaining unrecognized compensation cost related to nonvested PSUs, which is expected to be recognized over a remaining weighted-average period of 2.3 years.

The PSU activity for the three months ended May 29, 2015 is as follows:

Maximum Number of Shares That May Be Issued Under Nonvested Units	Total	Weighted-Average Grant Date Fair Value per Unit
Nonvested as of February 27, 2015	1,418,312	\$16.63
Granted	531,628	21.42
Nonvested as of May 29, 2015	1,949,940	\$17.82

Restricted Stock Units
During the three months ended May 29, 2015, we awarded 560,060 restricted stock units ("RSUs"), of which 110,636 were awarded to our executive officers. These RSUs have restrictions on transfer which lapse three years after the date of grant, at which time the units will be issued as unrestricted shares of Class A Common Stock. Holders of RSUs

receive cash dividends equal to the dividends we declare and pay on our Class A Common Stock, which are included in Dividends paid on the Condensed Consolidated Statements of Cash Flows. These awards will

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STEELCASE INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

be forfeited if a participant leaves the Company for reasons other than retirement, disability or death or if the participant engages in any competition with us, as set forth in the Incentive Compensation Plan and the applicable award agreements and as determined by the Administrative Committee in its discretion. RSUs are expensed and recorded in Additional paid-in capital on the Condensed Consolidated Balance Sheets over the requisite service period based on the value of the underlying shares on the date of grant.

The RSU expense and associated tax benefit for all outstanding awards for the three months ended May 29, 2015 and May 30, 2014 are as follows:

	Three Months Ended	
	May 29, 2015	May 30, 2014
Restricted Stock Units		
Expense	\$6.1	\$6.7
Tax benefit	2.2	2.4

As of May 29, 2015, there was \$13.8 of remaining unrecognized compensation cost related to nonvested RSUs, which is expected to be recognized over a weighted-average period of 2.1 years.

The RSU activity for the three months ended May 29, 2015 is as follows:

Nonvested Units	Total	Weighted-Average Grant Date Fair Value per Unit
Nonvested as of February 27, 2015	2,110,822	\$ 14.61
Granted	560,060	18.65
Vested	(16,469	) 11.13
Forfeited	(2,750	) 16.19
Nonvested as of May 29, 2015	2,651,663	\$ 15.50

9. REPORTABLE SEGMENTS

Our reportable segments consist of the Americas segment, the EMEA segment and the Other category. Unallocated corporate expenses are reported as Corporate.

The Americas segment serves customers in the U.S., Canada, the Caribbean Islands and Latin America with a portfolio of integrated architecture, furniture and technology products marketed to corporate, government, healthcare, education and retail customers through the Steelcase, Coalesse and Turnstone brands.

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

The Other category includes Asia Pacific, Designtex and PolyVision. Asia Pacific serves customers in Asia and Australia primarily under the Steelcase brand with an emphasis on freestanding furniture systems, storage and seating solutions. Designtex designs and sells surface materials including textiles and wall coverings which are specified by architects and designers directly to end-use customers primarily in North America. PolyVision manufactures ceramic steel surfaces for use in multiple applications, but primarily for sale to third-party fabricators and distributors to create static whiteboards and chalkboards sold in the primary and secondary education markets globally.

Corporate costs include unallocated portions of shared service functions, such as information technology, human resources, finance, executive, corporate facilities, legal and research, plus deferred compensation expense and income or losses associated with COLI. Corporate assets consist primarily of unallocated cash and investment balances and the cash surrender value of COLI.

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STEELCASE INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Revenue and operating income (loss) for the three months ended May 29, 2015 and May 30, 2014 and total assets as of May 29, 2015 and February 27, 2015 by segment are presented below:

Reportable Segment Statement of Operations Data	Three Months Ended	
	May 29, 2015	May 30, 2014
Revenue		
Americas	\$519.7	\$506.3
EMEA	119.9	147.6
Other	65.9	69.2
	\$705.5	\$723.1
Operating income (loss)		
Americas	\$54.1	\$53.2
EMEA	(13.5	) (7.7
Other	0.9	—
Corporate	(8.0	) (9.1
	\$33.5	\$36.4
Reportable Segment Balance Sheet Data	May 29, 2015	February 27, 2015
Total assets		
Americas	\$992.0	\$956.1
EMEA	272.2	290.2
Other	170.1	163.1
Corporate	213.7	310.2
	\$1,648.0	\$1,719.6

10. RESTRUCTURING ACTIVITIES

In Q1 2016, we recognized a \$2.8 gain in the Americas segment related to the sale of our Corporate Development Center that was closed as part of previously announced restructuring actions.

In Q1 2016, we announced restructuring actions in EMEA related to the establishment of a Learning + Innovation Center in Munich, Germany. We expect to incur between \$15 and \$17 in restructuring costs in connection with this project, including approximately \$8 to \$10 in costs associated with employee and equipment moves, retention compensation and consulting costs and approximately \$7 in potential separation costs. We incurred \$0.7 of business exit and other costs in the EMEA segment in connection with these actions during the three months ended May 29, 2015.

In Q2 2015, we announced restructuring actions in EMEA related to the exit of a manufacturing facility in Wisches, France, and the transfer of its activities to other existing facilities in the EMEA region. As a result of these actions, we expect to incur approximately \$36 of cash restructuring costs in connection with this project. We incurred \$1.0 of business exit and other costs in the EMEA segment in connection with these actions during the three months ended May 29, 2015. During 2015, we incurred \$32.8 of business exit and other costs in the EMEA segment in connection with these actions including \$27.3 for a facilitation payment related to the transfer of the facility to a third party.

In Q1 2015, we announced restructuring actions in the Americas to close a manufacturing facility in High Point, North Carolina. In connection with this project, we expect to incur approximately \$8 of cash restructuring costs, with approximately \$4 relating to workforce reductions and approximately \$4 relating to manufacturing consolidation and production moves. We incurred \$0.7 of employee termination costs and \$0.1 of business exit and other related costs in the Americas segment in connection with these actions during the three months ended May 29, 2015. During 2015, we incurred \$1.6 of employee termination costs and \$0.7 of business exit and other related cost in the Americas segment

in connection with these actions.

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STEELCASE INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In Q1 2015, we recognized a \$12.0 gain related to the sale of an idle manufacturing facility in the Americas segment that was closed as part of previously completed restructuring actions.

In Q3 2014, we announced restructuring actions in EMEA to close a manufacturing facility in Durlangen, Germany, and to establish a new manufacturing location in Stribro, Czech Republic. In connection with this project, we expect to incur approximately \$23 of cash restructuring costs, with approximately \$17 related to employee termination costs and approximately \$6 related to business exit and other related costs. We incurred \$1.7 of employee termination costs and \$0.4 of business exit and other related costs in the EMEA segment in connection with these actions during the three months ended May 29, 2015. During 2015, we incurred \$12.7 of employee termination costs and \$1.6 of business exit and other related costs in the EMEA segment in connection with these actions.

Restructuring costs (benefits) are summarized in the following table:

Restructuring Costs (Benefits)	Three Months Ended	
	May 29, 2015	May 30, 2014
Cost of sales		
Americas	\$0.8	\$(11.6)
EMEA	3.1	1.1
Other	—	—
	3.9	(10.5)
Operating expenses		
Americas	(2.8)	—
EMEA	0.8	0.8
Other	—	—
	(2.0)	0.8
Total	\$1.9	\$(9.7)

Below is a summary of the net additions, payments and adjustments to the restructuring reserve balance for the three months ended May 29, 2015:

Restructuring Reserve	Employee Termination Costs	Business Exits and Related Costs	Total
Reserve balance as of February 27, 2015	\$13.7	\$1.6	\$15.3
Additions	2.4	2.2	4.6
Payments	(0.8)	(2.2)	(3.0)
Adjustments	(0.4)	—	(0.4)
Reserve balance as of May 29, 2015	\$14.9	\$1.6	\$16.5

The employee termination costs reserve balance as of May 29, 2015 primarily relates to restructuring actions in EMEA.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations:

This management's discussion and analysis of financial condition and results of operations should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended February 27, 2015. Reference to a year relates to the fiscal year, ended in February of the year indicated, rather than the calendar year, unless indicated by a specific date. Additionally, Q1, Q2, Q3 and Q4 reference the first, second, third and fourth quarter, respectively, of the fiscal year indicated. All amounts are in millions, except share and per share data, data presented as a percentage or as otherwise indicated.

Non-GAAP Financial Measures

This item contains certain non-GAAP financial measures. A "non-GAAP financial measure" is defined as a numerical measure of a company's financial performance that excludes or includes amounts so as to be different than the most directly comparable measure calculated and presented in accordance with GAAP in the condensed consolidated statements of income, balance sheets or statements of cash flows of the company. Pursuant to the requirements of Regulation G, we have provided a reconciliation below of non-GAAP financial measures to the most directly comparable GAAP financial measure.

The non-GAAP financial measures used are: (1) organic revenue growth (decline), which represents the change in revenue excluding estimated currency translation effects and the impacts of acquisitions and divestitures, and (2) adjusted operating income (loss), which represents operating income (loss) excluding restructuring costs (benefits). These measures are presented because management uses this information to monitor and evaluate financial results and trends. Therefore, management believes this information is also useful for investors.

Financial Summary

Our reportable segments consist of the Americas segment, the EMEA segment and the Other category. Unallocated corporate expenses are reported as Corporate.

Results of Operations

Statement of Operations Data	Three Months Ended					
	May 29, 2015			May 30, 2014		
Revenue	\$705.5	100.0	%	\$723.1	100.0	%
Cost of sales	485.0	68.7		504.5	69.8	
Restructuring costs (benefits)	3.9	0.6		(10.5)	(1.5))
Gross profit	216.6	30.7		229.1	31.7	
Operating expenses	185.1	26.3		191.9	26.5	
Restructuring costs (benefits)	(2.0)	) (0.3)	)	0.8	0.2	
Operating income	33.5	4.7		36.4	5.0	
Interest expense	(4.4)	) (0.6)	)	(4.4)	) (0.6))
Investment income	0.4	—		0.4	0.1	
Other income, net	2.0	0.3		3.5	0.5	
Income before income tax expense	31.5	4.4		35.9	5.0	
Income tax expense	11.5	1.6		14.9	2.1	
Net income	\$20.0	2.8	%	\$21.0	2.9	%
Earnings per share:						
Basic	\$0.16			\$0.17		
Diluted	\$0.16			\$0.17		

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Q1 2016 Organic Revenue Growth (Decline)	Americas	EMEA	Other	Consolidated
Q1 2015 revenue	\$506.3	\$147.6	\$69.2	\$723.1
Divestitures	—	(1.3)	—	(1.3)
Currency translation effects*	(3.9)	(27.2)	(3.0)	(34.1)
Q1 2015 revenue, adjusted	502.4	119.1	66.2	687.7
Q1 2016 revenue, reported	519.7	119.9	65.9	705.5
Organic growth (decline) \$	\$17.3	\$0.8	\$(0.3)	\$17.8
Organic growth (decline) %	3	% 1	% —	% 3

* Currency translation effects represent the estimated net effect of translating Q1 2015 foreign currency revenues using the average exchange rates during Q1 2016.

	Three Months Ended					
Reconciliation of Operating Income to	May 29,		May 30,			
Adjusted Operating Income	2015		2014			
Operating income	\$33.5	4.7 %	\$36.4	5.0 %		
Add: restructuring costs (benefits)	1.9	0.3	(9.7)	(1.3)		
Adjusted operating income	\$35.4	5.0 %	\$26.7	3.7 %		
Overview						

In Q1 2016, revenue was \$705.5 compared to \$723.1 in Q1 2015. Organic revenue growth was 3% compared to the prior year after adjusting for currency translation effects and divestitures, and adjusted operating income was 5.0% of revenue. The Americas posted organic revenue growth of 3%, orders grew 8% compared to the prior year and operating performance in the segment remained strong. EMEA experienced organic revenue growth of 1%, and orders grew 1% (in constant currency) compared to the prior year, which included a large order in France. Organic revenue in the Other category was essentially flat compared with the prior year, as growth in Asia Pacific was offset by declines at PolyVision and Designtex.

We recorded net income of \$20.0 in Q1 2016 and \$21.0 in Q1 2015. Improvements in adjusted operating income and benefits of a lower effective income tax rate were offset by net restructuring costs in the current year compared to net restructuring benefits in the prior year.

Operating income was \$33.5 in Q1 2016 compared to \$36.4 in the prior year. Adjusted operating income increased by \$8.7 to \$35.4 compared to Q1 2015 adjusted operating income of \$26.7. The increase was driven by operating improvements in the Americas, partially offset by higher disruption costs and inefficiencies in EMEA.

Cost of sales was 68.7% of revenue in Q1 2016, which represented a 110 basis point improvement compared to Q1 2015. The improvement was driven by benefits of improved pricing, continued cost reduction efforts and lower freight, distribution and warranty costs in the Americas, which were partially offset by an unfavorable shift in business mix in the Americas and an increase in disruption costs and inefficiencies of \$3 compared to Q1 2015 associated with manufacturing footprint changes in EMEA. Disruption costs and inefficiencies include labor premiums paid to employees during transition periods and labor inefficiencies caused by work stoppages or slowdowns resulting from restructuring activities. They also include incremental logistics costs caused by split shipments (linked to labor inefficiencies) and interim supply chains during production moves. Lastly, these costs include duplicate labor and overhead at the new Czech Republic facility and other plants impacted by production moves. We believe these costs are temporary and will be eliminated once the manufacturing changes in EMEA are complete and the industrial model returns to normal levels of operating efficiency.

Operating expenses in Q1 2016 of \$185.1 represented a decrease of \$6.8 and 20 basis points as a percent of revenue compared to Q1 2015. The decrease in dollars was driven by favorable currency translation effects.

We recorded net restructuring costs of \$1.9 in Q1 2016 primarily related to actions in EMEA including costs associated with the exit of a manufacturing facility in Wisches, France and the closure of a manufacturing facility in Durlangen, Germany, partially offset by a gain in the Americas segment related to the sale of our Corporate Development Center. In Q1 2015, we recorded net restructuring benefits of \$9.7 driven by a gain related to the sale of

an idle manufacturing facility in the Americas segment, partially offset by costs in EMEA primarily related to the closure of a manufacturing facility in Durlangen, Germany.

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Our Q1 2016 effective tax rate was 36.5% compared to the Q1 2015 effective tax rate of 41.5%. The decrease was primarily driven by implementing a new transfer pricing model in EMEA in Q4 2015. Our U.S. parent company became the principal in a contract manufacturing model with our Steelcase European subsidiaries. This new model generated taxable income for our Steelcase European subsidiaries in Q1 2016 and allowed for partial utilization of net operating loss carryforwards in Europe which reflected valuation allowances. See Note 7 to the condensed consolidated financial statements for additional information.

Interest Expense, Investment Income and Other Income, Net

	Three Months Ended	
	May 29, 2015	May 30, 2014
Interest Expense, Investment Income and Other Income, Net		
Interest expense	\$(4.4)	\$(4.4)
Investment income	0.4	0.4
Other income (expense), net:		
Equity in income of unconsolidated ventures	3.2	3.5
Foreign exchange loss	(0.6)	(0.1)
Miscellaneous, net	(0.6)	0.1
Total other income, net	2.0	