La-Z-Boy Reports Second Quarter Operating Results

11/09/04

MONROE, Mich., Nov 9, 2004 /PRNewswire-FirstCall via COMTEX/ -- La-Z-Boy Incorporated (NYSE: LZB; PCX) today reported its operating results for the second fiscal quarter ended October 23, 2004. Net sales for the quarter were $534 million, up $23 million or 4.4% compared to a year earlier, with earnings of $0.17 per fully-diluted share. The quarter includes after-tax restructuring charges of $0.01 per share, an extraordinary gain of $0.01 per share, and $10 million of additional sales and an after-tax loss of $0.05 per share related to the consolidation of certain Variable Interest Entities (VIEs). These VIEs were not reflected in our results in the year earlier reporting periods. This quarter's per share earnings compare against $0.28 per fully diluted share earned in the fiscal 2004 second quarter, including $0.02 per share of restructuring charges.

For the six months ended October 23, 2004 net sales were $1 billion, an increase of $38 million or 3.9% from the year earlier sales of $962 million. Fully diluted earnings per share for the first half totaled $0.10, including restructuring charges of $0.13 per share on an after-tax basis, an extraordinary gain of $0.01 per share, and $23 million of additional sales and an after-tax loss of $0.09 per share related to the consolidation of certain VIEs. This compares to $0.38 per share in the first half of fiscal 2004, including restructuring charges of $0.09 per share on an after-tax basis.

Operating margin for the most recent quarter was 3.0%, down from 5.3% a year earlier. This year's fiscal second quarter included restructuring charges amounting to 0.1% of net sales versus 0.4% last year. First half fiscal 2005 operating margin was 1.2% including 1.1% of net sales for restructuring charges, down from 4.0% in the same period of fiscal 2004. Last year's fiscal first half included restructuring charges amounting to 0.8% of net sales.

La-Z-Boy Incorporated President and CEO Kurt L. Darrow said, "In spite of challenging industry conditions we met our sales expectations for the quarter and are increasing market share with our La-Z-Boy branded business." Operating margins were weaker than last year primarily as a result of three factors:

* Continued and unprecedented increased raw material pricing coupled with our inability to immediately pass on these rising costs to our customers,

* Operating losses from several retail VIEs and,

* Significant unanticipated production inefficiencies at our Lewisburg, PA manufacturing facility of Pennsylvania House which we are in the process of closing.

He added, "During the second half of our fiscal year the increased material costs, including steel and plywood, should be partially offset by previously announced price increases to our customers."

Upholstery Segment

The second quarter fiscal 2005 upholstery segment sales increased 4.8% from a year earlier and were up 4.3% through the first six months of the fiscal year. Darrow noted, "Our La-Z-Boy branded business experienced strong growth as we continue to increase market share through opening new distribution, new product offerings and the continued strength of executing our proprietary retail store strategy. The non-branded portion of our upholstery segment's sales more closely mirrored the industry, experiencing softness in sales and difficulty initiating the price increases needed to offset raw material price increases. We continue to see encouraging trends in upholstery orders particularly in our branded upholstery business." The upholstery segment operating margin for the quarter was 6.6% compared to a reported 8.3% for last year's second quarter, while first half operating margin declined to 5.4% from 7.6% a year earlier.

Darrow continued, "During this quarter we continued to strengthen our proprietary distribution network of mostly independently operated La-Z-Boy Furniture Galleries(R) stores by opening new stores and converting existing stores to the 'New Generation' format introduced in mid 2001. These stores are generating increased traffic levels, higher average sales per square foot and greater total sales volumes than the previous format stores. During our second quarter of fiscal 2005, two New Generation stores were opened and 11 were remodeled or relocated and three old format stores were closed bringing the total to 90 in this new format. Plans are to open 40 plus of these updated format stores during the current fiscal year, with over 20 of these being new stores and the remainder being store remodels or relocations. Thus far this year we have opened 22 of these new format stores. Currently, there are 324 stand-alone stores, of which 38 are company-owned."

System-wide, the mostly independent La-Z-Boy Furniture Galleries(R) stores' same store sales dollars were flat for the 2004 calendar third quarter and up 2.7% in the first nine months of calendar 2004. Total sales for the stores were up 3.4% for the calendar third quarter and up 6.6% in the first nine months of calendar 2004.

Casegoods Segment

Casegoods sales declined 4.6% from a year earlier for the October quarter and were down 6.9% through the first six months. The casegoods segment's operating margin for the October 2005 quarter was 0.1% compared to 1.7% for last year and the first half operating margin declined to 0.3% from 1.3% a year earlier. Darrow commented, "Our casegoods sales trends, though still negative, have been steadily improving as several new product groups began to see good sell-through at retail. The contract portion of this segment, serving primarily the hospitality industry, is now beginning to demonstrate improving trends and appears to be entering the beginning stages of recovering from a prolonged severe downturn. We are extremely encouraged by recent order trends."

He added, "Margins also were strained by the transition of our business model from primarily a domestic manufacturer to primarily an importer, marketer and distributor of casegoods and the continued pricing pressure from imports, rising material prices, and aggressive competitor promotions."

Restructuring charge

As previously announced, we began the closure of several production facilities during our second fiscal quarter and expect that production will be phased out at the last facility during the third fiscal quarter. During the second quarter charges of $0.01 per diluted share on an after-tax basis were incurred representing severance and relocation costs.

FIN 46

FIN 46 requires us to consolidate certain Variable Interest Entities (VIEs) beginning April 2004 which is included in corporate and other. Certain of our independent dealers meet this criteria and the attached schedule outlines the impact and offers further explanation. Darrow mentioned, "The operating results of a portion of these VIEs is less than desirable and we have and are in the process of taking specific actions to rectify those operations' results." The extraordinary gain is a result of the application of purchase accounting relating to the acquisition of a previously consolidated VIE.

Balance sheet

During the quarter accounts receivable increased $56 million primarily reflecting higher sales volumes. Inventories increased $7 million primarily as a result of the shifting mix of business to imports and additional company owned retail locations.

Total debt at quarter end was $268 million, and the company's second quarter debt-to-capitalization ratio was 34.1%. Darrow stated, "This ratio is higher than our targeted range of mid-twenties as a result of the write-down of trade names and goodwill in fiscal 2004's fourth quarter and the consolidation of VIEs which had a combined effect of increasing this ratio by 3.4 percentage points. Although management is opportunistic in execution of its stock repurchases, our prime focus is to bring our debt-to-capitalization ratio within our targeted range." At quarter-end, 6.7 million shares remained available under the company's existing stock repurchase authorization.

Business Outlook

Commenting on the business outlook, Darrow said, "We continue to face record high energy and raw material costs, rising interest rates, indifferent consumer confidence and are somewhat cautious about consumer discretionary spending in the coming months. Considering the current tone of the economy, in our third fiscal quarter we expect our sales to be even or slightly ahead compared to the prior year period, and we anticipate reported earnings for the third quarter to be in the range of $0.11 - $0.14 per diluted share, which includes restructuring charges of $0.01 and up to a $0.03 potential loss from the consolidation of VIEs. This would compare to the $0.29 we earned per diluted share in fiscal 2004's third quarter, which included $0.01 of restructuring charges."

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: changes in consumer sentiment or demand, changes in demographics, changes in housing sales, the impact of terrorism or war, energy price changes, the impact of logistics on imports, the impact of interest rate changes, the ultimate effect of the antidumping duties imposed by the U.S. International Trade Commission on wooden bedroom furniture imported from China and potential disruptions of Chinese imports, the availability and cost of capital, the impact of imports as it relates to continued domestic production, changes in currency rates, competitive factors, operating factors, such as supply, labor, or distribution disruptions including changes in operating conditions or costs, effects of restructuring actions, changes in the domestic or international regulatory environment, not fully realizing cost reductions through restructurings, ability to implement global sourcing organization strategies, the future financial performance and condition of independently owned dealers that we are required to consolidate into our financial statements or changes requiring us to consolidate additional independently owned dealers, the impact of new manufacturing technologies, the impact of adopting new accounting principles, fair value changes to our intangible assets due to actual results differing from projected, factors relating to acquisitions and other factors identified from time to time in the company's reports filed with the Securities and Exchange Commission. The company undertakes 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

With annual sales of $2 billion, La-Z-Boy Incorporated is one of the world's leading residential furniture producers, marketing furniture for every room of the home and office, as well as for the hospitality, health care and assisted-living industries. The La-Z-Boy Upholstery Group companies are Bauhaus, Centurion, Clayton Marcus, England, La-Z-Boy, La-Z-Boy Contract and Sam Moore. The La-Z-Boy Casegoods Group companies are American Drew, American of Martinsville, Hammary, Kincaid, Lea and Pennsylvania House.

The corporation's vast proprietary distribution network is dedicated exclusively to selling La-Z-Boy Incorporated products and brands, and includes 324 stand-alone La-Z-Boy Furniture Galleries(R) stores and 337 La-Z-Boy In- Store Gallerys, 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 Furniture/Today, the La-Z-Boy Furniture Galleries retail network by itself represents the industry's fourth largest U.S. furniture retailer and the second largest single source 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)

Second Quarter Ended					
			% Over	Percent of Sales	
	10/23/04	10/25/03	(Under)	10/23/04	10/25/03
Sales	$533,670	$511,018	4.4%	100.0%	100.0%
Cost of sales					
Cost of goods sold	410,404	394,257	4.1%	76.9%	77.2%
Restructuring	749	1,976	-62.1%	0.1%	0.4%
Total cost of sales	411,153	396,233	3.8%	77.0%	77.5%
Gross profit	122,517	114,785	6.7%	23.0%	22.5%
Selling, general and administrative	106,399	87,727	21.3%	19.9%	17.2%
Operating income	16,118	27,058	-40.4%	3.0%	5.3%
Interest expense	2,607	3,026	-13.8%	0.5%	0.6%
Other income (expense), net	(353)	448	-178.8%	--	0.1%
Pre-tax income	13,158	24,480	-46.3%	2.5%	4.8%
Income tax expense	5,000	9,303	-46.3%	38.0%*	38.0%*
Income before extraordinary item	8,158	15,177	-46.2%	1.5%	3.0%
Extraordinary gain, net of income tax expense of $430	702	--	N/M	0.1%	--
Net income	$8,860	$15,177	-41.6%	1.7%	3.0%
Basic weighted average shares	52,040	54,159			
Basic income per share before extraordinary gain	$0.16	$0.28			
Extraordinary gain per share	0.01	--			
Basic net income per share	$0.17	$0.28			
Diluted weighted average shares	52,101	54,339			
Diluted income per share before extraordinary gain	$0.16	$0.28			
Extraordinary gain per share	0.01	--			
Diluted net income per share	$0.17	$0.28			
Dividends paid per share	$0.11	$0.10			

*As a percent of pre-tax income, not sales.

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

	Six Months Ended				
			% Over	Percent of Sales	
	10/23/04	10/25/03	(Under)	10/23/04	10/25/03
Sales	$1,000,041	$962,490	3.9%	100.0%	100.0%
Cost of sales					
Cost of goods sold	770,553	746,738	3.2%	77.1%	77.6%
Restructuring	11,149	8,249	35.2%	1.1%	0.8%
Total cost of sales	781,702	754,987	3.5%	78.2%	78.4%
Gross profit	218,339	207,503	5.2%	21.8%	21.6%
Selling, general and administrative	206,064	169,146	21.8%	20.6%	17.6%
Operating income	12,275	38,357	-68.0%	1.2%	4.0%
Interest expense	4,816	6,239	-22.8%	0.5%	0.6%
Other income, net	17	1,720	-99.0%	0.0%	0.1%
Pre-tax income	7,476	33,838	-77.9%	0.7%	3.5%
Income tax expense	2,841	12,858	-77.9%	38.0%*	38.0%*
Income before extraordinary item	4,635	20,980	-77.9%	0.5%	2.2%
Extraordinary gain, net of income tax expense of $430	702	--	N/M	--%	--%
Net Income	$5,337	$20,980	-74.6%	0.5%	2.2%
Basic weighted average shares	52,003	54,444			
Basic income per share before extraordinary gain	$0.09	$0.39			
Extraordinary gain per share	0.01	--			
Basic net income per share	$0.10	$0.39			
Diluted weighted average shares	52,062	54,627			
Diluted income per share before extraordinary gain	$0.09	$0.38			
Extraordinary gain per share	0.01	--			

Diluted net income per share	$0.10	$0.38
Dividends paid per share	$0.22	$0.20

*As a percent of pre-tax income, not sales.

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

	10/23/04	10/25/03	Increase/(Decrease) Dollars	Percent	4/24/04
Current assets					
Cash and equivalents	$28,677	$24,587	$4,090	16.6%	$33,882
Receivables, net	306,386	320,527	(14,141)	-4.4%	299,801
Inventories, net	282,470	237,655	44,815	18.9%	250,568
Deferred income taxes	38,108	37,057	1,051	2.8%	37,969
Other current assets	21,088	19,411	1,677	8.6%	31,454
Total current assets	676,729	639,237	37,492	5.9%	653,674
Property, plant and equipment, net	207,447	202,148	5,299	2.6%	212,739
Goodwill	68,544	78,807	(10,263)	-13.0%	68,116
Trade names	27,889	71,144	(43,255)	-60.8%	27,889
Other long-term assets	81,348	86,929	(5,581)	-6.4%	85,078
Total assets	$1,061,957	$1,078,265	$(16,308)	-1.5%	$1,047,496
Current liabilities					
Short-term borrowings	$33,686	$6,000	$27,686	461.4%	$37,219
Current portion of long-term debt and capital leases	3,018	4,902	(1,884)	-38.4%	5,344
Accounts payable	86,716	81,259	5,457	6.7%	93,298
Accrued expenses and other current liabilities	126,992	126,244	748	0.6%	147,460
Total current liabilities	250,412	218,405	32,007	14.7%	283,321
Long-term debt and capital leases	231,652	196,174	35,478	18.1%	181,807
Deferred income taxes	20,143	37,494	(17,351)	-46.3%	20,219
Other long-term liabilities	41,462	38,446	3,016	7.8%	39,821
Contingencies and commitments					
Shareholders' equity					
Common shares, $1 par value	52,088	53,408	(1,320)	-2.5%	52,031
Capital in excess of par value	214,962	215,807	(845)	-0.4%	216,156
Retained earnings	250,434	318,306	(67,872)	-21.3%	253,012
Unearned					

compensation	(1,938)	--	(1,938)	N/M	--
Accumulated other comprehensive income	2,742	225	2,517	N/M	1,129
Total shareholders' equity	518,288	587,746	(69,458)	-11.8%	522,328
Total liabilities and shareholders' equity	$1,061,957	$1,078,265	$(16,308)	-1.5%	$1,047,496

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

	Second Quarter Ended		Six Months Ended	
	10/23/04	10/25/03	10/23/04	10/25/03
Cash flows from operating activities				
Net income	$8,860	$15,177	$5,337	$20,980
Adjustments to reconcile net income to cash provided by operating activities				
Extraordinary gain	(702)	--	(702)	--
Restructuring	749	1,976	11,149	8,249
Depreciation and amortization	7,092	7,326	14,000	14,637
Change in receivables	(55,811)	(22,926)	(4,371)	21,029
Change in inventories	(6,618)	4,363	(33,902)	14,882
Change in payables	1,530	33,248	(6,582)	2,328
Change in other assets and liabilities	21,040	15,044	(8,803)	(11,576)
Change in deferred taxes	4,712	1,035	(215)	1,243
Total adjustments	(28,008)	40,066	(29,426)	50,792
Net cash provided by (used for) operating activities	(19,148)	55,243	(24,089)	71,772
Cash flows from investing activities				
Proceeds from disposals of assets	5,329	1,598	5,597	1,772
Capital expenditures	(7,705)	(7,773)	(17,179)	(14,626)
Change in other long-term assets	(3,055)	(4,304)	(3,850)	(747)
Net cash used for investing activities	(5,431)	(10,479)	(15,432)	(13,601)
Cash flows from financing activities				
Proceeds from debt	32,499	6,603	102,242	6,922
Payments on debt	(4,841)	(23,570)	(58,257)	(23,836)
Stock issued for stock option and employee benefits plans	1,275	1,566	2,757	6,012
Repurchase of common stock	--	(28,803)	(2,476)	(42,220)
Dividends paid	(5,723)	(5,501)	(11,372)	(10,987)

Net cash provided by (used for) financing activities	23,210	(49,705)	32,894	(64,109)
Effect of exchange rate changes on cash and equivalents	1,081	1,106	1,422	1,708
Net decrease in cash and equivalents	(288)	(3,835)	(5,205)	(4,230)
Cash and equivalents at beginning of period	28,965	28,422	33,882	28,817
Cash and equivalents at end of period	$28,677	$24,587	$28,677	$24,587
Cash paid (net of refunds) during period - income taxes	$(1,016)	$9,135	$6,398	$10,493
Cash paid during period - interest	$1,508	$2,648	$4,060	$6,440

LA-Z-BOY INCORPORATED
Impact of FIN46 on Consolidation

(Unaudited, amounts in thousands)	10/23/04 VIEs	Consolidated
Assets		
Cash and cash equivalents	$2,047	$28,677
Accounts receivable, net	(22,769) (1)	306,386
Inventories, net	11,770	282,470
Deferred income taxes	5,443	38,108
Other current assets	1,502	21,088
Total current assets	(2,007)	676,729
Property, plant and equipment, net	8,573	207,447
Intangibles	7,714	96,433
Other long-term assets	(14,707) (1)	81,348
Total assets	$(427)	$1,061,957
Liabilities and shareholders' equity		
Short-term borrowings	$ --	$33,686
Current portion of long-term debt and capital leases	1,429	3,018
Accounts payable	2,635	86,716
Other current liabilities	2,265	126,992
Total current liabilities	6,329	250,412
Long-term debt and capital leases	6,685	231,652
Deferred income taxes	--	20,143
Other long-term liabilities	141	41,462
Shareholders' equity (deficit)	(13,582)	518,288
Total liabilities and shareholders' equity	$(427)	$1,061,957

(1) Reflects the elimination of intercompany accounts and notes receivable.

(Unaudited, amounts	Second Quarter Ended 10/23/04	Six Months Ended 10/23/04

in thousands)	VIEs	Consolidated	VIEs	Consolidated
Sales	$9,654 (2)	$533,670	$23,295 (2)	$1,000,041
Cost of sales				
Cost of goods sold	(266) (2)	410,404	676 (2)	770,553
Restructuring	--	749	--	11,149
Total cost of sales	(266)	411,153	676	781,702
Gross profit	9,920	122,517	22,619	218,339
Selling, general and administrative	12,712	106,399	27,388	206,064
Operating income (loss)	(2,792)	16,118	(4,769)	12,275
Interest expense	69	2,607	236	4,816
Other income (expense), net	(1,093) (3)	(353)	(2,387) (3)	17
Pre-tax income (loss)	(3,954)	13,158	(7,392)	7,476
Income tax expense (benefit)	(1,503)	5,000	(2,809)	2,841
Income (loss) before extraordinary item	(2,451)	8,158	(4,583)	4,635
Extraordinary gain, net of income taxes of $430	--	702	--	702
Net income (loss)	$(2,451)	$8,860	$(4,583)	$5,337

(2) Reflects the elimination of intercompany sales and cost of sales.

(3) Incorporates the elimination of intercompany interest income and interest expense.

La-Z-Boy Furniture Galleries(R) stores that are not operated by us are operated by independent dealers. These stores sell La-Z-Boy manufactured product as well as various accessories purchased from approved La-Z-Boy vendors. In some cases we have extended credit beyond normal trade terms to the independent dealers, made direct loans and/or guaranteed certain loans or leases. Most of these independent dealers have sufficient equity to carry out their principal operating activities without subordinated financial support, however, there are certain independent dealers that we have determined may not have sufficient equity. Based on the criteria for consolidation of VIEs, we have determined that several dealers are VIEs of which, under FIN 46, we are deemed the primary beneficiary. The operating results of the consolidated VIEs negatively impacted our diluted earnings per share by $0.05 and $0.09 for the second quarter and first six months of fiscal 2005, respectively. Additionally, there are certain independent dealers that qualify as VIEs; however, we are not the primary beneficiary. Our interest in these dealers is comprised of accounts and notes receivable of $17.5 million. The extraordinary gain of $1.1 million ($0.7 million net of income taxes), is a result of the application of purchase accounting relating to the acquisition of a previously consolidated VIE.

In prior years, we have evaluated the collectibility of our trade accounts receivable from our independent dealers and we have provided an appropriate reserve relating to the collectibility of our receivables with these dealers or the contingent payout under any guarantees. There are no VIEs consolidated in our fiscal 2004 second quarter financial statements. The table above shows the impact of this standard on our consolidated balance sheet and statement of income as of October 23, 2004. The amounts reflected in the table include the elimination of related payables, receivables, sales, cost of sales, and interest as well as profit in inventory.

SOURCE La-Z-Boy Incorporated

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