



La-Z-Boy Reports Second-Quarter Profit

11/17/09

MONROE, Mich., Nov. 17 /PRNewswire-FirstCall/ -- La-Z-Boy Incorporated (NYSE: LZB) today reported its operating results for the fiscal second quarter ended October 24, 2009.

Fiscal 2010 second-quarter highlights:

- Net income was \$0.11 per share, including a \$0.01 per-share restructuring charge, versus a loss in last year's second quarter of \$1.05 per share, which included a \$0.04 per-share restructuring charge;
- Sales for the second quarter declined 9.4%, reflecting ongoing difficult macroeconomic conditions;
- The upholstery segment posted a 10.9% operating margin on a 6% decline in sales;
- The retail segment's performance continued to improve, with the operating loss reduced by 49%, or \$5.1 million, on a 3.7% sales decline;
- The company generated \$22.2 million in cash from operating activities and increased cash on its balance sheet to \$59.0 million.

Net sales for the second quarter were \$300.7 million, down 9.4% compared with the prior year's second quarter. The company reported net income attributable to La-Z-Boy Incorporated of \$5.9 million, or \$0.11 per share, compared with a loss of \$53.7 million, or a loss of \$1.05 per share in the fiscal 2009 second quarter. The 2010 second-quarter results include a \$0.01 per share restructuring charge, primarily related to the consolidation of the company's casegoods facilities and the previously announced store closures within the company's retail segment. La-Z-Boy Incorporated's fiscal 2009 second-quarter results included a non-cash \$0.74 per-share charge for a valuation allowance against the company's deferred tax assets and a \$0.04 per-share restructuring charge, primarily related to the closure of the company's Tremonton, Utah and United Kingdom operations.

Kurt L. Darrow, President and Chief Executive Officer of La-Z-Boy, said, "In what continues to be a difficult macroeconomic environment, La-Z-Boy has reported three consecutive quarters of profitability. These results demonstrate the effectiveness of strategic initiatives implemented over the past several years, which have improved the efficiencies of our operations, coupled with the decisive changes made to our cost structure last fall when volumes dropped precipitously. Today, La-Z-Boy Incorporated is operating from a more competitive platform and, over the next 12 to 18 months, our operations will be further strengthened by previously announced projects under way. Additionally, we are encouraged that despite lower volumes, our retail segment continues to make progress and has significantly reduced year-over-year losses for each of the last four quarters."

Darrow continued, "We also strengthened our balance sheet this quarter. During the period, we generated \$22.2 million in cash from operating activities and increased our cash position by over \$20 million to \$59.0 million. Our cash position is \$10 million higher than our total debt outstanding. At the same time during the quarter, the availability on our revolving line of credit increased to \$87 million from \$70.5 million at the end of the fiscal 2010 first quarter. Given the prevailing cautious consumer sentiment existing in today's macroeconomic environment, our entire team is working to drive sales and grow the top line of our company. With the strength of our brand and balance sheet, a network of branded outlets that numbers almost 800 between La-Z-Boy Furniture Galleries® stores and ComfortStudios®, and a domestic manufacturing footprint that gives us a speed-to-market advantage for delivering custom-ordered furniture, we believe La-Z-Boy is well positioned to emerge from this period as a stronger player in what will be a very different industry landscape."

Wholesale Segments

For the fiscal 2010 second quarter, sales in the company's upholstery segment decreased 6.1% to \$232.8 million compared with \$247.9 million in the prior year's second quarter. On the \$15.1 million decline in sales, the segment's operating margin increased to 10.9% from 3.4% in the prior year's quarter. In the casegoods segment, sales for the fiscal second quarter were \$37.3 million, down 23.0% from \$48.5 million in the fiscal 2009 second quarter. The segment operated at a break-even level versus a 1.6% operating margin in last year's second quarter.

Darrow commented, "Despite a 6% sales decline versus a year ago, our upholstery group posted a 10.9% operating margin, which was three times our run rate compared with last year's second quarter. This is a testament to the significant changes made to our cost structure across all upholstery operations. The majority of the contribution stems from the La-Z-Boy branded facilities which continue to generate efficiencies through cellular production. Going forward, as we complete the transition of our cutting-and-sewing operations from our domestic La-Z-Boy branded facilities to our new facility in Mexico, we expect to further improve the efficiencies of our upholstery operation. With over 840 people working at the facility in Mexico, the transition is going smoothly. As we initially stated, once fully operational, we expect our move to Mexico will save us \$20 million on an annual basis. We will begin to realize some of these savings in the fourth quarter of fiscal 2010 with the remainder flowing through to our results over the first nine months of fiscal 2011."

System-wide, for the second quarter of fiscal 2010, including company-owned and independent-licensed stores, same-store written sales, which the company tracks as an indicator of retail activity, were down 0.6%. Total written sales, which include new and closed stores, were down 7.5%. At the end of the second quarter, 311 stand-alone stores comprised the La-Z-Boy Furniture Galleries® system.

Darrow said, "In the casegoods segment, we completed the consolidation of the production transfer to our Hudson, NC facility after closing our North

Wilkesboro, NC plant last quarter. The transition to Hudson went smoothly and without service delays to our customers. The North Wilkesboro facility will be converted to a finished-goods warehouse when we vacate a leased warehouse operation in Statesville, NC in the first half of calendar 2010. These changes, once fully completed, are expected to result in annual cost savings of approximately \$5 to \$6 million, based on current volume. We expect to realize over one third of the annual savings in the second half of this fiscal year. The operating margin in the casegoods segment was negatively impacted during the quarter by the significant reduction of volume in the segment. As we have said in the past, higher ticket categories, including bedroom and dining room, tend to be more challenged at retail in an environment where consumers are delaying significant discretionary purchases.

"In our youth business, we had a very successful introduction at the October High Point Furniture Market of a new line of furniture licensed with Nickelodeon. It was very well received by dealers and, based on feedback and written orders, we believe the line has great potential."

Retail

For the quarter, retail sales were \$38.0 million, down 3.7% compared with the prior-year period. The retail group posted an operating loss of \$5.3 million for the quarter, and its operating margin was (13.9%). Darrow stated, "Our retail group continues to make changes throughout its business which enabled it to decrease its operating loss by \$5.1 million in the face of a sales decline. While we are pleased with the progress made over the course of the past year, our team is focused on driving traffic into the stores, building stronger relationships with the customer through various follow-up programs, improving its close ratio and increasing the average ticket to increase volume levels, which has been our biggest challenge over the past year."

Balance Sheet

La-Z-Boy's debt-to-capitalization ratio was 13.2% compared with 23.4% a year ago and 13.5% at the end of the fiscal 2010 first quarter. During the quarter, the company generated \$22.2 million of cash from operations, including a \$13 million tax refund, increased its cash position and maintained a very low debt level. The availability under La-Z-Boy's revolving line of credit increased by \$16.5 million to \$87.0 million."

Business Outlook

Darrow stated, "Although the magnitude of volume declines is not as great as we experienced over the last several quarters, we remain concerned about the overall macroeconomic environment and it is too early to predict a recovery for our industry. We will continue to look for ways to drive sales and operate our business in the most efficient manner possible while continuing to make whatever changes are necessary to our business model. We will also maintain a clear focus on our balance sheet to ensure our company has the greatest operating flexibility in the challenging environment."

Conference Call

La-Z-Boy will hold a conference call with the investment community on Wednesday, November 18, 2009, at 8:30 a.m. eastern time. The toll-free dial-in number is 877.407.0778; international callers may use 201.689.8565.

Forward-looking Information

Any forward-looking statements contained in this news release are based on current information and assumptions and represent management's best judgment at the present time. Actual results could differ materially from those anticipated or projected due to a number of factors. These factors include, but are not limited to: (a) changes in consumer confidence and demographics; (b) continued economic recession and fluctuations in our stock price; (c) changes in the real estate and credit markets and the potential impacts on our customers and suppliers; (d) the impact of terrorism or war; (e) continued energy and other commodity price changes; (f) the impact of logistics on imports; (g) the impact of interest rate and currency exchange rate changes; (h) operating factors, such as supply, labor or distribution disruptions including changes in operating conditions, product recalls or costs; (i) effects of restructuring actions; (j) changes in the domestic or international regulatory environment; (k) the impact of adopting new accounting principles; (l) the impact from natural events such as hurricanes, earthquakes and tornadoes; (m) the ability to procure fabric rolls and leather hides or cut and sewn fabric and leather sets domestically or abroad; (n) those matters discussed in Item 1A of our fiscal 2009 Annual Report and factors relating to acquisitions and other factors identified from time-to-time in our reports filed with the Securities and Exchange Commission. We undertake no obligation to update or revise any forward-looking statements, either to reflect new developments or for any other reason.

Additional Information

This news release is just one part of La-Z-Boy's financial disclosures and should be read in conjunction with other information filed with the Securities and Exchange Commission, which is available at http://www.la-z-boy.com/about/InvestorRelations/sec_filings.aspx. Investors and others wishing to be notified of future La-Z-Boy news releases, SEC filings and quarterly investor conference calls may sign up at:

http://www.la-z-boy.com/about/investorRelations/IR_email_alerts.aspx.

Background Information

La-Z-Boy Incorporated is one of the world's leading residential furniture producers, marketing furniture for every room of the home. The La-Z-Boy Upholstery Group companies are Bauhaus, England and La-Z-Boy. The La-Z-Boy Casegoods Group companies are American Drew/Lea, Hammary and Kincaid.

The corporation's proprietary distribution network is dedicated exclusively to selling La-Z-Boy Incorporated products and brands, and includes 311 stand-alone La-Z-Boy Furniture Galleries® stores and 487 independent ComfortStudios®, in addition to in-store gallery programs at the company's Kincaid, England and Lea operating units. According to industry trade publication *In Furniture*, the La-Z-Boy Furniture Galleries retail network is North America's largest single-brand furniture retailer. Additional information is available at <http://www.la-z-boy.com/>.

(Unaudited, amounts in thousands, except per share data)	Second Quarter Ended	
	10/24/09	10/25/08
Sales	\$300,707	\$331,948
Cost of sales		
Cost of goods sold	204,962	243,090
Restructuring	663	2,236
Total cost of sales	205,625	245,326
Gross profit	95,082	86,622
Selling, general and administrative	84,697	101,499
Write-down of goodwill	-	408
Restructuring	520	687
Operating income (loss)	9,865	(15,972)
Interest expense	831	1,651
Interest income	199	630
Other income (expense), net	236	(685)
Earnings (loss) before income taxes	9,469	(17,678)
Income tax expense	3,762	36,032
Net income (loss)	5,707	(53,710)
Net (income) loss attributable to noncontrolling interests	200	(34)
Net income (loss) attributable to La-Z-Boy Incorporated	\$5,907	\$(53,744)
Basic average shares	51,527	51,458
Basic net income (loss) attributable to La-Z-Boy Incorporated per share	\$0.11	\$(1.05)
Diluted average shares	51,755	51,458
Diluted net income (loss) attributable to La-Z-Boy Incorporated per share	\$0.11	\$(1.05)
Dividends paid per share	\$-	\$0.04

LA-Z-BOY INCORPORATED
CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited, amounts in thousands, except per share data)	Six Months Ended	
	10/24/09	10/25/08
Sales	\$563,378	\$653,600
Cost of sales		
Cost of goods sold	386,511	478,685
Restructuring	1,399	8,032
Total cost of sales	387,910	486,717
Gross profit	175,468	166,883
Selling, general and administrative	162,153	192,770
Write-down of goodwill	-	1,700
Restructuring	821	1,467
Operating income (loss)	12,494	(29,054)
Interest expense	1,810	3,146
Interest income	475	1,562
Other income (expense), net	945	(541)

Earnings (loss) before income taxes	12,104	(31,179)
Income tax expense	4,201	30,988
Net income (loss)	7,903	(62,167)
Net (income) attributable to noncontrolling interests	(13)	(121)
Net income (loss) attributable to La-Z-Boy Incorporated	\$7,890	\$(62,288)
Basic average shares	51,503	51,443
Basic net income (loss) attributable to La-Z-Boy Incorporated per share	\$0.15	\$(1.21)
Diluted average shares	51,551	51,443
Diluted net income (loss) attributable to La-Z-Boy Incorporated per share	\$0.15	\$(1.21)
Dividends paid per share	\$-	\$0.08

LA-Z-BOY INCORPORATED
CONSOLIDATED BALANCE SHEET

(Unaudited, amounts in thousands)	10/24/09	4/25/09
Current assets		
Cash and equivalents	\$59,037	\$17,364
Restricted cash	500	18,713
Receivables, net of allowance of \$25,195 at 10/24/09 and \$28,385 at 4/25/09	162,878	147,858
Inventories, net	138,946	140,178
Deferred income taxes-current	795	795
Other current assets	15,956	22,872
Total current assets	378,112	347,780
Property, plant and equipment, net	142,704	150,234
Trade names	3,100	3,100
Other long-term assets	48,183	51,431
Total assets	\$572,099	\$552,545
Current liabilities		
Current portion of long-term debt	\$2,067	\$8,724
Accounts payable	46,318	41,571
Accrued expenses and other current liabilities	86,167	75,733
Total current liabilities	134,552	126,028
Long-term debt	46,911	52,148
Deferred income taxes	724	724
Other long-term liabilities	67,950	63,875
Contingencies and commitments	-	-
Equity		
La-Z-Boy Incorporated shareholders' equity:		
Common shares, \$1 par value	51,546	51,478
Capital in excess of par value	199,585	205,945
Retained earnings	87,342	70,769
Accumulated other comprehensive loss	(20,955)	(22,698)
Total La-Z-Boy Incorporated shareholders'		

equity	317,518	305,494
Noncontrolling interests	4,444	4,276
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Total equity	321,962	309,770
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Total liabilities and equity	\$572,099	\$552,545
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LA-Z-BOY INCORPORATED
CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited, amounts in thousands)	Second Quarter Ended		Six Months Ended	
	10/24/09	10/25/08	10/24/09	10/25/08
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Cash flows from operating activities				
Net income (loss)	\$5,707	\$(53,710)	\$7,903	\$(62,167)
Adjustments to reconcile net income (loss) to cash provided by (used for) operating activities				
Gain on sale of assets	(75)	(604)	(88)	(2,670)
Write-down of long-lived assets	200	-	200	-
Write-down of goodwill	-	408	-	1,700
Restructuring	1,183	2,923	2,220	9,499
Provision for doubtful accounts	2,152	4,797	4,514	9,000
Depreciation and amortization	6,135	5,989	12,244	11,943
Stock-based compensation expense	1,621	986	2,628	1,855
Change in receivables	(26,484)	(22,261)	(17,586)	(8,091)
Change in inventories	3,329	(63)	1,231	10,843
Change in other assets	11,106	2,272	6,439	(529)
Change in payables	7,073	8,375	4,747	1,927
Change in other liabilities	10,282	(5,199)	11,553	(26,117)
Change in deferred taxes	(8)	41,677	-	42,838
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Total adjustments	16,514	39,300	28,102	52,198
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Net cash provided by (used for) operating activities	22,221	(14,410)	36,005	(9,969)
Cash flows from investing activities				
Proceeds from disposals of assets	230	2,805	1,916	7,786
Capital expenditures	(1,340)	(2,618)	(2,779)	(9,990)
Purchases of				

investments	(1,338)	(3,516)	(2,537)	(8,965)
Proceeds from sales of investments	1,445	5,233	4,109	11,027
Change in restricted cash	-	(2,668)	17,007	(2,956)
Change in other long-term assets	29	158	14	229
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Net cash provided by (used for) investing activities	(974)	(606)	17,730	(2,869)
Cash flows from financing activities				
Proceeds from debt	10,213	24,831	20,673	39,466
Payments on debt	(10,408)	(6,430)	(32,567)	(25,287)
Dividends paid	-	(2,074)	-	(4,151)
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Net cash provided by (used for) financing activities	(195)	16,327	(11,894)	10,028
Effect of exchange rate changes on cash and equivalents	(348)	(604)	(168)	(643)
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Change in cash and equivalents	20,704	707	41,673	(3,453)
Cash and equivalents at beginning of period	38,333	10,317	17,364	14,477
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Cash and equivalents at end of period	\$59,037	\$11,024	\$59,037	\$11,024
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Cash paid (net of refunds) during period - income taxes	\$(13,348)	\$(719)	\$(13,082)	\$204
Cash paid during period - interest	\$563	\$1,287	\$1,288	\$2,413

LA-Z-BOY INCORPORATED
SEGMENT INFORMATION

	Second Quarter Ended		Six Months Ended	
	10/24/09 (13 weeks)	10/25/08 (13 weeks)	10/24/09 (26 weeks)	10/25/08 (26 weeks)
(Unaudited, amounts in thousands)	-----	-----	-----	-----
Sales				
Upholstery Group	\$232,780	\$247,934	\$429,472	\$485,052
Casegoods Group	37,302	48,473	73,167	96,594
Retail Group	38,014	39,484	73,976	81,911
VIEs	12,248	11,793	23,987	25,871
Other/eliminations	(19,637)	(15,736)	(37,224)	(35,828)
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Consolidated	\$300,707	\$331,948	\$563,378	\$653,600
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Operating income (loss)

Upholstery Group	\$25,359	\$8,338	\$41,649	\$18,194
Casegoods Group	(184)	755	(305)	2,132
Retail Group	(5,301)	(10,391)	(10,969)	(20,401)
VIEs	(402)	(2,621)	(137)	(3,709)
Corporate and Other	(8,424)	(8,722)	(15,524)	(14,071)
Goodwill write-down	-	(408)	-	(1,700)
Restructuring	(1,183)	(2,923)	(2,220)	(9,499)
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	\$9,865	\$(15,972)	\$12,494	\$(29,054)
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SOURCE La-Z-Boy Incorporated

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