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Thomson StreetEventsSM

KNL - Q4 2004 KNOLL INC Earnings Conference Call

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Barry McCabe

Knoll, Inc. - SVP and CFO

CONFERENCE CALL PARTICIPANTS

Susan McLary

UES - Analyst

Virginia Genereux

Merrill Lynch - Analyst

Chris Thornsberry

Raymond James - Analyst

Rob Crystal

Brandpoint Capital - Analyst

PRESENTATION

Operator

Good day, ladies and gentlemen and welcome to the fourth quarter 2004 Knoll, Inc. earnings conference call.

My name is Christy and I'll be your call coordinator for today.

At this time, all participants are in a listen-only mode. We will be facilitating a question and answer session towards the end of today's conference.

[OPERATOR INSTRUCTIONS]

As a reminder, this conference is being recorded for replay purposes.

And now to turn the presentation over to your host for today's call, Mr. Andrew Cogan, Knoll's CEO. Please precede, sir.

Andrew Cogan - Knoll, Inc. - CEO

Thank you.

Good morning, everybody. This is Andrew Cogan, Knoll's CEO. Welcome to our first conference call as a public company. On behalf of Barry McCabe, our Senior Vice President and Chief Financial Officer and myself, we look forward to continuing the dialogue with all of you that we began on the road a couple of months ago.

Before we get into the detail, we need to advise you that this call may offer statements that are forward-looking. These forward-looking statements are based largely on the Company's projections and expectations and are subject to a number of risks and uncertainties, certain of which are beyond the Company's control.

Actual results could differ materially from the forward-looking statement as a result of many factors including but not limited to corporate spending and service-sector employment, price competition, acceptance of the Company's new products, the pricing and availability of raw components, demand for high quality, well designed office furniture, changes in the competitive marketplace, and changes in the trends in the market for office furniture.

Please refer to our Registration Statement on Form S-1 and our other filings with the Securities and Exchange Commission for further discussion of certain risks and uncertainties affecting the Company.

With that out of the way, as you saw in the earnings release, we experienced strong top line growth in the fourth quarter of 2004. It was our belief that we would be a late cycle beneficiary of an economic recovery and particularly as the system bend of the business recovered that our top line growth would accelerate.

This clearly is happening.

In the fourth quarter we grew sales faster than BIFMA, increasing shipments by over 7%, helping us to outperform the industry with significant greater growth in complimentary products like seating and storage as well as strong growth in our specialty businesses. Additionally, we saw our systems business grow.

Orders growth was even stronger and as a result our backlog was up 14.5% versus prior year, putting us in much better shape as we start 2005 than we were at this time last year.

In fact, in 2004, 13 out of our 21 regions in North America grew orders over prior year versus just 3 in 2003. So we continued to see the recovery broaden out in the fourth quarter.

In mid January of this year, we got our top sales and regional managers together for a couple of days in our East Greenville facility to recognize their performance and review our 2005 growth plan.

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The optimism about 2005 was palpable particularly when compared to this time last year. This optimism stems from the larger pool of project business we are tracking, as well as from the successes our sales team are having with our seating and storage products.

Similarly on a macro level, the fact that in the fourth quarter office space absorption in the U.S. was positive 20 million square feet, the most in 4 years, and that vacancy rates continue to fall from 16.6% to 16.2% also gives us confidence that the recovering demand for our products is just beginning.

This macro recovery, coupled with our share gains in seating, storage and specialty categories, help drive the Q4 and full year revenue growth we experienced.

I also want to cover a few other things we talked about in our road show before handing it over to Barry to take you through the quarter and 2004 in more detail.

First we were very pleased with our gross margin performance in the fourth quarter. We were able to continue to offset significant steel and fuel inflation through the combination of higher realized prices as more of our mid-year price increases were realized, the ongoing fruits of our global sourcing initiatives materialized, and our continuous improvement efforts continued in our plans.

Together with the benefits from the greater absorption of overhead at the higher shipment levels, gross margin for the quarter was 35.7 versus 34.3% in the same quarter last year. And \$13.8 million more of shipments we've brought down more than 50 cents on the dollar to the gross margin line.

Second, on the operating income side, excluding all the one-time IPO related expenses. Operating profit grew by \$2.3 million. Now the good news, bad news in this is that with the strong year-end orders, we had more regions than we anticipated get their bonus goals. And as a result, we had to accrue an additional \$2.6 million of sales compensation in the fourth quarter versus prior year.

Without this added cost, operating income would have increased by \$4.9 million, much closer to the 40% contribution margin objective we have.

The good news in all this is that the IPO expenses will not reoccur and the orders that pushed us into the paying the higher sales bonuses will ship out in 2005.

Third and importantly, we paid down over \$33 million of debt in the fourth quarter, approximately \$20 million from operating results and \$13 million from the proceeds we received from stock options that were exercised in December. We will talk later about the dilutive effect of the additional shares going forward.

Turning to 2005, our forecast for the first quarter reflects the benefit of stronger fourth quarter orders as well as better absorption compared to the first quarter of last year, although less than the just completed fourth quarter due to the normal seasonality of our sales.

We expect to see a continued share gain in seating and storage, a continued rebound in our systems business, our specialty businesses should also grow nicely as we continue to add more Knoll space residential distributors and pick up the pace of our textile and leather introduction.

At the same time we are not seeing any relief in the inflation pressures, most acutely in steel but also in areas like transportation and plastics. And while we expect to realize additional price increases and have new list price increases kicking in, we still see a very competitive industry-pricing environment.

Overall, with our continued efforts to source more components globally and ongoing continuous improvement programs in our plants, we should be able to offset inflation and grow our operating profit in the first quarter as compared to the prior year.

Lastly, I want to mention important progress in our battle to stop infringers from selling copies of our famous Barcelona collection. This, as you know, is a worldwide battle. In North America we've had much success with our recent trade rest protection in getting infringers to cease selling copies of these designs. And we continue to vigorously pursue others, which will result in some incremental legal costs.

In Germany on January 21, a German court ruled against one of the largest sellers of copies in Germany and affirmed our exclusive rights to the Mies van der Rohe designs in Germany.

These are important victories for our brand and for Knoll.

Now let me turn it over to Barry to take you through the results in more detail.

Barry McCabe - Knoll, Inc. - SVP and CFO

Thanks, Andrew.

As Andrew recapped our fourth quarter 2004 performance was all about growth. Sales grew 7.7% over prior year period. Backlog grew 14.5% from a year ago. Gross margin grew 1.4 percentage points from 34.3% in the fourth quarter of 2003 to 35.7% in the fourth quarter of 2004.

Excluding one time costs, operating income improved by 0.3 percentage points from 12.3% in the prior year period to 12.6%.

EPS for the quarter was 20 cents, an increase of 5 cents over the fourth quarter of 2003 after netting off 4 cents of gains on interest rate callers in favorable exchange rate variances in the fourth quarter of 2003.

As Andrew noted, the fourth quarter one time costs includes \$3.8 million of one time IPO related expenses incurred because our IPO was an all secondary offering.

Sales for the fourth quarter were almost \$193 million, an increase of 7.7% over the prior year period, reflecting growth across all our product categories. Specifically, seating and storage grew over 20%. Our KnollStudio, KnollTextiles, and Spinneybeck specialty businesses grew in the low double digits.

And systems grew. As you know, office systems is the product category most impacted during the downturn, so it is positive to begin to see the initial indicators of a recovery.

We are pleased that the fourth quarter 2004 is the third consecutive quarter showing year-over-year growth and we see this trend continuing.

Backlogs for the quarter increased to almost \$123 million, a 14.5% increase over prior year, with our 3 to 5 week lead times, backlog tends to be an indicator of trends, not necessarily quarterly shipments. However, all indications are that business activity is continuing to improve, gross margin for the quarter was 35.7%, the strongest quarter for 2004 and despite inflationary pressures, our highest margin level quarter over our last 9 quarters.

In addition to the improved fixed cost absorption achieved from the higher volumes, during the quarter we benefited from approximately \$2.9 million of price realization, which

along with our continuous improvement efforts and global sourcing, benefits of \$3.3 million helped to offset approximately \$2.1 million of currency exchange costs, primarily due to the Canadian dollar, and an estimated \$4.2 million of inflation, the largest component of which was approximately \$2.5 million attributed to steel costs.

At this time, we see no relief from certain ongoing inflationary pressures and although we are encouraged by our price realization efforts, it is unlikely that this same level of pricing realization will be sustainable in light of ongoing industry pricing pressures.

Our plan will be to continue to offset inflation with our continuous improvement in global sourcing initiatives as well as list price increases. Nonetheless, depending on shipments and timing, there will be gross margin fluctuations between quarters.

With first quarter 2005 volume resulting in less fixed cost absorption, as well as the ongoing inflationary and pricing pressures, an expected gross margin range of 32.0 to 33.0% is more likely for the quarter. This is up from the 30.7% a year ago.

As I mentioned earlier, operating expenses were impacted by IPO costs of \$3.8 million in the quarter. Without these costs, operating expenses were \$44.4 million or 23% of sales compared to \$39.3 million or 22% of sales in the prior year period.

Two point six million of the fourth quarter increase in operating expenses resulted from sales commissions and bonuses related to our strong bookings and backlog growth in the quarter. The balance resulted principally from increased product development and marketing spending, incurred in preparation for 2005 product introductions.

For the near term, we expect operating expenses as a percent of sales to be about 23% on an annual basis.

Excluding IPO costs, operating income was 12.6% for the quarter, an increase of 0.3 percentage points versus 12.3% in the prior year period. This was our best operating income quarter of the year.

Other expense for the fourth quarter, totaled \$9.4 million, comprised of \$6.2 million of interest expense and \$2.8 million of foreign exchange loss related to the Canadian dollar. This compares to other expenses of \$5.3 million in the fourth

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quarter 2004, including \$5 million of interest expense and \$0.3 million of net foreign exchange in interest rate callers.

Higher interest expense in the fourth quarter resulted from rising rates and a higher debt balance resulting from a September 2004 refinancing.

Going forward, any increase in interest rates should be offset by our debt payments and we are hedging our Canadian dollar exposure to minimize fluctuations.

Our tax rate for the quarter was 39.8% compared to 44.6% a year ago. The difference in rates is due to the losses in several European countries last year, where we already have lost carry forwards and cannot use the tax offset.

As operating income continues to improve both domestically and overseas, our effective rate should be around 41% to 42%.

All this resulted in a net income, excluding the IPO, of \$9.9 million, 5.1% of sales and an EPS of 20 cents. Again, this was our best quarter in the year.

Net cash from operations was \$24.6 million, of which \$13.9 million was provided from net income less non cash amortizations, \$5.5 million from the tax benefit of stock options exercise, and \$5.2 million from changes in assets and liabilities.

Capital expenditures were \$6 million for the quarter and \$13.1 million for the year. This compares to the \$9.7 million we spent last year. The majority of these expenditures were for new product introductions or product enhancements.

We believe this level of spending in the near term will be sufficient to support our needs.

Financing activities used \$23 million, which included repayment of \$33 million in debt offset by \$13.2 million of stock option exercise proceeds.

Options have been granted as far back as 1996 to a broad group of Knoll associates who first had the opportunity to exercise their options after the IPO. This group did not include any individuals who were Section 16 officers at that time.

We expect that options will continue to be exercised throughout the year.

If we look at liquidity, we have \$9.1 million in cash and another \$57.4 million available under our revolvers. We are in compliance with all our debt covenants and see no issues going forward.

Our current debt is \$392.8 million, down from the \$425 million at the start of the fourth quarter, which we will continue to reduce with our free cash flow.

Turning to a brief recap of the full year, sales for 2004 were \$706 million, 1.3% above last year. Excluding our first quarter, which was the lowest shipment quarter of the downturn, sales have increasingly grown over the last 3 quarters of 2004 over the same period of 2003, up 1% in Q2, 2.8% in Q3, and 7.7% in Q4.

The good news is that all categories are now growing again and in the fourth quarter our sales grew faster than BIFMA.

Gross margins for 2004 improved from 34.1% from 33.9% in 2003.

Operating income after excluding \$4.4 million for the IPO was 10.7% versus 12.4% in 2003 due to higher product development costs for the NeoCon 2004 introduction of our AutoStrada system, increased product development and marketing spending related to 2005 product introductions, and higher sales commissions and bonuses due to stronger year-end orders.

Net income for 2004 after excluding pre-tax charges of \$4.4 million associated with the public offering and \$2.5 million related to the write off of deferred financing fees was \$32.1 million and EPS was 66 cents compared to \$36.3 million and EPS of 75 cents for 2003.

Net income and EPS was lower due to the higher operating expenses offset partially by the improved gross margins.

Before providing guidance on our first quarter of 2005 performance, let's review the impact that the continued exercising of stock options they have on our shares outstanding.

At year-end, weighted average shares outstanding were approximately 48.3 million. We estimate that as a result of the auction exercises, shares outstanding for the first quarter could increase to 51 million.

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Going forward, our attention is to provide sales and earnings guidance for the current quarter at the time we announce earnings and only at that time. We do not plan to offer updates through the quarter.

For the first quarter 2005, we expect sales to be in the range of \$170 to million \$175 million, which at mid range would be an increase of 12.5% over the prior year period. We expect this increase to result from our higher backlog and continued orders growth that started last year. EPS will be in the range of 10 to 12 cents a share.

Now, Andrew and I will take questions as well as entertain any suggestions you may have for improving these conference calls.

QUESTIONS AND ANSWERS

Operator

[OPERATOR INSTRUCTIONS]

And your first question comes from Susan McLary (ph) of UES. Please proceed.

Susan McLary - UES - Analyst

Good morning.

Andrew Cogan - Knoll, Inc. - CEO

Hi, Susan.

Susan McLary - UES - Analyst

Can you talk a little bit about the breakout of your sales revenue during the quarter between your domestic and any international businesses that you did?

Barry McCabe - Knoll, Inc. - SVP and CFO

Primarily through the quarter it was when you say break out, our really growth was mostly domestically. Internationally we were relatively flat.

Susan McLary - UES - Analyst

Okay. And can you give us just a bit more detail of maybe the kinds of customers that you're seeing that are coming back to the market or the kinds of projects that you're getting?

Andrew Cogan - Knoll, Inc. - CEO

Susan, this is Andrew. I think it's pretty broad based. I mean I think we saw some good activity from our installed base accounts in the fourth quarter. That really helped. And there was some nice project wins as well where we were able to gain share and win some accounts we hadn't done business with in the past.

I think we saw some good rebounding towards the end of the year on the West Coast. And that was encouraging. We had some particularly large orders from there at the end of the year, which again, were with clients we hadn't done a lot of business in the past.

So I think it was rather broad based. We saw a good recovery on the West Coast and the Northeast seemed to improve as the year went on as well.

Susan McLary - UES - Analyst

So would you say that the recovery is kind of across the country? There aren't really as many pockets of maybe depressed areas as there were?

Andrew Cogan - Knoll, Inc. - CEO

I think when we started the year we saw more pockets of depressed area in the West and in the Northeast and the South was very strong. I think the South continued strong for us throughout the year.

And then as the year kind of moved on and we moved into the third and fourth quarter, the West and kind of Northeast started to come back stronger. And so they accelerated as the year ends. And the Southeast stayed strong for us.

Susan McLary - UES - Analyst

Okay. Thank you.

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Operator

And your next question comes from Virginia Genereux of Merrill Lynch. Please proceed.

Virginia Genereux - Merrill Lynch - Analyst

Good morning, gentlemen.

Andrew Cogan - Knoll, Inc. - CEO

Hello, Virginia.

Virginia Genereux - Merrill Lynch - Analyst

A couple of questions, maybe Andrew or Barry on the incremental margin you had some very nice top line and then you talked about accruing more comp for your sales guys.

If, how should we think about that, about sort of revenue growth dropping to the bottom line and then going forward, if you have some of these inflationary pressures? Is it still, Andrew, kind of a 40% contribution margin or a little lower than that?

Andrew Cogan - Knoll, Inc. - CEO

I think again, you have to be careful about looking at this over any one specific quarter. I think when we talk about the goals of 40% to 45% to 50% gross margin contribution. I would say that's on an annual basis. And I think that looks pretty good right now.

We are seeing a lot of inflation but we are also seeing the ability to offset it with both price realization, the continuous improvement program, and the global sourcing. So I think the 45% to 50% is not a bad number to use at the gross margin level.

I think on the operating profit level right now, it may be running closer to 30% to 35% as opposed to 40%. But again, I would say on an annual basis we're still shooting for the 40% gross margin, the operating margin contribution.

And I think the difference in the fourth quarter was really, if you took out that \$2.6 million of additional commissions, which really won't necessarily be a recurring item to the extent that our sales people have to grow 5% to 10% before any of those bonuses kick in. And as they start to hit some of their

stretch payouts, that's when those additional increases kick in.

So I think that was just -- we were pleased to pay those. We had a very strong end of the year orders wise, but I don't think that's necessarily recurring or if it's going to recur it's going to recur at a much higher revenue base next year than it did this year.

Virginia Genereux - Merrill Lynch - Analyst

Okay. That's helpful, Andrew. So it sounds like you might have even pulled forward some of that comp because the backlog picked up so strongly. Is that what you were sort of saying?

Andrew Cogan - Knoll, Inc. - CEO

I think that was bonus comp that we always have an issue with at the end of the year. I will tell you in '03 we paid out next to nothing in orders bonus comp.

Virginia Genereux - Merrill Lynch - Analyst

Right.

Andrew Cogan - Knoll, Inc. - CEO

There's not commissions. Our commissions are paid on shipments. It's simply bonus for achieving quotas. And we only, I think, had 3 regions that achieved that quota in 2003, or a handful and we maybe more than 3.

And then in 2004 we had a significantly larger number. And as you saw we had 13 regions grow over prior year. So that led to more bonus payments in the fourth quarter.

Virginia Genereux - Merrill Lynch - Analyst

That's great. How about the, Barry, you made a comment that you thought it was unlikely that the same level of price realization would be sustained that you saw in the December quarter. Can you talk a little about the, about sort of the environment for price increases and the competitive environment on that front?

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Barry McCabe - Knoll, Inc. - SVP and CFO

I believe the environment is good for price increases. I believe not only ourselves but our competitors announced a variety of price increases last year.

The difficulty is, is the mix of business changes and we see more and more larger projects. The mix of when those projects shift, those projects tend to be more heavily discounted than the day-to-day kind of business.

So when we raised the point about price realizations and how much we're going to realize, I think you see it on a day-to-day business continuing. It's much more price competitive on the larger projects.

Virginia Genereux - Merrill Lynch - Analyst

Okay. That's helpful.

And then lastly, Barry, you're always good at this. On the inflationary front, can you give us -- I feel like since you guys are more vertically integrated arguably, you would see the benefit earliest, any sort of moderation of the steel prices. As you look out this year, can you tell us your thinking? I don't know if steel prices stay about where they are, when you guys might see some relief?

Barry McCabe - Knoll, Inc. - SVP and CFO

We're not in a position nor am I qualified to predict where steel is going. I think in the guidance that we had given everybody earlier, we said our plan did not forecast really any let up in the inflationary pressures.

We have not seen any as yet. If and when they do occur, they would be upside to our operating results.

Virginia Genereux - Merrill Lynch - Analyst

Thank you all.

Andrew Cogan - Knoll, Inc. - CEO

Thank you, Virginia.

Barry McCabe - Knoll, Inc. - SVP and CFO

Thank you, Virginia.

Operator

And your next question comes from Budd Bugatch of Raymond James. Please proceed.

Chris Thornsberry - Raymond James - Analyst

Good morning, gentlemen. This is Chris Thornsberry on behalf of Budd.

Just a couple more questions regarding demand, you mentioned that orders picked up significantly at the end of the year in December and that led to the bonus for the salesmen.

I just was curious if you think some of that end of year order pickup is due to kind of budget related buying from some of your customers?

Andrew Cogan - Knoll, Inc. - CEO

Budd, it's Andrew. I don't. I think it's just kind of how the year ended. I don't think it has a lot to do with budget related. I think there was -- you have to remember the industry last year from November through February was rather depressed and I think you have some pretty easy comps as you look at.

You clearly saw the December industry numbers, which were very strong versus prior year. I think we did better than that.

But again, I think you're dealing with relatively easy comps. And I think as you move into 2005 the comps will get a little more difficult.

Chris Thornsberry - Raymond James - Analyst

And could you give us some more color as to what you're seeing in terms of your customer demand in terms of corporate versus non-corporate, i.e., government purchases?

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Andrew Cogan - Knoll, Inc. - CEO

I mean again, the government we tend to end the fourth quarter strong with the government. We see some pretty significant government opportunities out there this year.

In addition, the corporate activity, one of the things we track is the kind of pool of project business we're looking at. And we're seeing that up 10%, 15% over this time last year.

So we're seeing more activity. The visits in our showrooms are busy. The number of presentations going on is significant.

So I mean again, I think we're seeing a pretty broad base expansion. But again I would caution you. I don't think the industry comps that you're looking at in December are necessarily what you're going to see all year.

Chris Thornsberry - Raymond James - Analyst

Okay.

Barry McCabe - Knoll, Inc. - SVP and CFO

I think what's important, Chris. This is Barry. Is that as we said earlier, through the down turns systems was really the product category that was impacted the most. And I think what's encouraging is now we're seeing and even the BIFMA numbers are supporting that, systems is starting to recover.

And to the extent systems recovers, I believe that benefits the whole industry.

Chris Thornsberry - Raymond James - Analyst

Okay. Following-up on that, you mentioned that some of the product categories were up. But I think you said these seating and storage was up 20% plus, the specialty products were up to kind of low double-digits, I believe if I'm not mistaken.

What were you seeing in terms of systems? Was it low single digits?

Andrew Cogan - Knoll, Inc. - CEO

I would say it's single digit.

Chris Thornsberry - Raymond James - Analyst

Okay, and just two more really quick questions, if I may. One is in regard to the inventories on the balance sheet. I noticed that they grew about 29% year-over-year versus the sales growth of 8%.

Can you reconcile the difference there and tell us where you're kind of looking at inventories being -- going forward?

Andrew Cogan - Knoll, Inc. - CEO

Sure. At the end of the year, we usually, the last week or the last 10 days of December, our plants shut down for the holidays and also to do maintenance. What we found this year, we had a large backlog of customer requirements for shipments really that needed to be delivered the first 2 weeks of January.

Therefore, we made the decision to pre-build. So we had about \$9 million of finished goods inventory that inflated what we would normally have at the end of the year.

And so we saw that was unusual for us. We did not have that in prior years.

So really from an inventory level and really overall from a working capital standpoint, our goal is to pretty much offset inventory with accounts payable and also to work on improving our accounts receivable days.

So that was sort of an end of the year anomaly.

Chris Thornsberry - Raymond James - Analyst

Okay. Thank you.

And just one last question on the debt, you plan on paying down some more of the debt. Do you have any maturities coming due or are there are prepayment penalties on any of your debt that you have right now?

Andrew Cogan - Knoll, Inc. - CEO

No. We're in full compliance. There's no prepayment penalties. If you look at our balance sheet, we have no current payments required for next year as a result of the debt we paid down this year. It's more back end loaded. It's a balloon payment at the end of the facility.

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Chris Thornsberry - Raymond James - Analyst

Okay. Thank you very much.

Barry McCabe - Knoll, Inc. - SVP and CFO

And there are no prepayment penalties.

Chris Thornsberry - Raymond James - Analyst

Okay. Thanks.

Operator

And your last question comes from Rob Crystal (ph) of Brandpoint Capital (ph). Please precede, sir.

Rob Crystal - Brandpoint Capital - Analyst

Yes. Could you go over CapEx projections for '05 and what you think free cash flow would be? And then I have one more question after that.

Barry McCabe - Knoll, Inc. - SVP and CFO

On the CapEx side we were seeing CapEx to be in the range of probably \$12 million to \$15 million on an annual basis.

Rob Crystal - Brandpoint Capital - Analyst

And so free cash flow for '05 should be about?

Barry McCabe - Knoll, Inc. - SVP and CFO

We're not going to comment on that at this time.

Rob Crystal - Brandpoint Capital - Analyst

Okay. And then, Andrew, can you maybe talk about the seating offering? Where you stand with that? Are you seeing your systems business start to pull through some of the new seating offering et cetera? Can you maybe talk or comment on some of that?

Andrew Cogan - Knoll, Inc. - CEO

Sure. I think we're seeing, we're clearly seeing when we're selling the systems now, we're getting a much higher portion of the seating and storage business than we used to.

That definitely is moving up as people are getting more comfortable with our seating offering and as it's become more competitive. Additionally we're seeing strong growth to our dealers in our KnollEssentials program of stand-alone seating and storage sales. That program really has kicked in nicely.

As we've through the year we've seen it build each quarter, almost each month. So we're getting more stand-alone seating and storage.

As you know, we've got several product introductions in those areas for 2005 and I think when we talk about the first quarter we'll give you more detail on those.

But all those are moving ahead absolutely on schedule. We're getting very good advance feedback from clients both potential systems clients as well as stand-alone clients who are evaluating seating needs for the coming quarters. And we are very encouraged by the response we're getting on some of our new chairs.

Rob Crystal - Brandpoint Capital - Analyst

So is it fair to think about it and say the attach rate's been improving but we should be see that pick up to an even greater extent as these new products hit the market throughout the year? Is that the way you think of it?

Andrew Cogan - Knoll, Inc. - CEO

No, I think that's right. I think when we sell some of our more entry-level systems products, we haven't had always the full range of seating to go with it.

Clearly our Life Chair does very, very well when we sell a rest system or our currents or AutoStrada product. But we have a broader range of price points and systems today than we do in seating.

I think as we broaden out seating you'll see the rate of seating sold with systems go up and then the rate of stand-alone

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seating sold through our dealers go up. And I think both of those pieces are moving up, pretty much in parallel right now.

Rob Crystal - *Brandpoint Capital - Analyst*

Great. Thank you.

Andrew Cogan - *Knoll, Inc. - CEO*

Okay.

Well if that's all the questions, thank you everybody for your interest. We appreciate it. And we look forward to continuing to talk with you as we build Knoll. Thanks everybody.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Good day.

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