KNOLL INC
Form 10-Q
November 09, 2011
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

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

**For the quarterly period ended September 30, 2011**

**OR**

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

**For the transition period from to**

**Commission File No. 001-12907**

# KNOLL, INC.

**A Delaware Corporation** I.R.S. Employer No. **13-3873847**

**1235 Water Street**
**East Greenville, PA 18041**
**Telephone Number (215) 679-7991**

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 x No o

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

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

| | |
|---|---|
| Large accelerated filer o | Accelerated filer x |
| Non-accelerated filer o | Smaller reporting company o |

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

As of November 4, 2011, there were 47,747,583 shares (including 1,386,552 shares of non-voting restricted shares) of the Registrant s common stock, par value $0.01 per share, outstanding.

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**KNOLL, INC.**

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**PART I - FINANCIAL INFORMATION**

**ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**KNOLL, INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**(Unaudited)**

***(in thousands, except share and per share data)***

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 10,738 | $ 26,935 |
| Customer receivables, net | 130,784 | 126,780 |
| Inventories | 94,019 | 85,216 |
| Deferred income taxes | 10,638 | 10,507 |
| Prepaid and other current assets | 9,871 | 11,722 |
| Total current assets | 256,050 | 261,160 |
| Property, plant, and equipment, net | 120,350 | 122,219 |
| Goodwill, net | 75,664 | 76,101 |
| Intangible assets, net | 220,881 | 222,246 |
| Other non-trade receivables | 3,449 | 4,507 |
| Other noncurrent assets | 1,044 | 1,199 |
| Total Assets | $ 677,438 | $ 687,432 |
| | | |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Current maturities of long-term debt | $ | $ 135 |
| Accounts payable | 78,948 | 101,206 |
| Income taxes payable | 14,923 | 5,523 |
| Other current liabilities | 80,146 | 85,054 |
| Total current liabilities | 174,017 | 191,918 |
| Long-term debt | 217,000 | 245,000 |
| Deferred income taxes | 54,735 | 53,420 |
| Postretirement benefits other than pensions | 26,500 | 25,289 |
| Pension liability | 31,509 | 34,719 |
| International retirement obligation | 3,753 | 3,482 |
| Other noncurrent liabilities | 6,953 | 7,218 |
| Total liabilities | 514,467 | 561,046 |
| Stockholders equity: | | |
| Common stock, $0.01 par value; 200,000,000 shares authorized; 61,832,274 issued and 47,803,078 outstanding (net of 14,029,196 treasury shares) at September 30, 2011 and 60,208,506 shares issued and 46,901,511 outstanding (net of 13,306,995 treasury shares) at | 478 | 470 |

| | | |
|---|---|---|
| December 31, 2010 | | |
| Additional paid-in-capital | 21,671 | 14,087 |
| Retained earnings | 143,147 | 114,990 |
| Accumulated other comprehensive loss | (2,325) | (3,161) |
| Total stockholders equity | 162,971 | 126,386 |
| Total Liabilities and Stockholders Equity | $ 677,438 | $ 687,432 |

See accompanying notes to the condensed consolidated financial statements

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**KNOLL, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**(Unaudited)**

***(in thousands, except share and per share data)***

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Sales | $ 239,543 | $ 202,149 | $ 699,052 | $ 569,683 |
| Cost of sales | 160,692 | 134,697 | 475,306 | 382,530 |
| Gross profit | 78,851 | 67,452 | 223,746 | 187,153 |
| Selling, general, and administrative expenses | 53,854 | 48,223 | 153,795 | 140,821 |
| Restructuring charges | (18) | 120 | 696 | 5,875 |
| Operating income | 25,015 | 19,109 | 69,255 | 40,457 |
| Interest expense | 1,226 | 4,877 | 8,615 | 13,440 |
| Other income (expense), net | 4,077 | (4,274) | 1,473 | (3,369) |
| | | | | |
| Income before income tax expense | 27,866 | 9,958 | 62,113 | 23,648 |
| Income tax expense | 9,477 | 3,618 | 21,547 | 6,417 |
| Net Income | $ 18,389 | $ 6,340 | $ 40,566 | $ 17,231 |
| | | | | |
| Net earnings per share | | | | |
| Basic | $ 0.40 | $ 0.14 | $ 0.88 | $ 0.38 |
| Diluted | $ 0.39 | $ 0.14 | $ 0.87 | $ 0.37 |
| Dividends per share | $ 0.10 | $ 0.02 | $ 0.26 | $ 0.06 |
| Weighted-average shares outstanding | | | | |
| Basic | 46,250,362 | 45,636,771 | 46,219,291 | 45,631,910 |
| Diluted | 46,792,225 | 46,154,165 | 46,858,766 | 46,020,432 |

See accompanying notes to the condensed consolidated financial statements.

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**KNOLL, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Unaudited)**

***(dollars in thousands)***

| | Nine Months Ended September 30, 2011 | 2010 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITES** | | |
| Net income | $ 40,566 | $ 17,231 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation | 11,711 | 13,330 |
| Amortization of intangible assets and deferred financing fees | 1,516 | 1,514 |
| Loss on disposal of fixed assets | 84 | 9 |
| Write-off of assets due to restructuring | | 2,338 |
| Unrealized foreign currency (gain) loss | (3,805) | 300 |
| Ineffective portion of the interest rate swaps | | 1,177 |
| Stock based compensation | 7,132 | 7,193 |
| Other non-cash items | 421 | 362 |
| Changes in assets and liabilites: | | |
| Customer receivables | (2,933) | (4,962) |
| Inventories | (8,513) | (2,096) |
| Accounts payable | (23,236) | 2,866 |
| Current and deferred income taxes | 11,227 | 7,521 |
| Other current assets | 1,720 | (1,268) |
| Other current liabilities | (3,150) | 7,342 |
| Other noncurrent assets and liabilities | (1,616) | (1,338) |
| Cash provided by operating activities | 31,124 | 51,519 |
| **CASH FLOWS FOR INVESTING ACTIVITIES** | | |
| Capital expenditures | (9,583) | (3,936) |
| Purchase of intangibles | (150) | (313) |
| Cash used in investing activites | (9,733) | (4,249) |
| **CASH FLOWS FOR FINANCING ACTIVITIES** | | |
| Net repayments of revolving credit facility | (28,000) | (40,000) |
| Repayment of long-term debt | (135) | (134) |
| Payment of dividends | (12,022) | (2,738) |
| Proceeds from the issuance of common stock | 13,006 | 5,578 |
| Purchase of common stock for treasury | (13,881) | (5,569) |
| Tax benefit from the exercise of stock options | 1,336 | 195 |
| Cash used in financing activities | (39,696) | (42,668) |
| Effect of exchange rate changes on cash and cash equivalents | 2,108 | (2,749) |
| (Decrease) Increase in cash and cash equivalents | (16,197) | 1,853 |
| Cash and cash equivalents at beginning of period | 26,935 | 5,961 |
| Cash and cash equivalents at end of period | $ 10,738 | $ 7,814 |

See accompanying notes to the condensed consolidated financial statements

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**KNOLL, INC.**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2011**

## NOTE 1: BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Knoll, Inc. (the Company ) have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ( GAAP ) have been condensed or omitted pursuant to such rules and regulations. All condensed consolidated financial statements contained herein are unaudited and reflect all adjustments which are, in the opinion of management, necessary to summarize fairly the financial position of the Company and the results of the Company s operations and cash flows for the periods presented. All of these adjustments are of normal recurring nature. All intercompany balances and transactions have been eliminated in consolidation. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company s Form 10-K for the year ended December 31, 2010.

## NOTE 2: NEW ACCOUNTING PRONOUNCEMENTS

In June 2011, the FASB issued Auditing Standards Update (ASU) 2011-05, Presentation of Comprehensive Income, to improve the comparability, consistency, and transparency of financial reporting and increase the prominence of items reported in other comprehensive income (OCI). The amendments to this standard require that all non-owner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Under either method, adjustments must be displayed for items that are reclassified from OCI to net income, in both net income and OCI. The standard does not change the current option for presenting components of OCI gross or net of the effect of income taxes, provided that such tax effects are presented in the statement in which OCI is presented or disclosed in the notes to the financial statements. Additionally, the standard does not affect the calculation or reporting of earnings per share. This guidance will be effective for the Company in the first quarter of 2012 and is not expected to have an impact on the Company s financial position, results of operations or cash flows.

In September 2011, the FASB issued ASU 2011-08, Testing Goodwill for Impairment, to simplify how entities test goodwill for impairment. The amendments permit an entity to first assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount. If this is the case, companies will need to perform a more detailed two-step goodwill impairment test which is used to identify potential goodwill impairments and to measure the amount of goodwill impairment losses to be recognized, if any. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company plans to adopt this update for its annual goodwill impairment test performed as of October 1, 2011. The Company does not believe the adoption of this update will have a material impact on its financial statements.

**NOTE 3: INVENTORIES**

Inventories, net consist of:

| | | September 30, 2011 | | December 31, 2010 |
|---|---|---|---|---|
| | | (in thousands) | | |
| Raw Materials | $ | 50,034 | $ | 41,808 |
| Work-in-Process | | 6,735 | | 7,218 |
| Finished Goods | | 37,250 | | 36,190 |
| | $ | 94,019 | $ | 85,216 |

Inventory reserves for obsolescence and other estimated losses were $8.3 million as of September 30, 2011 and December 31, 2010.

KNOLL, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 4: INCOME TAXES

As of September 30, 2011, the Company had unrecognized tax benefits of approximately $2.2 million. The entire amount of unrecognized tax benefits would affect the effective tax rate if recognized. As of September 30, 2011, the Company is subject to U.S. Federal income tax examinations for the tax years 2007 through 2010, and to non-U.S. income tax examinations for the tax years 2003 through 2010. In addition, the Company is subject to state and local income tax examinations for the tax years 2003 through 2010.

The Company s income tax provision consists of federal, state and foreign income taxes. The tax provisions for the three and nine months ended September 30, 2011 and 2010 were based on the estimated effective tax rates applicable for the full years ending December 31, 2011 and 2010, after giving effect to items specifically related to the interim periods. The Company s effective tax rate was 34.0% for the three months ended September 30, 2011 and 36.3% for the three months ended September 30, 2010. The Company s effective tax rate was 34.7% for the nine months ended September 30, 2011 and 27.1% for the nine months ended September 30, 2010. The increase in the effective tax rate for the nine months ended September 30, 2011 was due to a $2.5 million tax benefit related to foreign tax credits that was recorded during the second quarter of 2010. The Company s effective tax rate is also affected by the mix of pretax income and the different effective tax rates of the tax jurisdictions in which the Company operates.

## NOTE 5: DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments, to reduce its exposure to adverse fluctuations in, interest rates and foreign currency exchange rates.

***Interest Rate Swaps***

On May 21, 2008, the Company entered into four interest rate swap agreements for purposes of managing its risk in interest rate fluctuations. These agreements each hedged a notional amount of $150.0 million of the Company s borrowings under its revolving credit facility. Two of the agreements were effective June 9, 2009 and expired on June 9, 2010. On these two agreements, the Company paid a fixed rate of 3.51% and received a variable rate of interest equal to three-month London Interbank Offered Rate (LIBOR), as determined on the last day of each quarterly settlement period. The other two agreements were effective on June 9, 2010 and expired on June 9, 2011. The Company paid a fixed rate of 4.10% on these two agreements and received a variable rate of interest equal to three-month LIBOR as determined on the last day of each quarterly settlement period.

The Company elected to apply hedge accounting to these swap agreements.  Changes in the fair value of the effective portion of the interest rate swap agreements was recorded as a component of accumulated other comprehensive income (loss) in the equity section of the balance sheet. The net amount received or paid upon quarterly settlements was recorded as an adjustment to interest expense, with a corresponding reduction in accumulated other comprehensive income (loss).

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**KNOLL, INC.**

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

**NOTE 5: DERIVATIVE FINANCIAL INSTRUMENTS (Continued)**

The effect of derivative instruments on the condensed consolidated statements of income for the three months ended September 30, 2010 was as follows (in thousands):

| Cash Flow Hedge Relationship | Before - Tax Gain Recognized in OCI on Derivative (Effective Portion) | Locations of Loss Reclassified from AOCI into Income (Effective Portion) | Before - Tax Loss Reclassified from AOCI into Income (Effective Portion) | Locations of Loss Recognized in Income on Derivative (Ineffective Portion) | Before - Tax Loss Recognized in Income on Derivative (Ineffective Portion) |
|---|---|---|---|---|---|
| **September 30, 2010** | | | | | |
| Interest rate swap contracts | $ 248 | Interest expense | $ (2,772) | Other income (expense), net | $ (1,177) |
| Total | $ 248 | | $ (2,772) | | $ (1,177) |

The effect of derivative instruments on the condensed consolidated statements of income for the nine months ended September 30, 2011 and 2010 was as follows (in thousands):

| Cash Flow Hedge Relationship | Before - Tax Loss Recognized in OCI on Derivative (Effective Portion) | Locations of Loss Reclassified from AOCI into Income (Effective Portion) | Before - Tax Loss Reclassified from AOCI into Income (Effective Portion) | Locations of Loss Recognized in Income on Derivative (Ineffective Portion) | Before - Tax Loss Recognized in Income on Derivative (Ineffective Portion) |
|---|---|---|---|---|---|
| **September 30, 2011** | | | | | |
| Interest rate swap contracts | $ (41) | Interest expense | $ (4,237) | Other income (expense), net | $ |
| Total | $ (41) | | $ (4,237) | | $ |
| **September 30, 2010** | | | | | |
| Interest rate swap contracts | $ (1,609) | Interest expense | $ (7,731) | Other income (expense), net | $ (1,177) |
| Total | $ (1,609) | | $ (7,731) | | $ (1,177) |

The fair value of the Company s derivative instruments included in current liabilities was $5.1 million (of which $0.9 million is not designated as a hedging instrument) at December 31, 2010. The Company had no outstanding interest rate swap contracts as of September 30, 2011.

The Company will continue to review its exposure to interest rate fluctuations and evaluate whether it should manage such exposure through derivative transactions. See Note 12 of the condensed consolidated financial statements for additional information regarding the fair value of the interest rate swaps.

***Foreign Currency Contracts***

From time to time, the Company enters into foreign currency forward exchange contracts and foreign currency option contracts to manage its exposure to foreign exchange rates associated with short-term operating receivables of a Canadian subsidiary that are payable by the U.S. operations. The terms of these contracts are generally less than a year. Changes in the fair value of such contracts are reported in earnings as a component of other income (expense), net.

As of September 30, 2011, the Company had one outstanding foreign currency contract. This contract has a notional amount of $75.0 million which represents the Company s short term operating receivables of its Canadian subsidiary that are payable by the Company s U.S. operations. This contract has a settlement date of October 31, 2011 and as of September 30, 2011 this contract had no fair value.

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**KNOLL, INC.**

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

The effect of the derivatives not designated as hedging instruments on the condensed consolidated statements of income for the three and nine months ended September 30, 2011 and 2010 were as follows (in thousands):

| Derivatives Not Designated as Hedging Instruments | Location of Gain (Loss) Recognized in Income on Derivative | Three months ended September 30, 2011 | Three months ended September 30, 2010 | Nine months ended September 30, 2011 | Nine months ended September 30, 2010 |
|---|---|---|---|---|---|
| Foreign currency contracts | Other income (expense), net | $ (1,610) | $ | $ (1,147) | $ |
| Total | | $ (1,610) | $ | $ (1,147) | $ |

**NOTE 6: CONTINGENT LIABILITIES AND COMMITMENTS**

The Company is currently involved in matters of litigation, including environmental contingencies, arising in the ordinary course of business. The Company accrues for such matters when expenditures are probable and reasonably estimable. Based upon information presently known, management is of the opinion that such litigation, either individually or in the aggregate, will not have a material adverse effect on the Company s consolidated financial position, results of operations, or cash flows.

At September 30, 2011, the Company employed a total of 3,113 people. Approximately 12.7% of the employees are represented by unions. The Grand Rapids, Michigan plant is the only unionized plant within the U.S and has an agreement with the Carpenters Union, Local 1615, of the United Brotherhood of Carpenters and Joiners of America, Affiliate of the Carpenters Industrial Council (the Union ), covering approximately 202 hourly employees. The Collective Bargaining Agreement expires April 30, 2015. Certain workers in the facilities in Italy are also represented by unions.

The Company offers a warranty for all of its products. The specific terms and conditions of those warranties vary depending upon the product sold. The Company estimates the costs that may be incurred under its warranties and records a liability in the amount of such costs at the time product revenue is recognized. Factors that affect the Company s liability include historical product-failure experience and estimated repair costs for identified matters for each specific product category. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

Changes in the warranty reserve for periods indicated are as follows:

| | Nine Months Ended | |
|---|---|---|
| | September 30, 2011 | September 30, 2010 |
| | (in thousands) | |
| Balance at beginning of period | $ 8,090 | $ 9,773 |
| Provision for warranty claims | 5,145 | 3,125 |
| Warranty claims paid | (5,050) | (4,707) |
| Exchange rate impact | 11 | (37) |
| Balance at end of period | $ 8,196 | $ 8,154 |

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**KNOLL, INC.**

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

**NOTE 7: PENSIONS**

The following tables summarize the costs of the Company s employee pension and post retirement plans for the periods indicated.

| | Pension Benefits Three months ended | | Other Benefits Three months ended | |
|---|---|---|---|---|
| | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| | (in thousands) | | | |
| Service cost | $ 2,628 | $ 2,600 | $ 119 | $ 113 |
| Interest cost | 2,799 | 2,703 | 320 | 370 |
| Expected return on plan assets | (3,249) | (2,918) | | |
| Amortization of prior service cost | 9 | 15 | (303) | (301) |
| Recognized actuarial loss | 283 | 265 | 166 | 138 |
| Net periodic benefit cost | $ 2,470 | $ 2,665 | $ 302 | $ 320 |

| | Pension Benefits Nine months ended | | Other Benefits Nine months ended | |
|---|---|---|---|---|
| | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| | (in thousands) | | | |
| Service cost | $ 7,884 | $ 7,800 | $ 357 | $ 339 |
| Interest cost | 8,397 | 8,109 | 960 | 1,110 |
| Expected return on plan assets | (9,747) | (8,754) | | |
| Amortization of prior service cost | 27 | 45 | (909) | (903) |
| Recognized actuarial loss | 849 | 795 | 498 | 414 |
| Net periodic benefit cost | $ 7,410 | $ 7,995 | $ 906 | $ 960 |

**NOTE 8: OTHER COMPREHENSIVE INCOME (LOSS)**

Comprehensive income (loss) consists of net earnings, plus other comprehensive income which includes pension liability adjustments, foreign currency translation adjustments, and unrealized gain (loss) on derivatives. Comprehensive income was approximately $9.7 million and $12.5 million for the three months ended September 30, 2011 and September 30, 2010, respectively. For the nine months ended September 30, 2011 and September 30, 2010, comprehensive income was approximately $41.4 million and $16.7 million, respectively. The following presents the components of Accumulated other comprehensive income (loss) for the period indicated (in thousands).

| Nine months ended: | Beginning Balance | Before-Tax Amount | Tax Benefit (Expense) | Net-of-Tax Amount | Ending Balance |
|---|---|---|---|---|---|
| **September 30, 2011** | | | | | |
| Pension adjustment | $ (22,161) | $ | $ | $ | $ (22,161) |
| Foreign currency translation adjustment | 21,622 | (1,786) | | (1,786) | 19,836 |
| Unrealized gain (loss) on derivatives | (2,622) | 4,196 | (1,574) | 2,622 | |
| Accumulated other comprehensive income (loss) | $ (3,161) | $ 2,410 | $ (1,574) | $ 836 | $ (2,325) |

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KNOLL, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## NOTE 9: COMMON STOCK AND EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding for the period (excluding unvested restricted shares). Diluted earnings per share reflect the additional dilution for all shares and potential shares issued under the stock incentive plans (including unvested restricted shares).

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| | (in thousands) | | | |
| Weighted average shares of common stock outstanding-basic | 46,250 | 45,637 | 46,219 | 45,632 |
| Potentially dilutive shares resulting from stock plans | 542 | 517 | 640 | 388 |
| Weighted average common shares-diluted | 46,792 | 46,154 | 46,859 | 46,020 |
| Antidilutive options not included in the weighted average common shares - diluted | 227 | 1,704 | 76 | 1,844 |

Common stock activity for the nine months ended September 30, 2011 and 2010 included the repurchase of approximately 692,201 shares for $13.9 million and 464,525 shares for $5.6 million, respectively. Common stock activity for the first nine months of 2011 also included the exercise of 857,908 options for $13.0 million and the vesting of 64,972 restricted shares in 2011. Common stock activity for the first nine months of 2010 included the exercise of 512,980 options for $5.6 million and the vesting of 39,817 restricted shares in 2010.

## NOTE 10: RESTRUCTURING CHARGES

On March 18, 2010, the Company announced a restructuring plan to better align its manufacturing footprint with demand while further focusing the particular manufacturing activities of each of its North American production facilities. The Company elected to undergo this restructuring in order to better utilize its manufacturing capacity, eliminate duplication of capabilities and reduce associated costs. The Company based its accounting and disclosures on the applicable accounting guidance. As a result, charges to operations were made in the periods in which restructuring plan liabilities were incurred.

During the three months ended September 30, 2011, there were no restructuring charges incurred. During the nine months ended September 30, 2011, the Company incurred approximately $0.8 million of restructuring charges which included $0.2 million of employee termination costs and $0.6 million of costs associated with facility realignment. These charges were offset by a $0.1 million adjustment to the accrual. During the third quarter of 2010, the Company incurred $0.1 million of restructuring charges. During the nine months ended September 30, 2010, the Company incurred $5.9 million of restructuring charges. These restructuring charges included $3.5 million of employee termination costs as well as approximately $2.3 million of costs associated with the write-off of fixed assets and $0.1 million of costs associated with the relocation of assets. To date the Company has recorded restructuring charges totaling $8.3 million related to the plan. The Company estimates that the remaining charges related to the plan will not be significant.

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**KNOLL, INC.**

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

**NOTE 10: RESTRUCTURING CHARGES (Continued)**

Below is the summary of the changes in the restructuring liability during the nine months ended September 30, 2011 (in thousands):

| | | |
|---|---|---|
| Reserve balance as of December 31, 2010 | $ | 1,629 |
| Additions | | 793 |
| Payments | | (2,011) |
| Adjustments | | (97) |
| Reserve balance as of September 30, 2011 | $ | 314 |

**NOTE 11: FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following methods and assumptions are used to estimate the fair value of each class of financial instruments for which it is practicable to estimate:

*Cash and Cash Equivalents*

The fair value of the Company s cash and cash equivalents approximates the carrying value of the Company s cash and cash equivalents, due to the short maturity of the cash equivalents.

*Long-term Debt*

The fair value of the Company s $217.0 million revolving credit facility approximates its carrying value, as it is variable-rate debt and the terms are comparable to market terms as of the balance sheet dates.

*Interest Rate Swap Contracts*

The fair value of the Company s interest rate swap contracts were measured as the present value of all expected future cash flows based on the LIBOR-based swap yield curve as of the date of the valuation, subject to a credit adjustment to the LIBOR-based yield curve s implied discount rates.

*Foreign Currency Contracts*

The fair value of the Company s foreign currency contracts are calculated based upon the notional amount times the deviation in the Canadian dollar exchange rate outside of the established contract range.

**NOTE 12: FAIR VALUE MEASUREMENTS**

Accounting Standards Codification 820, *Fair Value Measurements and Disclosures*, establishes a hierarchy that prioritizes fair value measurements based on types of inputs used for the various valuation techniques (market approach, income approach, and cost approach). The levels of the hierarchy are described below:

- Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities

- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; these include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active

- Level 3: Unobservable inputs that reflect the reporting entity s own assumptions

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**KNOLL, INC.**

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

**NOTE 12: FAIR VALUE MEASUREMENTS (Continued)**

The following table sets forth the assets and liabilities measured at fair value on a recurring basis, by input level, in the condensed consolidated balance sheet at December 31, 2010 (in thousands):

| | Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| Liabilities: | | | | |
| Interest rate swaps | $ | $ 5,138 | $ | $ 5,138 |
| Total | $ | $ 5,138 | $ | $ 5,138 |

The fair value of the interest rate swaps were based on observable prices as quoted for receiving the variable three month London Interbank Offered Rates ( LIBOR ) and paying fixed interest rates and, therefore, were classified as level 2.

The interest rate swaps referred to above were included in current liabilities within the condensed consolidated balance sheet at December 31, 2010. At September 30, 2011 the interest rate swaps had no value as these agreements all expired on or before June 9, 2011. See Note 11 for further details about the fair value of financial instruments.

**NOTE 13: SUBSEQUENT EVENTS**

The Company evaluated all subsequent events through the date that the condensed consolidated financial statements were issued. No material subsequent events have occurred since September 30, 2011 that required recognition or disclosure in the condensed consolidated financial statements.

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**ITEM 2: MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*Management s discussion and analysis of financial condition and results of operations provides a discussion of our financial performance and financial condition that should be read in conjunction with the accompanying unaudited condensed consolidated financial statements*

**Forward-looking Statements**

This Quarterly report on Form 10-Q contains forward-looking statements, principally in the sections entitled Management s Discussion and Analysis of Financial Condition and Results of Operations, and Quantitative and Qualitative Disclosures About Market Risk. Statements and financial discussion and analysis contained in this Form 10-Q that are not historical facts are forward-looking statements. 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 us, based on our current beliefs as well as assumptions made by us and information currently available to us. Forward-looking statements generally will be accompanied by words such as anticipate, believe, could, estimate, expect, forecast, goals, if, intend, possible, potential, predict, project, should, will, or other similar words, phrases or expressions. This includes, without limitation, our stat and expectations regarding any current or future recovery in our industry and our projections and estimates with respect to our planned restructuring activities. Although we believe 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. Important factors that could cause actual results to differ materially from the forward-looking statements include, without limitation: the risks described in Item 1A and in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2010; changes in the financial stability of our clients or the overall economic environment, resulting in decreased corporate spending and service sector employment; changes in relationships with clients; the mix of products sold and of clients purchasing our products; the success of new technology initiatives; changes in business strategies and decisions; competition from our competitors; our ability to recruit and retain an experienced management team; changes in raw material and commodity prices and availability; restrictions on government spending resulting in fewer sales to the U.S. government, one of our largest customers; our debt restrictions on spending; our ability to protect our patents, copyrights and trademarks; our reliance on furniture dealers to produce sales; lawsuits arising from patents, copyrights and trademark infringements; violations of environment laws and regulations; potential labor disruptions; adequacy of our insurance policies; the availability of future capital; the overall strength and stability of our dealers, suppliers, and customers; access to necessary capital; and currency and exchange rate fluctuations. 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 us. All forward-looking statements included in this Form 10-Q are expressly qualified in their entirety by the foregoing cautionary statements. Except as required under the Federal securities laws and rules regulations of the SEC, we undertake no obligation to update, amend, or clarify forward-looking statements, whether as a result of new information, future events, or otherwise.

**Overview**

The third quarter of 2011 represented the fifth consecutive quarter of year-over-year sales growth. Net sales were $239.5 million for the quarter, an increase of 18.5% from the third quarter of 2010. During the quarter, sales increased across all product categories with the largest increases occurring in office systems. Diluted earnings per share in the third quarter of 2011 increased 178.6% to $0.39 per share when compared to $0.14 per share during the same period in the prior year.

For the quarter, gross margin decreased 50 basis points to 32.9% versus the comparable quarter of the prior year. The decrease from the third quarter of 2010 largely resulted from material and transportation inflation. When compared with the second quarter and first quarter of 2011 gross margin increased 80 basis points, and 190 basis points, respectively. The increase in gross margin since the first quarter of 2011 can mainly be attributed to a more favorable customer mix, improved pricing from our February and July price increases, and improved factory efficiencies.

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Our operating profit for the third quarter of 2011 was $25.0 million, an increase of $5.9 million, or 30.9%, over the same period in 2010. Operating expenses for the quarter were $53.9 million, or 22.5% of sales, compared to $48.2 million, or 23.9% of sales, a year ago. The increase in operating expenses during the third quarter of 2011 was in large part due to increased sales commissions and incentive compensation resulting from our growth in sales and profits.

During the third quarter we continued to aggressively reduce our outstanding debt as we were able to pay down an additional $13.1 million of our debt, bringing our total debt pay down for the year to $28.1 million. We also paid a dividend of $0.10 per share during the quarter.

Favorable movements of foreign exchange on our intercompany balances benefited us in the third quarter of 2011. Other income for the third quarter 2011 was $4.1 million which consisted of foreign exchange gains mostly on the Canadian dollar. These foreign exchange gains may reverse in the fourth quarter of 2011 if the value of the Canadian dollar in relation to the U.S. dollar continues to rise as it has in October. We also benefited this quarter from lower interest expense. Interest expense for the quarter decreased $3.7 million when compared with the third quarter of 2010. The decrease in interest expense is due to our lower outstanding debt and the expiration of our remaining two interest rate swap agreements on June 9, 2011. See Note 5 of the condensed consolidated financial statements included in this quarterly report on Form 10-Q for further information regarding the interest rate swaps.

Our effective tax rate was 34.0% for the quarter, as compared to 36.3% for the same period last year. The decrease in the effective tax rate is largely due to the mix of pretax income in the countries in which we operate.

Our operating performance continued to improve both year-over-year and sequentially during the third quarter of 2011. We continue to see positive business activity as measured by pools of potential projects we are tracking. We are encouraged by this activity as we head into the final quarter of the year and we expect to see margins improve in the fourth quarter as our customer mix continues to change from declining governmental business to higher-margin commercial projects.

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**Results of Operations**

***Comparison of the Three Months and Nine Months Ended September 30, 2011 and 2010***

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| | (in thousands) | | | |
| **Consolidated Statement of Operations Data:** | | | | |
| Sales | $ 239,543 | $ 202,149 | $ 699,052 | $ 569,683 |
| Gross profit | 78,851 | 67,452 | 223,746 | 187,153 |
| Restructuring charges | (18) | 120 | 696 | 5,875 |
| Operating income | 25,015 | 19,109 | 69,255 | 40,457 |
| Interest expense | 1,226 | 4,877 | 8,615 | 13,440 |
| Other income (expense), net | 4,077 | (4,274) | 1,473 | (3,369) |
| Income tax expense | 9,477 | 3,618 | 21,547 | 6,417 |
| Net Income | $ 18,389 | $ 6,340 | $ 40,566 | $ 17,231 |
| | | | | |
| **Statistical and Other Data:** | | | | |
| Sales Growth from Comparable Prior Period | 18.5% | 11.5% | 22.7% | (4.4)% |
| Gross Profit Margin | 32.9% | 33.4% | 32.0% | 32.9% |

***Sales***

Sales for the third quarter of 2011 were $239.5 million, an increase of $37.4 million, or 18.5%, from sales of $202.1 million for the same period in the prior year. Sales for the nine months ended September 30, 2011 were $699.1 million, an increase of $129.4 million, or 22.7%, over the first nine months of 2010. The increase in sales for the three months and nine months ended September 30, 2011 was experienced across all product categories, with the largest gains occurring in office systems.

During the third quarter of 2011, sales to U.S., state and local governments continued to represent a large portion of our overall sales. We expect that sales to U.S., state and local governments will continue to be a large portion of our overall sales for the remainder of the year. However, we expect year-over-over sales to the U.S., state and local governments will decline as these governments continue to deal with budgetary constraints.

***Gross Profit and Operating Income***

Gross profit for the third quarter of 2011 was $78.9 million, an increase of $11.4 million, or 16.9%, from gross profit of $67.5 million for the third quarter of 2010. Gross profit for the nine months ended September 30, 2011 was $223.7 million, an increase of $36.5 million, or 19.5%, from gross profit of $187.2 million for the same period in the prior year. Operating income for the third quarter of 2011 was $25.0 million, an increase of $5.9 million, or 30.9%, from operating income of $19.1 million for the third quarter of 2010. Operating income for the nine months ended September 30, 2011 was $69.3 million, an increase of $28.8 million, or 71.1%, from operating income of $40.5 million for the same period in 2010. Operating income for the nine months ended September 30, 2011 includes restructuring charges totaling $0.7 million. Operating income for the nine months ended September 30, 2010 includes restructuring charges totaling $5.9 million. As a percentage of sales, gross profit decreased from 33.4% for the third quarter of 2010 to 32.9% for the third quarter of 2011. Operating income as a percentage of sales increased from 9.5% in the third quarter of 2010 to 10.4% for the same period of 2011. For the nine months ended September 30, 2011 and 2010 gross profit as a percentage of sales was 32.0% and 32.9%, respectively. Operating income as a percentage of sales increased from 7.1% in the first nine months of 2010 to 9.9% in the first nine months of 2011.

Operating expenses for the third quarter 2011 were $53.9 million, or 22.5% of sales, compared to $48.2 million, or 23.9% of sales, for the third quarter 2010. Operating expenses for the nine months ended September 30, 2011 were $153.8 million or 22.0% of sales compared to $140.8 million or 24.7% of sales for the same period in 2010. The increase in operating expense dollars for the quarter and nine months ended September 30, 2011 as compared with the prior year periods was in large part due to increased sales commissions and incentive compensation.

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***Interest Expense***

Interest expense for the three and nine months ended September 30, 2011 was $1.2 million and $8.6 million, respectively, a decrease of $3.7 million and $4.8 million, respectively, from the same periods in 2010. The decrease in interest expense for the periods noted above is mainly due to our lower outstanding debt and the expiration of our remaining two interest rate swap agreements on June 9, 2011. See Note 5 of the condensed consolidated financial statements included in this quarterly report on Form 10-Q for further information regarding the interest rate swaps. The annualized weighted average interest rate for the third quarter of 2011 was 1.7%. The annualized weighted average interest rate for the same period of 2010 was 6.7%. The annualized weighted average interest rate for the nine months ended September 30, 2011 and 2010 was 4.2% and 5.8%, respectively.

***Other Income (Expense), net***

Other income for the third quarter of 2011 was $4.1 million, which primarily consisted of foreign exchange gains on favorable movement of the Canadian dollar. Other expense for the third quarter of 2010 was $4.3 million, which consisted of $3.6 million of foreign exchange losses and $1.2 million of expense relating to the ineffective portion of our interest rate swaps partially offset by $0.5 million of miscellaneous income. See Note 5 of the condensed consolidated financial statements for further information regarding the interest rate swap agreements. For the nine months ended September 30, 2011, other income was $1.5 million, which included $2.1 million of foreign exchange gains partially offset by $0.6 million of miscellaneous expense. For the nine months ended September 30, 2010, other expense was $3.4 million which included $2.6 million for foreign exchange losses and $1.2 million expense related to the ineffective portion of our interest rate swaps partially offset by $0.4 million of miscellaneous income.

***Income Tax Expense***

The Company s income tax provision consists of federal, state and foreign income taxes. The tax provisions for the three and nine months ended September 30, 2011 and 2010 were based on the estimated effective tax rates applicable for the full years ending December 31, 2011 and 2010, after giving effect to items specifically related to the interim periods. The Company s effective tax rate was 34.0% for the three months ended September 30, 2011 and 36.3% for the three months ended September 30, 2010. The Company s effective tax rate was 34.7% for the nine months ended September 30, 2011 and 27.1% for the nine months ended September 30, 2010. The increase in the effective tax rate for the nine months ended September 30, 2011 was due to a $2.5 million tax benefit related to foreign tax credits that were recorded during the second quarter of 2010. The Company s effective tax rate is also affected by the mix of pretax income and the different effective tax rates of the tax jurisdictions in which it operates.

**Liquidity and Capital Resources**

The following table highlights certain key cash flows and capital information pertinent to the discussion that follows:

| | Nine Months Ended |
|---|---|

| | September 30, 2011 | September 30, 2010 |
|---|---|---|
| | (in thousands) | |
| Cash provided by operating activities | $ 31,124 | $ 51,519 |
| Capital expenditures | 9,583 | 3,936 |
| Cash used in investing activities | 9,733 | 4,249 |
| Purchase of common stock for treasury | 13,881 | 5,569 |
| Net repayments of revolving credit facility | 28,000 | 40,000 |
| Payment of dividends | 12,022 | 2,738 |
| Proceeds from the issuance of common stock | 13,006 | 5,578 |
| Cash used for financing activities | 39,696 | 42,668 |

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Historically, we have carried significant amounts of debt, and cash generated by operating activities has been used to fund working capital and capital expenditures, repurchase shares, pay quarterly dividends and make payments of principal and interest under our credit facility. Our capital expenditures are typically for new product tooling and manufacturing equipment. These capital expenditures support new products and continuous improvements in our manufacturing processes.

Year-to-date net cash provided by operations was $31.1, million of which $57.6 million was provided from net income plus non-cash amortizations and stock based compensation and $26.5 million resulted from unfavorable changes in assets and liabilities primarily accounts payable. For the nine month period September 30, 2010, cash provided by operations was $51.5 million of which $43.4 million was provided from net income plus non-cash amortizations and stock based compensation, and $8.1 million of favorable changes in assets and liabilities primarily accounts payable, deferred income taxes, and other current liabilities. Included in the $43.4 million provided from net income plus non-cash amortizations and stock based compensation is a $2.3 million write off of fixed assets due to restructuring and $1.2 million related to the change in fair value of the ineffective portion of our interest rate swaps.

For the nine month period ended September 30, 2011, we used available cash, including the $31.1 million of net cash from operating activities, to pay down debt of $28.1 million net, fund $9.6 million in capital expenditures, fund dividend payments to shareholders totaling $12.0 million, and fund working capital.

For the nine month period ended September 30, 2010, we used available cash, including the $51.5 million of net cash from operating activities, and $5.6 million of proceeds from the issuance of common stock, to pay down debt of $40.1 million net, fund $3.9 million in capital expenditures, repurchase $5.6 million of common stock for treasury, fund dividend payments to shareholders totaling $2.7 million, and fund working capital.

Cash used in investing activities was $9.7 million for the nine month period ended September 30, 2011 and $4.2 million for the same period in 2010. Fluctuations in cash used in investing activities are primarily attributable to the levels of capital expenditures. The increase in capital expenditures year-over-year is in large part due to expenditures on infrastructure related to information technology as we have begun to implement a new enterprise resource planning system.

We use our existing secured $500.0 million revolving credit facility in the ordinary course of business to fund our working capital needs, and at times make significant borrowings and repayments under the facility depending on our cash needs and availability at such time. This facility matures in June 2013 and provides us with the option to increase the size of the facility by up to an additional $200.0 million, subject to the satisfaction of certain terms and conditions. As of September 30, 2011, there was approximately $217.0 million outstanding under the facility, compared to $245.0 million outstanding under the facility as of December 31, 2010. Borrowings under the revolving credit facility may be repaid at any time, but no later than June 2013.

Our revolving credit facility requires that we comply with two financial covenants: our consolidated leverage ratio, defined as the ratio of total indebtedness to consolidated EBITDA (as defined in our credit agreement) for a period of four fiscal quarters, cannot exceed 4 to 1, and our consolidated interest coverage ratio, defined as the ratio of our consolidated EBITDA (as defined in our credit agreement) for a period of four fiscal quarters to our consolidated interest expense, must be a minimum of 3 to 1. We are also required to comply with various other affirmative and negative covenants, including without limitation, covenants that prevent or restrict our ability to pay dividends, engage in certain mergers or acquisitions, make certain investments or loans, incur future indebtedness, make significant capital expenditures, engage in sale-leaseback transactions, alter our capital structure or line of business, prepay subordinated indebtedness, engage in certain transactions with affiliates and sell stock or assets.

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We are currently in compliance with all of the covenants and conditions under our credit facility. We believe that existing cash balances and internally generated cash flows, together with borrowings available under our revolving credit facility, will be sufficient to fund normal working capital needs, capital spending requirements, debt service requirements and dividend payments for at least the next twelve months. However, because of the financial covenants mentioned above, our capacity under our revolving credit facility could be reduced if our trailing consolidated EBITDA (as defined by our credit agreement) would decline. Future principal debt payments may be paid out of cash flows from operations, from future refinancing of our debt or from equity issuances. However, our ability to make payments of principal, to pay interest on or to refinance our indebtedness, to satisfy our other debt obligations and to pay dividends to stockholders will depend upon our future operating performance, which will be affected by general economic, financial, competitive, legislative, regulatory, business and other factors beyond our control.

**Critical Accounting Policies**

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires us to make estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues and expenses and the disclosure of certain contingent assets and liabilities. Actual results may differ from such estimates. On an ongoing basis, we review our accounting policies and procedures. A more detailed review of our critical accounting policies is contained in our Annual Report on Form 10-K for the year ended December 31, 2010.

**Contractual Obligations**

Contractual obligations associated with our ongoing business will result in cash payments in future periods. A table summarizing the amounts and timing of these future cash payments was provided in the Company s Form 10-K filing for the year ended December 31, 2010.

**Environmental Matter**

Our past and present business operations and the past and present ownership and operation of manufacturing plants on real property are subject to extensive and changing federal, state, local and foreign environmental laws and regulations, including those relating to discharges to air, water and land, the handling and disposal of solid and hazardous waste and the cleanup of properties affected by hazardous substances. As a result, we are involved from time-to-time in administrative and judicial proceedings and inquiries relating to environmental matters and could become subject to fines or penalties related thereto. We cannot predict what environmental legislation or regulations will be enacted in the future, how existing or future laws or regulations will be administered or interpreted or what environmental conditions may be found to exist. Compliance with more stringent laws or regulations, or stricter interpretation of existing laws, may require additional expenditures by us, some of which may be material.

**Off-Balance Sheet Arrangements**

We do not currently have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not engage in trading activities involving non-exchange traded contracts. As a result, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in these relationships.

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## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We provided a discussion of our market risk in Part II, Item 7A, of our Annual Report on Form 10-K for the year ended December 31, 2010. During the first nine months of 2011, there was no substantive change in our market risk except for the items noted below. This discussion should be read in conjunction with Part II, Item 7A, of our Annual Report on Form 10-K for the year ended December 31, 2010.

During the normal course of business, we are routinely subjected to market risk associated with interest rate movements and foreign currency exchange rate movements. Interest rate risk arises from our debt obligations and foreign currency exchange rate risk arises from our non-U.S. operations and purchases of inventory from foreign suppliers.

We have risk in our exposure to certain material and transportation costs. Steel, leather, wood products and plastics are all used in the manufacture of our products. During the third quarter of 2011, we were impacted by higher steel and petroleum prices. Raw materials inflation was approximately $3.7 million and transportation inflation was approximately $1.1 million during the quarter. We continue to work to offset these price changes in raw materials and transportation through our global sourcing initiatives, cost improvements, improved factory efficiencies, and price increases to our products.

### *Interest Rate Risk*

We have variable rate debt obligations that are denominated in U.S. dollars. A change in interest rates impacts the interest incurred and cash paid on our variable-rate debt obligations.

We sometimes use interest rate hedge agreements for other than trading purposes in order to manage our exposure to fluctuations in interest rates on our variable-rate debt. In May of 2008, we entered into four interest rate swap agreements in order to manage our interest rate risk. Each agreement hedged a notional amount of $150.0 million of our $500.0 million revolving credit facility. Two of the agreements were effective from June 9, 2009 through June 9, 2010 and the other two were effective from June 9, 2010 through June 9, 2011. Fluctuations in LIBOR affected both our net financial instrument position and the amount of cash to be paid or received by us, if any, under these agreements. See Note 5 of the condensed consolidated financial statements included in this quarterly report on Form 10-Q for further information regarding the interest rate swaps. There were no interest rate hedge agreements outstanding as of September 30, 2011.

### *Foreign Currency Exchange Rate Risk*

We manufacture our products in the United States, Canada and Italy, and sell our products primarily in those markets as well as in other European countries. Our foreign sales and certain expenses are transacted in foreign currencies. Our production costs, profit margins and competitive position are affected by the strength of the currencies in countries where we manufacture or purchase goods relative to the strength of the currencies in countries where our products are sold. Additionally, as we report currency in the U.S. dollar, our financial position is affected by the strength of the currencies in countries where we have operations relative to the strength of the U.S. dollar. The principal foreign currencies in which we conduct business are the Canadian dollar and the Euro. Approximately 12.8% of our revenues for the nine months ended

September 30, 2011 and 14.9% in the same period for 2010, and 33.0% of our cost of goods sold for the nine months ended September 30, 2011 and 34.7% in the same period for 2010, were denominated in currencies other than the U.S. dollar. Foreign currency exchange rate fluctuations resulted in a $4.1 million transaction gain for the third quarter of 2011 and a $3.6 million transaction loss for the same period of 2010. For the nine months ended September 30, 2011 and 2010, foreign exchange rate fluctuations included in other income resulted in a $2.1 million translation gain and a $2.6 million translation loss, respectively. Without giving effect to any foreign currency contracts or hedges we may enter into from time to time, a $0.01 increase in the value of the Canadian dollar will result in approximately an $0.8 million increase in other expense.

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From time to time, we enter into foreign currency forward exchange contracts and foreign currency option contracts for other than trading purposes in order to manage our exposure to foreign exchange rates associated with short-term operating receivables of a Canadian subsidiary that are payable by our U.S. operations. The terms of these contracts generally establish a range for the Canadian Dollar exchange rate. If the exchange rate finishes outside of this range on the valuation date of the contract the Company will either receive or owe payment to the counterparty. The fair value of the contracts are calculated based upon the notional amount times the deviation in the Canadian dollar exchange rate outside of the established range. Changes in the fair value of such contracts are reported in earnings in the period the value of the contract changes. See Note 5 of the condensed consolidated financial statements included in this quarterly report on Form 10-Q for further information regarding the foreign currency contracts.

## ITEM 4. CONTROLS AND PROCEDURES

*Evaluation of disclosure controls and procedures.* We, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 as of the end of the period covered by this report (September 30, 2011) ( Disclosure Controls ). Based upon the Disclosure Controls evaluation, our principal executive officer and principal financial officer have concluded that the Disclosure Controls are effective in reaching a reasonable level of assurance that (i) information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms and (ii) information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

*Changes in internal control over financial reporting.* Our principal executive officer and principal financial officer also conducted an evaluation of our internal control over financial reporting ( Internal Control ) to determine whether any changes in Internal Control occurred during the quarter ended September 30, 2011 that have materially affected or which are reasonably likely to materially affect Internal Control. Based on that evaluation, there has been no such change during the quarter ended September 30, 2011.

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## PART II OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

During the first three quarters of 2011, there have been no new material legal proceedings or changes in the legal proceedings disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010.

### ITEM 1A. RISK FACTORS

During the first three quarters of 2011, there were no material changes in the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

**Repurchases of Equity Securities**

The following is a summary of share repurchase activity during the three months ended September 30, 2011.

On August 17, 2005, our board of directors approved a stock repurchase program (the Options Proceeds Program ), whereby it authorized us to purchase shares of our common stock in the open market using the cash proceeds received by us upon exercise of outstanding options to purchase shares of our common stock.

On February 2, 2006, our board of directors approved an additional stock repurchase program, pursuant to which we are authorized to purchase up to $50.0 million of our common stock in the open market, through privately negotiated transactions, or otherwise. On February 4, 2008, our board of directors expanded this previously authorized $50.0 million stock repurchase program by an additional $50.0 million.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as part of publicly Announced Plans or Programs | Maximum Dollar Value of Shares that may yet be Purchased Under the Plans or Programs (1) |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| July 1, 2011 July 31, 2011 | | | | 32,352,413 |
| August 1, 2011 August 31, 2011 | 7,799 | 14.85 | 7,799(2) | 32,352,413 |
| September 1, 2011 September 30, 2011 | 6,732(3) | 14.24 | | 32,352,413 |
| Total | 14,531 | | 14,531 | |

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(1) There is no limit on the number or value of shares that may be purchased by us under the Options Proceeds Program. Under our $50.0 million stock repurchase program, which was expanded by an additional $50.0 million in February of 2008, we are only authorized to spend an aggregate of $100.0 million on stock repurchases. Amounts in this column represent the amounts that remain available under the $100.0 million stock repurchase program as of the end of the period indicated. There is no scheduled expiration date for the Option Proceeds Program or the $100.0 million stock repurchase program, but our board of directors may terminate either program in the future.

(2) These shares were purchased under the Options Proceeds Program.

(3) On September 6, 2011, 16,667 shares of outstanding restricted stock vested. Concurrently with the vesting, 6,732 shares were forfeited by the holder of the vested restricted shares to cover applicable taxes paid on the holder s behalf by the Company.

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## ITEM 6. EXHIBITS

| Exhibit Number | Description |
|---|---|
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended. |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended. |
| 32.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | The following materials from the Company s Quarterly Report on Form 10-Q for the period ended September 30, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of September 30, 2011, and December 31, 2010, (ii) Condensed Consolidated Statements of Operations for the three and nine-months ended September 30, 2011 and September 30, 2010, (iii) Condensed Consolidated Statements of Cash Flows for the nine-months ended September 30, 2011 and September 30, 2010, and (iv) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.* |

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* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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## SIGNATURES

Pursuant to the requirements 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.

**KNOLL, INC.**
(Registrant)

Date: November 9, 2011
By: /s/ Andrew B. Cogan
**Andrew B. Cogan**
Chief Executive Officer

Date: November 9, 2011
By: /s/ Barry L. McCabe
**Barry L. McCabe**
Chief Financial Officer
(Chief Accounting Officer and Controller)