

Imagine when the economy is sitting in the right chair.

Steelcase Inc. 2004 Annual Report

Steelcase

A close-up photograph of the Think chair. The image shows a black, curved armrest on the left, a black mesh backrest in the upper right, and a thick, cylindrical red upholstered armrest in the center. Below the red armrest, the chair's base and mechanical components are visible, including a black castor wheel and a grey metal frame. The background is plain white.

The new Think™ chair conforms to your body and responds intuitively to your movements. It's also an environmentally responsible chair—99% recyclable. Think is the chair with a brain and a conscience.

We can. Poor economic conditions are not a reason to sit around waiting for recovery. And we haven't been. Getting the best performance out of our company, like a perfect office chair, starts with getting in the right position. We've spent the last three years doing just that.

We're investing in our own future and taking an active role in improving the way we do business. Building upon our legacy of quality, reliability and speed, we are doing the things we know will make us an even better company. Leading—not reacting.

Understanding how we can streamline and simplify the way we do business, and then using that information and expertise to dramatically improve our operating performance, puts us in an optimal position for when our industry resumes growth.

Our innovative product portfolio continues to evolve, creating opportunities in new markets and solving the challenges of the modern workspace while setting the stage for top-line growth. Rethinking the way we approach manufacturing and administrative processes is making us more agile and efficient. Together with a future propelled by job growth and increased business capital spending, we see a future where we'll sit in the ultimate sweet spot of performance.

99%
recyclable



You know that feeling of energy you get from collaboration?

We design that.

Every Steelcase solution is born of our dedication to helping people work more effectively while helping organizations use space more efficiently. Based on our ongoing research, we continue to build a comprehensive understanding of

how all elements in the workplace impact office worker performance. We have been evolving our product portfolio by adding elements of architecture and technology—building on the strength of our furniture products. For us, creating better work

2.



environments doesn't start with a sketchpad—it begins with a comprehensive understanding of how people work and how workspaces foster communication, collaboration and innovation. We have continued to devote significant resources to research and development. In each of the last 10 years, Steelcase has secured more U.S. patents than anyone else in our industry. Our commitment to the science behind our innovative products, as evidenced by our expansive intellectual property portfolio, is imperative for two reasons. First, our workspace research fuels the development of an evolving range of solutions that address real problems and deliver measurable results for our customers. Second, our leadership in

this area continues to set us apart from the competition and create opportunities in new markets.

For example, our unique licensing agreements with the automotive and airline industries for Leap® seating technology are prime examples of how we're turning our intellectual property into new revenue.



Leap® chair



Answer® system

Products:

More than 60 new and enhanced products planned for launch in fiscal 2005

60+

1,400+

Patents:

Approximately 1,400 domestic and international patents and design registrations

3.



A great workspace puts all the essentials at your fingertips.



InterAct® screen



Please® chair



InterAct® table



Happening® storage

Over the past 10 years, Steelcase and our subsidiaries have received 17 major Industrial Design Excellence Awards for innovative product design, ranking sixth among all U.S. companies and first in the office furniture industry. And through ongoing collaboration with key knowledge partners such as the Massachusetts Institute of Technology, Carnegie Mellon University and the Technical University of Denmark, we continue to expand



our marketplace identity as both an office furniture designer and a comprehensive workspace solutions provider. Now we are poised to extend our reach into important, largely untapped markets. Steelcase is

uniquely positioned to serve new and existing customers in both established overseas business centers and emerging economies. From our new cutting-edge showrooms in Chicago and Paris to manufacturing operations and joint

ventures in Asia, Steelcase is actively moving forward with new opportunities on a global scale. This is important to recognize because it represents another way in which we have created a foundation for long-term growth.

Just like our global market strategy.

5.



2004 worldwide presence:

We have over 35 manufacturing locations and over 900 dealer locations globally.



Enterprise perfection isn't about cutting costs.

We continue to remove complexity and its associated cost throughout our business through the application of lean principles. These changes are inspired by our customer-centric approach. Achieving the optimal cost, quality, reliability and speed is vital to providing the best value and return on investment to our customers. At the same time, we are implementing best practices, including the ability to configure products locally while leveraging our entire global supply chain. This is essential to improving our competitive advantage.

6.



We have realized significant cost savings by reducing manufacturing floor space by approximately 4 million square feet and rightsizing our workforce over the past three years—all while focusing on improving production cycle times and increasing inventory turns. These actions are dramatic. Our ongoing

facility rationalization has created short-term disruption in some plants. However, other plants are showing significant improvement. We are nearing the end of costly operational restructuring but will continue with other key activities that are part of our multi-year restructuring effort. Along with applying lean

principles, we are advancing our strategic sourcing initiatives and becoming less vertically integrated. The sum result of our transformation is this: We are more agile, efficient, productive and inspired—qualities that bear a striking resemblance to what our products offer. Combining our innovative product portfolio with our newly strengthened operating leverage, we believe we are well-positioned for success.



It's about designing our future.

7.

-14%
revenue

+20%
productivity

Improved productivity:
While revenue decreased in our Seating Plant over the past two years, productivity (as measured by hours per unit) improved.



Our balance sheet details dollars and cents.

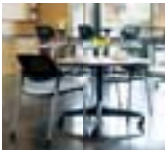
8.

Our strategies outline the good sense that got us there.

By reducing debt and increasing cash over the past three years, we strengthened the company's balance sheet while fostering new revenue opportunities. At the same time, we were able to complete most of our costly restructuring activities, and we launched a significant number of award-winning new products that illustrate our fiscal and operational strategies.



Impulse™
LTX multi-media
whiteboard



au lait™ tables



Sieste™ sleeper



Question and Answer

The Steelcase management team discusses our approach to creating shareholder value, now and in the future.

In what specific ways have you been able to simplify processes and remove complexity?

One of the first areas we've addressed is our design process. Instead of developing products that are built on multiple design platforms, we are shifting to single platforms. Decreasing the number of platforms we're working with in the design process has had even larger implications in our second area of focus—manufacturing. Removing complexity from the process of manufacturing and assembling our products has dramatically reduced cycle times. This, of course, improves our ability to control costs and make deliveries faster.

Why is being a global company an important part of your strategy?

First, we need to grow our position as a global company to meet the demands of our customers—they are global, so we need to be as well. To deliver innovative products at a cost that helps our customers get the most from their

investment, we need to have a local presence in key markets. Second, international markets present many new growth opportunities for Steelcase, and we have aggressively prepared to serve customers in Europe, Asia, South America and elsewhere. Being global provides us access to diverse talent, economic diversification and more opportunities for innovation. It also provides cross-border leverage.

What are your plans for growth?

As international markets grow, we will have to expand our ability to serve these increasingly important customers. We are already well-prepared, but we will need to enhance our ability to serve customers anywhere. We are focused on, and aggressively targeting, key growth markets such as healthcare and education. We will continue to leverage our installed base—the largest in the industry—by migrating our customers to our new, innovative products. Additionally, we are increasing our focus on mid-market customers with our Turnstone® brand.

We believe all of these activities will create new revenue opportunities for our company.

What is your philosophy on corporate governance?

Rob Pew, chairman of the Board, is dedicated to excellence in corporate governance. He has tasked the Nominating and Corporate Governance Committee with seeking out and implementing best-in-class governance principles and processes that reflect Steelcase's deeply ingrained commitment to integrity. These alone, however, are not enough. Equally critical to ensuring excellence in corporate governance are our directors. Our Board is composed of curious and demanding independent thinkers who have an unwavering focus on achieving long-term shareholder value. This winning combination—effective directors and established processes and principles—ensures that the fundamentals of success in corporate governance are firmly in place at Steelcase.

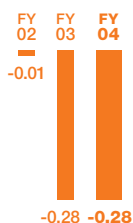
To our fellow shareholders:

10.

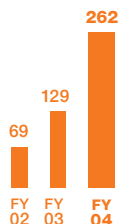
Revenue (\$ in billions)



EPS from Continuing Operations (\$ per share)



Cash Balances (\$ in millions)



All of us at Steelcase have faced significant challenges over the past few years. Simply put, our key clients discontinued spending on products like ours in a way that they had never done, creating the largest peak-to-trough decline in our industry's history. As a result, we have actively managed a multi-year restructuring of our business that has often involved difficult decisions. While these changes have not been easy, our talented and dedicated employees have made them a reality, and we have emerged a stronger company. I am sure of this.

During our restructuring, we have made important decisions about our future. Reinventing ourselves to become more agile in operations has been at the heart of our transformation. Steelcase's product portfolio is as impressive and distinguished as ever because we continued to invest in activities key to our strategy. Improving the way we do business from an operations standpoint was where we needed additional focus. And across our business, we have been very successful at making continued investments in new product innovation, while completing most of the necessary and costly operational restructuring activities despite our decline in revenue. As we near the final phases of initiatives designed to streamline and optimize our manufacturing processes, I believe it is important to recognize how this hard work will position Steelcase for long-term success.

But some things have not changed, especially our commitment to the highest standards of quality and dependability in our products. At our core, we are still a company focused on developing user-centered products and services that transform the ways people work. This is our passion—unchanged

and undeterred. What has changed is our willingness to challenge traditions and the way we've always done things when they might get in the way of improving our business further. And this has strengthened us as a company. Improving our operating performance and striving for enterprise perfection have enhanced what made us an industry leader in the first place.

Optimizing our operations helps us be more competitive and provides us a more nimble business model. Fueled by our leadership and research in the area of workspace performance, our world-class products and services continue to meet current and emerging customer needs in a fast-paced and fast-changing world. Bringing our operations in line with our achievements in research and design completes the portrait of a company poised to benefit from improved conditions in the market. Steelcase today is uniquely prepared to reap the rewards of a sustained economic recovery—more so than we were two years ago.

Whether economic conditions improve sooner or later, recovery will occur. In the meantime, there's already a lot to be optimistic about. We have moved forward with a major transformation that includes a revitalized and innovative product portfolio, and we have realized the

cumulative benefit of three years of hard work reinventing our global industrial model. Steelcase is a company set to build on its standing as the leader in the global office furniture industry. We are ready to hit the ground running and expect to see revenue growth in 2005.

In fiscal 2004, Steelcase reported revenues of \$2.35 billion. We reported a loss from continuing operations of (\$0.28) per share, equal to the loss of (\$0.28) per share last fiscal year. We were able to stabilize losses despite almost \$200 million less in revenues. Another indicator of our health and preparedness is our balance sheet. Debt remains at relatively low levels, ending the year at \$354 million. Capital expenditures were reduced by over 40 percent, helping to double our cash balances from \$129 million in fiscal 2003 to \$262 million in fiscal 2004. The strength of our balance sheet speaks for itself.

Where we are today is the result of a tremendous amount of work throughout the company. This is thanks in full to each and every one of our employees around the world. From Grand Rapids, Michigan, to Strasbourg, France, and from Rosenheim, Germany, to Kuala Lumpur, Malaysia, and our many other locations across the globe, Steelcase employees are our greatest asset. They are the ones who turn information into expertise, and insights into innovative products and services. They are the ones who have helped realize cost reductions

and turned lean manufacturing principles into real-world practices. And they are the ones who, together with our international network of independent dealers, bring our mission to life with customers. They are the irreplaceable pride of Steelcase, and “thank you” doesn’t begin to express my gratitude.

Moving into a new fiscal year, there is so much to be excited about. Our operations have been streamlined in preparation for improved conditions. Our research and development continues to create high-performing solutions to unmet customer needs. Our product portfolio is ready to meet those needs. Our balance sheet reflects our considerable financial strength. And we remain the leader in the global office furniture industry.

Sincerely,



James P. Hackett
President and Chief Executive Officer

P.S. We look forward to showcasing our new Think chair at NeoCon, our industry’s largest North American trade show, in June. It’s a prime example of our focus on innovation and enterprise perfection—designed intelligently without complexity and manufactured using lean principles in regional locations for global distribution.

Core Values:

Act with integrity

Tell the truth

Keep commitments

Treat people with dignity and respect

Promote positive relationships

Protect the environment

Excel



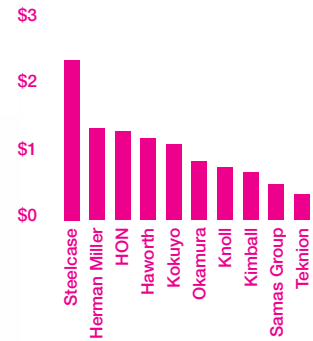


We've changed
a lot of things.

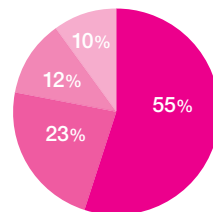
Being the
industry
leader isn't
one of them.

12.

**Global Office
Furniture Market Sales**
(\$ in billions)



**Steelcase Business
Segment Revenue Mix**



Form 10-K

Steelcase Inc. 2004

Steelcase

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

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended February 27, 2004
Commission File Number 1-13873

STEELCASE INC.

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)
(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 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 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 an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

As of April 28, 2004, the registrant had outstanding 50,686,926 shares of Class A Common Stock and 97,577,207 shares of Class B Common Stock. The aggregate market value of the Class A Common Stock held by non-affiliates of the registrant was \$584,914,032 computed by reference to the closing price of the Class A Common Stock on August 29, 2003 as reported by the New York Stock Exchange. Although there is no quoted market for registrant's Class B Common Stock, shares of Class B Common Stock may be converted at any time into an equal number of shares of Class A Common Stock. Using the closing price of the Class A Common Stock on August 29, 2003, as reported by the New York Stock Exchange as the basis of computation, the aggregate market value of the Class B Common Stock held by non-affiliates was \$920,044,830.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant's definitive proxy statement for its 2004 Annual Meeting of Shareholders, to be held on June 24, 2004, are incorporated by reference in Part III of this Form 10-K.

STEELCASE INC.
FORM 10-K
YEAR ENDED FEBRUARY 27, 2004
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PART I

Item 1. Business:

The following business overview is qualified in its entirety by the more detailed information included elsewhere or incorporated by reference in this Annual Report on Form 10-K ("Report"). As used in this Report, unless otherwise expressly stated or the context otherwise requires, all references to "Steelcase," "we," "our," "the Company" and similar references are to Steelcase Inc. and its consolidated subsidiaries. Unless the context otherwise indicates, reference to a year relates to a fiscal year, ended in February of the year indicated, rather than a calendar year. Additionally, Q1 2004 references the first quarter of fiscal 2004. All amounts are in millions, except per share data, data presented as a percentage or unless otherwise indicated.

GENERAL

Steelcase is the world's leading designer and manufacturer of office furniture, with 2004 revenue of approximately \$2.3 billion. Founded and incorporated in 1912 as the Metal Office Furniture Company, we are a global company headquartered in Grand Rapids, Michigan. We employ approximately 14,200 employees, have manufacturing facilities in over 35 locations and distribute products through a network of independent dealers in more than 900 locations around the world.

We operate on a worldwide basis within three reportable segments: North America, the Steelcase Design Partnership ("SDP") and International, plus an "Other" category. Previously, we reported under four reportable segments, plus an "Other" category. However, beginning in Q1 2004, our Financial Services business was no longer reported as a separate segment since its results and asset base were below the threshold requirements. For comparative purposes, prior year information has been restated to reflect the new segmentation of the Company. See further information about our segments below.

On August 29, 2003, the Company sold substantially all of the net assets of its marine hardware and accessories business (previously reported under the Other category). In accordance with generally accepted accounting principles, the operating results of this business have been segregated as discontinued operations for all periods presented. See further information regarding this disposition in Note 18 to the consolidated financial statements.

NARRATIVE DESCRIPTION OF BUSINESS

Business Segments

Additional information about our reportable segments, including financial information about geographic areas, is contained in this Report under *Management's Discussion and Analysis of Financial Condition and Results of Operations* and Note 17 to the consolidated financial statements.

North America Segment

Our North America segment consists of manufacturing and sales operations in the United States and Canada. This segment includes 16 manufacturing facilities, represents approximately 8,000 employees and serves customers through a network of over 330 independent dealer locations. Our offerings in North America include architecture, furniture and technology products, as described below, under the Steelcase and Turnstone brands. For example, *Pathways* is an evolving portfolio of integrated architecture, furniture and technology products that enable customers to create flexible, user-centered work environments. In 2004, the North America segment accounted for \$1,280.4, or 54.6% of our total revenue.

Steelcase Design Partnership Segment

The SDP includes the following companies and their brands: Brayton International, The Designtex Group, Office Details Inc., Metropolitan Furniture Corporation and Vecta. These companies operate autonomously and report to the president of the SDP. They focus on higher-end design furniture products and niche applications for lobby and reception areas, conference rooms, private offices, health care and learning environments, as well as the design and distribution of surface materials and ergonomic tools for the workplace. The SDP segment has approximately 1,200 employees and distributes its products through many of the same dealers as the North America segment. In 2004, SDP accounted for \$275.6, or 11.7% of our total revenue.

International Segment

Our International segment includes all sales and manufacturing operations of the Steelcase and Werndl brands outside the United States and Canada. It develops and manufactures most of the products it sells. The International segment includes 12 manufacturing facilities located in 8 countries, over 3,500 employees and serves customers through a network of approximately 570 independent dealer locations. We hold the market leadership position in Europe and leading positions in several individual countries. In 2004, our International segment accounted for \$539.2, or 23.0% of our total revenue.

Other Category

The Other category includes our Financial Services, PolyVision and IDEO subsidiaries, ventures and unallocated corporate expenses. Steelcase Financial Services Inc. 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 Corporation designs and manufactures visual communications products, such as static and electronic whiteboards, for learning environments and office settings. IDEO Inc. provides product design and innovation services. Approximately 85% of corporate expenses representing shared services are charged to the operating segments as part of a corporate allocation. Unallocated expenses are reported within the Other category. In 2004, the Other category accounted for \$250.4, or 10.7% of our total revenue.

Our Products

We are a global work effectiveness company, focused on providing knowledge, products and services that enable our customers to create work environments that help people in offices work more effectively while helping organizations utilize space more efficiently.

Because of this focus, we have a broad offering of products with a variety of aesthetic options and performance features, and at various price points that address the three core elements of a work environment: architecture, furniture and technology. Our reportable segments generally offer similar products under some or all of the categories listed below:

Furniture

Panel-based and freestanding furniture systems. Moveable and reconfigurable furniture components used to create individual workstations and complete work environments. Systems furniture provides visual and acoustical privacy, accommodates power and data cabling, and supports technology and other worktools.

Storage. Lateral and vertical files, cabinets, bins and shelves, carts, file pedestals and towers.

Seating. High-performance, ergonomic, executive, guest, lounge, team, health care, stackable and general use chairs.

Tables. Meeting, personal, learning and café tables.

Textiles and surface materials. Seating upholstery, panel fabric and wall coverings.

Desks and Suites. Wood and non-wood desks, credenzas and casegoods.

Worktools. Computer support, technology management, information management products and portable whiteboards.

Architecture

Interior architecture. Full and partial height walls and doors with a variety of surface materials, raised floors and modular post and beam products.

Lighting. Task, ambient and accent lighting with energy efficient and user control features.

Technology

Infrastructure. Infrastructure products, such as modular communications, data and power cabling.

Appliances. Group communication tools, such as interactive whiteboards, image capturing devices and web-based interactive space-scheduling devices.

Raw Materials and Suppliers

The Company's manufacturing materials are available from a significant number of sources within the United States, Canada, Europe and Asia. Through collaboration, our goal is for both our suppliers and Steelcase to prosper by continuously improving our products and manufacturing processes. To date, we have not experienced difficulties obtaining raw materials, which include steel and other metals, lumber, paper, paint, plastics, laminates, particleboard, veneers, glass, fabrics, leathers and upholstery filling material. These raw materials are not unique to the industry nor are they rare. Steel and other metal prices have significantly increased in recent months due to unprecedented changes in global supply and demand. There is some risk that these changes could lead to future supply interruptions although we do not expect nor have we experienced any such interruptions. See *Management's Discussion and Analysis of Financial Condition and Results of Operations* for a discussion of raw materials prices.

Product Research, Design and Development

Our product development process begins with research aimed at identifying emerging patterns of user behavior in the workplace and changes in the ways people work. Our research methods include on-site observation of people working in their offices, human factor studies, and often include collaboration with universities and other companies. Our research activity is a corporate function and occurs primarily in North America and Europe.

Understanding patterns of work enables us to identify and anticipate user needs. Our design teams develop prototypical solutions to address these needs. These solutions are sometimes single products and/or enhancements to existing products, and are sometimes integrated architecture, furniture and technology solutions. Design work is organizationally distributed across our major businesses and can involve outside design services. At times, we also utilize IDEO, a design and innovations subsidiary, in the development of new and enhanced products.

Our marketing team evaluates product concepts using several criteria, including financial return metrics, and chooses which products will be developed and launched. Next, designers work closely with our engineers and outside suppliers to co-develop products and processes that lead to more efficient manufacturing while incorporating innovative user features. Products are tested for performance, quality and compliance with applicable standards and regulations.

Exclusive of royalty payments, we have invested approximately \$150.0 in research, design and development activities over the past three years. Royalties are sometimes paid to outside designers of our products as the products are sold and are not included in the research, design and development costs since they are variable based on product sales. See Note 2 to the consolidated financial statements for more information regarding research, design and development costs.

Manufacturing

We manufacture our products in more than 35 locations throughout the world, with facilities predominantly in North America and Europe. Substantially all of our manufacturing facilities “assemble to order” rather than to “forecast,” which minimizes finished goods inventory levels and emphasizes continuous improvement and delivery time to customers. We have an extensive physical distribution system in North America and Europe and utilize both our company-owned trucking fleet and commercial transport and delivery services.

We are implementing lean manufacturing principles in many of our plants. Lean manufacturing involves smaller batch sizes, cellular or team-based manufacturing, flow and pull methods of managing work in process, and other world-class production techniques. We are also implementing enhanced planning and scheduling systems to help coordinate production of a given order across multiple plants and multiple delivery times. We explore opportunities to outsource certain manufacturing processes when suppliers can offer additional efficiencies or other performance benefits. These strategies along with other initiatives are helping us create the new “Steelcase Production System.” As we continue with implementation, we expect to improve our productivity, increase the effective capacity of each plant, improve inventory turns, and create a less capital-intensive industrial model. For example, over the past two fiscal years we have sold or closed properties representing approximately 4.3 million square feet, including current property which is held for sale or idle. In 2004 alone, approximately 1.5 million square feet of facilities were closed and 1.0 million square feet were sold. See *Item 2: Properties* for additional information regarding real estate held for sale and idle property. We will continue to examine opportunities to consolidate manufacturing and distribution operations and dispose of assets that represent excess capacity.

Working Capital

Our receivables are primarily from our dealers, and to a lesser degree, direct sell customers. Payment terms vary by country and region. The terms of our North America and SDP segments, and certain markets within the International segment, encourage prompt payment. Other International markets have, by market convention, longer payment terms. We are not aware of any special or unusual practices or conditions related to working capital items, including accounts receivable, inventory and accounts payable, which are significant to understanding our business or the industry at large.

Backlog

Our products are generally manufactured and shipped within four to six weeks following receipt of order; therefore, we do not view the amount of backlog at any particular time as a meaningful indicator of longer-term shipments.

Intellectual Property

Our wholly-owned subsidiary, Steelcase Development Corporation, acquires, manages, licenses, and enforces our intellectual property rights.

We own approximately 1,400 designs and patents throughout the world. Of these, we have over 640 active utility and design patents for current and anticipated products in the United States. We own the remaining designs and patents in a number of other countries. The average remaining life of the utility patents in our United States portfolio is approximately 11 years. We occasionally enter into license agreements under which we pay a royalty to third parties for the use of patented products, designs or process technology.

We have also registered various trademarks and service marks in the United States and other countries. Collectively, we hold registrations for approximately 150 United States and 1,340 foreign trademarks. We have established a global network of intellectual property licenses with our affiliates. We also selectively license our intellectual property to third parties as a revenue source. For example, our Leap® seating technology has been licensed for use in automotive and aircraft seating, and we are pursuing other licensing opportunities for this technology.

We do not believe that any material part of our business is dependent on the continued availability of any one or all of our patents or trademarks, or that our business would be materially adversely affected by the loss of any, except the “Brayton,” “Designtex,” “Details,” “Leap,” “Metro,” “Pathways,” “PolyVision,” “Steelcase,” “Vecta” and “Werndl” trademarks.

Distribution and Customer Base

We primarily sell our products through a network of independent dealers. Each dealership has its own sales force, supported by our sales representatives, who work closely with dealers throughout the sales process. We have historically experienced minimal turnover in our dealer network. No single dealer accounted for more than 2.8% of our consolidated revenue for 2004. The five largest dealers collectively accounted for approximately 9.5% of our consolidated revenue. We do not believe our business is dependent on any single dealer, the loss of which would have a material effect upon our business. However, temporary disruption of dealer coverage within a specific local market due to financial failure or the inability to smoothly transition ownership could temporarily have an adverse impact on our business within the affected market. See Notes 9 and 16 to the consolidated financial statements for further discussion.

Our largest end-use customer accounted for approximately 1.0% of our consolidated revenue and our five largest customers accounted for approximately 4.0% of consolidated revenue. However, these percentages do not include revenue from various government agencies and other entities purchasing under the General Services Administration (“GSA”) contract, which in the aggregate accounted for approximately 2.0% of our consolidated revenue. We do not believe our business is dependent on any single or small number of end-user customers, the loss of which would have a material effect upon our business.

Historically, our North America and SDP segments experience seasonal patterns with second and third quarter revenue levels higher than first and fourth quarter revenue levels. However, this seasonal trend was not as evident during the office furniture industry recession of the past few years. Our International segment experiences seasonal patterns with lower revenue in the second quarter.

Competition

United States and Canada

The United States and Canadian office furniture markets are highly competitive, with a number of competitors offering similar categories of product. In these markets, companies compete on price, delivery and service, product design and features, product quality, strength of dealers and other distributors, and relationships with customers, architects and designers. We have held the position as the United States revenue leader in our industry for nearly 30 years. Our most significant competitors are Haworth, Inc., Herman Miller, Inc., HNI Corporation (f/k/a HON Industries Inc.) and Knoll, Inc. Together with Steelcase, these companies represent approximately 55% of the market share of the United States office furniture market.

International

The international office furniture market is highly competitive and fragmented. We compete with many different local or regional manufacturers in many different markets. In most cases, these competitors focus their strengths on selected product categories. We also compete with certain North American based competitors. No single company competes with us in all markets.

Environmental Matters

We are subject to a variety of federal, state, local and foreign laws and regulations relating to the discharge of materials into the environment, or otherwise relating to the protection of the environment ("Environmental Laws"). Subject to the matters noted below and under Item 3, *Legal Proceedings*, we believe our operations are in substantial compliance with all Environmental Laws. Additionally, we do not believe that existing Environmental Laws and regulations have had or will have any material effects upon the capital expenditures, earnings or competitive position of the Company.

On June 18 and 19, 2002, the United States Environmental Protection Agency ("EPA") and Michigan Department of Environmental Quality ("MDEQ") conducted an inspection of the energy centers and other air emission sources at the Steelcase facilities in Kentwood and Grand Rapids, Michigan. Following the inspection, the EPA requested stack testing of emissions from the two energy centers. MDEQ subsequently requested additional stack testing at the Grand Rapids energy center to confirm compliance with air emission permit requirements because of anomalous results for sulfur dioxide and nitrogen oxide in portions of the initial testing. The additional testing confirmed that a supplier providing coal not meeting Steelcase's purchase specifications caused the anomalous results. To avoid future occurrences, Steelcase has changed the process for testing coal prior to its delivery to the Company. Although the MDEQ has concurred informally with our assessment of the last round of testing and the changes in coal testing, it is possible that a notice of violation, together with penalties or other costs could be sought by MDEQ or EPA based on the initial anomalous tests results. Potential penalties or costs cannot be estimated at this time.

Under certain Environmental Laws, Steelcase could be held liable, without regard to fault, for the costs of remediation associated with our existing or historical operations. We could also be held responsible for third-party

property and personal injury claims or for violations of Environmental Laws relating to contamination. Steelcase is a party to, or otherwise involved in, legal proceedings relating to several contaminated properties being investigated and remediated under Environmental Laws. Based on our information regarding the nature and volume of wastes allegedly disposed of or released at these properties, the number of other financially viable potentially responsible parties and the total estimated cleanup costs, we do not believe that the costs to us associated with these properties will be material, either individually or in the aggregate. The Company has established reserves we believe are adequate to cover our anticipated remediation costs. However, certain events could cause actual costs or losses to vary from the established reserves. These events include, but are not limited to: a change in governmental regulations and/or cleanup standards or requirements; undiscovered information regarding the nature and volume of wastes allegedly disposed of or released at these properties; and other factors increasing the cost of remediation or the loss of other potentially responsible parties that are financially capable of contributing towards cleanup costs.

Employees

As of February 28, 2004, Steelcase had approximately 14,200 employees, including approximately 8,000 hourly, 5,500 salaried and 500 temporary workers. Over 10,500 workers are located in the United States, Canada and Mexico, approximately 6.5% of which are covered by collective bargaining agreements in the United States.

Available Information

We file annual reports, quarterly reports, proxy statements, and other documents with the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934 (the "Exchange Act"). The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street NW, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an Internet website at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding issuers, including Steelcase, that file electronically with the SEC.

We also make available free of charge through our Internet website, <http://www.steelcase.com>, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports, as soon as reasonably practicable after we electronically file such reports with or furnish them to the SEC. In addition, the Company's governance guidelines and the charters for the Audit, Compensation, Investment and Nominating and Corporate Governance Committees are available free of charge through our website or by writing to Investor Relations, PO Box 1967, Grand Rapids, Michigan 49501-1967.

The Company adopted a code of ethics, known as the *Steelcase Inc. Code of Ethics for Chief Executive and Senior Financial Officers*, which applies to our chief executive officer, chief financial officer, controller and other persons performing similar functions. In addition, the Company adopted the *Steelcase Inc. Code of Business Conduct*, which applies to all directors and employees worldwide. These codes, including future amendments, are available free of charge through our website or by writing to Investor Relations, PO Box 1967, Grand Rapids,

Michigan 49501-1967. We will also post on our website any waiver under the codes granted to any of our directors or executive officers. As of the date of this report, no waivers have been granted.

We are not including the information contained on our website as a part of, or incorporating it by reference into, this Report.

Item 2. Properties:

The Company, including joint ventures, has operations at locations throughout the United States and around the world. Our North America and SDP segments operate approximately 25 manufacturing and distribution facilities in 12 states, Canada and Mexico, while our International segment operates 12 manufacturing and distribution facilities in 8 countries.

Our office, showroom, manufacturing and distribution facilities total approximately 24.0 million square feet, including real estate held for sale, idle property and approximately 5.0 million square feet of leased space. None of our owned properties is held in fee or is held subject to any significant encumbrance. We believe our facilities are in good operating condition and sufficient to meet current volume needs and future volume increases.

Due to restructuring and plant rationalizations over the past several years, we are currently holding for sale several facilities that are no longer in use. These facilities represent approximately 560,000 square feet and 260 acres and are reported as real estate held for sale included in *Other Current Assets* on our Consolidated Balance Sheets.

In addition, approximately 1.5 million square feet of manufacturing and office space is idle and does not qualify as real estate held for sale since we do not expect to sell the space within the next twelve months or are not currently marketing the space. We are currently evaluating our options with regards to these properties. See Note 4 of our consolidated financial statements for further information on property.

Item 3. Legal Proceedings:

We are involved in litigation from time to time in the ordinary course of our business. Based on known information, we believe we are not a party to any lawsuit or proceeding that is likely to have a material adverse effect on the Company.

Notwithstanding the above, in February 2003, the diameter of the exhaust stack at the Company's Grand Rapids Energy Center was questioned. The interior diameter of the stack was measured and found to be wider than the diameter specified in the permit. The Company subsequently discovered that in 1984, a larger diameter-reducing cone was installed when a boiler was added to the energy center. On April 24, 2003, MDEQ issued a letter of violation based on the non-compliant stack diameter. Steelcase conducted emission modeling and concluded that the difference in stack diameter had not resulted in a violation of the permit's emissions requirements. The MDEQ agreed with that conclusion. Although these developments are positive, the MDEQ and/or the EPA could seek to impose penalties or other costs in connection with the April 2003 notice of violation. Penalties, costs or assessments have not been sought and cannot be estimated at this time.

For a description of other matters relating to our compliance with applicable environmental laws, rules and regulations, see *Environmental Matters* in Item 1 of this Report.

In addition to the above, on October 14, 1999, Propulsion Technologies, Inc. d/b/a PowerTech! Marine Propellers (“PowerTech”) filed a civil action against Steelcase Inc. and its subsidiary, AW Corporation (“AW”) (f/k/a Attwood Corporation) in the United States District Court, Southern District of Texas, Brownsville Division. AW had supplied certain propeller castings to PowerTech, but discontinued the arrangement when it closed its Reynosa, Mexico plant. Among other things, PowerTech contended that AW’s termination of the supply arrangement without having supplied a full 12-month advance notice breached a requirement in the supply arrangement between the parties. The trial judge dismissed all claims against Steelcase. However, at the conclusion of the trial, the jury ruled in favor of PowerTech against AW. In August 2002, the judge entered judgment against AW in the amount of approximately \$7.1, which included compensatory damages of approximately \$2.0 and punitive damages of approximately \$5.1. AW filed an appeal to the United States Court of Appeals for the Fifth Circuit asserting numerous claims, and PowerTech filed a cross-appeal. Oral arguments were heard on the appeal on March 3, 2004. However, litigation is inherently uncertain and we can give no assurance that we will be successful in the appeal. AW is vigorously prosecuting the appeal, and believes that its appeal grounds are meritorious.

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

None.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities:

The Class A Common Stock of Steelcase Inc. is listed on the New York Stock Exchange under the symbol “SCS”. Our Class B Common Stock is neither registered under the Securities Act of 1933 nor publicly traded. See Note 12 to the consolidated financial statements for further discussion of our common stock. As of April 28, 2004, we had outstanding 148,264,133 shares of common stock with 11,568 shareholders of record. Of these

amounts, 50,686,926 shares and 11,410 shareholders of record represent our Class A Common Stock and 97,577,207 shares and 158 shareholders of record represent our Class B Common Stock.

Class A Common Stock End of Day Per Share Price Range	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2004				
High	\$10.58	\$12.43	\$13.55	\$14.50
Low	\$ 8.64	\$10.60	\$11.23	\$12.84
Fiscal 2003				
High	\$17.65	\$16.10	\$13.80	\$11.27
Low	\$15.02	\$12.39	\$ 8.55	\$ 8.96

The declaration and payment of dividends are subject to the discretion of the Board and to compliance with applicable law. Dividends in 2004 were declared and paid quarterly. The amount and timing of future dividends depends upon our results of operations, financial condition, cash requirements, future business prospects, general business conditions and other factors that the Board may deem relevant at the time.

Total Dividends Paid	
2004	\$35.5
2003	\$35.4

Item 6. Selected Financial Data:

Financial Highlights	February 27, 2004	February 28, 2003 (1)	February 22, 2002	February 23, 2001	February 25, 2000 (2)
Operating Results					
Revenue	\$2,345.6	\$2,529.9	\$3,038.3	\$3,989.2	\$3,401.0
Revenue increase (decrease)	(7.3)%	(16.7)%	(23.8)%	17.3%	21.7%
Gross profit	\$ 615.3	\$ 728.1	\$ 918.2	\$1,295.2	\$1,103.7
Gross profit—% of revenue	26.2%	28.8%	30.2%	32.5%	32.5%
Income (loss) from continuing operations before income tax benefit	\$ (92.0)	\$ (65.6)	\$ (5.3)	\$ 301.0	\$ 298.9
Income (loss) from continuing operations before income tax benefit—% of revenue	(3.9)%	(2.6)%	(0.2)%	7.5%	8.8%
Income (loss) from continuing operations after income tax benefit	\$ (41.4)	\$ (40.9)	\$ (2.1)	\$ 191.5	\$ 183.7
Income (loss) from continuing operations after income tax benefit—% of revenue ..	(1.8)%	(1.6)%	(0.1)%	4.8%	5.4%
Income and gain from discontinued operations(3)	\$ 22.4	\$ 4.7	\$ 3.1	\$ 2.2	\$ 0.5
Cumulative effect of accounting change(4)	\$ (4.2)	\$ (229.9)	—	—	—
Net income (loss)	\$ (23.2)	\$ (266.1)	\$ 1.0	\$ 193.7	\$ 184.2
Net income (loss)—% of revenue	(1.0)%	(10.5)%	0.0%	4.9%	5.4%
Share and Per Share Data					
Earning (loss) from continuing operations—basic and diluted	\$ (0.28)	\$ (0.28)	\$ (0.01)	\$ 1.28	\$ 1.20
Income and gain from discontinued operations:					
Basic	\$ 0.15	\$ 0.04	\$ 0.02	\$ 0.02	\$ 0.01
Diluted	\$ 0.15	\$ 0.04	\$ 0.02	\$ 0.01	\$ 0.01
Cumulative effect of accounting change— basic and diluted	\$ (0.03)	\$ (1.56)	—	—	—
Earnings (loss):					
Basic	\$ (0.16)	\$ (1.80)	\$ 0.01	\$ 1.30	\$ 1.21
Diluted	\$ (0.16)	\$ (1.80)	\$ 0.01	\$ 1.29	\$ 1.21
Dividends declared—common stock	\$ 0.24	\$ 0.24	\$ 0.39	\$ 0.44	\$ 0.44
Financial Condition					
Working capital	\$ 398.7	\$ 334.3	\$ 208.9	\$ 319.8	\$ 200.1
Total assets	\$2,350.4	\$2,350.6	\$2,967.5	\$3,157.0	\$3,037.6
Long-term debt	\$ 319.6	\$ 294.2	\$ 433.6	\$ 327.5	\$ 257.8

(1) The fiscal year ended February 28, 2003 contained 53 weeks. All other years shown contained 52 weeks.

- (2) As of March 31, 1999 Steelcase S.A. became a wholly owned subsidiary, the results of which are included in our consolidated statements.
- (3) Income and gain from discontinued operations relate to the disposition of our Attwood subsidiary. See the Consolidated Statements of Income and Note 18 to the consolidated financial statements for more information.
- (4) Cumulative effect of accounting change for the fiscal year ended February 27, 2004 relates to our adoption of FASB Interpretation Number ("FIN") 46(R), *Consolidation of Variable Interest Entities*. See Note 2 to the consolidated financial statements for more information. Cumulative effect of accounting change for the fiscal year ended February 28, 2003 relates to our adoption of Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*. See Note 8 to the consolidated financial statements for more information.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations:

The following review of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and notes to the consolidated financial statements included within this Form 10-K.

Financial Summary

Results of Operations

Income Statement Data — Consolidated	Year Ended					
	February 27, 2004		February 28, 2003 (1)		February 22, 2002	
Revenue	\$2,345.6	100.0%	\$2,529.9	100.0%	\$3,038.3	100.0%
Cost of sales	1,688.0	72.0	1,785.3	70.6	2,090.3	68.8
Restructuring costs	42.3	1.8	16.5	0.6	29.8	1.0
Gross profit	615.3	26.2	728.1	28.8	918.2	30.2
Operating expenses	677.6	28.9	744.5	29.4	883.2	29.1
Restructuring costs	11.2	0.4	44.7	1.8	20.5	0.6
Operating income (loss)	(73.5)	(3.1)	(61.1)	(2.4)	14.5	0.5
Non-operating items, net	(18.5)	(0.8)	(4.5)	(0.2)	(19.8)	(0.7)
Loss from continuing operations before income tax benefit	(92.0)	(3.9)	(65.6)	(2.6)	(5.3)	(0.2)
Income tax benefit	(50.6)	(2.1)	(24.7)	(1.0)	(3.2)	(0.1)
Loss from continuing operations	(41.4)	(1.8)	(40.9)	(1.6)	(2.1)	(0.1)
Discontinued operations, net	22.4	1.0	4.7	0.2	3.1	0.1
Income (loss) before cumulative effect of accounting change	(19.0)	(0.8)	(36.2)	(1.4)	1.0	—
Cumulative effect of accounting change ...	(4.2)	(0.2)	(229.9)	(9.1)	—	—
Net income (loss)	<u>\$ (23.2)</u>	<u>(1.0)%</u>	<u>\$ (266.1)</u>	<u>(10.5)%</u>	<u>\$ 1.0</u>	<u>0.0%</u>

(1) The fiscal year ended February 28, 2003 contained 53 weeks. All other years shown contained 52 weeks.

Overview

The office furniture industry has experienced about a 36% decline in shipments over the past three years in the United States, as reported by the Business and Institutional Furniture Manufacturer's Association ("BIFMA") International. In response to this decline, we implemented several operational, organizational and financial restructuring activities including plant rationalizations and workforce reductions. Through these actions we have reduced our cost structure significantly, but not enough to offset the dramatic decline in revenue, therefore, we reported losses in 2004 and 2003.

Revenue declined annually 7.3% in 2004, 16.7% in 2003 and 23.8% in 2002. Our acquisitions of PolyVision Corporation and Custom Cable Industries, both completed in the second half of fiscal 2002, contributed \$168.7 to our total revenue in 2004, \$174.0 in 2003 and \$47.9 in 2002. The dealer transition completed during 2003 contributed \$46.6 to our total revenue in 2004 and \$24.3 in 2003.

Revenue in 2004 benefited by \$77.1 from favorable currency translation in the Company's International segment when compared to 2003 revenue. Revenue in 2003 benefited from an extra week in the fourth quarter, which we estimate added \$44.6 in revenue.

Although there appears to be an overall economic recovery underway in the United States, we believe the lack of sustained job growth has delayed a similar recovery for the office furniture industry. There has been some recent improvement in United States job growth, which if continued, could be an important driver for renewed growth in our United States' markets in the coming year. Many of our major international markets are not showing signs of growth and may lag a United States recovery.

Gross margins declined to 26.2% of revenue in 2004 because of higher cost of sales and increased restructuring costs. Cost of sales increased to 72.0% of sales in 2004 primarily because of underabsorption of fixed overhead. Our efforts to consolidate operations and reduce excess capacity are having an impact, but not quickly enough to offset the decline in volume. Additionally, intense competition for project business increased product discounts in all markets during the second half of the year. In the North America segment alone, higher discounts decreased revenue and thus gross margins by nearly \$13.0 compared to 2003. The restructuring costs related to the consolidation activity described above were \$42.3 or 1.8% of revenue, a significant increase in these charges versus the prior year.

We expect to continue to incur restructuring charges related to manufacturing operations as we continue to take steps to transform our industrial model. However, the cost of these activities in 2005 is expected to be less than in 2004. We expect additional plant consolidation activity in 2005, though not at the same level as in 2004. We also expect to continue to expand implementation of lean manufacturing principles in our plants.

Operating expenses declined significantly in 2004 despite a \$24.6 unfavorable currency translation effect. Operating expenses were also lower as a percent of revenue. These reductions reflect the savings from restructuring activities, including headcount reductions, which took place in the current and prior years.

Current year restructuring costs related to operating expenses were \$11.2, a significant decrease compared to the prior year, because the number of salaried workforce reductions was lower in 2004.

In total, we recorded net pre-tax operating charges for restructuring items totaling \$53.5 in 2004, \$61.2 in 2003 and \$50.3 in 2002. The net charges in 2004 consisted of \$28.4 in severance charges for workforce reductions completed or underway and \$25.1 in other restructuring charges, primarily for asset impairments. We also recorded a net pre-tax gain of \$8.1, of which \$4.4 was included in *Non-operating items, net*, primarily for gains on the sale of real estate and a curtailment gain related to our post-retirement medical and pension benefit plans. The net charges in 2003 consisted of \$48.3 in severance charges for workforce reductions and \$12.9 in other restructuring charges, primarily for business exit costs. Other items recorded in 2003 totaling a net pre-tax gain of \$27.5, of which \$16.9 was included in *Non-operating items, net*, were primarily for gains on the sale of real estate and a curtailment gain related to our post-retirement medical and pension benefit plans. See further discussion and detail of all these items in the *Segment Disclosure* analysis below and in Note 19 and Note 20 to the consolidated financial statements.

During Q4 2004, we recorded \$15.9 of favorable tax adjustments, which are included in the 2004 income tax benefit in the table above. These adjustments consisted of two items. Based on the results of a recently completed IRS tax audit, we recorded a net adjustment of \$5.3 reversing reserves that were no longer necessary related to the years that were audited. As of February 27, 2004, we feel the level of remaining reserves appropriately reflects our probable income tax exposures. In addition, we recorded a \$10.6 favorable adjustment to income tax expense related to the Q4 2004 review of the annual tax provision and related liability. Although our effective tax rate for 2004 relating to continuing operations is calculated to be 55%, we expect our long-term effective tax rate to remain between 37% and 38%.

As mentioned in the *General* section of Part I, Item 1, during Q2 2004, we sold substantially all of the net assets of our marine hardware and accessories business. In accordance with SFAS No. 144, the operating results of this business have been segregated as discontinued operations for all periods presented. See further discussion and detail in Note 18 to the consolidated financial statements.

The cumulative effect of accounting change in 2004 represents the net after-tax charge related to our adoption of FIN 46(R), *Consolidation of Variable Interest Entities*. See further discussion and detail in Note 2 to the consolidated financial statements. The cumulative effective of accounting change in 2003 represents the net after-tax charge related to our adoption of SFAS No. 142, *Goodwill and Other Intangible Assets*. See Note 8 to the consolidated financial statements for more information regarding goodwill and other intangible assets.

In February 2004, we initiated a change in our participative control of eight dealers where we hold a majority position in the voting stock. Accordingly, we consolidated the balance sheets of these dealers as of February 27, 2004. The consolidation of these dealers had the effect of increasing our total assets and liabilities by \$10.9. There was no effect on equity as we previously accounted for these dealers as equity investments on our balance sheets. The results of operations of these dealers will be included in our consolidated results beginning in Q1 2005. We expect these newly consolidated dealers will add approximately \$60 to \$100 of revenue in 2005, with no corresponding impact on net income because we either do not share in the earnings or, where we do share in the earnings, we previously accounted for the dealer under the equity method of accounting and our share of the earnings were included within *Other Income (Expense), net*.

Market prices for steel have risen up to 50% over the past several months due to unprecedented changes in global supply and demand. We did not experience any material effect of the rise in these prices during 2004 because much of our steel purchases were on fixed-priced contracts that were put in place prior to the rise in prices. However, we expect our quarterly steel costs will rise \$5.0 to \$7.0 pre-tax by Q2 2005 as we enter into new contracts. We have taken actions to partially offset the impact of these price increases, including announcing a temporary surcharge on North America customer orders placed after April 25, 2004. Because customers may place orders earlier than they otherwise would have, the temporary surcharge could positively impact Q1 2005 orders and revenue with a corresponding negative impact to Q2 2005 orders and revenue. We anticipate the revenue from the temporary surcharge to largely offset the steel price increase beginning in Q2 2005. The surcharge will continue until steel prices fall below certain thresholds.

Interest Expense; Other Income (Expense), Net; and Income Taxes

Interest Expense; Other Income (Expense), net; and Income Taxes	Year Ended		
	February 27, 2004	February 28, 2003	February 22, 2002
Interest expense	\$ 18.5	\$20.9	\$ 20.5
Other income (expense), net:			
Interest income	\$ 3.1	\$ 3.8	\$ 8.3
Loss on dealer transitions	(8.7)	(8.3)	(11.0)
Gain on disposal of property and equipment	9.8	16.4	3.7
Miscellaneous, net	(4.2)	4.5	(0.3)
Total other income (expense), net	\$ —	\$16.4	\$ 0.7
Total non-operating items, net	<u>\$(18.5)</u>	<u>\$(4.5)</u>	<u>\$(19.8)</u>
Effective income tax rate	55.0%	37.7%	60.4%

The majority of the Company's debt over the past several years is related to term notes with fixed interest rates. Because the balance of the term notes has been stable, and the interest rates are fixed, interest expense has been relatively stable since 2002.

Interest income has declined over the past three years primarily due to lower average short-term interest rates.

Losses on dealer transitions relate to uncollectible funds loaned to or invested in dealers to finance ownership changes. The majority of the loss recorded in 2004 related to an International dealer transition investment originally made in 1999. We took over full ownership of this dealer during 2004 and reduced the carrying value of the investment to the net book value of the underlying tangible assets, which approximated its fair value. During 2003, we recognized losses on dealer transitions primarily related to two International dealers that were significantly affected by the office furniture recession in their markets. During 2002, we recognized losses on dealer transitions primarily related to a North America dealer whose operating results deteriorated due to a significant decline in business activity in its local market and several other performance issues. As a result, this dealer was restructured and ownership was transitioned to new dealer principals. Losses on dealer transitions do not include write-offs of receivables that have arisen as a result of product sales. Charges for write-offs associated with trade receivables from these affiliates are recorded as operating expenses.

We carefully monitor the financial condition of dealers in ownership transition. Most of the dealers that have transition financing from Steelcase have successfully reduced costs and taken other steps to manage through the downturn. Some individual dealers are facing difficult financial challenges. We believe our reserves adequately reflect these credit risks. However, if these dealers experience prolonged or deepening reduction in revenues, the likelihood of losses would increase and we would record additional charges or reserves, as necessary.

During 2004, we recorded a gain on disposal of property and equipment primarily related to property sold in the United Kingdom for net cash proceeds of about \$11.5 and a pre-tax non-operating gain of \$7.0. This facility was idle for about three years as a result of prior restructuring activities. The gain in 2003 was primarily related to the sale of our Tustin, California manufacturing facility following the relocation of the operations to a smaller, more efficient facility. We received net cash proceeds of \$35.7 and recorded a gain of \$15.1 on the Tustin facility sale.

Our income tax benefit is a function of actual taxable loss earned by the Company in different countries, the tax rates in various countries and tax planning strategies we implement. We expect these strategies to result in a long-term effective tax rate of between 37% and 38%.

Segment Disclosure

See more information regarding segments in Part I Item 1 and Note 17 of the consolidated financial statements included with this Report.

North America

Income Statement Data—North America	Year Ended					
	February 27, 2004		February 28, 2003		February 22, 2002	
Revenue	\$1,280.4	100.0%	\$1,497.9	100.0%	\$1,930.0	100.0%
Cost of sales	981.2	76.6	1,121.2	74.9	1,408.6	73.0
Restructuring costs	21.6	1.7	9.2	0.6	19.0	1.0
Gross profit	277.6	21.7	367.5	24.5	502.4	26.0
Operating expenses	319.1	24.9	360.4	24.1	440.1	22.8
Restructuring costs	5.4	0.4	26.2	1.7	10.7	0.5
Operating income (loss)	<u>\$ (46.9)</u>	<u>(3.6)%</u>	<u>\$ (19.1)</u>	<u>(1.3)%</u>	<u>\$ 51.6</u>	<u>2.7%</u>

Revenue in 2004 declined 14.5% in the North America segment following a 22.4% decline from 2002 to 2003. It is important to note 2003 contained an extra week.

The decline in North America revenue was deeper than our other segments, and reflects differences in the customer base and product mix for this business. North America traditionally serves larger customers who, we believe, have continued to tightly control their spending on facilities and to delay hiring during the early phases of the economic recovery. The North America product mix has a high proportion of systems furniture, which has declined as a category across the industry during the downturn. We believe these two trends are related since large customers represent a major portion of the installed base of systems furniture and are therefore an important driver of demand for those products. We expect to see these trends reverse if the economic recovery continues and larger companies begin expanding their workforce.

Cost of sales continued to be negatively impacted by higher discounts due to intense competition, underabsorption of overhead due to lower volume, disruption caused by consolidation activity and excess plant

capacity. In fact, discounts increased about one percent point, decreasing revenue and thus gross margins by nearly \$13.0 compared to 2003. Steel commodity prices began to increase late in 2004, but we do not believe this had a material impact on cost of sales in 2004.

As volume declined during the year, North America took additional steps to reduce the fixed component of cost of sales. North America reduced the hourly and salaried manufacturing workforces, rationalized and consolidated facilities and continued to implement lean manufacturing. However, the benefits from these actions did not fully offset the underabsorption of fixed manufacturing overhead.

Restructuring costs included within 2004 cost of sales included \$7.6 of severance costs for workforce reductions and \$14.0 for asset impairments. Also included within cost of sales during 2004 were curtailment gains of \$1.7 for post-retirement medical and pension benefits. Restructuring items included within 2003 and 2002 cost of sales primarily consisted of severance costs for workforce reductions and asset impairment charges. Also included within 2003 cost of sales were curtailment gains of \$10.2 for post-retirement medical and pension benefits.

In 2005, we expect gross margins as a percent of revenue to continue to be pressured by high discounts, excess capacity and rising steel prices, as discussed above under the *Overview* section. Restructuring activities are expected to continue, but at a lesser pace and cost than in 2004. For example, we expect to consolidate our wood manufacturing from three plants to one. However, as the pace of restructuring activity declines, we expect plant operations will stabilize and productivity improvements will be more evident. Therefore, we expect to see reduced cost of sales as a percent of revenue in 2005.

Operating expenses decreased 27.5% since 2002. This decrease is a result of salaried workforce reductions, restructuring activities and reductions in discretionary and external spending, including elimination of bonuses and reduction of retirement contributions. Restructuring charges included within 2004, 2003 and 2002 operating expenses represented severance costs for workforce reductions. Also included within 2004 and 2003 operating expenses were curtailment gains of \$1.2 and \$4.2, respectively, for post-retirement medical and pension benefits.

We maintain loss reserves related to dealer trade receivables, and we closely monitor the financial condition of our dealers. Generally, Steelcase dealers in North America have successfully reduced costs and taken other steps to manage through the industry downturn. We have processes that allow us to monitor and react quickly to changes in the credit quality of our dealers. We believe our reserves adequately reflect the credit risks associated with the dealer trade receivables. However, if our dealers experience a prolonged or deeper reduction in revenues, the likelihood of losses would increase and additional charges or reserves would be necessary.

Steelcase Design Partnership

Income Statement Data—Steelcase Design Partnership	Year Ended					
	February 27, 2004		February 28, 2003		February 22, 2002	
Revenue	\$275.6	100.0%	\$291.2	100.0%	\$330.5	100.0%
Cost of sales	172.9	62.7	180.3	61.9	200.0	60.5
Restructuring costs	0.2	0.1	—	—	—	—
Gross profit	102.5	37.2	110.9	38.1	130.5	39.5
Operating expenses	88.8	32.2	95.0	32.6	105.6	32.0
Restructuring costs	0.9	0.4	1.4	0.5	1.2	0.3
Operating income	<u>\$ 12.8</u>	<u>4.6%</u>	<u>\$ 14.5</u>	<u>5.0%</u>	<u>\$ 23.7</u>	<u>7.2%</u>

Revenue for the SDP segment declined 5.4% in 2004 following an 11.9% decline in 2003. It is important to note 2003 contained an extra week. For the two-year period the decline for SDP was approximately 17% and was less than our consolidated decline of nearly 23%. SDP revenue is generally less dependent on large project orders and is less affected by declines in business capital spending due to its differentiated, design-oriented product portfolio and focus on niche applications.

SDP margins are higher than our other segments' margins. Gross margins as a percent of revenue decreased over the past two years due to higher reserves for slow moving inventory in the fabric and wall covering business, restructuring costs for workforce reductions and underabsorption of fixed overhead costs.

By reducing operating expense spending over the past two years, we held operating expenses as a percent of revenue relatively constant. Restructuring costs recorded within operating expenses in 2004 included \$0.7 for lease impairments and \$0.2 of severance charges for workforce reductions. Restructuring charges in 2003 and 2002 related to workforce reductions.

International

Income Statement Data—International	Year Ended					
	February 27, 2004		February 28, 2003		February 22, 2002	
Revenue	\$539.2	100.0%	\$485.9	100.0%	\$596.9	100.0%
Cost of sales	383.5	71.1	345.1	71.0	420.2	70.4
Restructuring costs	20.5	3.8	6.7	1.4	10.8	1.8
Gross profit	135.2	25.1	134.1	27.6	165.9	27.8
Operating expenses	161.3	29.9	154.1	31.7	193.3	32.4
Restructuring costs	1.4	0.3	7.1	1.5	7.7	1.3
Operating loss	<u>\$(27.5)</u>	<u>(5.1)%</u>	<u>\$(27.1)</u>	<u>(5.6)%</u>	<u>\$(35.1)</u>	<u>(5.9)%</u>

International revenue increased 11.0% in 2004 due to the benefit of \$77.1 from favorable currency translation effects. It is important to note 2003 contained an extra week. This increase follows a decrease of 18.6% from 2002 to 2003.

International revenue is closely linked to economic conditions in key European countries. Certain of these countries are seeing ongoing weakness and others are experiencing instability related to geopolitical factors. We believe a recovery in these international markets may lag the United States recovery.

Cost of sales of 71.1% was relatively flat compared to 71.0% in the prior year. International shipped some large, unusual and low-margin projects during the year which masked modest improvements in underlying cost of sales performance driven by previous restructuring efforts.

Gross margins as a percent of revenue declined in 2004 primarily due to higher restructuring costs. These restructuring costs consisted primarily of costs associated with the closure or consolidation of manufacturing facilities, including workforce reductions of 425 employees or approximately 10.5%. International gross margins remained relatively flat in 2003 compared to 2002 due to the implementation of social plans and workforce reduction efforts launched in 2002, which resulted in a workforce reduction of 16% in 2003, the completion of the divestiture of two under-performing businesses in Q1 2003, both of which generated negative margins in 2002 and the implementation of additional cost reduction efforts aimed at lean manufacturing initiatives. Restructuring costs in 2003 and 2002 primarily related to charges for workforce reductions and business exit costs. Other selected charges included in 2003 cost of sales were costs of \$4.0 related to asset impairments. We expect to continue consolidation activity in 2005 including actions that have already been announced related to our French operations. We expect these actions will continue to improve our competitiveness.

Operating expenses in absolute terms increased in 2004, because of \$24.6 of currency translation effects. Operating expenses as a percent of revenue declined compared to 2003 primarily due to the realization of cost reductions related to previous restructuring efforts. Compared to 2002, operating expenses in 2003 decreased both in absolute terms and as a percent of revenue. The decrease can be attributed to a \$13.0 reduction in

charges related to dealer credit issues, a \$7.7 reduction in amortization expense due to the change in accounting for goodwill, and cost reductions related to restructuring activities completed during 2002 and 2003, including workforce reductions. Restructuring costs included in operating expenses in 2004, 2003 and 2002 primarily consisted of charges related to workforce reductions and business exit costs.

Economic conditions in certain countries continue to put pressure on some of our dealers. We continue to monitor the financial condition of dealers for changes in credit quality. We believe our reserves adequately reflect these credit risks. However, if dealers experience a deeper reduction in revenues, the likelihood of losses would increase and additional charges or reserves would be necessary.

Other

Income Statement Data—Other	Year Ended		
	February 27, 2004	February 28, 2003	February 22, 2002
Revenue	\$250.4	\$254.9	\$180.9
Restructuring costs	3.5	10.6	0.9
Operating loss	(11.9)	(29.4)	(25.7)

As mentioned in Part I, Item 1, our Other category includes our Financial Services, PolyVision and IDEO subsidiaries, ventures and unallocated corporate expenses. The increase in revenue from 2002 to 2003 was largely due to the acquisition of PolyVision in late 2002.

The reduction in operating loss from 2003 to 2004 was due to several factors including:

- the divestiture of an unprofitable business venture in 2003;
- improvements in the operating results of Financial Services primarily due to lower credit charges in 2004; and
- improvements in the operating results of IDEO, partially offset by a decline in profitability at PolyVision.

Approximately 85% of corporate expenses representing shared services are charged to the operating segments as part of a corporate allocation. The unallocated portion of these expenses is considered general corporate costs and is reported within the Other category. Revenue and costs of exploring new business opportunities within new market niches or areas related to, but not part of, our core business activities are considered ventures, and are reported in the Other category.

Restructuring costs included in 2004 operating results included \$3.5 of severance costs for workforce reductions. Also included in 2004 operating results were curtailment gains of \$0.8 related to post-retirement benefits. Restructuring costs included in 2003 operating results included \$8.0 for business exit costs related to a venture and \$2.6 of severance costs for workforce reductions. Also included in 2003 operating results were

curtailment gains of \$0.8 related to post-retirement benefits. In 2002, restructuring costs included in operating results were \$0.9 of severance costs for workforce reductions.

Our Financial Services subsidiary provides lease financing to end customers and various forms of financing primarily to North America dealers. Our underlying net investment in leases represents multiple sales to individual end customers and there are some concentrations of credit risk with certain customers. We have processes that allow us to monitor and react quickly to changes in the credit quality of our lease customers. While the overall credit quality of our portfolio remained stable in 2004, our risk of exposure decreased as leased assets were sold and customers became more financially stable. We closely monitor our receivable exposure and the overall financial condition of the dealers in North America to whom we extend financing. Although we believe reserves are adequate in total, deterioration in the financial stability of larger customers and dealers would likely require us to record additional charges and reserves. During Q1 2004, we outsourced lease fundings to a third party, therefore we no longer carry credit or residual risk for new leases.

Liquidity and Capital Resources

Liquidity

The following table summarizes our statement of cash flows:

	Year Ended		
	February 27, 2004	February 28, 2003	February 22, 2002
Net cash flow provided by (used in):			
Operating activities	\$ 87.9	\$ 48.7	\$ 305.6
Investing activities	99.3	309.8	(261.4)
Financing activities	(56.8)	(301.7)	(11.9)
Effect of exchange rate changes on cash and cash equivalents	2.9	2.7	(1.9)
Net increase (decrease) in cash and cash equivalents	133.3	59.5	30.4
Cash and cash equivalents, beginning of period	128.9	69.4	39.0
Cash and cash equivalents, end of period	<u>\$ 262.2</u>	<u>\$ 128.9</u>	<u>\$ 69.4</u>

We increased cash and cash equivalents by \$133.3 during 2004 to a balance of \$262.2 as of February 27, 2004, our highest level of cash since 1998. Of our total cash, 79.1% was located in the United States and the remaining 20.9% was located outside of the United States, primarily Europe and Canada. These funds, in addition to cash generated from future operations and available credit facilities, are expected to be sufficient to finance our known or foreseeable liquidity and capital needs. The increase in cash and cash equivalents was due to a number of factors. Operating activities generated cash as depreciation and amortization is added back to the net loss. Depreciation and amortization continue to be much higher than current levels of capital

expenditures. Investing activities generated cash primarily through the sales of leased assets, fixed assets and discontinued operations. Financing activities used cash to pay down debt and to pay dividends.

We look at various scenarios for cash planning purposes. In one possible scenario—a substantial and rapid increase in revenue in a short period of time—we anticipate we would likely experience a corresponding rapid increase in accounts receivables and inventories. This rapid increase in required working capital would represent a significant use of cash and is the primary reason we are holding a relatively large cash balance.

Cash provided by operating activities

Cash Flow Data—Operating Activities	Year Ended		
	February 27, 2004	February 28, 2003	February 22, 2002
Net income (loss)	\$ (23.2)	\$ (266.1)	\$ 1.0
Depreciation and amortization	141.4	157.0	172.4
Cumulative effect of accounting change	4.2	229.9	—
Gain on sale of net assets of discontinued operations	(31.9)	—	—
Deferred income taxes	(30.5)	(39.6)	(19.3)
Changes in operating assets and liabilities	(18.0)	(47.7)	71.2
Other, net	45.9	15.2	80.3
Net cash provided by operating activities	<u>\$ 87.9</u>	<u>\$ 48.7</u>	<u>\$305.6</u>

Cash flow provided by operating activities was sufficient to fund our capital expenditure needs for 2004 and we expect this trend to continue.

Most of the year-to-year change in cash generated from operating activities is reflected in changes in operating assets and liabilities, specifically working capital, primarily caused by the decline in revenue. See further discussion regarding the cash impact of discontinued operations in the *Cash provided by (used in) investing activities* section below. During 2004, accounts receivable decreased \$43.4, inventories decreased \$19.4 and accounts payable decreased \$2.9. The decrease in accounts receivable is primarily a reflection of decreased revenue during the year. Inventory decreased due to lower manufacturing volume, plant consolidations and our continuing implementation of lean manufacturing principles throughout the organization. Accounts payable decreased primarily due to timing and amount of year-end accruals offset by some changes in supplier terms.

In 2003, we saw a relatively small decline in receivables and inventories, net of payables, before translation adjustments. However, there was a substantial net decrease in other operating assets, net of other operating liabilities. This decrease was primarily caused by a curtailment of the post-retirement medical and pension benefit plans and reductions in other employee benefit liabilities related to reduction in force. We also used cash during 2003 for restructuring costs that had been accrued during 2002.

In 2002, operating assets less operating liabilities decreased by \$71.2. The dramatic reduction in revenue from Q4 2001 to Q4 2002 drove a similar decline in receivables, inventories and payables, which is reflected in this line.

Cash provided by (used in) investing activities

Cash Flow Data—Investing Activities	Year Ended		
	February 27, 2004	February 28, 2003	February 22, 2002
Capital expenditures	\$(43.0)	\$ (76.5)	\$(123.0)
Proceeds from the sales of leased assets	48.8	302.0	—
Proceeds from the disposal of fixed assets	28.8	55.6	18.7
Proceeds on sale of net assets of discontinued operations	47.9	—	—
Increase in lease fundings.....	(21.2)	(117.8)	(146.0)
Proceeds from repayments of lease fundings	44.4	109.8	155.5
Net decrease (increase) in notes receivable	(6.2)	26.0	68.2
Acquisitions, net of cash acquired, and business divestitures	(2.7)	(2.9)	(214.6)
Other, net.....	2.5	13.6	(20.2)
Net cash provided by (used in) investing activities	<u>\$ 99.3</u>	<u>\$ 309.8</u>	<u>\$(261.4)</u>

Proceeds from the sales of leased assets, fixed assets and discontinued operations were the primary contributors to our net cash provided by investing activities in 2004 and 2003. In preparation for its new strategy, our Financial Services subsidiary sold a large portion of its lease portfolio in 2003 and continued to sell a portion of the remaining leased assets during 2004. Under its new strategy, Financial Services continues to originate leases for customers, but uses a third party to provide lease funding. See Note 6 to the consolidated financial statements for more detail regarding leases. The proceeds from the disposal of fixed assets in 2004 were primarily from the sale of property located in the United Kingdom as discussed in the *Interest Expense; Other Income (Expense), Net; and Income Taxes* section. As mentioned in the *General* section of Part I, Item 1, during Q2 2004, we sold substantially all of the net assets of our marine hardware and accessories business for cash proceeds of \$47.9, resulting in a pre-tax net gain of \$31.9 or \$20.0 after-tax. See further discussion and detail in Note 18 to the consolidated financial statements. While we expect to receive some cash from the sales of leased assets and fixed assets in the future, we do not expect the primary sources of cash provided by investing activities to continue to be from the sales of leased assets, fixed assets and discontinued operations.

The significant reductions in capital spending over the past two years reflect an emphasis on limiting new projects to those that meet key economic metrics and deliver short payback cost savings or support critical strategic initiatives such as product development. At the end of 2004, our committed capital expenditures totaled \$24.2 and related to numerous equipment, facility and software projects. We expect cash flows from operating activities will provide the funds to fulfill these commitments.

The primary use of cash in investing activities during 2002 was for strategic acquisitions and capital expenditures. Acquisitions included PolyVision Corporation, Custom Cable Inc. and Steelcase Artwright Manufacturing. See Note 18 to the consolidated financial statements for further discussion. In addition, we experienced a substantial decrease in dealer notes receivable during 2002. Dealers required less working capital because of the downturn in the office furniture industry.

Cash used in financing activities

Cash Flow Data—Financing Activities	Year Ended		
	February 27, 2004	February 28, 2003	February 22, 2002
Short-term and long-term debt, net.....	\$(22.9)	\$(270.1)	\$ 49.5
Dividends paid.....	(35.5)	(35.4)	(57.5)
Common stock issuance (repurchase), net	1.6	3.8	(3.9)
Net cash used in financing activities.....	<u>\$(56.8)</u>	<u>\$(301.7)</u>	<u>\$(11.9)</u>

We paid common stock dividends of \$0.24 per share in 2004, \$0.24 per share in 2003 and \$0.39 per share in 2002. The dividend declared by the Board of Directors was \$0.06 per share in each quarter of 2004.

We issued common stock in 2004 for proceeds of \$1.6 related to the exercise of employee stock options. See Note 13 of the consolidated financial statements for further discussion regarding the Company's stock incentive plans.

The Board of Directors has authorized share repurchases of up to 11 million shares. We did not repurchase any common shares during 2004 or 2003. In 2002, we repurchased 343,000 shares for \$4.4 million, including 200,000 shares of Class A Common Stock for \$2.6 million and 143,000 shares of Class B Common Stock for \$1.8 million. Approximately 3.8 million shares remain available for repurchase under the program and we have no outstanding share repurchase commitments. Since the inception of our repurchase program, 7.2 million shares have been repurchased for \$112.7 million. The reduction in share repurchase activity since 2001 was due in part to a shift towards retaining excess cash and reducing debt.

Capital Resources

Off-Balance Sheet Arrangements

We are contingently liable under loan guarantees for certain Steelcase dealers and joint ventures in the event of default or non-performance of the financial repayment of the liability. We are also party to performance bonds for certain installation or construction activities of certain Steelcase dealers and a joint venture. Due to the contingent nature of guarantees and performance bonds, the full value of the guarantees and performance bonds are not recorded on our consolidated balance sheets; however, we have reserves recorded to cover potential

losses. See Note 16 to the consolidated financial statements for more information regarding financial instruments, concentrations of credit risk, commitments, guarantees and contingencies.

Contractual Obligations

Our contractual obligations as of February 27, 2004 are as follows:

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
Long-term debt and short-term borrowings	\$354.0	\$ 34.4	\$318.2	\$ 1.4	\$ —
Operating leases	284.3	49.5	76.7	47.8	110.3
Committed capital expenditures	24.2	7.9	16.3	—	—
Purchase obligations	5.2	3.4	1.8	—	—
Other long-term liabilities	256.8	51.5	42.4	43.3	119.6
Total	<u>\$924.5</u>	<u>\$146.7</u>	<u>\$455.4</u>	<u>\$92.5</u>	<u>\$229.9</u>

Total consolidated debt as of February 27, 2004 was \$354.0, including \$48.0 related to our synthetic lease structure required to be recorded on our balance sheet in compliance with FIN 46(R). Also included in long-term debt and short-term borrowings are capital lease obligations totaling \$3.8. The \$30.0 increase in total debt from 2003 was driven by the addition of our synthetic lease structure (see below and Note 2 and Note 10 to the consolidated financial statements for more information) offset by a reduction in our other debt. Our debt to capital ratio was 22.7% at year-end. Of our total debt, \$249.3 is in the form of term notes due November 2006.

Of the \$34.4 of debt payments due in 2005 (as presented in the contractual obligations table above), \$22.8 relates to foreign currency notes payable and revolving credit facility obligations and the remaining \$11.6 balance relates to United States dollar notes payable obligations.

The Company has commitments related to certain sales offices, showrooms, and equipment under non-cancelable operating leases that expire at various dates through 2020. Minimum payments for operating leases having initial or remaining non-cancelable terms in excess of one year are presented in the contractual obligation table above.

Committed capital expenditures represent obligations we have related to property, plant and equipment purchases. See more detail under the *Cash provided by (used in) investing activities* section.

We define purchase obligations as non-cancelable signed contracts to purchase goods or services beyond the needs of meeting current backlog or production.

Other long-term liabilities represent contribution and benefit payments expected to be made for our defined contribution, deferred compensation, pension and post-retirement benefit plans. It should be noted our obligations related to post-retirement benefit plans are not contractual and the plans could be amended at the

discretion of the Compensation Committee of the Board of Directors. We limited our disclosure of contributions and benefit payments to 10 years as information beyond this time period was not available. See Note 11 to the consolidated financial statements for further discussion regarding these plans.

The contractual obligations table above is current as of February 27, 2004. The amounts of these obligations could change materially over time as new contracts or obligations are initiated and existing contracts or obligations are terminated or modified.

Our total liquidity facilities as of February 27, 2004 were:

	Amount
Global committed bank facility	\$250.0
Various uncommitted lines	<u>130.3</u>
Total credit lines available	380.3
Less: borrowings outstanding	<u>8.6</u>
Available capacity (subject to covenant constraints)	<u>\$371.7</u>

During Q2 2004, we finalized a new \$250 million 3-year global committed bank facility. Our obligations under this facility are unsecured and unsubordinated. As of February 27, 2004, we had no borrowings against this facility. This facility replaced our \$200 million 3-year global committed bank facility that was scheduled to expire in April 2004 and our \$200 million 364-day global committed bank facility that we allowed to expire in April 2003. The Company may, at its option, and subject to customary conditions, request to increase the aggregate commitment by up to \$100 million by obtaining at least one commitment from one or more lenders. This facility and certain of our other financing and lease facilities require us to satisfy financial covenants including a minimum net worth covenant, a maximum debt ratio covenant, a minimum interest coverage ratio covenant and an asset coverage ratio covenant. In October 2003, Moody's Investor Services lowered its rating on the Company to Ba1, thus activating the asset ratio covenant. Although we have \$371.7 of available capacity, our maximum debt ratio covenant would limit additional borrowings to approximately \$84.0 as of February 27, 2004. As of February 27, 2004, we were in compliance with all covenants under this facility and our other financing and lease facilities. The amounts available to us under the various uncommitted lines are subject to change or cancellation by the banks at any time. Our long-term debt rating is BBB- from Standard & Poor's and Ba1 from Moody's Investor Service.

Critical accounting policies

Management's Discussion and Analysis of Results of Operations and Financial Condition is based upon our consolidated financial statements and accompanying notes. The Company's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. These principles require the use of estimates and assumptions that affect amounts reported and disclosed in the financial statements and related notes. Although these estimates are based on historical data and management's

knowledge of current events and actions it may undertake in the future, actual results may differ from the estimates if different conditions occur. The accounting policies that typically involve a higher degree of judgment, estimates and complexity are listed and explained below. These policies were discussed with the Audit Committee and affect all segments of the Company.

Impairment of Goodwill, Other Intangible Assets and Long-Lived Assets

Goodwill represents the difference between the purchase price and the related underlying tangible and identifiable intangible net asset values resulting from business acquisitions. Annually, or if conditions indicate an earlier review is necessary, the carrying value of the reporting unit is compared to an estimate of its fair value. As discussed in Note 2 to the consolidated financial statements, if the estimated fair value is less than the carrying value, goodwill is impaired, and will be written down to its estimated fair value. Goodwill is assigned to and the fair value is tested at the reporting unit level. We evaluate goodwill using five reporting units—North America, SDP, International, PolyVision and IDEO. As of February 27, 2004, we had \$210.2 of goodwill recorded on our balance sheet. Of this amount, \$45.1 was recorded in North America, \$63.2 in SDP, \$42.5 in International, \$53.4 in PolyVision and \$6.0 in IDEO.

During Q4 2004, we performed our annual impairment assessment of goodwill in our reporting units consistent with the prior year. In testing for potential impairment, we measured the estimated fair value of our reporting units using a combination of two methods based upon a discounted cash flow valuation (“DCF”) and a market value approach (“MVA”). The first method used a 100% weighting factor based on DCF while the second valuation was based upon 50% of DCF and 50% of MVA. In either case, we concluded no impairment existed in any reporting unit.

The DCF analysis was based on the present value of projected cash flows and a residual value and used the following assumptions:

- A business is worth today what it can generate in future cash to its owners;
- Cash received today is worth more than an equal amount of cash received in the future; and
- Future cash flows can be reasonably estimated.

The MVA used a set of four comparable companies to derive a range of market multiples for the last twelve months’ revenue and earnings before interest, taxes, depreciation and amortization.

As of the valuation date, the enterprise value available for goodwill determined by each method described above is in excess of the book value by reporting unit as follows:

Reporting Unit	Discounted Cash Flow Valuation	Market Value Approach
North America	\$478.2	\$560.2
Steelcase Design Partnership	144.8	141.8
International	93.6	93.6
PolyVision	27.7	n/a(1)
IDEO	2.6	n/a(1)

(1) The MVA was not calculated for PolyVision or IDEO as there is no comparable market data available to make these calculations meaningful.

For each reporting unit, this excess is primarily driven by the residual value of future years. Thus, increasing the discount rate from 11.5% to 12.5%, leaving all other assumptions unchanged, would reduce the excess amounts above to the following amounts:

Reporting Unit	Discounted Cash Flow Valuation	Market Value Approach
North America	\$331.4	\$485.9
Steelcase Design Partnership	115.1	127.7
International	47.2	70.0
PolyVision	6.6	n/a
IDEO	(0.6)	n/a

We also perform impairment analyses on our other intangible assets not subject to amortization in a manner consistent with our goodwill impairment analysis. These intangible assets primarily consist of trademarks within the PolyVision reporting unit. As of the valuation date, the fair market value approximated the book value. A 5% decrease in projected revenue would have resulted in an impairment in these intangible assets of approximately \$2.0. In addition, a 1% increase in the discount rate would also result in an impairment in these intangible assets of approximately \$5.5.

For our intangible assets subject to amortization and our other long-lived assets including property, plant and equipment, an impairment analysis is performed at least annually. In accordance with SFAS No. 144, an impairment loss is recognized if the carrying amount of a long-lived asset is not recoverable and its carrying amount exceeds its fair value. In testing for impairment, we first determined if the asset was recoverable. We then compared the undiscounted cash flows over the asset's remaining life to the carrying value.

See Note 2, Note 4 and Note 8 to the consolidated financial statements for more information regarding goodwill, other intangible assets and property, plant and equipment.

Pension and other post-retirement benefits

The determination of the obligation and expense for pension and other post-retirement benefits is dependent on the selection of certain actuarial assumptions used in calculating such amounts. These assumptions include, among others, the discount rate, expected long-term rate of return on plan assets and rates of increase in compensation and health care costs. These assumptions are reviewed and updated annually based on relevant external and internal factors and information, including but not limited to, long-term expected fund returns, expenses paid from the fund, rates of termination, medical inflation, technology and quality care changes, regulatory requirements, plan changes and governmental coverage changes. See Note 11 to the consolidated financial statements for more information regarding employee benefit plan obligations including a sensitivity analysis.

Allowance for credit losses

The allowance for credit losses 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, non-performing, 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. Our projection of credit losses is based on estimates, and as a result we cannot predict with certainty the amount of such losses. Changes in economic conditions, the risk characteristics and composition of the portfolio, bankruptcy laws or regulatory policies and other factors could impact our actual and projected credit losses and the related allowance for possible credit losses. If we had made different assumptions about probable credit losses, our financial position and results of operations could have differed. Uncollectible receivable balances are written off when we determine that the balance is uncollectible. Subsequent recoveries, if any, are credited to the allowance when received. See further discussion regarding concentrations of credit risk in Note 16 of the consolidated financial statements.

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 after-tax operating loss carryforwards of \$103.0 and after-tax tax credit carryforwards of \$27.6 available in certain jurisdictions to reduce future taxable income. Future tax benefits for these 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 \$104.4 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 will enable us to utilize the carryforwards. To the extent that available evidence raises doubt about the realization of a deferred income tax asset, a valuation allowance is established. We cannot be assured that we will be able to realize these future tax benefits or that future valuation allowances will not be required. As of February 27, 2004, we recorded valuation allowances of \$21.4 and \$4.8 for operating loss and tax credit carryforwards, respectively. A 10% decrease in the expected amount of benefit to be realized on the carryforwards would result in a decrease in net income of approximately \$10.5.

Forward-looking Statements

From time to time, in written reports and oral statements, the company discusses its expectations regarding future events. Statements and financial discussion and analysis contained in this report that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. These statements discuss goals, intentions and expectations as to future trends, plans, events, results of operations or financial condition, or state other information relating to the company, based on current beliefs of management as well as assumptions made by, and information currently available to, Steelcase. Forward-looking statements generally will be accompanied by words such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “forecast,” “intend,” “may,” “possible,” “potential,” “predict,” “project,” or other similar words, phrases or expressions. Although Steelcase believes these forward-looking statements are reasonable, they are based upon a number of assumptions concerning future conditions, any or all of which may ultimately prove to be inaccurate. Forward-looking statements involve a number of risks and uncertainties that could cause actual results to vary. Important factors that could cause actual results to differ materially from the forward-looking statements include, without limitation: competitive and general economic conditions and uncertainty domestically and internationally; delayed or lost sales and other impacts related to acts of terrorism, acts of war or governmental action; changes in domestic or international laws, rules and regulations, including the impact of changed environmental laws, rules or regulations; major disruptions at our key facilities or in the supply of any key raw materials, components or finished goods; competitive pricing pressure; pricing changes by the company, its competitors or suppliers; currency fluctuations; changes in customer demand and order patterns; changes in the financial stability of customers, dealers (including changes in their ability to pay for product and services, dealer financing and other amounts owed to the company) or suppliers; changes in relationships with customers, suppliers, employees and dealers; the mix of products sold and of customers purchasing (including large project business); the success (including product performance and customer acceptance) of new products, current product innovations and platform simplification, and their impact on the company’s manufacturing processes; the company’s ability to successfully: reduce its costs, including actions such as workforce reduction, facility rationalization, disposition of excess assets (including real estate) at more than book value and/or related impairments, consolidate production, cull products and increase global sourcing; the company’s ability to successfully: implement a surcharge relating to cost increases in steel, implement technology initiatives, integrate acquired businesses, migrate to a less vertically integrated model, initiate and manage alliances, and manage consolidated dealers; possible acquisitions or divestitures by the company; changes in business strategies and decisions; and other risks detailed in the company’s other filings with the Securities and Exchange Commission. The factors identified

above are believed to be important factors (but not necessarily all of the important factors) that could cause actual results to differ materially from those expressed in any forward-looking statement. Unpredictable or unknown factors could also have material adverse effects on the company. All forward-looking statements included in this report are expressly qualified in their entirety by the foregoing cautionary statements. Except as required by law, rule or regulation, Steelcase undertakes no obligation to update, amend, or clarify forward-looking statements, whether as a result of new information, future events, or otherwise.

Recently Issued Accounting Standards

See Note 2 of the Consolidated Financial Statements filed as part of this Report.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk:

The principal market risks (i.e., the risk of loss arising from adverse changes in market rates and prices) to which we are exposed include foreign exchange risk, interest rate risk and equity price risk.

Foreign Exchange Risk

Operating in international markets involves exposure to the possibility of volatile movements in foreign exchange rates. These exposures may impact future earnings and/or cash flows. Revenue from foreign locations (primarily Europe and Canada) represented approximately 26% and 22% of our consolidated revenue in 2004 and 2003, respectively. We actively manage the foreign currency exposures that are associated with committed foreign currency purchases and sales created in the normal course of business at the local entity level. Exposures that cannot be naturally offset within a local entity to an immaterial amount are hedged with foreign currency derivatives. We also have a significant amount of foreign currency net asset exposures. We do not hold any derivatives contracts that hedge our foreign currency net asset exposures because we believe there is no long-term economic benefit in doing so.

Changes in foreign exchange rates that had the largest impact on translating our international operating profit for 2004 related to the euro and the Canadian dollar versus the U.S. dollar. We estimate that a 10% devaluation of the U.S. dollar against the local currencies would have increased our operating loss by approximately \$2.0 in both 2004 and 2003, assuming no changes other than the exchange rate itself. However, this quantitative measure has inherent limitations. The sensitivity analysis disregards the possibility that rates can move in opposite directions and that gains from one currency may or may not be offset by losses from another currency.

The translation of the assets and liabilities of our International subsidiaries is made using the foreign exchange rates as of the end of the year. Translation adjustments are not included in determining net income but are disclosed and accumulated in *Other Comprehensive Income* within shareholders' equity until sale or substantially complete liquidation of the net investment in the International subsidiary takes place. In certain markets, the Company could recognize a significant gain or loss related to unrealized cumulative translation

adjustments if we were to exit the market and liquidate our net investment. As of February 27, 2004, the net foreign currency translation adjustments reduced shareholders' equity by \$33.7.

Foreign exchange gains and losses reflect transaction gains and losses. Transaction gains and losses arise from monetary assets and liabilities denominated in currencies other than a business unit's functional currency. For 2004, transaction losses amounted to \$4.6.

Interest Rate Risk

We are exposed to interest rate risk primarily on our notes receivable, investments in company owned life insurance, short-term borrowings and long-term debt. Substantially all of our interest rates on our term borrowings were fixed during 2004; thus our interest rate risk was minimized. A portion of our company owned life insurance is invested in fixed income securities. The valuation of these securities is sensitive to changes in market interest rates. We estimate that a 1% change in interest rates would not have had a material impact on our results of operations for 2004 or 2003.

See Notes 2 and 16 of the consolidated financial statements for further discussion of interest rate swaps and derivative instruments. See Note 7 in the consolidated financial statements for further discussion of our investments in company owned life insurance.

Equity Price Risk

We are exposed to equity price risk from the markets in the United States primarily on our investments in company owned life insurance. We estimate that a 10% adverse change in the broader United States equity markets would have increased our operating loss by approximately \$2.0 in both 2004 and 2003. This quantitative measure has inherent limitations since not all of our equity investments are in similar asset classes. In addition, the investment managers actively manage certain equity investments and their results could be better or worse than the broader United States equity markets returns.

See Note 7 in the consolidated financial statements for further discussion of our investments in company owned life insurance.

Item 8. Financial Statements and Supplementary Data:

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

	Year Ended		
	February 27, 2004	February 28, 2003	February 22, 2002
Revenue	\$2,345.6	\$2,529.9	\$3,038.3
Cost of sales	1,688.0	1,785.3	2,090.3
Restructuring costs	<u>42.3</u>	<u>16.5</u>	<u>29.8</u>
Gross profit	615.3	728.1	918.2
Operating expenses	677.6	744.5	883.2
Restructuring costs	<u>11.2</u>	<u>44.7</u>	<u>20.5</u>
Operating income (loss)	(73.5)	(61.1)	14.5
Interest expense	(18.5)	(20.9)	(20.5)
Other income (expense), net	<u>—</u>	<u>16.4</u>	<u>0.7</u>
Loss from continuing operations before income tax benefit	(92.0)	(65.6)	(5.3)
Income tax benefit	<u>(50.6)</u>	<u>(24.7)</u>	<u>(3.2)</u>
Loss from continuing operations	(41.4)	(40.9)	(2.1)
Income from discontinued operations, net of applicable income taxes ..	2.4	4.7	3.1
Gain on sale of net assets of discontinued operations, net of applicable income taxes of \$11.9	<u>20.0</u>	<u>—</u>	<u>—</u>
Income (loss) before cumulative effect of accounting change	(19.0)	(36.2)	1.0
Cumulative effect of accounting change, net of income taxes	<u>(4.2)</u>	<u>(229.9)</u>	<u>—</u>
Net income (loss)	<u>\$ (23.2)</u>	<u>\$ (266.1)</u>	<u>\$ 1.0</u>
Basic and diluted per share data:			
Loss from continuing operations	\$ (0.28)	\$ (0.28)	\$ (0.01)
Income and gain on sale of discontinued operations	0.15	0.04	0.02
Cumulative effect of accounting change	<u>(0.03)</u>	<u>(1.56)</u>	<u>—</u>
Earnings (loss)	<u>\$ (0.16)</u>	<u>\$ (1.80)</u>	<u>\$ 0.01</u>
Dividends declared per common share	<u>\$ 0.24</u>	<u>\$ 0.24</u>	<u>\$ 0.39</u>

See accompanying notes to the consolidated financial statements.

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

	February 27, 2004	February 28, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 262.2	\$ 128.9
Accounts receivable:		
Third party, net of allowances of \$44.4 and \$53.9	357.7	345.7
Affiliate, net of allowances of \$— and \$7.6	4.5	21.5
Notes receivable:		
Third party, net of allowances of \$9.1 and \$9.6	47.4	37.7
Affiliate, net of allowances of \$5.8 and \$2.2	4.1	9.4
Investment in leases, net of reserves of \$4.1 and \$3.2	23.9	37.8
Inventories	114.4	129.8
Deferred income taxes	99.0	102.8
Other current assets	28.8	31.6
Total current assets	<u>942.0</u>	<u>845.2</u>
Property and equipment, net	713.8	774.0
Notes receivable:		
Third party, net of allowances of \$2.3 and \$1.9	17.7	18.1
Affiliate, net of allowances of \$0.7 and \$6.6	1.0	5.9
Investment in leases, net of reserves of \$3.7 and \$8.8	47.1	101.9
Company owned life insurance	177.9	161.2
Deferred income taxes	112.4	79.0
Goodwill	210.2	209.8
Other intangible assets, net of accumulated amortization of \$36.0 and \$26.0	88.1	96.2
Other assets	40.2	59.3
Total assets	<u>\$2,350.4</u>	<u>\$2,350.6</u>

See accompanying notes to the consolidated financial statements.

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

	February 27, 2004	February 28, 2003
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 161.8	\$ 145.4
Short-term borrowings and current portion of long-term debt	34.4	30.0
Accrued expenses:		
Employee compensation	94.0	90.9
Employee benefit plan obligations	33.9	39.6
Product warranties	20.9	26.0
Workers' compensation claims	27.4	25.8
Income taxes payable	31.2	32.0
Other	<u>139.7</u>	<u>121.2</u>
Total current liabilities	<u>543.3</u>	<u>510.9</u>
Long-term liabilities:		
Long-term debt	319.6	294.2
Employee benefit plan obligations	241.0	237.8
Other long-term liabilities	<u>41.2</u>	<u>52.6</u>
Total long-term liabilities	<u>601.8</u>	<u>584.6</u>
Total liabilities	<u>1,145.1</u>	<u>1,095.5</u>
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, 49,544,049 and 40,449,456 issued and outstanding	123.2	93.6
Class B Convertible Common Stock-no par value; 475,000,000 shares authorized, 98,435,538 and 107,163,541 issued and outstanding	166.6	192.5
Accumulated other comprehensive loss	(43.5)	(50.1)
Deferred compensation—restricted stock	(1.4)	—
Retained earnings	<u>960.4</u>	<u>1,019.1</u>
Total shareholders' equity	<u>1,205.3</u>	<u>1,255.1</u>
Total liabilities and shareholders' equity	<u>\$2,350.4</u>	<u>\$2,350.6</u>

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)			Retained Earnings	Deferred Compensation—Restricted Stock	Total Shareholders' Equity	Total Comprehensive Income (Loss)
	Class A	Class B	Foreign Currency Translation Adjustments	Minimum Pension Liability	Derivative Adjustments, net of tax				
February 23, 2001	\$ 69.5	\$216.7	\$(30.2)	\$ 0.2	\$ —	\$1,380.3	\$ —	\$1,636.5	
Common stock conversion ...	7.7	(7.7)						—	
Common stock issuance	0.5							0.5	
Common stock repurchases ..	(2.6)	(1.8)						(4.4)	
Other comprehensive loss ...			(9.4)		(8.0)			(17.4)	\$ (17.4)
Dividends paid						(57.5)		(57.5)	
Subsidiaries' year end change(1)						(3.2)		(3.2)	
Net income						1.0		1.0	1.0
February 22, 2002	75.1	207.2	(39.6)	0.2	(8.0)	1,320.6	—	1,555.5	\$ (16.4)
Common stock conversion ...	14.7	(14.7)						—	
Common stock issuance	3.8							3.8	
Other comprehensive income (loss)			(0.7)	(6.7)	4.7			(2.7)	\$ (2.7)
Dividends paid						(35.4)		(35.4)	
Net loss						(266.1)		(266.1)	(266.1)
February 28, 2003	93.6	192.5	(40.3)	(6.5)	(3.3)	1,019.1	—	1,255.1	\$(268.8)
Common stock conversion ...	25.9	(25.9)						—	
Common stock issuance	1.6							1.6	
Issuance of restricted stock ..	2.1						(2.1)	—	
Amortization of deferred compensation							0.7	0.7	
Other comprehensive income (loss)			6.6	(0.6)	0.6			6.6	\$ 6.6
Dividends paid						(35.5)		(35.5)	
Net loss						(23.2)		(23.2)	(23.2)
February 27, 2004	<u>\$123.2</u>	<u>\$166.6</u>	<u>\$(33.7)</u>	<u>\$(7.1)</u>	<u>\$(2.7)</u>	<u>\$ 960.4</u>	<u>\$(1.4)</u>	<u>\$1,205.3</u>	<u>\$ (16.6)</u>

(1) Net loss for the two-month period ended February 23, 2001 was \$3.2. Revenue for the same period was \$102.0 (see Note 2).

See accompanying notes to the consolidated financial statements.

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

	Year Ended		
	February 27, 2004	February 28, 2003	February 22, 2002
OPERATING ACTIVITIES			
Net income (loss)	\$(23.2)	\$(266.1)	\$ 1.0
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	141.4	157.0	172.4
Cumulative effect of accounting change	4.2	229.9	—
Gain on sale of net assets of discontinued operations	(31.9)	—	—
Pension and post-retirement benefit cost	17.3	9.2	30.6
Restructuring charges (payments)	3.7	(3.3)	21.7
Loss on disposal and write-down of fixed assets	16.4	4.3	17.8
Loss on dealer transitions	8.7	8.3	11.0
Deferred income taxes	(30.5)	(39.6)	(19.3)
Other	(0.2)	(3.3)	(0.8)
Changes in operating assets and liabilities, net of corporate acquisitions:			
Accounts receivable	43.4	35.3	274.6
Inventories	19.4	24.8	46.9
Prepaid expenses and other assets	(34.0)	(14.6)	(29.6)
Accounts payable	(2.9)	(32.3)	(81.8)
Accrued expenses and other liabilities	(43.9)	(60.9)	(138.9)
Net cash provided by operating activities	<u>87.9</u>	<u>48.7</u>	<u>305.6</u>
INVESTING ACTIVITIES			
Capital expenditures	(43.0)	(76.5)	(123.0)
Proceeds from sales of leased assets	48.8	302.0	—
Proceeds from disposal of assets	28.8	55.6	18.7
Proceeds on sale of net assets of discontinued operations	47.9	—	—
Increase in lease fundings	(21.2)	(117.8)	(146.0)
Proceeds from repayments of lease fundings	44.4	109.8	155.5
Net decrease (increase) in notes receivable	(6.2)	26.0	68.2
Net change in investments	1.9	4.0	(9.5)
Joint ventures and dealer transitions	0.6	9.6	(10.7)
Acquisitions, net of cash acquired, and business divestitures	(2.7)	(2.9)	(214.6)
Net cash provided by (used in) investing activities	<u>99.3</u>	<u>309.8</u>	<u>(261.4)</u>
FINANCING ACTIVITIES			
Proceeds from issuance of long-term debt	—	0.5	523.2
Repayments of long-term debt	(23.4)	(139.4)	(403.8)
Short-term borrowings (repayments), net	0.5	(131.2)	(69.9)
Common stock issuance	1.6	3.8	0.5
Common stock repurchases	—	—	(4.4)
Dividends paid	(35.5)	(35.4)	(57.5)
Net cash used in financing activities	<u>(56.8)</u>	<u>(301.7)</u>	<u>(11.9)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>2.9</u>	<u>2.7</u>	<u>(1.9)</u>
Net increase in cash and cash equivalents	133.3	59.5	30.4
Cash and cash equivalents, beginning of year	128.9	69.4	39.0
Cash and cash equivalents, end of year	<u>\$262.2</u>	<u>\$ 128.9</u>	<u>\$ 69.4</u>

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 and manufacturer of office furniture. Founded in 1912, we are headquartered in Grand Rapids, Michigan, employ approximately 14,200 people and operate manufacturing facilities in over 35 locations. We distribute products through a network of independent dealers in more than 900 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 17.

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*. Prior to fiscal 2002, several of our International subsidiaries were accounted for on a two-month lag versus our fiscal year-end. Beginning in fiscal 2002, these subsidiaries were accounted for using our fiscal year-end. The impact of this change on year-end results was not material (see Consolidated Statements of Changes in Shareholders' Equity). All significant transactions and balances between our businesses and subsidiaries have been eliminated in consolidation.

Our fiscal year consists of 52 or 53 weeks, ending on the last Friday in February.

Fiscal Year	Year-end Date	Number of weeks
2004	February 27	52
2003	February 28	53(1)
2002	February 22	52

(1) Quarters 1 through 3 contained 13 weeks while quarter 4 contained 14 weeks.

Unless the context otherwise indicates, reference to a year relates to a fiscal year rather than a calendar year. Additionally, Q1 2004 references the first quarter of fiscal 2004. All amounts are in millions, except per share data, data presented as a percentage or unless otherwise indicated.

Certain amounts in the prior years' financial statements have been reclassified to conform to the current year 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. Our investments in these unconsolidated dealers are included in *Other Assets* in the accompanying Consolidated Balance Sheets (see Note 9 for further information). These investments are carried at the lower of cost or estimated market value. We do not adjust our carrying value for profits and losses for certain of these dealers because the investments are structured such that we do not share in profits and losses. Where we share in profits and losses, we recognize our appropriate share of earnings and losses in Equity in Net Income of Joint Ventures and Dealer Transitions included within *Other Income (Expense), Net*.

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. The consolidation of these dealers had the effect of increasing our total assets and liabilities by \$10.9 and had no effect on equity. The results of operations of these dealers will be included in our consolidated results beginning in Q1 2005.

During 2003, we completed a transaction to help transition a dealer to new ownership. We own 100% of one class of stock, and control the Board of Directors of the dealer. As a result, the balance sheet and results of operations of the dealer were consolidated within our North America segment, which added \$46.6 and \$24.3 of revenue and \$1.6 and \$1.1 of operating income to our 2004 and 2003 results, respectively. However, since earnings do not accrue to the class of stock we own, 100% of the operating profits was eliminated in *Other Income (Expense), net*. As a result, there was no effect on net income.

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* 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 are not material.

STEELCASE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)

Revenue Recognition

Revenue consists substantially of product sales and related service revenues. We also have finance revenue associated with our Financial Services subsidiary. However, due to a change in strategy within this subsidiary, finance revenue significantly decreased in 2004. See Note 6 for additional information.

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

Cash Equivalents

Cash equivalents include demand bank deposits and short-term investments which are highly liquid in nature, with an original maturity of three months or less at the time of purchase. Cash equivalents are reported at amortized cost, which approximates fair value, and were \$256.9 as of February 27, 2004 and \$119.8 as of February 28, 2003.

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 discussed in Note 9 and minority interests in unconsolidated joint ventures. Notes receivable from affiliates include dealer financing to unconsolidated dealers, including project financing, asset-based lending and term financing as discussed in Note 5 and Note 9.

Notes receivable and net investment in leases on non-accrual status were \$19.9 and \$41.5 as of February 27, 2004 and February 28, 2003, respectively. Of these, \$6.4 are current with payments as of February 27, 2004.

Allowance for Credit Losses

The allowance for credit losses 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, non-performing, 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

STEELCASE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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. Accounts past due over 90 days and still accruing interest as of February 27, 2004 were \$1.9.

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. Companies in the SDP segment primarily use the first in, first out or the average cost inventory valuation methods. Companies in the International segment value their inventories 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, maintenance and software training 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 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 in accordance with SFAS No. 144 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.

Investment in Leases

Products are sold to our independent dealers who resell the products to the end-use customer. Prior to 2004, we originated leases with some dealers and end-use customers and the remaining lease balance is recorded on our balance sheet. The net investment in leases includes both direct financing and operating leases. This investment will decrease over the next five years as the underlying lease schedules run-off. During Q1 2004,

STEELCASE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)

we began utilizing a third party to provide lease funding. As a result, we no longer have credit or residual risk related to those leases funded by the third party.

The net investment in direct financing leases consists of the present value of the future minimum lease payments receivable (typically over three to seven years) plus the present value of the estimated residual value. The net investment in operating lease assets consists of the equipment cost, less accumulated depreciation. Depreciation on the underlying equipment is recognized on a straight-line basis over the lease term to the estimated residual value and is included as part of operating expenses.

Residual value for lease assets is an estimate at the inception of the lease term of what the fair market value of the leased equipment will be at the end of the lease term. We record and annually review and adjust residual values based on historical experience and market studies conducted by independent third parties primarily based on the economic life of the products, type of products and the availability of a secondary market.

See Note 6 for further information regarding our investment in leases.

Long-Term Investments

Long-term investments primarily include privately-held equity securities and 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 and 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.

Goodwill and Other Intangible Assets

Goodwill represents the difference between the purchase price and the related underlying tangible 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.

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. See Note 8 for additional discussion of goodwill and other intangible assets.

STEELCASE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Self-Insurance

We are self-insured for certain losses relating to workers' compensation claims, product liability costs and the majority of employee medical benefits. We have purchased insurance coverage to reduce our exposure to significant levels of workers' compensation and product liability claims. Self-insured losses are accrued based upon estimates of the aggregate liability for uninsured claims incurred 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 \$9.9 incurred as of February 27, 2004 and February 28, 2003.

We maintain a Voluntary Employees' Beneficiary Association ("VEBA") to fund self-insured employee medical claims. The estimates for incurred but not reported medical claims, which are fully funded in the VEBA, were \$5.7 as of February 27, 2004 and \$7.7 as of February 28, 2003.

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 and Werndl 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.

<i>Product Warranty</i>	<i>February 27, 2004</i>	<i>February 28, 2003</i>
Balance at beginning of period	\$ 26.0	\$26.0
Accruals for warranty charges	8.5	8.4
Settlements/adjustments	<u>(13.6)</u>	<u>(8.4)</u>
Balance at end of period	<u>\$ 20.9</u>	<u>\$26.0</u>

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

STEELCASE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)

assessments and remedial efforts are probable and the costs can be 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 \$5.8 as of February 27, 2004 and \$7.4 as of February 28, 2003. 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 \$43.0 for 2004, \$45.5 for 2003 and \$61.0 for 2002.

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 13).

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 5.2 million options for 2004,

STEELCASE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

10.9 million options for 2003 and 2.6 million options for 2002 because those shares or potential shares were not dilutive,

Weighted Average Number of Shares of Common Stock Outstanding	Year Ended		
	February 27, 2004	February 28, 2003	February 22, 2002
Basic	147.9	147.6	147.3
Diluted (1)	148.0	147.7	147.7

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

Stock-Based Compensation

Prior to 2004, we accounted for our stock incentive plans 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.

Effective at the beginning of 2004, our policy is to expense stock-based compensation under SFAS No. 123, *Accounting for Stock-Based Compensation*, using the fair value based method of accounting for all awards granted, modified or settled on or after March 1, 2003. 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. There have been no stock options granted in 2004.

During 2004, 220,000 restricted shares of common stock were granted to key employees. These restricted shares vest in three years and may be forfeited if a participant leaves the Company for reasons other than retirement, disability or death prior to the vesting date. During 2004, compensation expense of \$0.7 was recognized in connection with these shares.

STEELCASE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 to all outstanding awards. Further disclosure of our stock incentive plans is presented in Note 13.

SFAS No. 123 Pro Forma Data	Year Ended		
	February 27, 2004	February 28, 2003	February 22, 2002
Net income (loss), as reported	\$(23.2)	\$(266.1)	\$ 1.0
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	0.7	—	—
Deduct: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects	<u>(6.2)</u>	<u>(11.5)</u>	<u>(9.6)</u>
Pro forma net loss	<u>\$(28.7)</u>	<u>\$(277.6)</u>	<u>\$ (8.6)</u>
Earnings (loss) per share:			
Basic and diluted—as reported	<u>\$(0.16)</u>	<u>\$ (1.80)</u>	<u>\$ 0.01</u>
Basic and diluted—pro forma	<u>\$(0.19)</u>	<u>\$ (1.88)</u>	<u>\$(0.06)</u>

Financial Instruments

The carrying amount of our financial instruments, consisting of cash equivalents, 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 recognize all derivative instruments on our balance sheet in *Other Long-term Liabilities* at fair value and establish criteria for designation and effectiveness of hedging relationships. 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*, net of tax, and reclassified into earnings 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. A fair value hedge requires that the effective portion of the change in the fair value of a derivative instrument be offset against the change in the fair value of the underlying asset, liability, or firm commitment being hedged through earnings.

STEELCASE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

We use derivative financial instruments principally to manage two types of risk:

1. The risk that interest rate changes will affect either:
 - the fair value of our debt obligations, or
 - the amount of our future interest payments.
2. The risk that unremitted or future cash flows owed to (by) us for the sale (purchase) or anticipated sale (purchase) of products abroad and other cash inflows (outflows) may be adversely affected by changes in the foreign currency rates.

We formally document the relationship between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivative instruments that are designated as fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific forecasted transactions. We also formally assess, both at the inception of the hedge and on an ongoing basis, whether the derivative instruments used are highly effective in offsetting changes in fair values or cash flows of hedged items. If it is determined the derivative instrument is not highly effective as a hedge, hedge accounting is discontinued. We use the Change in Variable Cash Flows method for testing the effectiveness of our hedges. This method compares the present value of the cash flow stream using the interest rate obtained at the inception of the agreements to the present value of the cash flow stream at current market interest rates. As of February 27, 2004, our testing proved that our hedges remained effective. See Note 16 for further information on derivatives.

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

New Accounting Pronouncements

SFAS No. 132(R), *Disclosures about Pensions and Other Postretirement Benefits*, requires additional disclosures about pensions and other postretirement benefits. These disclosures include: information describing the types of plan assets, investment strategy, measurement date(s), plan obligations, cash flows and components of net periodic benefit cost recognized during interim periods. We have included the additional disclosures for both domestic and foreign plans beginning with this Report (see Note 11).

STEELCASE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was signed into law. In response to this new law, the Financial Accounting Standards Board ("FASB") released FASB Staff Position ("FSP") No. 106-1, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*, which permits deferral of any accounting for the effects of the Act pending further consideration of the underlying accounting issues, unless a sponsor significantly amends its plan. We sponsor a postretirement health care plan (the "plan") that provides prescription drug benefits. In accordance with this FSP, any measures of the accumulated postretirement benefit obligation or net periodic postretirement benefit cost in the financial statements or accompanying notes do not reflect the effects of the Act on the plan. We are currently evaluating any effects the Act may have on the plan and our financial statements.

FASB Interpretation Number ("FIN") 46(R), *Consolidation of Variable Interest Entities*, requires that if a business enterprise has a controlling financial interest in a variable interest entity ("VIE"), the assets, liabilities and results of the activities of the VIE shall be included in the consolidated financial statements of the business enterprise. FIN 46(R) was effective for us beginning Q4 2004 as it relates to our synthetic lease structure for corporate aircraft.

In May 2000, we began leasing aircraft through a synthetic lease structure that meets the FIN 46(R) definition of a special-purpose entity. As of February 27, 2004, the aircraft was capitalized on our balance sheet and the related obligation was recorded as debt as required by the provisions of FIN 46(R). This change increased fixed assets by \$41.3 and debt by \$48.0. We also recorded a \$6.7 pre-tax, or \$4.2 after-tax, charge as a cumulative effect of accounting change in our statement of operations. There was no cash effect from this change in accounting and we do not expect any significant impact on our reported results on an on-going basis. Three of our four debt covenants are not impacted by any additional debt recorded on the balance sheet related to this lease structure. Reported interest expense will increase beginning Q1 2005 and this will affect our fourth covenant, the interest coverage covenant, but we expect to remain in compliance. See additional information related to our covenants in Note 10 and in *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

FIN 46(R) is effective in Q1 2005 for other types of VIEs that are not defined as special-purpose entities. We are completing our evaluation of our unconsolidated dealers where we have provided either equity or debt financing to determine whether those dealers are VIEs as defined by FIN 46(R). Based on our evaluation to date, we do not believe any of the dealers to which we provided financing will require consolidation pursuant to FIN 46(R).

STEELCASE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

3. INVENTORIES

Inventories	February 27, 2004	February 28, 2003
Finished goods	\$ 58.3	\$ 63.1
Work in process	29.7	27.4
Raw materials	<u>51.7</u>	<u>72.9</u>
	139.7	163.4
LIFO reserve	<u>(25.3)</u>	<u>(33.6)</u>
	<u>\$114.4</u>	<u>\$129.8</u>

The portion of inventories determined by the LIFO method aggregated \$46.3 and \$61.6 as of February 27, 2004 and February 28, 2003, respectively. The effect of LIFO liquidations on net income was an increase of \$1.9 after-tax for 2004 and was immaterial for 2003 and 2002.

4. PROPERTY AND EQUIPMENT

Property and Equipment	Estimated Useful Lives (Years)	February 27, 2004	February 28, 2003
Land	—	\$ 62.0	\$ 66.2
Buildings and improvements	10 – 50	736.1	737.2
Machinery and equipment	3 – 15	1,151.9	1,222.0
Furniture and fixtures	5 – 8	90.5	96.4
Leasehold improvements	3 – 10	68.1	62.9
Capitalized software	3 – 10	126.7	119.8
Construction in progress	—	<u>17.3</u>	<u>22.9</u>
		2,252.6	2,327.4
Accumulated depreciation and amortization		<u>(1,538.8)</u>	<u>(1,553.4)</u>
		<u>\$ 713.8</u>	<u>\$ 774.0</u>

The net book value of capitalized software was \$41.8 and \$54.3 as of February 27, 2004 and February 28, 2003, respectively. The majority of capitalized software has an estimated useful life of 3 to 5 years. Approximately 25% 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.

STEELCASE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)

Depreciation and amortization expense on property and equipment approximated \$131.4 for 2004, \$145.1 for 2003 and \$148.1 for 2002.

The estimated cost to complete construction in progress as of February 27, 2004 was \$37.6 and consists of numerous equipment, facility and software projects.

Included in *Other Current Assets* on our Consolidated Balance Sheets is property, plant and equipment classified as real estate held for sale, which totaled \$6.2 as of February 27, 2004 and \$11.3 as of February 28, 2003.

5. NOTES RECEIVABLE

Notes receivable includes activity related to our Financial Services subsidiary and other trade notes related to other operating segments. Our Financial Services subsidiary provides dealer financing under three distinct programs: project financing, asset-based lending and term financing. Through these programs, we provide dealers with interim financing, working capital lines of credit, financing of ownership changes and restructuring of debt.

Notes Receivable	February 27, 2004	February 28, 2003
Notes receivable:		
Project financing	\$ 10.6	\$ 8.2
Asset-based lending	31.2	26.9
Term financing	30.5	45.6
Other	15.8	10.7
Allowance for losses	<u>(17.9)</u>	<u>(20.3)</u>
	70.2	71.1
Current portion	<u>51.5</u>	<u>47.1</u>
Long-term portion	<u>\$ 18.7</u>	<u>\$ 24.0</u>

Project financing is secured by the specific underlying dealer inventory and accounts receivable in an effort to minimize credit exposure. Our asset-based lending (“ABL”) program to dealers includes total outstanding commitments of \$68.9. The amount of the commitment is further limited to a percentage of available collateral at any point in time. The availability formula is based on a percentage of accounts receivable and inventory. At year-end, the maximum commitment as limited by available collateral was approximately \$49.8. These ABL commitments generally expire in one year and are reviewed periodically for renewal. During 2004, we developed a plan to exit ABL. We are working closely with each participating dealer to transition them to a local banking

STEELCASE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

relationship as soon as practicable. Of the 30 dealers in the program, we believe approximately half will be able to transition to a local banking relationship over the next 12 to 18 months. Term financing is generally secured by certain dealer assets and, in some cases, the common stock and personal guarantees of dealer principals.

The terms of notes receivable related to dealer financing range from a few months for project financing to 11 years for certain term financing. The most common terms are from three to five years. Interest rates are both floating and fixed; the average interest rate on term loans was 6.6% as of February 27, 2004.

Allowance for credit loss activity is as follows:

Allowance for Credit Losses of Notes Receivable	February 27, 2004	February 28, 2003	February 22, 2002
Balance at beginning of year	\$20.3	\$ 28.3	\$ 32.4
Provision for credit losses	5.9	9.1	12.0
Excess of accounts written off over recoveries	(3.7)	(17.1)	(16.1)
Other adjustments(1)	<u>(4.6)</u>	<u>—</u>	<u>—</u>
Balance at end of year.....	<u>\$17.9</u>	<u>\$ 20.3</u>	<u>\$ 28.3</u>

(1) Other adjustments relate to the consolidation of eight dealers as of February 27, 2004. See Note 2.

Term financing related to dealer transitions is not considered an operating activity of Financial Services. A majority of the provision expense and the accounts written off in the past three years relate to restructuring of dealer transitions. Accordingly, these charges have been recorded in non-operating expense (see Note 14).

The gross amounts of contractual maturities of notes receivable are:

Year ending February	Amount
2005.....	\$66.4
2006.....	5.3
2007.....	7.9
2008.....	7.4
2009.....	0.1
Thereafter	<u>1.0</u>
	<u>\$88.1</u>

STEELCASE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)

6. INVESTMENT IN LEASES

Our Financial Services segment provides furniture leasing services to customers primarily in North America, and more recently in Europe. During Q1 2004, we implemented a new strategy in which we originate leases for customers and earn an origination fee for that service. We use a third party to provide lease funding. As a result, we no longer have credit or residual risk related to those leases.

We sold a substantial portion of our leasing portfolio as we implemented our new funding strategy. Leases with a book value of \$45.5 and \$289.4 were sold for proceeds of \$48.8 and \$302.0 during 2004 and 2003, respectively. We recorded a net gain of \$3.3 in 2004 and \$0.8 in 2003 after settling interest rate hedges related to these leases and transaction costs. The proceeds from these sales were primarily used to retire debt incurred to fund the leases.

<i>Investment in Leases</i>	February 27, 2004	February 28, 2003
Direct financing leases:		
Minimum lease payments receivable	\$ 62.4	\$137.5
Estimated residual value	22.4	25.1
Unearned revenue	<u>(10.8)</u>	<u>(24.6)</u>
Total direct financing leases	<u>74.0</u>	<u>138.0</u>
Operating leases:		
Operating lease assets	16.0	31.4
Accumulated depreciation	<u>(11.2)</u>	<u>(17.7)</u>
Net operating leases	<u>4.8</u>	<u>13.7</u>
Total net investment in leases	78.8	151.7
Reserve for credit losses	<u>(7.8)</u>	<u>(12.0)</u>
	71.0	139.7
Current portion	<u>23.9</u>	<u>37.8</u>
Long-term portion	<u>\$ 47.1</u>	<u>\$101.9</u>

STEELCASE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Future Minimum Lease Payments Receivable	Direct Financing Leases	Operating Leases
2005	\$29.2	\$1.0
2006	19.8	0.5
2007	8.7	0.4
2008	4.2	0.4
2009	0.5	0.2
Thereafter	<u>—</u>	<u>0.1</u>
	<u>\$62.4</u>	<u>\$2.6</u>

Approximately 27% of direct financing leases call for transfer of ownership to customers at lease-end. The original equipment cost at lease inception for leases in effect as of February 27, 2004 is \$156.1 for direct financing leases and \$16.0 for operating leases.

Credit Losses

Credit loss reserves are monitored and regularly updated based on the quality of credits in the lease portfolio and our historical loss experience. In 2004, we reduced loss provisions due to run-off of our lease portfolio and strengthening of existing lease credit exposure. During 2003, certain larger customers experienced defaults or declines in credit quality. As a result, higher loss provisions were recorded in 2003 to reflect the increased risk. See discussion of concentration of credit risk in Note 16.

Reserve for Credit Losses on Net Investment in Leases	February 27, 2004	February 28, 2003	February 22, 2002
Balance at beginning of year	\$12.0	\$ 7.1	\$ 9.1
Provision for credit losses	(1.8)	12.7	7.9
Excess of accounts written off over recoveries	(1.8)	(5.0)	(9.9)
Adjustments related to the sales of leased assets	<u>(0.6)</u>	<u>(2.8)</u>	<u>—</u>
Balance at end of year	<u>\$ 7.8</u>	<u>\$12.0</u>	<u>\$ 7.1</u>

Residual Values

Direct financing lease receivables include an estimated residual value as discussed in Note 2. Most customers buy the furniture at the end of the lease term or extend their leases, although some customers return the furniture. On an overall basis, we have historically realized gains on booked residuals. However, there is

STEELCASE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)

some risk we could experience a decline in residual results if the rate at which leasing customers return furniture were to increase, and if the prices in the used furniture market were to decline.

Operating lease assets consist of the equipment cost less accumulated depreciation. Depreciation is recognized on a straight-line basis over the lease term to the estimated residual value, which is determined on the same basis as direct financing leases as set forth above.

Estimated Residual Values by Year of Lease Termination	Direct Financing Leases	Operating Leases
2005	\$ 6.1	\$1.0
2006	6.8	0.8
2007	4.5	0.0
2008	2.9	0.1
2009	2.1	0.2
Thereafter	—	0.1
	<u>\$22.4</u>	<u>\$2.2</u>

7. 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 \$241.2 as of February 27, 2004 (see Note 11). However, the assets do not represent a committed funding source. They are subject to claims from creditors and can be redesignated by us 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 AA to AAA, and totaled \$177.9 as of February 27, 2004 and \$161.2 as of February 28, 2003.

Investments in company owned life insurance consist of approximately \$86.0 in traditional whole life policies and approximately \$91.9 in variable life insurance policies. 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, the investments are not at risk to market 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 27, 2004, 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.

STEELCASE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The net effect of these changes in 2004 resulted in a gain of approximately \$15.0, recorded as 60% cost of sales and 40% operating expenses to offset the expense originally recorded. For 2003 and 2002, the net effect of these changes was immaterial.

8. 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 operating segment reporting purposes.

Upon adoption of SFAS No. 142 in 2003, we recorded a non-cash charge of \$229.9 related to the impairment of goodwill in our International reporting unit. This charge is reflected as a cumulative effect of an accounting change in the accompanying Consolidated Statements of Income. In calculating the impairment charge, the fair value of the International reporting unit was determined by using a combined discounted cash flow and market value approach. The decline in the fair value of our International reporting unit was primarily attributable to the decline in revenue and profitability of the unit, which is primarily the result of the industry-wide decline in office furniture revenue. This decline led to a significant reduction in our three to five year projection of operating income for the International unit.

We evaluated goodwill during Q4 2004 and no impairment was necessary for any reporting unit.

A summary of changes in goodwill during 2004, by business segment, is as follows:

Business Segment	Goodwill			
	February 28, 2003	Acquisitions	Dispositions & Adjustments	February 27, 2004
North America	\$ 41.3	\$3.8	\$ —	\$ 45.1
Steelcase Design Partnership	63.2	—	—	63.2
International	42.0	0.5	—	42.5
Other	63.3	—	(3.9)	59.4
Total	<u>\$209.8</u>	<u>\$4.3</u>	<u>\$(3.9)</u>	<u>\$210.2</u>

During 2004, the Company consolidated eight dealers into its financial statements that resulted in an increase of goodwill amounting to \$4.3 (see Note 2 for further discussion of these dealers). Also in 2004, we reversed \$3.3 of pre-acquisition contingency reserves related to the acquisition of PolyVision against goodwill, with no impact to net income.

STEELCASE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)

Had we not amortized goodwill in 2002, our reported net income and basic and diluted net income per common share would have been the adjusted amounts indicated below:

	Year Ended February 22, 2002	
	Net income	Net income per basic and diluted common share
As reported.....	\$1.0	\$0.01
Add: Goodwill amortization	8.8	0.06
As adjusted	<u>\$9.8</u>	<u>\$0.07</u>

As of February 27, 2004 and February 28, 2003, our other intangible assets and related accumulated amortization consisted of the following:

Other Intangible Assets	Estimated Useful Lives (Years)	February 27, 2004			February 28, 2003		
		Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Intangible assets subject to amortization:							
Proprietary technology.....	9-14	\$ 48.7	\$ 9.3	\$39.4	\$ 48.5	\$ 4.6	\$43.9
Trademarks	5-10	32.5	21.5	11.0	32.5	17.8	14.7
Non-compete agreements.....	3	1.9	1.6	0.3	1.9	1.1	0.8
Other.....	5-7	<u>8.8</u>	<u>3.6</u>	<u>5.2</u>	<u>7.1</u>	<u>2.5</u>	<u>4.6</u>
Total		<u>91.9</u>	<u>36.0</u>	<u>55.9</u>	<u>90.0</u>	<u>26.0</u>	<u>64.0</u>
Intangible assets not subject to amortization:							
Trademarks	n/a	<u>32.2</u>	<u>—</u>	<u>32.2</u>	<u>32.2</u>	<u>—</u>	<u>32.2</u>
Total Intangible Assets		<u>\$124.1</u>	<u>\$36.0</u>	<u>\$88.1</u>	<u>\$122.2</u>	<u>\$26.0</u>	<u>\$96.2</u>

STEELCASE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For 2004, we recorded amortization expense of \$10.0 on intangible assets subject to amortization compared to \$12.3 for 2003 and \$10.3 for 2002. Based on the current amount of intangible assets subject to amortization, the estimated amortization expense for each of the following five fiscal years is as follows:

Estimated Amortization Expense	
Year Ending February	Amount
2005	\$10.2
2006	9.8
2007	5.8
2008	5.8
2009	5.6

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

9. OTHER ASSETS

Other Assets	February 27, 2004	February 28, 2003
Equity investment in dealer transitions	\$12.6	\$21.2
Long-term investments	7.8	8.5
Equity investments in joint ventures	6.2	6.0
Other	<u>9.2</u>	<u>23.6</u>
	<u>\$35.8</u>	<u>\$59.3</u>

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. These investments are carried at the lower of cost or estimated market value. We do not adjust our carrying value for profits and losses for certain of these dealers because the investments are structured such that we do not share in profits and losses. Where we share in profits and losses, we recognize our appropriate share of earnings and losses in *Other Income (Expense), net* on the Consolidated Statements of Income.

As described in Note 18, the nature of the company’s control regarding eight dealer transitions changed to one of participative control in February, 2004. Accordingly, we have consolidated the balance sheets of these dealers as of February 27, 2004. The results of operations of these dealers will be included in our consolidated results beginning in Q1 2005.

STEELCASE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)

Long-term investments primarily include privately held equity securities and are carried at the lower of cost or estimated fair value.

Equity investments in joint ventures are comprised of joint ventures in the United States, Saudi Arabia and Japan. Equity investments in joint ventures also include a minority interest in a joint venture involved in construction activities. In addition to our investment, we periodically are party to performance bonds related to the construction activities. See Note 16 for further information related to performance bonds and guarantees. Net income from joint ventures was \$2.2 for 2004, \$2.7 for 2003 and \$3.3 for 2002 and is included with *Other Income (Expense), net* on the Consolidated Statements of Income.

10. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Debt Obligations	Interest Rates Range	Fiscal Year Maturity Range	February 27, 2004	February 28, 2003
U.S. dollar obligations:				
Senior notes (1)	6.375%	2007	\$249.3	\$249.0
Notes payable (2)	5.96%-8.21%	2005-2007	76.0	37.9
Revolving credit facilities (3)	—	—	—	—
Capitalized lease obligations	7.50%-8.00%	2005-2009	<u>0.3</u>	<u>0.8</u>
			<u>325.6</u>	<u>287.7</u>
Foreign currency obligations:				
Notes payable (2)	6.18%-7.30%	2005-2009	16.3	24.5
Revolving credit facilities (3)	2.69%-4.78%	2005	8.6	8.2
Capitalized lease obligations	2.92%-3.19%	2005-2007	<u>3.5</u>	<u>3.8</u>
			<u>28.4</u>	<u>36.5</u>
Total short-term borrowings and long-term debt			354.0	324.2
Short-term borrowings and current portion of long-term debt			<u>34.4</u>	<u>30.0</u>
Long-term debt			<u>\$319.6</u>	<u>\$294.2</u>

(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

STEELCASE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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. The discount is being amortized on a straight-line basis over the term of the senior notes.

- (2) Notes payable represents amounts payable to various banks and other creditors, a portion of which is collateralized by the underlying assets.

In May 2000, we began leasing aircraft through a synthetic lease structure that meets the FIN 46(R) definition of a special-purpose entity. As of February 27, 2004, the aircraft was capitalized on our balance sheet and the related obligation of \$48.0 was recorded as debt as required by the provisions of FIN 46(R). This debt is secured by the aircraft and matures in May 2005.

Certain agreements contain financial covenants that include, among others, a minimum net worth, a minimum interest coverage ratio and a minimum debt ratio. As of February 27, 2004, we were in compliance with all covenants under these facilities.

Approximately \$10.7 of notes payable as of February 27, 2004 and \$15.0 of notes payable as of February 28, 2003 are collateralized by lease receivables.

- (3) During Q2 2004, we finalized a new \$250 million 3-year global committed bank facility. Our obligations under this facility are unsecured and unsubordinated. As of February 27, 2004, we had no borrowings against this facility. This facility replaced our \$200 million 3-year global committed bank facility and our \$200 million 364-day global committed bank facility, neither of which had borrowings against them at February 28, 2003. 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 minimum net worth covenant, a maximum debt ratio covenant, a minimum interest coverage ratio covenant and an asset coverage ratio covenant. In October 2003, Moody's Investor Services lowered its rating on the Company to Ba1, thus activating the asset coverage ratio covenant. As of February 27, 2004, 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 \$35.0 of U.S. dollar obligations and \$95.3 of foreign currency obligations as of February 27, 2004. Interest rates are variable and determined by agreement at the time of borrowing. These agreements expire within one year, and subject

STEELCASE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)

to certain conditions may be renewed annually. Borrowings on these facilities as of February 27, 2004 were \$8.6 and as of February 28, 2003 were \$8.2.

Annual Maturities of Short-Term Borrowings and Long-Term Debt	
Year Ending February	Amount
2005	\$ 34.4
2006	62.0
2007	256.2
2008	1.3
2009	0.1
	<u>\$354.0</u>

Total cash paid for interest on short-term borrowings and long-term debt amounted to \$20.8 for 2004, \$26.2 for 2003 and \$31.9 for 2002.

11. EMPLOYEE BENEFIT PLAN OBLIGATIONS

Employee Benefit Plan Obligations	February 27, 2004	February 28, 2003
Defined contribution retirement plans	\$ 15.3	\$ 17.5
Post-retirement medical benefits	191.4	190.9
Defined benefit pension plans	37.4	36.1
Deferred compensation plan and agreements	30.8	32.9
	<u>274.9</u>	<u>277.4</u>
Current portion	33.9	39.6
Long-term portion	<u>\$241.0</u>	<u>\$237.8</u>

Defined Contribution Retirement Plans

Substantially all United States employees are covered under 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. 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

STEELCASE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Compensation Committee at the end of each fiscal year. As of February 27, 2004, the Company-funded portion of the trust had net assets of approximately \$1.1 billion.

Contributions for similar subsidiary plans are discretionary and declared by management. Total expense under all defined contribution retirement plans was \$18.7 for 2004, \$19.1 for 2003 and \$24.8 for 2002. We expect to contribute approximately \$15.3 to our defined contribution plans in 2005.

Post-retirement Medical Benefits

Certain of our subsidiaries have unfunded post-retirement benefit plans that provide medical and life insurance benefits to 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 7). However, likely over the next several years annual inflows to the policies will not be sufficient to meet annual outflows for the benefit plans. The difference would represent a use of cash.

During 2003, we adopted plan amendments limiting certain benefits. These plan amendments resulted in the establishment of a deferred actuarial gain that was to be amortized over the remaining service life of the affected plan participants. Due to the significant workforce reductions in 2004 and 2003, curtailment accounting rules were triggered and we recognized plan curtailment gains of \$3.8 and \$16.4, respectively.

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 funded status of our defined benefit pension plans is as follows:

	February 27, 2004			February 28, 2003		
	Qualified Plans		Unqualified Supplemental Retirement Plan	Qualified Plans		Unqualified Supplemental Retirement Plan
	Domestic	Foreign		Domestic	Foreign	
Plan assets.....	\$11.4	\$ 31.9	\$ —	\$11.3	\$ 25.3	\$ —
Projected benefit plan obligations ..	11.9	48.5	22.1	13.4	41.2	17.9
Funded status	<u>\$(0.5)</u>	<u>\$(16.6)</u>	<u>\$(22.1)</u>	<u>\$(2.1)</u>	<u>\$(15.9)</u>	<u>\$(17.9)</u>
Accrued benefit plan obligations ...	<u>\$ 0.9</u>	<u>\$ 17.5</u>	<u>\$ 19.0</u>	<u>\$ 2.1</u>	<u>\$ 16.5</u>	<u>\$ 17.5</u>
Accumulated benefit obligation	<u>\$11.9</u>	<u>\$ 45.6</u>	<u>\$ 18.8</u>	<u>\$13.4</u>	<u>\$ 37.1</u>	<u>\$ 15.3</u>

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, 2003 for our foreign pension plans, and February 27, 2004 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 27, 2004	February 28, 2003	February 27, 2004	February 28, 2003
Change in benefit obligations:				
Projected benefit plan obligations, beginning of year	\$ 72.5	\$ 68.3	\$ 234.0	\$ 271.5
Service cost	2.2	2.4	4.3	4.5
Interest cost	4.3	4.3	14.5	15.3
Amendments	—	1.9	(13.4)	(57.2)
Net actuarial loss	4.5	2.2	9.6	25.6
Plan participants' contributions	0.1	0.1	4.3	5.7
Currency changes	6.5	4.7	0.4	0.3
Adjustment due to plan curtailment	—	(3.8)	(5.9)	(10.2)
Adjustment due to plan settlement	(1.4)	(1.2)	—	—
Benefits paid	(7.1)	(5.8)	(17.0)	(21.5)
Other adjustments	0.9	(0.6)	—	—
Projected benefit plan obligations, end of year	<u>82.5</u>	<u>72.5</u>	<u>230.8</u>	<u>234.0</u>

STEELCASE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Changes in Projected Benefit Obligations, Assets and Funded Status	Pension Plans		Post-retirement Plans	
	February 27, 2004	February 28, 2003	February 27, 2004	February 28, 2003
Change in plan assets:				
Fair value of plan assets, beginning of year	36.6	38.5	—	—
Actual return on plan assets	5.2	(3.6)	—	—
Employer contributions	4.8	8.1	12.7	15.8
Plan participants' contributions	—	0.1	4.3	5.7
Currency changes	4.0	2.5	—	—
Adjustment due to plan settlement	—	(3.1)	—	—
Benefits paid	(7.1)	(5.8)	(17.0)	(21.5)
Other adjustments	(0.2)	(0.1)	—	—
Fair value of plan assets, end of year	<u>43.3</u>	<u>36.6</u>	<u>—</u>	<u>—</u>
Funded status	(39.2)	(35.9)	(230.8)	(234.0)
Unrecognized prior service cost (gain)	1.0	1.0	(43.0)	(38.2)
Unrecognized net actuarial loss	<u>13.2</u>	<u>11.4</u>	<u>82.4</u>	<u>81.3</u>
Net amount recognized	<u>\$(25.0)</u>	<u>\$(23.5)</u>	<u>\$(191.4)</u>	<u>\$(190.9)</u>
Amounts recognized in the consolidated balance sheets:				
Accrued benefit plan obligations	\$(37.4)	\$(36.1)	\$(191.4)	\$(190.9)
Prepaid pension costs	5.0	5.3	—	—
Intangible assets	0.3	0.8	—	—
Accumulated other comprehensive income	<u>7.1</u>	<u>6.5</u>	<u>—</u>	<u>—</u>
Net amount recognized	<u>\$(25.0)</u>	<u>\$(23.5)</u>	<u>\$(191.4)</u>	<u>\$(190.9)</u>

STEELCASE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)

Components of Expense and Weighted-Average Assumptions	Year Ended					
	Pension Plans			Post-retirement Plans		
	February 27, 2004	February 28, 2003	February 22, 2002	February 27, 2004	February 28, 2003	February 22, 2002
Components of expense:						
Service cost	\$ 2.2	\$ 2.4	\$ 3.3	\$ 4.3	\$ 4.5	\$ 6.2
Interest cost	4.3	4.3	4.2	14.5	15.3	17.6
Amortization of prior year service cost (gain)	0.7	1.5	0.3	(3.9)	(5.2)	(0.2)
Expected return on plan assets	(2.6)	(3.0)	(2.8)	—	—	—
Adjustment due to plan curtailment	0.1	1.3	—	(3.8)	(16.4)	—
Adjustment due to plan settlement	(0.3)	1.3	—	—	—	—
Amortization of transition obligation	—	—	—	—	—	0.2
Amortization of unrecognized net actuarial loss	<u>0.3</u>	<u>0.3</u>	<u>—</u>	<u>3.7</u>	<u>2.9</u>	<u>1.8</u>
Net expense	<u>\$ 4.7</u>	<u>\$ 8.1</u>	<u>\$ 5.0</u>	<u>\$ 14.8</u>	<u>\$ 1.1</u>	<u>\$25.6</u>
Weighted-average assumptions used to determine benefit obligations:						
Discount rate	5.75%	6.00%	6.75%	6.10%	6.50%	7.25%
Expected return on plan assets	7.25%	7.65%	7.75%	—	—	—
Rate of salary progression ...	3.00%	3.90%	4.25%	—	4.50%	4.50%

STEELCASE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Components of Expense and Weighted-Average Assumptions	Year Ended					
	Pension Plans			Post-retirement Plans		
	February 27, 2004	February 28, 2003	February 22, 2002	February 27, 2004	February 28, 2003	February 22, 2002

Weighted-average assumptions used to determine net periodic benefit cost (1):

Discount rate	5.75%	n/a	n/a	6.41%	n/a	n/a
Expected return on plan assets	7.25%	n/a	n/a	—	n/a	n/a
Rate of salary progression	3.75%	n/a	n/a	4.50%	n/a	n/a

(1) The weighted-average assumptions used to determine net periodic benefit cost are not available as of February 28, 2003 or February 22, 2002.

In evaluating the expected return on plan assets, we have considered the expected long-term rate of return on plan assets, an analysis of current market conditions and the views of leading financial advisors and economists.

The assumed health care cost trend was 11.0% as of February 27, 2004, gradually declining to 4.5% in 2012 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	\$ 0.9	\$ (0.8)
Effect on post-retirement benefit obligation	\$13.2	\$(12.1)

Our pension plans weighted-average investment allocation strategies and weighted-average target asset allocations by asset category as of February 27, 2004 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 corresponding with the underlying risk of the investments. We have one domestic and one foreign pension plan, which are frozen. The target allocations in these plans reflect a shift from equity securities to less risky

STEELCASE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)

investments to better match the projected benefit payouts. The actual allocation percentages will reflect this shift in strategy over time.

Asset Category	February 27, 2004	
	Actual Allocations (2)	Target Allocations
Equity securities	53%	45%
Debt securities	20	25
Real estate	2	2
Other (1)	<u>25</u>	<u>28</u>
Total	<u>100%</u>	<u>100%</u>

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

(2) The weighted-average investment allocation strategy by asset category is not available as of February 28, 2003.

We expect to contribute approximately \$4.2 to our pension plans and \$8.8 to our post-retirement plans in 2005. Our estimated future benefit payments under our pension and post-retirement plans are as follows:

Year Ending February	Pension Plans	Post-retirement Plans
2005	\$ 5.8	\$11.7
2006	5.8	12.1
2007	6.1	12.4
2008	5.1	13.3
2009	4.8	14.1
2010-2014	23.6	83.0

Deferred Compensation Plan and Agreements

We also have deferred compensation obligations to certain employees in return for agreeing not to receive part of their compensation for a period of three to five years. This deferred compensation liability is 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 obligations (see further discussion in Note 7). Deferred compensation expense approximated \$5.2 for 2004, \$4.7 for 2003 and \$5.2 for 2002.

STEELCASE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

12. 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 the applicable laws and the rights of any series of Preferred Stock to a separate class vote. 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 the Second Restated Articles of Incorporation), (iii) with respect to shares of Class B Common Stock acquired after the recapitalization of our Common Stock approved in 1998, at such time as a corporation, partnership, limited liability company, trust or charitable organization holding such shares ceases to be 100% controlled 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 the then outstanding shares of Common Stock (without regard to voting rights).

Except for the voting and conversion features, 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.

Preferred Stock

The Second Restated Articles of Incorporation authorize the Board, without any vote or action by the 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.

13. 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"), which includes the issuance of restricted shares and 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 27, 2004, 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 or its designee 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.

Awards may be made to our employees and non-employee directors or others as designated by the Compensation Committee. A variety of awards may be granted under the Incentive Compensation Plan including stock options, stock appreciation rights ("SARs"), restricted stock (as discussed below), performance shares, performance units, cash-based awards, phantom shares and other share-based awards as the Compensation Committee may determine. 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.

STEELCASE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 that are not performance-based shall lapse.

Restricted Stock

Under the Steelcase Inc. Incentive Compensation Plan, the Compensation Committee of the Board of Directors approved and granted 220,000 restricted shares of stock and 48,000 restricted stock units (“RSUs”) during 2004 to key employees. These restricted stock shares and RSUs vest in three years and will be forfeited if a participant leaves the Company for reasons other than retirement, disability or death prior to the vesting date. During 2004, 1,400 restricted shares were forfeited. The aggregate market value of the restricted stock shares at the date of issuance of \$2.1 was recorded as deferred compensation, a separate component of shareholders’ equity, and is being amortized over the three-year vesting period of the grants. The RSUs are expensed over the three-year vesting period based on the current market value of the shares to be granted.

Stock Options

Since inception of the Incentive Compensation Plan in 1998, we have reserved for issuance 21,000,000 shares of Class A Common Stock (see further discussion of stock-based compensation in Note 2). We also issued an Employee Stock Grant in 1998, of 149,540 shares of Class A Common Stock, to certain of our employees.

STEELCASE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)

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 23, 2001.....	5,968,317	\$18.66
Options granted.....	2,798,803	\$12.90
Options exercised.....	(44,982)	\$11.02
Options forfeited.....	<u>(206,163)</u>	\$15.74
February 22, 2002.....	8,515,975	\$16.87
Options granted.....	3,754,576	\$16.12
Options exercised.....	(321,528)	\$11.91
Options forfeited.....	<u>(1,001,390)</u>	\$16.91
February 23, 2003.....	10,947,633	\$16.76
Options granted.....	—	\$ —
Options exercised.....	(146,860)	\$10.91
Options forfeited.....	<u>(558,998)</u>	\$20.12
February 27, 2004.....	<u>10,241,775</u>	\$16.66
Exercisable options:		
February 22, 2002.....	3,315,401	\$20.64
February 28, 2003.....	5,389,038	\$18.95
February 27, 2004.....	7,297,914	\$17.22

Range of Exercise Prices	Stock Option Information February 27, 2004				
	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	5,060,078	6.1	\$12.35	4,161,271	\$12.30
\$16.03 to \$17.31	3,207,847	7.9	\$16.45	1,162,793	\$16.50
\$28.00 to \$36.50	<u>1,973,850</u>	3.8	\$28.04	<u>1,973,850</u>	\$28.04
\$10.50 to \$36.50	<u>10,241,775</u>	6.2	\$16.66	<u>7,297,914</u>	\$17.22

STEELCASE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The price per share of options outstanding ranged from \$10.50 to \$36.50 as of February 27, 2004, February 28, 2003 and February 22, 2002. As of February 27, 2004, there were 9,818,686 shares available for future issuances under our Incentive Compensation Plan.

The fair value of each option grant was estimated using the Black-Scholes option-pricing model.

Weighted Average Assumptions for Option Grants	Year Ended		
	February 27, 2004	February 28, 2003	February 22, 2002
Risk-free interest rate	n/a	4.3%	4.5%
Dividend yield	n/a	2.7%	1.7%
Volatility	n/a	37.9%	40.5%
Average expected term (years)	n/a	4.0	4.0
Fair value per share of options granted	n/a	\$4.49	\$4.24

14. OTHER INCOME, NET

Other Income, net	Year Ended		
	February 27, 2004	February 28, 2003	February 22, 2002
Interest income	\$ 3.1	\$ 3.8	\$ 8.3
Loss on dealer transitions	(8.7)	(8.3)	(11.0)
Gain on disposal of property and equipment	9.8	16.4	3.7
Miscellaneous, net	<u>(4.2)</u>	<u>4.5</u>	<u>(0.3)</u>
	<u>\$ —</u>	<u>\$16.4</u>	<u>\$ 0.7</u>

Losses on dealer transitions relate to uncollectible funds loaned to or invested in dealers to finance ownership changes and are classified as non-operating. These losses do not include write-offs of receivables that have arisen as a result of product sales. Charges for write-offs associated with trade receivables from these affiliates are recorded as operating expenses.

The majority of the loss recorded in 2004 related to an International dealer transition. During Q2 2004, we assumed control of the dealership and reduced the carrying value of our investment in the dealer to the net book value of the dealer's underlying tangible assets, which approximated its fair value. After assuming control of the dealer, its financial statements were included in our consolidated financial statements. During 2003, we recognized losses on dealer transitions primarily related to two International dealers that were significantly

STEELCASE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)

affected by the office furniture recession in their markets. During 2002, we recognized losses on dealer transitions primarily related to a North America dealer whose operating results deteriorated due to a significant decline in business activity in its local market and several other performance issues. As a result, this dealer was restructured and ownership was transitioned to new dealer principals.

During 2004, the gain on disposal of property and equipment primarily related to excess real estate in our International segment which was sold for net cash proceeds of \$11.5 and a pre-tax non-operating gain of \$7.0. The gain in 2003 primarily related to the sale of our Tustin, California manufacturing facility and write-off of related equipment following the relocation of the operations to a smaller, more efficient facility. We received net proceeds of \$35.7 and recorded a net gain of \$15.1.

15. 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 27, 2004	February 28, 2003	February 22, 2002
Current income taxes:			
Federal	\$(26.6)	\$ 6.5	\$ 0.5
State and local	(2.1)	0.4	1.4
Foreign	13.1	12.3	10.8
	<u>(15.6)</u>	<u>19.2</u>	<u>12.7</u>
Deferred income taxes:			
Federal	(9.2)	(22.0)	10.5
State and local	(3.0)	0.4	0.1
Foreign	(22.8)	(22.3)	(26.5)
	<u>(35.0)</u>	<u>(43.9)</u>	<u>(15.9)</u>
	<u><u>\$(50.6)</u></u>	<u><u>\$(24.7)</u></u>	<u><u>\$ (3.2)</u></u>

STEELCASE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

Income Tax Benefit Reconciliation	Year Ended		
	February 27, 2004	February 28, 2003	February 22, 2002
Tax benefit at federal statutory rate	\$(32.2)	\$(23.2)	\$(2.2)
State and local income taxes, net of federal tax	(2.7)	0.3	0.3
Corporate owned life insurance	(5.3)	—	—
Research and experimentation credit	(2.5)	(1.5)	(1.8)
Net tax (benefit) relating to foreign operations, less applicable foreign tax credit, net of valuation allowance on foreign losses	2.6	(1.8)	(0.9)
Charitable contributions	(0.6)	—	(1.1)
Adjustment to tax reserves (1)	(5.3)	2.0	(1.4)
Other	<u>(4.6)</u>	<u>(0.5)</u>	<u>3.9</u>
Total income tax benefit recognized	<u><u>\$(50.6)</u></u>	<u><u>\$(24.7)</u></u>	<u><u>\$(3.2)</u></u>

(1) Based on the results of a recently completed IRS tax audit for years ended 1999, 2000 and 2001, in 2004 we recorded a net adjustment of \$5.3 reversing reserves that were no longer necessary related to the years that were audited. As of February 27, 2004, we feel the level of remaining reserves appropriately reflects our probable income tax exposures for years subsequent to 2001. The change in tax reserves for 2003 and 2002 represented adjustments to the reserves to better reflect our estimates of potential audit exposure.

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 rates currently in effect in

STEELCASE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)

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

Deferred Income Taxes	February 27, 2004	February 28, 2003
Deferred income tax assets:		
Employee benefit plan obligations	\$113.9	\$111.4
Reserves and allowances	54.0	57.8
Foreign and domestic operating losses, net of valuation allowances of \$21.4 and \$12.0	81.6	55.1
Tax credit carryforwards, net of valuation allowances of \$4.8 and \$—	22.8	10.0
Other	<u>(0.5)</u>	<u>1.9</u>
Total deferred income tax assets	<u>271.8</u>	<u>236.2</u>
Deferred income tax liabilities:		
Property and equipment	(57.0)	(52.2)
Intangible assets	(0.3)	(5.0)
Net investment in leases	<u>(3.3)</u>	<u>(2.7)</u>
Total deferred income tax liabilities	<u>(60.6)</u>	<u>(59.9)</u>
Net deferred income tax assets	211.2	176.3
Current portion	<u>98.8</u>	<u>102.8</u>
Non-current portion	<u>\$112.4</u>	<u>\$ 73.5</u>

The total amount of undistributed earnings of foreign subsidiaries, which are deemed to be permanently invested, amounted to \$74.4 as of February 27, 2004. No provision has been made for foreign withholding taxes or United States income taxes which may become payable if undistributed earnings of foreign subsidiaries were paid as dividends to us because it is not practicable to estimate the amount of those taxes. Subject to certain limitations, withholding taxes on foreign dividends would be available for use as credit against the United States tax liability.

Operating Loss and Tax Credit Carryforwards

As of February 27, 2004, we had \$265.9 of foreign and domestic operating loss carryforwards and \$27.6 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

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that a benefit of \$104.4 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. The operating loss and tax credit carryforwards expire as follows:

Year Ending February	Operating Loss Carryforwards (gross)	Operating Loss Carryforwards (tax effected)	Tax Credit Carryforwards
2005	\$ 1.1	\$ 0.4	\$ —
2006	2.7	0.9	—
2007	0.3	0.1	18.8
2008	3.8	1.3	1.3
2009-2021	113.2	51.7	5.9
No expiration	144.8	48.6	1.6
	<u>\$265.9</u>	103.0	27.6
Valuation allowance	n/a	(21.4)	(4.8)
Net benefit	<u>n/a</u>	<u>\$ 81.6</u>	<u>\$22.8</u>

16. 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. By investment policy, we limit our exposure to any one financial institution or debtor.

We use derivative financial instruments, principally forward contracts and swaps and interest rate swaps and caps, primarily to reduce our exposure to adverse fluctuations in foreign currency exchange rates and interest rates. We do not use derivative financial instruments for speculative or trading purposes.

In some circumstances, interest rate swap contracts are used to adjust debt that is subject to variable interest rates to the amount of underlying assets also subject to variable interest rates. Certain contracts are designated as hedges against possible changes in the amount of future cash flows associated with interest

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)

payments of the existing variable-rate obligations. See Note 2 for more information regarding interest rate swaps and caps. The net effect on our operating results is that interest expense on the variable-rate debt being hedged is recorded based on fixed interest rates.

Information regarding our interest rate swaps is summarized below.

Interest Rate Swaps	February 27, 2004			February 28, 2003		
	Fair Value of Liability	Notional Amount	Interest Rates	Fair Value of Liability	Notional Amount	Interest Rates
Cash flow hedges	\$3.7	\$56.0	6.2%-6.6%	\$5.5	\$59.3	6.2%-6.6%

The notional amounts shown 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.

Foreign exchange contracts are primarily used to hedge the risk that unremitted or future revenue owed to us for the sale or anticipated sale, and the risk that future payments by us for the purchase or anticipated purchase of products abroad, may be adversely affected by changes in foreign currency exchange rates. As part of our overall strategy to manage the level of exposure to the risk of foreign exchange rate fluctuations, we hedge net estimated foreign currency exposures that principally relate to cash flows to be remitted to or paid by International segment operations over the ensuing twelve-month period. To hedge this exposure, we use foreign exchange contracts that have maturities ranging from one to twelve months, which are renewed or adjusted within the year to provide continuing coverage throughout the year. The fair value and notional amounts of foreign exchange contracts were immaterial as of February 27, 2004 and February 28, 2003.

We recognized a pre-tax loss of \$7.7 related to the settlement of certain swap agreements in connection with the sale of leased assets in 2003 (see Note 6).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Other comprehensive income (loss) related to derivatives consisted of the following components:

Derivative Adjustments, net of tax	Year Ended		
	February 27, 2004	February 28, 2003	February 22, 2002
Cumulative effect of accounting change (SFAS No. 133)	\$ —	\$ —	\$(5.1)
Change in fair value of derivative instruments.....	(1.3)	(3.5)	(9.0)
Adjustment due to swap settlement	—	4.9	—
Settlement to interest expense	<u>1.9</u>	<u>3.3</u>	<u>6.1</u>
Derivative adjustments, net of tax	<u>\$ 0.6</u>	<u>\$ 4.7</u>	<u>\$(8.0)</u>

Prior to the adoption of SFAS No. 133, gains and losses on foreign exchange contracts were generally included as a component of *Other Income (Expense), net* in our Consolidated Statements of Income.

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. Occasionally, a sales contract may be structured such that the customer payment or obligation is direct to the Company. In those cases, the Company assumes the credit risk. Since we primarily “assemble-to-order”, trade receivables are, with few exceptions, related to specific customer orders which we believe reduces our 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 the Financial Services segment. Because the underlying net investment in leases represents multiple orders from individual customers, there are some concentrations of credit risk with certain customers. Our 10 largest lease customers make up \$47.0 of gross lease receivables at the end of 2004. 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.

Lease Commitments

We lease certain sales offices, showrooms and equipment under non-cancelable operating leases that expire at various dates through 2020. During the normal course of business, we have entered into several sale-leaseback arrangements for certain equipment and facilities. In accordance with GAAP, these leases are

STEELCASE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS— (Continued)

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 \$27.2 as of February 27, 2004 and \$29.8 as of February 28, 2003.

Minimum Annual Rental Commitments Under Non-cancelable Operating Leases	
Year Ending February	Amount
2005	\$ 49.5
2006	43.0
2007	33.7
2008	25.6
2009	22.2
Thereafter	<u>110.3</u>
	<u>\$284.3</u>

Rent expense under all operating leases was \$56.3 for 2004, \$57.4 for 2003 and \$55.4 for 2002.

Guarantees and Performance Bonds

We are contingently liable under loan guarantees for certain Steelcase dealers and joint ventures in the event of default or non-performance of the financial repayment of the liability. The guarantees generally have terms ranging from one to ten years. No losses have been experienced; however, reserves totaling \$0.7 are recorded as of February 27, 2004 to cover potential losses for loan guarantees entered into subsequent to December 31, 2002, in accordance with FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees and Indebtedness of Others*.

We are also party to performance bonds for certain installation or construction activities of certain Steelcase dealers and a joint venture. 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 three years. Approximately \$60.0 in performance bonds relate to a construction project that is completed and being used as intended, however, we have not received final approval from the customer. We estimate that our actual exposure from these performance bonds is less than \$1.0.

Where we have supplied performance bonds related to a joint venture, we require any significant subcontractors to supply us with performance bonds to provide coverage in the event they cause a performance failure or delay. Performance bonds supplied by subcontractors totaled \$40.0 as of February 27, 2004, which reduces our risk of exposure. Additionally, our joint venture agreement requires our partner to share in any losses

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related to these performance bonds. Where we have supplied performance bonds for dealers, we have the ability to step in and cure performance failures by the dealers thereby mitigating our potential losses. No loss has been experienced under these performance bonds; however, reserves totaling \$0.9 are recorded as of February 27, 2004 to cover potential losses.

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 27, 2004	February 28, 2003
Performance bonds—joint ventures	\$65.5	\$53.6
Performance bonds—dealers	5.4	10.8
Guarantees with dealers and joint ventures	19.3	25.7
Guarantees—other	<u>4.2</u>	<u>1.5</u>
Total	<u>\$94.4</u>	<u>\$91.6</u>

Contingencies

We depend on our independent dealers to represent us to customers in individual geographic markets, which can be defined as a country, region, or major metropolitan area. We believe this network of independent dealers is a significant source of competitive advantage. There are some geographic markets where we are represented by a single dealer, or where business is highly concentrated in a single dealer. In those situations, the loss of the dealer could negatively affect our ability to maintain market share and compete for new business in that market while a new dealer is established. There are other situations where an individual dealer principal, partnership or corporation may own multiple dealerships in various markets. Therefore, we have, in the past, sometimes elected to make debt and equity investments or guarantees to facilitate ownership transitions to avoid a disruption in the operation of the dealership. We have also, in the past, sometimes elected to assume, provide or guarantee credit for dealerships and dealer owners experiencing economic difficulty. All such contractual obligations, guarantees and contingencies are disclosed in the financial statements and notes. However, it is possible that we may have additional non-contractual contingent exposures related to our dependence on individual dealers in key markets and certain dealer owners, as described above. It is not practicable to estimate this exposure.

We are continuing actions to implement the Steelcase Production System, which involves consolidation of plants, relocation of products between plants, new processes, and adoption of new supply chain strategies.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

There is some risk that these actions could lead to temporary disruptions or increased costs. We have planned our implementation carefully to avoid those risks, and have successfully mitigated those risks in the past.

Many of our operations are relatively vertically integrated which has given us better control over the factors of production. However, this may also expose us to business interruption risk if a key operation is lost due to casualty. We have taken steps to reduce this risk through contingency planning, and through business interruption insurance.

We routinely launch new products and periodically remove older products from our offering. In general, we expect new products to help us gain market share, and we expect customers to move from older products to our newer offerings. There is some risk that new products will not be successful and related fixed asset investments could be impaired. There is also some risk that we lose customers, and therefore market share, when we cull a product from our line. We take steps, including phased implementations and migration strategies, to reduce these risks.

We have several discretionary incentive compensation plans that cover the majority of our employees. These plans are based on factors such as Economic Value Added and other financial profitability and performance measures. Annual bonuses are payable after the end of the fiscal year and therefore, are included in accrued *Employee Compensation* expense in the accompanying Consolidated Balance Sheets.

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.

17. OPERATING SEGMENTS

We operate under three reportable segments: North America, SDP and International plus an “Other” category.

The North America segment consists of manufacturing and sales operations in the United States and Canada. This segment includes 16 manufacturing facilities, approximately 8,000 employees and serves customers through a network of over 330 dealer locations.

The SDP includes the following companies and their brands: Brayton International, The Designtex Group, Office Details Inc., Metropolitan Furniture Corporation and Vecta. These companies operate autonomously and report to the president of the SDP. They focus on higher-end design furniture products and niche applications for lobby and reception areas, conference rooms, private offices, health care and learning environments, as well as the design and distribution of surface materials and ergonomic tools for the workplace. The SDP segment has

STEELCASE INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

approximately 1,200 employees and distributes its products through many of the same dealers as the North America segment.

The International segment includes all sales and manufacturing operations of the Steelcase and Werndl brands outside the United States and Canada. Today, the International segment includes 12 manufacturing facilities located in 8 countries, over 3,500 employees and serves customers through a network of approximately 570 dealer locations.

The Other category includes Financial Services, PolyVision and IDEO subsidiaries, ventures and unallocated corporate expenses. Steelcase Financial Services Inc. 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 Corporation, acquired during 2002, designs and manufactures visual communications products, such as static and electronic whiteboards, for learning environments and office settings. IDEO Inc. provides product design and innovation services. Approximately 85% 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.

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.

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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.

Operating Segment Data	North America	SDP	International	Other	Consolidated
Fiscal 2004					
Revenue	\$1,280.4	\$275.6	\$539.2	\$250.4	\$2,345.6
Operating income (loss)	(46.9)	12.8	(27.5)	(11.9)	(73.5)
Total assets	1,130.5	137.1	454.5	628.3	2,350.4
Capital expenditures	18.2	4.4	16.4	4.0	43.0
Depreciation & amortization	93.6	8.5	27.6	11.7	141.4
Fiscal 2003					
Revenue	\$1,497.9	\$291.2	\$485.9	\$254.9	\$2,529.9
Operating income (loss)	(19.1)	14.5	(27.1)	(29.4)	(61.1)
Total assets	1,074.3	152.6	445.3	678.4	2,350.6
Capital expenditures	45.1	9.6	15.7	6.1	76.5
Depreciation & amortization	107.3	8.7	26.9	14.1	157.0
Fiscal 2002					
Revenue	\$1,930.0	\$330.5	\$596.9	\$180.9	\$3,038.3
Operating income (loss)	51.6	23.7	(35.1)	(25.7)	14.5
Total assets	1,194.4	173.1	668.9	931.1	2,967.5
Capital expenditures	60.1	19.3	29.4	14.2	123.0
Depreciation & amortization	118.6	8.0	36.9	8.9	172.4

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Reportable geographic information is as follows:

Reportable Geographic Data	Year Ended		
	February 27, 2004	February 28, 2003	February 22, 2002
Revenue:			
United States.....	\$1,690.4	\$1,933.9	\$2,331.3
Foreign locations.....	<u>655.2</u>	<u>596.0</u>	<u>707.0</u>
Total	<u>\$2,345.6</u>	<u>\$2,529.9</u>	<u>\$3,038.3</u>
Long-lived Assets:			
United States.....	\$ 952.5	\$1,011.7	\$1,145.1
Foreign locations.....	<u>252.1</u>	<u>259.0</u>	<u>486.6</u>
Total	<u>\$1,204.6</u>	<u>\$1,270.7</u>	<u>\$1,631.7</u>

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

18. ACQUISITIONS & DIVESTITURES

PolyVision

On November 14, 2001, we acquired 100% of PolyVision Corporation for approximately \$182.3. The purchase price included approximately \$72.9 of cost of equity, \$103.2 in assumed debt and \$6.2 of transaction costs. The acquisition was accounted for under the purchase method of accounting. Accordingly, their results of operations after November 14, 2001 have been consolidated with ours. Goodwill and intangible assets acquired in the transaction amounted to \$141.9.

Custom Cable

Effective July 31, 2001, we acquired 100% of Custom Cable Industries, a designer of data and voice cabling and fabricator of data and telecommunication network cable assemblies for \$21.5. The transaction was accounted for under the purchase method of accounting. Accordingly, their results of operations after July 31, 2001 have been consolidated within our North America segment. Intangible assets acquired in the transaction amounted to \$14.7.

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Steelcase Artwright Manufacturing

Effective February 7, 2002, we acquired a 75% equity interest in Steelcase Artwright Manufacturing SDN BHD, a joint venture with Artwright Holdings Berhad, a leading office furniture company in Southeast Asia. The joint venture manufactures furniture for office environments primarily in Southeast Asia. The transaction was accounted for under the purchase method of accounting. Accordingly, their results of operations after February 7, 2002 have been consolidated with ours. The transaction was completed for \$13.1 in cash, and resulted in intangible assets of \$6.3 being recorded. Additionally, as part of our joint venture agreement, we loaned our joint venture partner \$4.4 for a term of five years at a 6.375% interest rate. The Note is secured by the underlying common stock of our joint venture partner.

Discontinued Operations

On August 29, 2003, 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:

<i>Discontinued Operations</i>	Year Ended		
	February 27, 2004	February 28, 2003	February 22, 2002
Revenue	\$31.2	\$57.0	\$51.2
Income before income taxes	\$ 4.0	\$ 7.3	\$ 4.8
Net income	\$ 2.4	\$ 4.7	\$ 3.1

19. RESTRUCTURING CHARGES

During 2004, we continued efforts to reduce our cost structure by restructuring certain areas of our business. Restructuring activities include, but are not limited to, workforce reductions, facility consolidations, relocation of production lines and the exit of certain businesses. Costs associated with these activities include,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

but are not limited to, severance, asset impairments and lease impairments. Restructuring costs are summarized in the following table:

Restructuring Charges	February 27, 2004	February 28, 2003	February 22, 2002
Cost of sales:			
North America	\$21.6	\$ 9.2	\$19.0
Steelcase Design Partnership	0.2	—	—
International	20.5	6.7	10.8
Other	—	0.6	—
	<u>42.3</u>	<u>16.5</u>	<u>29.8</u>
Operating expenses:			
North America	5.4	26.2	10.7
Steelcase Design Partnership	0.9	1.4	1.2
International	1.4	7.1	7.7
Other	3.5	10.0	0.9
	<u>11.2</u>	<u>44.7</u>	<u>20.5</u>
Totals	<u>\$53.5</u>	<u>\$61.2</u>	<u>\$50.3</u>

Below is a summary of the charges and payments during 2003 and 2004 that have been applied against the reserve as of February 27, 2004.

Restructuring Reserve	Workforce Reductions	Other Costs	Total
Reserve balance as of February 22, 2002	\$ 18.8	\$ 2.9	\$ 21.7
Additions	48.3	12.9	61.2
Payments and adjustments	(55.9)	(8.6)	(64.5)
Reserve balance as of February 28, 2003	11.2	7.2	18.4
Additions	28.4	25.1	53.5
Payments and adjustments	(27.4)	(22.4)	(49.8)
Reserve balance as of February 27, 2004	<u>\$ 12.2</u>	<u>\$ 9.9</u>	<u>\$ 22.1</u>

During 2002, we reserved for approximately 1,300 identified salaried workforce reductions, all of which occurred as of February 28, 2003. During 2003, our restructuring for workforce reductions related to 1,425 positions, all of which occurred as of February 27, 2004. During 2004, our restructuring for workforce reductions

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related to 1,537 positions, of which 716 occurred as of February 27, 2004. The remaining terminations are expected to take place in 2005.

20. UNAUDITED QUARTERLY RESULTS

Unaudited Quarterly Results	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2004					
Revenue	\$ 555.6	\$612.1	\$614.5	\$563.4	\$2,345.6
Gross profit	146.3	167.7	166.7	134.6	615.3
Operating income (loss)	(25.3)	(1.8)	(6.0)	(40.4)	(73.5)
Loss from continuing operations	(14.8)	(3.2)	(9.5)	(13.9)	(41.4)
Discontinued operations, net	1.4	21.3	—	(0.3)	22.4
Cumulative effect of accounting change	—	—	—	(4.2)	(4.2)
Net income (loss)	(13.4)	18.1	(9.5)	(18.4)	(23.2)
Earnings (loss) per share (basic and diluted) from continuing operations	(0.10)	(0.02)	(0.06)	(0.10)	(0.28)
Earnings per share from discontinued operations	0.01	0.14	—	—	0.15
Cumulative effect of accounting change per share	—	—	—	(0.03)	(0.03)
Earnings (loss) per share (basic and diluted)	(0.09)	0.12	(0.06)	(0.13)	(0.16)
2003					
Revenue	\$ 626.3	\$644.2	\$635.6	\$623.8	\$2,529.9
Gross profit	176.4	190.9	172.6	188.2	728.1
Operating income (loss)	(17.1)	(12.8)	(36.3)	5.1	(61.1)
Income (loss) from continuing operations	(16.9)	(8.5)	(31.8)	16.3	(40.9)
Discontinued operations, net	1.5	1.2	0.7	1.3	4.7
Cumulative effect of accounting change	(229.9)	—	—	—	(229.9)
Net income (loss)	(245.3)	(7.3)	(31.1)	17.6	(266.1)
Earnings (loss) per share (basic and diluted) from continuing operations	(0.11)	(0.06)	(0.22)	0.11	(0.28)
Earnings per share from discontinued operations	0.01	0.01	0.01	0.01	0.04
Cumulative effect of accounting change per share	(1.56)	—	—	—	(1.56)
Earnings (loss) per share (basic and diluted)	(1.66)	(0.05)	(0.21)	0.12	(1.80)

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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
2004					
Restructuring charges:					
Workforce reductions	\$ 9.7	\$ 0.2	\$ 1.2	\$ 17.3	\$ 28.4
Other costs	<u>5.2</u>	<u>7.2</u>	<u>5.5</u>	<u>7.2</u>	<u>25.1</u>
	<u>14.9</u>	<u>7.4</u>	<u>6.7</u>	<u>24.5</u>	<u>53.5</u>
Other selected charges (gains):					
(Gain) loss on sale of leased assets	(2.8)	—	—	(0.4)	(3.2)
(Gain) loss on sale of real estate	(3.1)	(7.0)	—	—	(10.1)
Lease impairments	—	—	2.4	—	2.4
Post-retirement curtailment gain	—	—	—	(3.7)	(3.7)
Other	—	6.1	—	0.4	6.5
	<u>(5.9)</u>	<u>(0.9)</u>	<u>2.4</u>	<u>(3.7)</u>	<u>(8.1)</u>
Total restructuring and other selected charges (gains)	<u>\$ 9.0</u>	<u>\$ 6.5</u>	<u>\$ 9.1</u>	<u>\$ 20.8</u>	<u>\$ 45.4</u>
2003					
Restructuring charges:					
Workforce reductions	\$ 5.9	\$ 5.2	\$ 26.7	\$ 10.5	\$ 48.3
Other costs	<u>1.9</u>	<u>8.7</u>	<u>2.3</u>	<u>—</u>	<u>12.9</u>
	<u>7.8</u>	<u>13.9</u>	<u>29.0</u>	<u>10.5</u>	<u>61.2</u>
Other selected charges (gains):					
(Gain) loss on sale of leased assets	5.7	—	—	(6.2)	(0.5)
(Gain) loss on sale of real estate	—	—	2.3	(17.4)	(15.1)
Asset impairments	—	—	—	4.0	4.0
Post-retirement curtailment gain	—	—	—	(16.4)	(16.4)
Other	—	(1.3)	—	1.8	0.5
	<u>5.7</u>	<u>(1.3)</u>	<u>2.3</u>	<u>(34.2)</u>	<u>(27.5)</u>
Total restructuring and other selected charges (gains)	<u>\$13.5</u>	<u>\$12.6</u>	<u>\$31.3</u>	<u>\$(23.7)</u>	<u>\$ 33.7</u>

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

STEELCASE INC.
GRAND RAPIDS, MICHIGAN

We have audited the accompanying consolidated balance sheets of Steelcase Inc. and subsidiaries as of February 27, 2004 and February 28, 2003, 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 27, 2004. Our audits also included the financial statement schedule for the three years in the period ended February 27, 2004 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 auditing standards generally accepted in the United States of America. 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. An audit also includes 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. and subsidiaries as of February 27, 2004 and February 28, 2003 and the results of their operations and their cash flows for each of the three years in the period ended February 27, 2004, 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 8, the Company adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, in the year-ended February 28, 2003. 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.

BDO SEIDMAN, LLP

Grand Rapids, Michigan
March 26, 2004

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements and other financial information contained in this annual report were prepared by management in conformity with accounting principals generally accepted in the United States of America. In preparing these financial statements, reasonable estimates and judgments have been made when necessary.

Management is responsible for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of the financial records. The concept of reasonable assurance recognizes that there are inherent limitations in any control system and that the cost of maintaining a control system should not exceed the expected benefits to be derived therefrom. Management believes its system of internal control effectively meets its objective of reliable financial reporting.

The Audit Committee of the Board of Directors meets periodically with management and the independent accountants to review and discuss audit findings and other financial and accounting matters. The independent accountants have free access to the Audit Committee, with and without management present, to discuss the results of their audit work.

The Company's independent accountants are engaged to audit the Company's consolidated financial statements and schedule, in accordance with generally accepted auditing standards for the purpose of expressing an opinion on the financial statements and schedule.

James P. Hackett
*President and
Chief Executive Officer*

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

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure:

None.

Item 9A. Controls and Procedures:

(a) *Disclosure Controls and Procedures.* The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as amended), as of February 27, 2004. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that as of February 27, 2004, the Company's disclosure controls and procedures were effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act.

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

PART III

Item 10. Directors and Executive Officers of the Registrant:

The information required by Item 10 that is not included below is contained in Part I, Item 1 under the *Available Information* section or in our 2004 Proxy Statement under the captions "Proposal Requiring Your Vote—Election of Directors," "Our Board of Directors," "Corporate Governance" and "Other Matters—Section 16(a) Beneficial Ownership Reporting Compliance" and is incorporated into this Report by reference.

Executive officers include:

Name	Age	Position
Mark A. Baker	44	Senior Vice President, Operations
Robert W. Black	44	President, International
Jon D. Botsford	49	Senior Vice President, Secretary and Chief Legal Officer
Mark T. Greiner	52	Senior Vice President, Workspace Futures
James P. Hackett	49	President and Chief Executive Officer, Director
Nancy W. Hickey	52	Senior Vice President, Chief Administrative Officer
James P. Keane	44	Senior Vice President, Chief Financial Officer
Michael I. Love	55	President and Chief Executive Officer, Steelcase Design Partnership
Frank H. Merlotti, Jr.	53	President, Steelcase North America

Mark A. Baker has been Senior Vice President, Operations since November 2001. Mr. Baker served as Vice President, Manufacturing Operations from March to November 2001. From 1999 to 2001, Mr. Baker served as Vice President, Marketing. From 1998 to 1999, Mr. Baker served as Vice President and General Manager, Turnstone.

Robert W. Black has been President, International since October 2000. Mr. Black was Senior Vice President, Steelcase International from 1999 to 2000. From 1998 to 1999, Mr. Black served as Vice President, European Ventures.

Jon D. Botsford has been Senior Vice President, Secretary and Chief Legal Officer since June 2000. Mr. Botsford served as Senior Vice President, General Counsel and Secretary from 1999 to 2000. From 1998 to 1999, Mr. Botsford served as Vice President, General Counsel and Secretary.

Mark T. Greiner has been Senior Vice President, WorkSpace Futures since November 2002. Mr. Greiner was Senior Vice President, Research & Development, Concepts and Ventures from 2001 to 2002. From 1999 to 2001, Mr. Greiner held the position of Senior Vice President, Global E-Business and Chief Information Officer. Mr. Greiner served as Vice President, Chief Information Officer from 1996 to 1999.

James P. Hackett has been President, Chief Executive Officer and Director of the Company since December 1994. Mr. Hackett also serves as a Board Member to Northwestern Mutual Life Insurance Company and Fifth Third Bancorp.

Nancy W. Hickey has been Senior Vice President, Chief Administrative Officer since November 2001. Ms. Hickey served as Senior Vice President, Global Human Resources from March to November 2001. From 1999 to 2001, Ms. Hickey served as Vice President, Human Resources. Ms. Hickey served as Vice President, Corporate Human Resources from May to November 1999. From 1994 to 1999, Ms. Hickey served as Vice President, Dealer and Customer Alliances.

James P. Keane has been Senior Vice President, Chief Financial Officer since April 2001. Mr. Keane served as Senior Vice President, Finance and Corporate Strategy from February to April 2001. From 1999 to 2001, Mr. Keane served as Senior Vice President, Corporate Strategy, Research and Development. Mr. Keane served as Vice President, Corporate Strategy, Research and Development from 1997 to 1999.

Michael I. Love has been President and Chief Executive Officer, Steelcase Design Partnership since May 2000. Mr. Love was President of Vecta, a division of Steelcase, from 1994 to 2000.

Frank H. Merlotti, Jr. has been President, Steelcase North America since September 2002. From 1999 to 2002, Mr. Merlotti was President and Chief Executive Officer of G&T Industries, a manufacturer and distributor of fabricated foam and soft-surface materials. Mr. Merlotti was President and Chief Executive Officer of Metropolitan Furniture Corporation, a subsidiary of Steelcase, from 1991 to 1999.

Item 11. Executive Compensation:

The information required by Item 11 is contained in our 2004 Proxy Statement, under the captions “Directors’ Compensation,” “Report of the Compensation Committee,” “Executive Compensation, Retirement Programs and Other Arrangements,” “Compensation Committee Interlocks and Insider Participation,” and “Stock Performance Graph” and is incorporated into this Report by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management:

The information required by Item 12 that is not listed below is contained in our 2004 Proxy Statement, under the caption “Stock Ownership of Management and Certain Beneficial Owners” and is incorporated into this Report by reference.

Securities authorized for issuance under equity compensation plans as of February 27, 2004 are as follows:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the second column)
Equity compensation plans approved by security holders	10,241,775	\$16.66	9,818,686
Equity compensation plans not approved by security holders.....	<u>—</u>	<u>N/A</u>	<u>—</u>
Total	<u>10,241,775</u>	<u>\$16.66</u>	<u>9,818,686</u>

All stock options were awarded under our Incentive Compensation Plan, which was first approved by our shareholders in December 1997.

Item 13. Certain Relationships and Related Transactions:

The information required by Item 13 is contained in our 2004 Proxy Statement, under the caption “Compensation Committee Interlocks and Insider Participation” and is incorporated into this Report by reference.

Item 14. Principal Accounting Fees and Services:

The information required by Item 14 is contained in our 2004 Proxy Statement under the caption “Fees Paid to Principal Independent Auditor” and is incorporated into this Report by reference.

PART IV**Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K:****(a) Financial Statements and Schedules***1. Financial Statements (Item 8)*

The following consolidated financial statements of the Company are filed as part of this Report:

- Consolidated Statements of Income for the Years Ended February 27, 2004, February 28, 2003 and February 22, 2002
- Consolidated Balance Sheets as of February 27, 2004 and February 28, 2003
- Consolidated Statements of Changes in Shareholders' Equity for the Years Ended February 27, 2004, February 28, 2003 and February 22, 2002
- Consolidated Statements of Cash Flows for the Years Ended February 27, 2004, February 28, 2003 and February 22, 2002
- Notes to Consolidated Financial Statements
- Report of Independent Certified Public Accountants
- Management's Responsibility for Financial Reporting

2. Financial Statement Schedules (S-1)

Schedule II — Valuation and Qualifying Accounts

All other schedules required by Form 10-K have been omitted because they are not applicable or the required information is disclosed elsewhere in this Report.

3. Exhibits Required by Securities and Exchange Commission Regulation S-K

See Index of Exhibits (pages E-1 through E-6)

(b) Reports on Form 8-K Filed during the Quarter Ended February 27, 2004

A Current Report on Form 8-K was filed December 18, 2003 under Item 12, Results of Operations and Financial Condition, regarding Steelcase Inc.'s third quarter fiscal 2004 earnings release.

(c) Exhibits

The response to this portion of Item 15 is submitted as a separate section of this Report. See Item 15(a) (3) above.

(d) Financial Statement Schedules

The response to this portion of Item 15 is submitted as a separate section of this Report. See Item 15(a) (2) above.

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: May 6, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on this 6th day of May, 2004:

Signature	Title	Date
<u> /s/ JAMES P. HACKETT </u> James P. Hackett	President, Chief Executive Officer and Director (Principal Executive Officer)	May 6, 2004
<u> /s/ JAMES P. KEANE </u> James P. Keane	Senior Vice President, Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	May 6, 2004
<u> /s/ WILLIAM P. CRAWFORD </u> William P. Crawford	Director	May 6, 2004
<u> /s/ EARL D. HOLTON </u> Earl D. Holton	Director	May 6, 2004
<u> /s/ MICHAEL J. JANDERNOA </u> Michael J. Jandernoa	Director	May 6, 2004
<u> /s/ DAVID W. JOOS </u> David W. Joos	Director	May 6, 2004

Signature	Title	Date
<i>/s/</i> ELIZABETH VALK LONG <hr/> Elizabeth Valk Long	Director	May 6, 2004
<i>/s/</i> ROBERT C. PEW III <hr/> Robert C. Pew III	Chairman of the Board of Directors and Director	May 6, 2004
<i>/s/</i> PETER M. WEGE II <hr/> Peter M. Wege II	Director	May 6, 2004
<i>/s/</i> P. CRAIG WELCH, JR. <hr/> P. Craig Welch, Jr.	Director	May 6, 2004
<i>/s/</i> KATE PEW WOLTERS <hr/> Kate Pew Wolters	Director	May 6, 2004

SCHEDULE II
STEELCASE INC.
VALUATION AND QUALIFYING ACCOUNTS

Allowance for Losses on Accounts Receivable	Year Ended		
	February 27, 2004	February 28, 2003	February 22, 2002
Balance at beginning of year	\$ 61.5	\$ 65.4	\$58.9
Additions:			
Charged to costs and expenses	2.7	21.2	12.4
Charged to other accounts	0.4	—	2.0
Deductions and other adjustments (1)	<u>(20.2)</u>	<u>(25.1)</u>	<u>(7.9)</u>
Balance at end of year	<u>\$ 44.4</u>	<u>\$ 61.5</u>	<u>\$65.4</u>

(1) Represents excess of accounts written off over recoveries and other adjustments necessary in order for amounts to conform to the current year presentation.

Index of Exhibits

Exhibit No.	Description
1.1	Purchase Agreement, dated November 19, 2001, by and among the Company, Goldman, Sachs & Co., Salomon Smith Barney Inc., Banc of America Securities LLC, Banc One Capital Markets, Inc. and BNP Paribas Securities Corp. (14)
2.1	Agreement and Plan of Merger by and among Steelcase Inc., PV Acquisition Corp. and PolyVision Corporation dated August 24, 2001, as amended (15)
3.1	Second Restated Articles of Incorporation of the Company (1)
3.2	Amended By-laws of the Company, as amended June 15, 2000 (10)
4.1	Instruments which define the rights of holders of long-term debt represent debt of less than 10% of total assets. In accordance with Item 601(b)(4)(iii) of Regulation S-K, the Company agrees to furnish a copy of such instruments to the Securities and Exchange Commission upon request. (9)
4.2	Credit Agreement dated April 5, 2001, Long Term Multicurrency Revolving Credit Facility (12)
4.3	Credit Agreement dated April 5, 2001, Short Term Multicurrency Revolving Credit Facility (12)
4.4	First Amendment to Credit Agreement dated April 5, 2001, Long Term Multicurrency Revolving Credit Facility (23)
4.5	First Amendment to Credit Agreement dated April 5, 2001, Short Term Multicurrency Revolving Credit Facility (24)
4.6	Indenture dated November 27, 2001, between the Company and Bank One Trust Company, N.A. (14)
4.7	First Supplemental Indenture dated November 27, 2001, between the Company and Bank One Trust Company, N.A. (14)
4.8	Registration Rights Agreement, dated November 19, 2001, by and among the Company, Goldman, Sachs & Co., Salomon Smith Barney Inc., Banc of America Securities LLC, Banc One Capital Markets, Inc. and BNP Paribas Securities Corp. (14)
4.9	Form of Note (included in Exhibit 4.7) (14)
4.10	Second Amendment to Credit Agreement dated October 3, 2002, Long Term Multicurrency Revolving Credit Facility (30)
4.11	Second Amendment to Credit Agreement dated October 3, 2002, Short Term Multicurrency Revolving Credit Facility (31)
4.12	Credit Facility Agreement dated as of April 5, 2000, between Steelcase Financial Services Ltd. and Royal Bank of Canada (15)
4.13	Amendment dated May 24, 2001 to Credit Facility Agreement dated April 5, 2000, between Steelcase Financial Services Ltd. and Royal Bank of Canada (15)

Exhibit No.	Description
4.14	Guarantee dated as of April 5, 2000, by Steelcase Inc. in favor of Royal Bank of Canada, pursuant to the Credit Facility Agreement dated as of April 5, 2000, between Steelcase Financial Services Ltd. and Royal Bank of Canada (15)
4.15	Amendment dated May 24, 2001 to Guarantee dated as of April 5, 2000, by Steelcase Inc. in favor of Royal Bank of Canada, pursuant to the Credit Facility Agreement dated as of April 5, 2000, between Steelcase Financial Services Ltd. and Royal Bank of Canada (15)
4.16	Amendment dated November 9, 2001 to Credit Facility Agreement between Steelcase Financial Services Ltd. and Royal Bank of Canada, dated April 5, 2000, and the Guarantee by Steelcase Inc. in favor of Royal Bank of Canada, pursuant to the Credit Facility Agreement dated April 5, 2000 (15)
4.17	Credit Facility Agreement dated as of May 24, 2001 by and between Steelcase Financial Services Ltd. and Royal Bank of Canada (15)
4.18	Guarantee dated as of May 24, 2001, by Steelcase Inc. in favor of Royal Bank of Canada, pursuant to the Credit Facility Agreement dated as of May 24, 2001, between Steelcase Financial Services Ltd. and Royal Bank of Canada (15)
4.19	Amendment dated November 9, 2001 to Credit Facility Agreement between Steelcase Financial Services Ltd. and Royal Bank of Canada, dated May 24, 2001, and the Guarantee by Steelcase Inc. in favor of Royal Bank of Canada, pursuant to the Credit Facility Agreement dated May 24, 2001 (15)
4.20	Loan Agreement dated April 9, 1999, by and among Steelcase SAS, Steelcase Inc. and Societe Generale (15)
4.21	Participation Agreement dated as of April 9, 1999, by and between Steelcase Europe LLC and Societe Generale (15)
4.22	First Amendment to Loan Agreement dated as of June 15, 2001, by and among Steelcase SAS, Steelcase Inc. and Societe Generale (15)
4.23	Second Amendment to Loan Agreement dated November 12, 2001, by and among Steelcase SAS, Steelcase Inc. and Societe Generale (15)
4.24	Amendment to the Credit Facility Agreement dated October 3, 2002 between Steelcase Financial Services Ltd. and Royal Bank of Canada, dated April 5, 2000, and the Guarantee by Steelcase Inc. in favor of Royal Bank of Canada, pursuant to the Credit Facility Agreement dated April 5, 2000 (32)
4.25	Amendment to the Guarantee dated October 3, 2002 between Steelcase Financial Services Ltd. and Royal Bank of Canada, dated April 5, 2000, and the Guarantee by Steelcase Inc. in favor of Royal Bank of Canada, pursuant to the Credit Facility Agreement dated April 5, 2000 (33)

Exhibit No.	Description
4.26	Amendment to the Credit Facility Agreement dated October 3, 2002 between Steelcase Financial Services Ltd. and Royal Bank of Canada, dated May 24, 2001, and the Guarantee by Steelcase Inc. in favor of Royal Bank of Canada, pursuant to the Credit Facility Agreement dated May 24, 2001 (34)
4.27	Amendment to the Guarantee dated October 3, 2002 between Steelcase Financial Services Ltd. and Royal Bank of Canada, dated May 24, 2001, and the Guarantee by Steelcase Inc. in favor of Royal Bank of Canada, pursuant to the Credit Facility Agreement dated May 24, 2001 (35)
4.28	Third Amendment to Loan Agreement dated November 5, 2002, by and among Steelcase SAS, Steelcase Inc. and Societe Generale (36)
4.29	Fourth Amendment to Loan Agreement and Waiver dated April 17, 2003, by and among Steelcase SAS, Steelcase Inc. and Societe Generale (37)
4.30	Amendment to the Credit Facility Agreement dated May 2, 2003 between Steelcase Financial Services Ltd. and Royal Bank of Canada, dated April 5, 2000, and the Guarantee by Steelcase Inc. in favor of Royal Bank of Canada, pursuant to the Credit Facility Agreement dated April 5, 2000 (38)
4.31	Amendment to the Credit Facility Agreement dated May 2, 2003 between Steelcase Financial Services Ltd. and Royal Bank of Canada, dated May 24, 2001, and the Guarantee by Steelcase Inc. in favor of Royal Bank of Canada, pursuant to the Credit Facility Agreement dated May 24, 2001 (39)
4.32	Second Amendment to Participation Agreement (Steelcase Trust No. 2000-1) dated May 16, 2003 between Steelcase Inc. and various facility lenders (40)
4.33	Limited Waiver Regarding Long Term Credit Agreement dated April 2, 2003 between Steelcase Inc. and various lenders (41)
4.34	Third Amendment to Participation Agreement (Steelcase Trust No. 2000-1) dated August 1, 2003 between Steelcase Inc. and various facility lenders (42)
4.35	Fifth Amendment to Loan Agreement dated as of August 7, 2003 by and among Steelcase SAS, Steelcase Inc. and Societe Generale (43)
4.36	Master Aircraft Lease Agreement (Steelcase Trust No. 2000-1) dated as of May 26, 2000 among First Security Bank, National Association and Steelcase Inc.
4.37	Lease Supplement and Acceptance Certificate No. 1 (Steelcase Trust No. 2000-1) dated as of May 26, 2000 between First Security Bank, National Association and Steelcase Inc.
4.38	Lease Supplement and Acceptance Certificate No. 2 (Steelcase Trust No. 2000-1) dated as of August 23, 2000 between First Security Bank, National Association and Steelcase Inc.
4.39	Participation Agreement (Steelcase Trust No. 2000-1) dated as of May 26, 2000 among Steelcase Inc. and various facility lenders and Bank of America, National Association

Exhibit No.	Description
4.40	Appendix A to Participation Agreement (Steelcase Trust No. 2000-1) dated May 26, 2000 among Steelcase Inc. and various facility lenders and Bank of America, National Association
4.41	Security Agreement (Steelcase Trust No. 2000-1) dated as of May 26, 2000 from First Security Bank, National Association to First Security Trust Company of Nevada and accepted and agreed to by Steelcase Inc.
4.42	Security Agreement Supplement No. 1 (Steelcase Trust No. 2000-1) dated May 26, 2000 between First Security Bank, National Association to First Security Trust Company of Nevada and accepted and agreed to by Steelcase Inc.
4.43	Security Agreement Supplement No. 2 (Steelcase Trust No. 2000-1) dated May 26, 2000 between First Security Bank, National Association to First Security Trust Company of Nevada and accepted and agreed to by Steelcase Inc.
4.44	Notice of Delivery pursuant to Section 2.3(b) of the Participation Agreement dated as of May 26, 2000 among Steelcase Inc. and various facility lenders and Bank of America, National Association give notice that the Aircraft shall be delivered to the Certificate Trustee on May 26, 2000
4.45	Notice of Delivery pursuant to Section 2.3(b) of the Participation Agreement dated as of May 26, 2000 among Steelcase Inc. and various facility lenders and Bank of America, National Association give notice that the Aircraft shall be delivered to the Certificate Trustee on August 23, 2000
4.46	First Amendment to Participation Agreement (Steelcase Trust No. 2000-1) dated as of June 8, 2001 by and among Steelcase Inc. and various facility lenders
10.1	Deferred Compensation Agreement dated January 12, 1998, between Steelcase Inc. and James P. Hackett (3)
10.2	Steelcase Inc. Restoration Retirement Plan (2)
10.3	Steelcase Inc. 1994 Executive Supplemental Retirement Plan, amended and restated as of June 1, 2000 (25)
10.4	Deferred Compensation Agreement dated May 4, 1998, between Steelcase Inc. and William P. Crawford (5)
10.5	Stock Purchase Agreement between Steelcase Inc. and Strafor Facom S.A. dated as of April 21, 1999 (8)
10.6	Steelcase Inc. Non-Employee Director Deferred Compensation Plan (6)
10.7	Steelcase Inc. Deferred Compensation Plan (7)
10.8	Steelcase Inc. Benefit Plan for Outside Directors (26)
10.9	First Amendment to the Steelcase Inc. Restoration Retirement Plan (27)
10.10	First Amendment to the Steelcase Inc. Deferred Compensation Plan (28)

Exhibit No.	Description
10.11	2002-1 Amendment to the Steelcase Inc. Deferred Compensation Plan (29)
10.12	Shareholder's Agreement by and among Steelcase Inc., PV Acquisition, Inc. and The Alpine Group, Inc. dated August 24, 2001 (22)
10.13	Steelcase Inc. Incentive Compensation Plan, amended and restated as of March 1, 2002 (16)
10.14	Steelcase Inc. Management Incentive Plan, amended and restated as of March 1, 2002 (17)
10.15	Aircraft Time Sharing Agreement between Steelcase Inc. and James P. Hackett, dated March 31, 2002 (18)
10.16	Aircraft Time Sharing Agreement between Steelcase Inc. and James P. Hackett, dated March 31, 2002 (19)
10.17	Aircraft Time Sharing Agreement between Steelcase Inc. and Robert W. Black, dated March 31, 2002 (20)
10.18	Resignation Agreement between Steelcase Inc. and James R. Stelter dated September 27, 2002 (21)
10.19	Steelcase Inc. 1994 Executive Supplemental Retirement Plan, amended and restated as of March 27, 2003 (44)
10.20	2004-1 Amendment to the Steelcase Inc. Benefit Plan for Outside Directors (44)
10.21	2003-1 Amendment to the Steelcase Inc. Restoration Retirement Plan (44)
10.22	2004-1 Amendment to Steelcase Inc. Non-Employee Director Deferred Compensation Plan (45)
10.23	2004-2 Amendment to the Steelcase Benefit Plan for Outside Directors
21.1	Subsidiaries of the Registrant
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
99.1	Asset Purchase Agreement between Steelcase Financial Services Inc. and General Electric Capital Corporation, dated May 24, 2002 (11)
99.2	Guaranty by Steelcase Inc., in favor of General Electric Capital Corporation, dated May 24, 2002 (11)

(1) Incorporated by reference to the like numbered exhibit to the Company's Registration Statement on Form S-1 (#333-41647) as filed with the Securities and Exchange Commission ("Commission") on December 5, 1997.

(2) Filed as Exhibit No. 10.4 to the Company's Annual Report on Form 10-K for the fiscal year ended February 26, 1999, as filed with the Commission on May 27, 1999, and incorporated herein by reference.

- (3) Incorporated by reference to the like numbered exhibit to Amendment 2 to the Company's Registration Statement on Form S-1 (#333-41647) as filed with the Commission on January 20, 1998.
- (4) Not used.
- (5) Filed as Exhibit No. 10.8 to the Company's Annual Report on Form 10-K for the fiscal year ended February 27, 1998, as filed with the Commission on May 28, 1998, and incorporated herein by reference.
- (6) Filed as Exhibit No. 10.10 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended August 27, 1999, as filed with the Commission on October 12, 1999, and incorporated herein by reference.
- (7) Filed as Exhibit No. 10.11 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended November 26, 1999, as filed with the Commission on January 10, 2000, and incorporated herein by reference.
- (8) Filed as Exhibit 2.1 to the Company's Current Report on Form 8-K dated April 22, 1999, as filed with the Commission on May 7, 1999, and incorporated herein by reference.
- (9) Incorporated by reference to the like numbered exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended February 25, 2000, as filed with the Commission on May 25, 2000.
- (10) Incorporated by reference to the like numbered exhibit to the Company's Quarterly Report on Form 10-Q for the quarterly period ended May 26, 2000, as filed with the Commission on July 10, 2000.
- (11) Incorporated by reference to the like numbered exhibit to the Company's Quarterly Report on Form 10-Q for the quarterly period ended May 24, 2002, as filed with the Commission on July 8, 2002.
- (12) Incorporated by reference to the like numbered exhibit to the Company's Quarterly Report on Form 10-Q for the quarterly period ended May 25, 2001, as filed with the Commission on July 9, 2001.
- (13) Not used.
- (14) Incorporated by reference to the like numbered exhibit to the Company's Quarterly Report on Form 10-Q for the quarterly period ended November 23, 2001, as filed with the Commission on January 7, 2002.
- (15) Incorporated by reference to the like numbered exhibit to the Company's S-4 filing, as filed with the Commission on February 22, 2002.
- (16) Filed as Exhibit No. 10.27 in the Company's Quarterly Report on Form 10-Q for the quarterly period ended May 24, 2002, as filed with the Commission on July 8, 2002, and incorporated herein by reference.
- (17) Filed as Exhibit No. 10.28 in the Company's Quarterly Report on Form 10-Q for the quarterly period ended May 24, 2002, as filed with the Commission on July 8, 2002, and incorporated herein by reference.
- (18) Filed as Exhibit No. 10.29 in the Company's Quarterly Report on Form 10-Q for the quarterly period ended May 24, 2002, as filed with the Commission on July 8, 2002, and incorporated herein by reference.
- (19) Filed as Exhibit No. 10.30 in the Company's Quarterly Report on Form 10-Q for the quarterly period ended May 24, 2002, as filed with the Commission on July 8, 2002, and incorporated herein by reference.

- (20) Filed as Exhibit No. 10.31 in the Company's Quarterly Report on Form 10-Q for the quarterly period ended May 24, 2002, as filed with the Commission on July 8, 2002, and incorporated herein by reference.
- (21) Filed as Exhibit No. 10.32 in the Company's Quarterly Report on Form 10-Q for the quarterly period ended November 22, 2002, as filed with the Commission on January 6, 2003, and incorporated herein by reference.
- (22) Filed as Exhibit No. 10.26 in the Company's S-4 filing, as filed with the Commission on February 22, 2002, and incorporated herein by reference.
- (23) Filed as Exhibit No. 4.10 in the Company's Quarterly Report on Form 10-Q for the quarterly period ended November 23, 2001, as filed with the Commission on January 7, 2002, and incorporated herein by reference.
- (24) Filed as Exhibit No. 4.11 in the Company's Quarterly Report on Form 10-Q for the quarterly period ended November 23, 2001, as filed with the Commission on January 7, 2002, and incorporated herein by reference.
- (25) Filed as Exhibit No. 10.7 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended May 26, 2000, as filed with the Commission on July 10, 2000, and incorporated herein by reference.
- (26) Filed as Exhibit No. 10.21 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended May 25, 2001, as filed with the Commission on July 9, 2001, and incorporated herein by reference.
- (27) Filed as Exhibit No. 10.22 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended May 25, 2001, as filed with the Commission on July 9, 2001, and incorporated herein by reference.
- (28) Filed as Exhibit No. 10.23 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended May 25, 2001, as filed with the Commission on July 9, 2001, and incorporated herein by reference.
- (29) Filed as Exhibit No. 10.24 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended May 25, 2001, as filed with the Commission on July 9, 2001, and incorporated herein by reference.
- (30) Filed as Exhibit No. 4.31 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended November 22, 2002, as filed with the Commission on January 6, 2003, and incorporated herein by reference.
- (31) Filed as Exhibit No. 4.32 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended November 22, 2002, as filed with the Commission on January 6, 2003, and incorporated herein by reference.
- (32) Filed as Exhibit No. 4.33 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended November 22, 2002, as filed with the Commission on January 6, 2003, and incorporated herein by reference.
- (33) Filed as Exhibit No. 4.34 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended November 22, 2002, as filed with the Commission on January 6, 2003, and incorporated herein by reference.

- (34) Filed as Exhibit No. 4.35 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended November 22, 2002, as filed with the Commission on January 6, 2003, and incorporated herein by reference.
- (35) Filed as Exhibit No. 4.36 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended November 22, 2002, as filed with the Commission on January 6, 2003, and incorporated herein by reference.
- (36) Filed as Exhibit No. 4.37 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended November 22, 2002, as filed with the Commission on January 6, 2003, and incorporated herein by reference.
- (37) Filed as Exhibit No. 4.38 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended May 30, 2003, as filed with the Commission on July 14, 2003, and incorporated herein by reference.
- (38) Filed as Exhibit No. 4.39 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended May 30, 2003, as filed with the Commission on July 14, 2003, and incorporated herein by reference.
- (39) Filed as Exhibit No. 4.40 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended May 30, 2003, as filed with the Commission on July 14, 2003, and incorporated herein by reference.
- (40) Filed as Exhibit No. 4.41 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended May 30, 2003, as filed with the Commission on July 14, 2003, and incorporated herein by reference.
- (41) Filed as Exhibit No. 4.42 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended May 30, 2003, as filed with the Commission on July 14, 2003, and incorporated herein by reference.
- (42) Filed as Exhibit No. 4.43 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended August 29, 2003, as filed with the Commission on October 10, 2003, and incorporated herein by reference.
- (43) Filed as Exhibit No. 4.44 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended August 29, 2003, as filed with the Commission on October 10, 2003, and incorporated herein by reference.
- (44) Incorporated by reference to the like numbered exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended February 28, 2003, as filed with the Commission on May 16, 2003.
- (45) Filed as Exhibit No. 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended August 29, 2003, as filed with the Commission on October 10, 2003, and incorporated herein by reference.

Directors and Executive Officers

13.

Directors

William P. Crawford 3
Retired; formerly President
and Chief Executive Officer,
Steelcase Design Partnership

James P. Hackett 3
President and
Chief Executive Officer,
Steelcase Inc.

Earl D. Holton 1,2,3,4
Vice Chairman of the
Board of Directors,
Meijer, Inc.

Michael J. Jandernoa 1,2
a General Partner,
Bridge Street Capital Fund I, LP;
formerly Chairman of
the Board of Directors,
Perrigo Company

David W. Joos 2
President and
Chief Operating Officer,
CMS Energy Corporation

Elizabeth Valk Long 1,4
Retired; formerly Executive
Vice President,
Time Inc.

Robert C. Pew III 1,3,4
Chairman of the Board of
Directors, Steelcase Inc.;
Private Investor

Peter M. Wege II 1,3,4
Chairman of the
Board of Directors,
Contract Pharmaceuticals
Limited; formerly President,
Steelcase Canada Ltd.

P. Craig Welch, Jr. 2,3,4
Manager, Honzo LLC;
formerly Director of
Information Services,
Director of Production
Inventory Control,
Steelcase Inc.

Kate Pew Wolters 2,4
Philanthropist;
President, Kate and
Richard Wolters
Foundation

Executive Officers

Mark A. Baker
Senior Vice President,
Operations

Robert W. Black
President, International

Jon D. Botsford
Senior Vice President,
Secretary and Chief Legal
Officer

Mark T. Greiner
Senior Vice President,
WorkSpace Futures

James P. Hackett
President and
Chief Executive Officer

Nancy W. Hickey
Senior Vice President,
Chief Administrative
Officer

James P. Keane
Senior Vice President,
Chief Financial Officer

Michael I. Love
President and Chief
Executive Officer,
Steelcase Design
Partnership

Frank H. Merlotti, Jr.
President,
Steelcase North
America

Information for Our Investors

Company Headquarters

Steelcase Inc.
901 44th Street
Grand Rapids, MI 49508
Phone: (616) 247-2710

Products and Services

For the address and telephone number of your nearest Steelcase dealer or for information about our products, please call (800) 333-9939 or visit our website at www.steelcase.com.

Common Stock Data

Steelcase Inc. Class A Common Stock has been publicly traded since February 18, 1998, and is listed on the New York Stock Exchange under the symbol SCS. The Class B Common Stock is not publicly traded, but is convertible into Class A Common Stock on a one-for-one basis.

Dividends

The company has paid cash dividends each year since 1934. The current rate is \$0.06 per share per quarter.

Shareholder Account Inquiries

Registered shareholders can access their account online. Log on to www.equiserve.com to view share balance, change address, complete certain transactions and get answers to other stock-related inquiries. You can also call or write Steelcase's transfer agent at:

EquiServe Trust Company, N.A.

Shareholder Services
P.O. Box 43010
Providence, RI 02940-3010
Phone: (800) 958-6931
Outside the continental U.S. and Canada:
(781) 575-3120
For the hearing-impaired:
(800) 952-9245

Independent Auditors

BDO Seidman, LLP
99 Monroe Avenue N.W.
Suite 800
Grand Rapids, MI 49503-2698
Phone: (616) 774-7000

Shareholder Reports and Investor Inquiries

You can contact Investor Relations to order copies of financial documents such as this annual report and Form 10-K free of charge, or to ask investment-oriented questions about Steelcase.

Investor Relations

CH-3C
P.O. Box 1967
Grand Rapids, MI 49501-1967
Phone: (616) 247-2200
Fax: (616) 475-2270
Email: ir@steelcase.com

Investor Relations on the Web

If you wish to receive investor information as soon as it is published, please visit the Investor Relations section of www.steelcase.com. You can subscribe to email alerts and receive notification whenever new events, SEC filings or news releases are posted to the website. You may also submit requests for printed financial materials.

Annual Meeting

The annual meeting of Steelcase shareholders will be held on Thursday, June 24, 2004, at 11 a.m. EDT in our Town Hall, located on the north side of the Steelcase University Learning Center, adjacent to Corporate Headquarters. A live webcast will also be available at www.steelcase.com.

Forward-looking Statements

Certain statements in this document are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from those included in these statements due to a variety of factors. For more information about forward-looking statements and the factors that may cause actual results to vary, please see the *Forward-looking Statements* section in our Annual Report on Form 10-K, which is included herein.

Steelcase®

Helping people work more effectively while
helping organizations use space more efficiently.