



La-Z-Boy Reports First-Quarter Operating Results

08/15/06

MONROE, Mich., Aug. 15 /PRNewswire-FirstCall/ -- La-Z-Boy Incorporated (NYSE: LZB; PCX) today reported its operating results for the first fiscal quarter ended July 29, 2006. Net sales for the quarter were \$419 million, down 2.3%, compared with the prior-year period. Net income for the quarter was \$2.3 million, or \$0.04 per share, versus \$3.2 million, or \$0.06 per share, in last year's first quarter. Results for the fiscal 2007 first quarter included \$0.02 from discontinued operations, primarily resulting from a gain on the sale of a division, and last year's results included \$0.01 for discontinued operations. Additionally, results for the fiscal 2007 first quarter included a tax benefit from a change in Canadian tax law which reduced the effective income tax rate.

Kurt L. Darrow, President and CEO, said, "We are encouraged by our ability to generate improved operating margins at the wholesale level on relatively flat volume during what is our historically slowest quarter due to seasonality factors. While the environment continues to be challenging, we remain focused on our strategic objective of differentiating our brand through quality, style and service while offering customers choice, customization and quick delivery. Additionally, growing and improving the performance of our proprietary store system is paramount to our longer term positioning in the marketplace."

Upholstery Segment

For the fiscal 2007 first quarter, upholstery sales were flat compared with the prior-year period while the operating margin improved year over year from 4.9% to 5.8%. The La-Z-Boy branded business and England continued to outperform the smaller upholstery companies. Darrow stated, "Our operating margin results demonstrate the work we have done to the underlying cost structure of the business. During the quarter, we worked through the excess backlog we experienced as a result of last Fall's foam supply shortage and, today, are fulfilling orders on a more timely basis and are entering the Fall selling season in an excellent service position."

Going forward, we will continue to improve the efficiencies of our operations as our facilities convert to the cellular manufacturing process, increase the integration of our global sourcing, broaden our channels of distribution and strengthen our proprietary La-Z-Boy Furniture Galleries(R) store system."

For the quarter, the La-Z-Boy Furniture Galleries(R) store system, which includes both company-owned and independent-licensed stores, opened one new store, relocated and/or remodeled six and closed four, bringing the total store count to 334, of which 159 are in the New Generation format. Darrow noted, "We are on track to open approximately 50 New Generation stores in fiscal 2007 and will add five new stores to the system in the second quarter, relocate or convert nine and close four."

System-wide, for the second calendar quarter, including company-owned and independent-licensed stores, same-store written sales, which the company tracks as an indicator of retail activity, were down 5.5% and total sales, which includes new stores, decreased 2.7%.

Casegoods Segment

In the first quarter, casegoods sales were \$78.3 million, down 15.6% from last year's first quarter, reflecting the difficult retail environment. The segment's operating margin, at 3.8%, was relatively flat compared with last year's margin of 3.9% on significantly lower volume.

Darrow stated, "During the quarter, we sold our American of Martinsville operation which manufactured furniture for the hospitality, healthcare and government markets for \$33.2 million, resulting in a gain of \$1.3 million, net of tax. Although the hospitality industry had started to rebound, the business didn't fit with our long-term strategy as a residential furniture manufacturer and, given the sector's business cycle, it was an ideal time to sell the unit. The cash generated from the sale was utilized primarily to reduce our debt level."

He continued, "During the last several years, we have significantly changed our business model, shifting our cost structure to a much greater variable component, and even with the decrease in volume compared with last year, we held margins. We continue to improve our overall operating structure and are taking initiatives to improve top-line growth. An example is our recently announced amalgamation of Clayton Marcus and Pennsylvania House, which will leverage the best of marketing, merchandising and manufacturing within each and will improve our product offering to our dealers and consumers."

Retail Segment

For the quarter, retail sales were \$52.2 million compared with \$52.7 million in last year's first quarter. On an operating basis, the segment incurred a loss, primarily the result of the sluggish retail environment, inefficiencies and the acquired fixed-cost structure relative to the segment's current volume.

Darrow commented, "We made some incremental improvement over the fiscal 2006 fourth quarter in our retail segment's performance. With much work to do, our management team continues to take the necessary steps to improve the segment's operating results as it is integral to our company's future. Key to our strategy is building out the markets that were acquired and we plan to open, remodel and/or relocate 17 stores in fiscal 2007, bringing the total number of company-owned stores in the New Generation format to 48, representing approximately 70% of the 70 we will own at year end. During the quarter, we acquired six stores in Southeastern Florida, an under-penetrated market with tremendous growth potential, and, in a short period of time, will increase our store count from six to eight. In the second quarter, we will exit the Rochester, New York market, where we will close two stores and a warehouse, and are planning to consolidate four other warehouses into our remaining facilities, enabling us to enter the third quarter with an improved cost structure."

Of the 334 stores in the Furniture Galleries(R) system, La-Z-Boy Incorporated owns 68, including 31 in the New Generation format. For the second quarter, the company plans to add five New Generation stores to its retail segment: two brand new stores and three relocations/conversions.

Operating Cash Flow and Balance Sheet

Darrow noted, "With the proceeds from the American of Martinsville sale and the sale of four retail properties, we reduced our debt this quarter by \$23.1 million from last quarter, bringing our debt-to-capitalization ratio down to 24.2%. We also used a portion of the cash generated to repurchase approximately 290,000 shares at an average price of \$12.77, leaving us with approximately 5.6 million shares remaining in our program."

Business Outlook

Commenting on the company's business outlook, Darrow noted: "While we are pleased with our progress in our upholstery and casegoods divisions from a margin perspective, we continue to be concerned about top-line growth given the challenging retail climate. Additionally, we continue to make changes in our company-owned retail segment to bring it to acceptable performance levels. We expect sales for the fiscal 2007 second quarter to be up in the mid single digits compared with last year's second quarter sales of \$433.4 million and we expect earnings per share to be in the range of \$0.11 to \$0.15, including up to a \$0.02 charge for stock option expense, compared with last year's second- quarter loss of \$0.12, which included an after-tax restructuring charge of \$0.10 and \$0.01 in income from discontinued operations. It is important to note that last year's second quarter was unusual given the shortage of polyurethane foam."

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; (b) changes in demographics; (c) changes in housing sales; (d) the impact of terrorism or war; (e) continued energy price changes; (f) the impact of logistics on imports; (g) the impact of interest rate changes; (h) the potential disruptions from Chinese imports; (i) inventory supply price fluctuations; (j) the impact of imports as it relates to continued domestic production; (k) changes in currency exchange rates; (l) competitive factors; (m) operating factors, such as supply, labor, or distribution disruptions including changes in operating conditions or costs; (n) effects of restructuring actions; (o) changes in the domestic or international regulatory environment; (p) not fully realizing cost reductions through restructurings; (q) ability to implement global sourcing organization strategies; (r) the impact of new manufacturing technologies; (s) the future financial performance and condition of independently operated dealers that we are required to consolidate into our financial statements or changes requiring us to consolidate additional independently operated dealers; (t) fair value changes to our intangible assets due to actual results differing from projected; (u) the impact of adopting new accounting principles; (v) the impact from natural events such as hurricanes, earthquakes and tornadoes; (w) the ability to turn around under- performing retail stores; (x) the impact of retail store relocation costs, the success of new stores or the timing of converting stores to the New Generation format; (y) the ability to procure fabric rolls or cut-and-sewn sets domestically or abroad; and (z) 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, Centurion, England, La-Z-Boy, and Sam Moore. The La-Z-Boy Casegoods Group companies are American Drew, Hammary, Kincaid, Lea, Clayton Marcus, and Pennsylvania House.

The corporation's vast proprietary distribution network is dedicated exclusively to selling La-Z-Boy Incorporated products and brands, and includes 334 stand-alone La-Z-Boy Furniture Galleries(R) stores and 315 La-Z-Boy In-Store Galleries, in addition to in-store gallery programs at the company's Kincaid, Pennsylvania House, Clayton Marcus, 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/> .

LA-Z-BOY INCORPORATED
CONSOLIDATED STATEMENT OF INCOME
(Unaudited, amounts in thousands, except per share data)

	First Quarter Ended				
	7/29/06	7/30/05	% Over (Under)	Percent of Sales 7/29/06	7/30/05
Sales	\$418,865	\$428,875	-2.3%	100.0%	100.0%
Cost of sales	316,910	326,350	-2.9%	75.7%	76.1%
Gross profit	101,955	102,525	-0.6%	24.3%	23.9%
Selling, general and administrative	99,125	95,816	3.5%	23.7%	22.3%

Operating income	2,830	6,709	-57.8%	0.7%	1.6%
Interest expense	2,526	2,741	-7.8%	0.6%	0.6%
Other income, net	618	9	N/M	0.1%	0.0%
Income from continuing operations before income taxes	922	3,977	-76.8%	0.2%	0.9%
Income tax expense (benefit)	(120)	1,500	-108.0%	-13.0%*	37.7%*
Income from continuing operations	1,042	2,477	-57.9%	0.2%	0.6%
Income from discontinued operations (net of tax)	1,253	731	71.4%	0.3%	0.2%
Net income	\$2,295	\$3,208	-28.5%	0.5%	0.7%

Basic average shares 51,787 52,129

Basic income from continuing operations per share \$0.02 \$0.05
Discontinued operations (net of tax) \$0.02 \$0.01

Basic net income per share \$0.04 \$0.06

Diluted average shares 51,971 52,195

Diluted income from continuing operations per share \$0.02 \$0.05
Discontinued operations (net of tax) \$0.02 \$0.01

Diluted net income per share \$0.04 \$0.06

Dividends paid per share \$0.12 \$0.11

* As a percent of pretax income, not sales.
N/M = not meaningful

LA-Z-BOY INCORPORATED
CONSOLIDATED BALANCE SHEET
(Unaudited, amounts in thousands)

	7/29/06	Increase/(Decrease)		4/29/06
		7/30/05	Dollars Percent	
Current assets				
Cash and equivalents	\$28,393	\$19,011	\$9,382 49.4%	\$24,089
Receivables, net	230,385	248,677	(18,292) -7.4%	270,578
Inventories, net	238,758	264,739	(25,981) -9.8%	238,826
Deferred income taxes	29,865	26,048	3,817 14.7%	27,276
Other current assets	26,988	21,195	5,793 27.3%	23,790
Total current assets	554,389	579,670	(25,281) -4.4%	584,559
Property, plant and equipment, net				
Property, plant and equipment, net	208,343	213,287	(4,944) -2.3%	209,986
Goodwill	62,236	79,770	(17,534) -22.0%	56,926
Trade names	18,794	21,484	(2,690) -12.5%	18,794

Other long-term assets	79,898	86,284	(6,386)	-7.4%	100,909
Total assets	\$923,660	\$980,495	\$(56,835)	-5.8%	\$971,174
Current liabilities					
Short-term borrowings	\$--	\$22,000	\$(22,000)	-100.0%	\$8,000
Current portion of long-term debt	2,974	2,801	173	6.2%	2,844
Accounts payable	74,368	69,342	5,026	7.2%	85,561
Accrued expenses and other current liabilities	116,686	112,587	4,099	3.6%	128,112
Total current liabilities	194,028	206,730	(12,702)	-6.1%	224,517
Long-term debt	158,110	194,687	(36,577)	-18.8%	173,368
Deferred income taxes	13,481	5,420	8,061	148.7%	14,548
Other long-term liabilities	53,590	54,965	(1,375)	-2.5%	48,396
Contingencies and commitments	--	--	--	--	--
Shareholders' equity					
Common shares, \$1 par value	51,578	51,806	(228)	-0.4%	51,782
Capital in excess of par value	210,919	213,578	(2,659)	-1.2%	210,826
Retained earnings	240,545	265,274	(24,729)	-9.3%	246,387
Unearned compensation	(2,791)	(1,367)	(1,424)	-104.2%	(3,083)
Accumulated other comprehensive income (loss)	4,200	(10,598)	14,798	139.6%	4,433
Total shareholders' equity	504,451	518,693	(14,242)	-2.7%	510,345
Total liabilities and shareholders' equity	\$923,660	\$980,495	\$(56,835)	-5.8%	\$971,174

LA-Z-BOY INCORPORATED
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited, amounts in thousands)

	First Quarter Ended	
	7/29/06	7/30/05
Cash flows from operating activities		
Net income	\$2,295	\$3,208
Adjustments to reconcile net income to cash provided by (used for) operating activities		
Gain on sale of discontinued operations (net of tax)	(1,280)	--
Change in allowance for doubtful accounts	275	849
Depreciation and amortization	7,372	6,998
Change in receivables	22,172	33,993
Change in inventories	(17,990)	(781)
Change in payables	(7,319)	(13,959)
Change in other assets and liabilities	(6,368)	(7,301)
Change in deferred taxes	(3,656)	(3,238)
Total adjustments	(6,794)	16,561
Net cash provided by (used for) operating activities	(4,499)	19,769
Cash flows from investing activities		
Proceeds from disposals of assets	21,329	2
Proceeds from sale of discontinued operations	29,982	--

Capital expenditures	(9,243)	(6,713)
Purchases of investments	(5,632)	(11,938)
Proceeds from sales of investments	5,697	2,143
Change in other long-term assets	505	(2,065)
Net cash provided by (used for) investing activities	42,638	(18,571)
Cash flows from financing activities		
Proceeds from debt	22,399	46,079
Payments on debt	(47,414)	(53,905)
Stock issued for stock and employee benefit plans	1,108	1,000
Repurchases of common stock	(3,686)	(7,247)
Dividends paid	(6,249)	(5,758)
Net cash used for financing activities	(33,842)	(19,831)
Effect of exchange rate changes on cash and equivalents	7	(61)
Change in cash and equivalents	4,304	(18,694)
Cash and equivalents at beginning of period	24,089	37,705
Cash and equivalents at end of period	\$28,393	\$19,011
Cash paid (net of refunds) during period -- income taxes	\$208	\$(5,633)
Cash paid during period -- interest	\$2,912	\$3,222

LA-Z-BOY INCORPORATED
SEGMENT INFORMATION

Our reportable operating segments are the Upholstery Group, the Casegoods Group, and the Retail Group.

	First Quarter Ended	
	7/29/06 (13 Weeks)	7/30/05 (13 Weeks)
(Unaudited amounts in thousands)		
Sales		
Upholstery Group	\$303,083	\$304,071
Casegoods Group	78,282	92,796
Retail Group	52,204	52,655
VIEs/Eliminations	(14,704)	(20,647)
Consolidated	\$418,865	\$428,875
Operating income (loss)		
Upholstery Group	\$17,646	\$14,769
Casegoods Group	2,939	3,637
Retail Group	(7,715)	(5,408)
Corporate and Other*	(10,040)	(6,289)
Write-down of intangibles	--	--
Restructuring	--	--
Consolidated	\$2,830	\$6,709

Quarters Ended in Fiscal 2006

10/29/05 1/28/06 4/29/06

	(13 Weeks)	(13 Weeks)	(13 Weeks)
(Unaudited amounts in thousands)			
Sales			
Upholstery Group	\$310,013	\$341,804	\$351,594
Casegoods Group	93,057	94,348	94,717
Retail Group	49,245	57,432	54,106
VIEs/Eliminations	(18,948)	(16,550)	(20,788)
Consolidated	\$433,367	\$477,034	\$479,629
Operating income (loss)			
Upholstery Group	\$12,115	\$24,958	\$31,960
Casegoods Group	1,703	5,923	3,917
Retail Group	(6,074)	(5,987)	(8,537)
Corporate and Other*	(7,904)	(6,827)	(8,028)
Write-down of intangibles	--	--	(22,695)
Restructuring	(7,817)	(594)	1,768
Consolidated	\$(7,977)	\$17,473	\$(1,615)

* Variable Interest Entities ("VIEs") are included in corporate and other.

SOURCE La-Z-Boy Incorporated

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