UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended October 23, 2021

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______ to ______

COMMISSION FILE NUMBER 1-9656

LA-Z-BOY INCORPORATED
(Exact name of registrant as specified in its charter)

Michigan	38-0751137
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One La-Z-Boy Drive, Monroe, Michigan	48162-5138
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (734) 242-1444

None

(Former name, former address and former fiscal year, if changed since last report.)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $1.00 Par Value	LZB	New York Stock Exchange

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files).

Yes ☒ No ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date:

Class	Outstanding at November 9, 2021
Common Stock, $1.00 Par Value	43,905,858

LA-Z-BOY INCORPORATED
FORM 10-Q SECOND QUARTER OF FISCAL 2022
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PART I - FINANCIAL INFORMATION (UNAUDITED)

ITEM 1. FINANCIAL STATEMENTS

LA-Z-BOY INCORPORATED
CONSOLIDATED STATEMENT OF INCOME

	Quarter Ended		Six Months Ended	
(Unaudited, amounts in thousands, except per share data)	10/23/2021	10/24/2020	10/23/2021	10/24/2020
Sales	$ 575,889	$ 459,120	$ 1,100,672	$ 744,578
Cost of sales	352,594	258,565	675,295	427,660
Gross profit	223,295	200,555	425,377	316,918
Selling, general and administrative expense	169,182	152,616	336,893	264,654
Operating income	54,113	47,939	88,484	52,264
Interest expense	(242)	(346)	(553)	(805)
Interest income	106	123	223	617
Other income (expense), net	1,031	(11)	938	1,463
Income before income taxes	55,008	47,705	89,092	53,539
Income tax expense	14,650	12,401	23,468	13,556
Net income	40,358	35,304	65,624	39,983
Net income attributable to noncontrolling interests	(842)	(369)	(1,542)	(250)
Net income attributable to La-Z-Boy Incorporated	$ 39,516	$ 34,935	$ 64,082	$ 39,733
Basic weighted average common shares	44,251	46,023	44,662	45,966
Basic net income attributable to La-Z-Boy Incorporated per share	$ 0.89	$ 0.76	$ 1.43	$ 0.86
Diluted weighted average common shares	44,423	46,323	44,915	46,167
Diluted net income attributable to La-Z-Boy Incorporated per share	$ 0.89	$ 0.75	$ 1.43	$ 0.86

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

LA-Z-BOY INCORPORATED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Quarter Ended		Six Months Ended	
(Unaudited, amounts in thousands)	10/23/2021	10/24/2020	10/23/2021	10/24/2020
Net income	$ 40,358	$ 35,304	$ 65,624	$ 39,983
Other comprehensive income (loss)				
Currency translation adjustment	(9)	1,354	(1,251)	3,465
Net unrealized gain (loss) on marketable securities, net of tax	(498)	(65)	(50)	(23)
Net pension amortization, net of tax	57	65	119	130
Total other comprehensive income (loss)	(450)	1,354	(1,182)	3,572
Total comprehensive income before allocation to noncontrolling interests	39,908	36,658	64,442	43,555
Comprehensive income attributable to noncontrolling interests	(722)	(448)	(992)	(827)
Comprehensive income attributable to La-Z-Boy Incorporated	$ 39,186	$ 36,210	$ 63,450	$ 42,728

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

LA-Z-BOY INCORPORATED
CONSOLIDATED BALANCE SHEET

(Unaudited, amounts in thousands, except par value)	10/23/2021	4/24/2021
Current assets		
Cash and equivalents	$ 293,341	$ 391,213
Restricted cash	3,266	3,490
Receivables, net of allowance of $3,016 at 10/23/2021 and $4,011 at 4/24/2021	173,998	139,341
Inventories, net	285,770	226,137
Other current assets	208,793	165,979
Total current assets	965,168	926,160
Property, plant and equipment, net	237,518	219,194
Goodwill	180,108	175,814
Other intangible assets, net	30,738	30,431
Deferred income taxes – long-term	11,727	11,915
Right of use lease assets	341,363	343,800
Other long-term assets, net	85,472	79,008
Total assets	$ 1,852,094	$ 1,786,322
Current liabilities		
Accounts payable	$ 119,971	$ 94,152
Lease liabilities, current	67,859	67,614
Accrued expenses and other current liabilities	492,710	449,904
Total current liabilities	680,540	611,670
Lease liabilities, long-term	294,252	295,023
Other long-term liabilities	91,620	97,483
Shareholders' equity		
Preferred shares – 5,000 authorized; none issued	—	—
Common shares, $1.00 par value – 150,000 authorized; 44,200 outstanding at 10/23/21 and 45,361 outstanding at 4/24/21	44,200	45,361
Capital in excess of par value	336,920	330,648
Retained earnings	398,335	399,010
Accumulated other comprehensive loss	(2,153)	(1,521)
Total La-Z-Boy Incorporated shareholders' equity	777,302	773,498
Noncontrolling interests	8,380	8,648
Total equity	785,682	782,146
Total liabilities and equity	$ 1,852,094	$ 1,786,322

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

LA-Z-BOY INCORPORATED
CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited, amounts in thousands)	Six Months Ended 10/23/2021	Six Months Ended 10/24/2020
Cash flows from operating activities		
Net income	$ 65,624	$ 39,983
Adjustments to reconcile net income to cash provided by operating activities		
(Gain)/loss on disposal of assets	(3,151)	140
Gain on sale of investments	(218)	(284)
Provision for doubtful accounts	(944)	(1,568)
Depreciation and amortization	17,785	16,351
Amortization of right-of-use lease assets	34,368	35,137
Equity-based compensation expense	6,354	6,167
Change in deferred taxes	170	1,849
Change in receivables	(33,937)	(28,949)
Change in inventories	(59,336)	(3,511)
Change in other assets	(20,666)	(1,926)
Change in payables	22,683	33,236
Change in lease liabilities	(34,598)	(32,422)
Change in other liabilities	21,300	131,507
Net cash provided by operating activities	15,434	195,710
Cash flows from investing activities		
Proceeds from disposals of assets	3,998	21
Capital expenditures	(33,314)	(15,442)
Purchases of investments	(21,426)	(17,649)
Proceeds from sales of investments	22,666	19,470
Acquisitions	(4,396)	(2,000)
Net cash used for investing activities	(32,472)	(15,600)
Cash flows from financing activities		
Payments on debt and finance lease liabilities	(60)	(75,013)
Holdback payments for acquisition purchases	(13,500)	(5,783)
Stock issued for stock and employee benefit plans, net of shares withheld for taxes	(1,870)	364
Repurchases of common stock	(50,640)	—
Dividends paid to shareholders	(13,398)	(3,216)
Dividends paid to minority interest joint venture partners (1)	(1,260)	(8,507)
Net cash used for financing activities	(80,728)	(92,155)
Effect of exchange rate changes on cash and equivalents	(330)	1,944
Change in cash, cash equivalents and restricted cash	(98,096)	89,899
Cash, cash equivalents and restricted cash at beginning of period	394,703	263,528
Cash, cash equivalents and restricted cash at end of period	$ 296,607	$ 353,427
Supplemental disclosure of non-cash investing activities		
Capital expenditures included in payables	$ 7,900	$ 3,769

(1) Includes dividends paid to joint venture minority partners resulting from the repatriation of dividends from our foreign earnings that we no longer consider permanently reinvested.

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

LA-Z-BOY INCORPORATED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited, amounts in thousands)	Common Shares	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Non-Controlling Interests	Total
At April 24, 2021	$ 45,361	$ 330,648	$ 399,010	$ (1,521)	$ 8,648	$ 782,146
Net income	—	—	24,566	—	700	25,266
Other comprehensive loss	—	—	—	(302)	(430)	(732)
Stock issued for stock and employee benefit plans, net of cancellations and withholding tax	181	291	(2,700)	—	—	(2,228)
Repurchases of 919 shares of common stock	(919)	(530)	(34,191)	—	—	(35,640)
Stock option and restricted stock expense	—	2,460	—	—	—	2,460
Dividends declared and paid ($0.15/share)	—	—	(6,777)	—	—	(6,777)
Dividends declared not paid ($0.15/share)	—	—	(46)	—	—	(46)
At July 24, 2021	$ 44,623	$ 332,869	$ 379,862	$ (1,823)	$ 8,918	$ 764,449
Net income	—	—	39,516	—	842	40,358
Other comprehensive loss	—	—	—	(330)	(120)	(450)
Stock issued for stock and employee benefit plans, net of cancellations and withholding tax	11	353	(6)	—	—	358
Repurchases of 434 shares of common stock	(434)	(196)	(14,370)	—	—	(15,000)
Stock option and restricted stock expense	—	3,894	—	—	—	3,894
Dividends declared and paid ($0.15/share) (1)	—	—	(6,621)	—	(1,260)	(7,881)
Dividends declared not paid ($0.15/share)	—	—	(46)	—	—	(46)
At October 23, 2021	$ 44,200	$ 336,920	$ 398,335	$ (2,153)	$ 8,380	$ 785,682

(1) Non-controlling interests include dividends paid to joint venture minority partners resulting from the repatriation of dividends from our foreign earnings that we no longer consider permanently reinvested.

(Unaudited, amounts in thousands)	Common Shares	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interests	Total
At April 25, 2020	$ 45,857	$ 318,215	$ 343,633	$ (6,952)	$ 15,553	$ 716,306
Net income (loss)	—	—	4,798	—	(119)	4,679
Other comprehensive income	—	—	—	1,720	498	2,218
Stock issued for stock and employee benefit plans, net of cancellations and withholding tax	132	(195)	(1,686)	—	—	(1,749)
Stock option and restricted stock expense	—	2,047	—	—	—	2,047
Dividends declared and paid (1)	—	—	5	—	(8,507)	(8,502)
At July 25, 2020	$ 45,989	$ 320,067	$ 346,750	$ (5,232)	$ 7,425	$ 714,999
Net income	—	—	34,935	—	369	35,304
Other comprehensive income	—	—	—	1,275	79	1,354
Stock issued for stock and employee benefit plans, net of cancellations and withholding tax	124	1,995	(6)	—	—	2,113
Stock option and restricted stock expense	—	4,120	—	—	—	4,120
Dividends declared and paid ($0.07/share)	—	—	(3,221)	—	—	(3,221)
Dividends declared not paid ($0.07/share)	—	—	(20)	—	—	(20)
At October 24, 2020	$ 46,113	$ 326,182	$ 378,438	$ (3,957)	$ 7,873	$ 754,649

(1) No dividends to shareholders were declared or paid during the first quarter of fiscal 2021; amount includes dividends forfeited from restricted stock awards previously granted. Non-controlling interests include dividends paid to joint venture minority partners resulting from the repatriation of dividends from our foreign earnings that we no longer consider permanently reinvested.

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

LA-Z-BOY INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1: Basis of Presentation

The accompanying consolidated financial statements include the consolidated accounts of La-Z-Boy Incorporated and our majority-owned subsidiaries (collectively, the "Company"). We derived the April 24, 2021 balance sheet from our audited financial statements. We prepared the interim financial information in conformity with generally accepted accounting principles, which we applied on a basis consistent with those reflected in our fiscal 2021 Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC"), but the information does not include all of the disclosures required by generally accepted accounting principles. In management's opinion, the interim financial information includes all adjustments and accruals, consisting only of normal recurring adjustments (except as otherwise disclosed), that are necessary for a fair statement of results for the respective interim periods. The interim results reflected in the accompanying financial statements are not necessarily indicative of the results of operations that will occur for the full fiscal year ending April 30, 2022.

At October 23, 2021, we owned preferred shares and warrants to purchase common shares of two privately-held companies, both of which are variable interest entities. We have not consolidated their results in our financial statements because we do not have the power to direct those activities that most significantly impact their economic performance and, therefore, are not the primary beneficiary.

Accounting pronouncements adopted in fiscal 2022

The following table summarizes Accounting Standards Updates ("ASUs") which were adopted in fiscal 2022, but did not have a material impact on our accounting policies or our consolidated financial statements and related disclosures.

ASU	Description
ASU 2018-14	Compensation – Retirement benefits – Defined Benefit Plans – General (Subtopic 715-20): Changes to the Disclosure Requirements for Defined Benefit Plans
ASU 2019-12	Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes
ASU 2020-01	Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815

Accounting pronouncements not yet adopted

The following table summarizes additional accounting pronouncements which we have not yet adopted, but we believe will not have a material impact on our accounting policies or our consolidated financial statements and related disclosures.

ASU	Description	Adoption Date
ASU 2021-08	Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities From Contracts With Customers	Fiscal 2024

Note 2: Acquisitions

On August 16, 2021, we completed our asset acquisition of the Long Island, New York business that operates three independently owned La-Z-Boy Furniture Galleries® stores for $4.5 million, subject to customary adjustments. In the second quarter of fiscal 2022, we paid $4.4 million of cash for the purchase of the Long Island, New York stores and assets. This acquisition is a core part of one of our strategic priorities, which is to grow our company-owned retail business and leverage our integrated retail model (where we earn a combined profit on both the wholesale and retail sales) where the model makes sense geographically, alongside of the La-Z-Boy Furniture Galleries® network.

Prior to this acquisition, we licensed to the counterparty the exclusive right to own and operate La-Z-Boy Furniture Galleries® stores (and to use the associated trademarks and trade name) in the Long Island, New York market, and we reacquired these rights when we consummated the transaction. The reacquired rights are indefinite-lived because our Retailer Agreements are perpetual agreements that have no specific expiration date and no renewal options. The effective settlement of these arrangements resulted in no settlement gain or loss as the contractual terms were at market. We recorded an indefinite-lived intangible asset of $0.8 million related to these reacquired rights. We also recognized $4.4 million of goodwill in our Retail segment related primarily to synergies we expect from the integration of the acquired stores and future benefits of these synergies. For federal income tax purposes, we will amortize and appropriately deduct all of the indefinite-lived intangible assets and goodwill assets over 15 years.

The acquisition of the Long Island, New York business was not significant to our consolidated financial statements, and, therefore, pro-forma financial information is not presented. All of our provisional purchase accounting estimates for this acquisition are based on the information and data available to us as of the time of the issuance of these financial statements, and in accordance with Accounting Standard Codification Topic 805-10-25-15, are subject to change within the first 12 months of acquisition as we gain additional data.

Prior Year Acquisitions

On September 14, 2020, we completed our asset acquisition of the Seattle, Washington business that operates six independently owned La-Z-Boy Furniture Galleries® stores and one warehouse for $13.5 million, subject to customary adjustments. In the second quarter of fiscal 2021, a $2.0 million cash payment was made for the purchase with future guaranteed payments of $9.4 million to be paid over 36 months or fewer, with timing of payments dependent upon the achievement of sales thresholds defined in the purchase agreement. This acquisition is a core part of one of our strategic priorities, which is to grow our company-owned retail business and leverage our integrated retail model (where we earn a combined profit on both the wholesale and retail sales) where the model makes sense geographically, alongside of the La-Z-Boy Furniture Galleries® network.

Prior to this acquisition, we licensed to the counterparty the exclusive right to own and operate La-Z-Boy Furniture Galleries® stores (and to use the associated trademarks and trade name) in the Seattle, Washington market, and we reacquired these rights when we consummated the transaction. The reacquired rights are indefinite-lived because our Retailer Agreements are perpetual agreements that have no specific expiration date and no renewal options. The effective settlement of these arrangements resulted in no settlement gain or loss as the contractual terms were at market. We recorded an indefinite-lived intangible asset of $2.2 million related to these reacquired rights. We also recognized $12.9 million of goodwill in our Retail segment related primarily to synergies we expect from the integration of the acquired stores and future benefits of these synergies. For federal income tax purposes, we will amortize and appropriately deduct all of the indefinite-lived intangible assets and goodwill assets over 15 years.

The acquisition of the Seattle, Washington business was not significant to our consolidated financial statements, and, therefore, pro-forma financial information is not presented.

Post-Quarter End Acquisition

On October 25, 2021 we completed the acquisition of Furnico Furniture Ltd ("Furnico"), an upholstery manufacturing business in the U.K for approximately $11.5 million. Furnico also operates a wholesale business, selling white label products to key U.K. retailers. With this acquisition, we expect to realize production synergies, cost savings through materials procurement, and increases in production capacity for the La-Z-Boy product.

Comparability

During fiscal 2021, we determined that holdback payments for acquisition purchases of $5.8 million included in net cash used by investing activities should have been included in net cash used by financing activities for the first six months of fiscal 2021. Although the amount impacting payments for acquisitions was not material to the fiscal 2021 consolidated financial statements, the classification of these amounts has been corrected by revising the consolidated statements of cash flows for the six months ended October 24, 2020.

Note 3: Cash and Restricted Cash

We have restricted cash on deposit with a bank as collateral for certain letters of credit. All our letters of credit have maturity dates within the next twelve months, but we expect to renew some of these letters of credit when they mature.

(Unaudited, amounts in thousands)	10/23/2021	10/24/2020
Cash and cash equivalents	$ 293,341	$ 350,949
Restricted cash	3,266	2,478
Total cash, cash equivalents and restricted cash	$ 296,607	$ 353,427

Note 4: Inventories

A summary of inventories is as follows:

(Unaudited, amounts in thousands)	10/23/2021	4/24/2021
Raw materials	$ 159,079	$ 112,371
Work in process	34,665	24,791
Finished goods	133,471	121,182
FIFO inventories	327,215	258,344
Excess of FIFO over LIFO	(41,445)	(32,207)
Total inventories	$ 285,770	$ 226,137

Note 5: Goodwill and Other Intangible Assets

We have goodwill on our consolidated balance sheet as follows:

Reportable Segment/Unit	Reporting Unit	Related Acquisition
Wholesale Segment	La-Z-Boy United Kingdom	Wholesale business in the United Kingdom and Ireland
Retail Segment	Retail	La-Z-Boy Furniture Galleries® stores
Corporate & Other	Joybird	Joybird

The following table summarizes changes in the carrying amount of our goodwill by reportable segment:

(Unaudited, amounts in thousands)	Wholesale Segment	Retail Segment	Corporate and Other	Total Goodwill
Balance at April 24, 2021	$ 13,052	$ 107,316	$ 55,446	$ 175,814
Acquisitions	—	4,374	—	4,374
Translation adjustment	(114)	34	—	(80)
Balance at October 23, 2021	$ 12,938	$ 111,724	$ 55,446	$ 180,108

We have intangible assets on our consolidated balance sheet as follows:

Reportable Segment/Unit	Intangible Asset	Useful Life
Wholesale Segment	Primarily acquired customer relationships from our acquisition of the wholesale business in the United Kingdom and Ireland	Amortizable over useful lives that do not exceed 15 years
Wholesale Segment	American Drew® trade name	Indefinite-lived
Retail Segment	Reacquired rights to own and operate La-Z-Boy Furniture Galleries® stores	Indefinite-lived
Corporate & Other	Joybird® trade name	Amortizable over eight-year useful life

The following summarizes changes in our intangible assets:

(Unaudited, amounts in thousands)	Indefinite-Lived Trade Names	Finite-Lived Trade Name	Indefinite-Lived Reacquired Rights	Other Intangible Assets	Total Other Intangible Assets
Balance at April 24, 2021	$ 1,155	$ 4,205	$ 22,507	$ 2,564	$ 30,431
Acquisitions	—	—	822	—	822
Amortization	—	(399)	—	(120)	(519)
Translation adjustment	—	—	25	(21)	4
Balance at October 23, 2021	$ 1,155	$ 3,806	$ 23,354	$ 2,423	$ 30,738

We test indefinite-lived intangibles and goodwill for impairment on an annual basis in the fourth quarter of each fiscal year, and more frequently if events or changes in circumstances indicate that an asset might be impaired. We test amortizable intangible assets for impairment if events or changes in circumstances indicate that the assets might be impaired.

Note 6: Investments

We have current and long-term investments intended to enhance returns on our cash as well as to fund future obligations of our non-qualified defined benefit retirement plan, our executive deferred compensation plan, and our performance compensation retirement plan. We also hold other investments consisting of cost-basis preferred shares of two privately-held start-up companies (refer to Note 16, Fair Value Measurements). Our short-term investments are included in other current assets and our long-term investments are included in other long-term assets on our consolidated balance sheet.

The following summarizes our investments:

(Unaudited, amounts in thousands)	10/23/2021	4/24/2021
Short-term investments:		
Marketable securities	$ 16,512	$ 18,037
Held-to-maturity investments	1,371	2,532
Total short-term investments	17,883	20,569
Long-term investments:		
Marketable securities	29,079	27,256
Cost basis investments	7,579	7,579
Total long-term investments	36,658	34,835
Total investments	$ 54,541	$ 55,404
Investments to enhance returns on cash	$ 31,029	$ 32,475
Investments to fund compensation/retirement plans	15,933	15,350
Other investments	7,579	7,579
Total investments	$ 54,541	$ 55,404

The following is a summary of the unrealized gains, unrealized losses, and fair value by investment type:

	10/23/2021			4/24/2021		
(Unaudited, amounts in thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity securities	$ 3,096	$ (1)	$ 15,094	$ 2,798	$ (5)	$ 14,954
Fixed income	124	(83)	35,057	136	(29)	35,631
Other	1,180	—	4,390	559	—	4,819
Total securities	$ 4,400	$ (84)	$ 54,541	$ 3,493	$ (34)	$ 55,404

The following table summarizes sales of marketable securities:

	Quarter Ended		Six Months Ended	
(Unaudited, amounts in thousands)	10/23/2021	10/24/2020	10/23/2021	10/24/2020
Proceeds from sales	$ 11,938	$ 3,292	$ 21,653	$ 17,017
Gross realized gains	287	184	554	310
Gross realized losses	(325)	(8)	(336)	(26)

The following is a summary of the fair value of fixed income marketable securities, classified as available-for-sale securities, by contractual maturity:

(Unaudited, amounts in thousands)		10/23/2021
Within one year	$	16,777
Within two to five years		15,668
Within six to ten years		975
Thereafter		1,637
Total	$	35,057

Note 7: Accrued Expenses and Other Current Liabilities

(Unaudited, amounts in thousands)		10/23/2021		4/24/2021
Payroll and other compensation	$	53,696	$	62,546
Accrued product warranty, current portion		15,139		14,447
Customer deposits		194,015		180,766
Deferred revenue		135,542		108,460
Other current liabilities		94,318		83,685
Accrued expenses and other current liabilities	$	492,710	$	449,904

Note 8: Product Warranties

We accrue an estimated liability for product warranties when we recognize revenue on the sale of warrantied products. We estimate future warranty claims on product sales based on our historical claims experience and periodically adjust the provision to reflect changes in actual experience. We incorporate repair costs into our liability estimates, including materials, labor and overhead amounts necessary to perform repairs, and any costs associated with delivering repaired product to our customers. Over 90% of our warranty liability relates to our Wholesale reportable segment as we generally warrant our products against defects for one year on fabric and leather, from one to ten years on cushions and padding, and provide a limited lifetime warranty on certain mechanisms and frames. Our Wholesale segment warranties cover labor costs relating to our parts for one year. We provide a limited lifetime warranty against defects on a majority of Joybird products, which are a part of our Corporate and Other results. For all our manufacturer warranties, the warranty period begins when the consumer receives our product. We use considerable judgment in making our estimates, and we record differences between our actual and estimated costs when the differences are known.

A reconciliation of the changes in our product warranty liability is as follows:

	Quarter Ended				Six Months Ended			
(Unaudited, amounts in thousands)		10/23/2021		10/24/2020		10/23/2021 (1)		10/24/2020
Balance as of the beginning of the period	$	24,433	$	23,123	$	23,636	$	23,255
Accruals during the period		6,673		5,306		13,887		9,134
Settlements during the period		(6,038)		(5,491)		(12,455)		(9,451)
Balance as of the end of the period	$	25,068	$	22,938	$	25,068	$	22,938

(1) $15.1 million and $14.4 million is recorded in accrued expenses and other current liabilities as of October 23, 2021 and April 24, 2021, respectively, while the remainder is included in other long-term liabilities.

We recorded accruals during the periods presented in the table above, primarily to reflect charges that relate to warranties issued during the respective periods.

Note 9: Debt

On October 15, 2021, we entered into a new five-year $200.0 million unsecured revolving credit facility (the “Credit Facility”). Borrowings under the Credit Facility may be used by the Company for general corporate purposes and working capital. We may increase the size of the facility, either in the form of additional revolving commitments or new term loans, subject to the discretion of each lender to participate in such increase, up to an additional amount of $100.0 million. The Credit Facility will mature on October 15, 2026 and provides us the ability to extend the maturity date for two additional one-year periods, subject to customary conditions. As of October 23, 2021, we have no borrowings outstanding under the Credit Facility.

The Credit Facility contains certain restrictive loan covenants, including, among others, financial covenants requiring a maximum consolidated net lease adjusted leverage ratio and a minimum consolidated fixed charge coverage ratio, as well as customary covenants limiting our ability to incur indebtedness, grant liens, make acquisitions, merge or consolidate, and dispose of assets. As of October 23, 2021, we were in compliance with our financial covenants under the Credit Facility.

The Credit Facility replaces our previous $150.0 million revolving credit facility, which had been secured primarily by all of our accounts receivable, inventory, cash deposits, and securities accounts. The previous revolving credit facility was terminated on October 15, 2021, and is no longer in effect.

Note 10: Stock-Based Compensation

The table below summarizes the total stock-based compensation expense we recognized for all outstanding grants in our consolidated statement of income:

	Quarter Ended		Six Months Ended	
(Unaudited, amounts in thousands)	10/23/2021	10/24/2020	10/23/2021	10/24/2020
Equity-based awards expense	$ 3,894	$ 4,120	$ 6,354	$ 6,167
Liability-based awards expense (1)	61	754	(623)	1,338
Total stock-based compensation expense	$ 3,955	$ 4,874	$ 5,731	$ 7,505

(1) Liability-based awards are comprised primarily of deferred stock units granted to non-employee directors. Compensation expense for these awards is based on the market price of our common stock on the grant date and is remeasured each reporting period based on the market value of our common shares on the last day of the reported period.

Stock Options. We granted 252,996 stock options to employees during the first quarter of fiscal 2022 and we have stock options outstanding from previous grants. We account for stock options as equity-based awards because when they are exercised, they will be settled in common shares. We recognize compensation expense for stock options over the vesting period equal to the fair value on the date our Compensation Committee approved the awards. The vesting period for our stock options ranges from one to four years, with accelerated vesting upon retirement. The vesting date for retirement-eligible employees is the later of the date they meet the criteria for retirement or the end of the fiscal year in which the grant was made. We accelerate the expense for options granted to retirement-eligible employees over the vesting period, with expense recognized from the grant date through their retirement eligibility date or over the ten months following the grant date, whichever period is longer. We have elected to recognize forfeitures as an adjustment to compensation expense in the same period as the forfeitures occur.

We estimate the fair value of the employee stock options at the date of grant using the Black-Scholes option-pricing model, which requires management to make certain assumptions. The fair value of stock options granted during the first quarter of fiscal 2022 was calculated using the following assumptions:

(Unaudited)	Fiscal 2022 grant	Assumption
Risk-free interest rate	0.82 %	U.S. Treasury issues with term equal to expected life at grant date
Dividend rate	1.58 %	Estimated future dividend rate and common share price at grant date
Expected life	5.0 years	Contractual term of stock option and expected employee exercise trends
Stock price volatility	42.16 %	Historical volatility of our common shares
Fair value per option	$ 12.29	

Restricted Stock. We granted 114,963 shares of restricted stock to employees during the first six months of fiscal 2022. We issue restricted stock at no cost to the employees, and the shares are held in an escrow account until the vesting period ends. If a recipient's employment ends during the escrow period (other than through death or disability), the shares are returned at no cost to the Company. We account for restricted stock awards as equity-based awards because when they vest, they will be settled in common shares. The weighted-average fair value of the restricted stock that was awarded in the first six months of fiscal 2022 was $38.43 per share, the market value of our common shares on the date of grant. We have elected to recognize forfeitures as an adjustment to compensation expense in the same period as the forfeitures occur. We recognize compensation expense for restricted stock over the vesting period equal to the fair value on the date our Compensation Committee approved the awards. Restricted stock awards vest at 25% per year, beginning one year from the grant date over a term of four years.

Restricted Stock Units. During the second quarter of fiscal 2022, we granted 29,910 restricted stock units to our non-employee directors. These restricted stock units vest when the director leaves the board. We account for these restricted stock units as equity-based awards because when they vest, they will be settled in shares of our common stock. We measure and recognize compensation expense for these awards based on the market price of our common shares on the date of the grant, which was $35.11.

Performance Shares. During the first quarter of fiscal 2022, we granted 125,021 performance-based shares. We also have performance-based share awards outstanding from previous grants. Payout of the fiscal 2022 grant depends on our financial performance (50%) and a market-based condition based on the total return our shareholders receive on their investment in our stock relative to returns earned through investments in other public companies (50%). The performance share opportunity ranges from 50% of the employee's target award if minimum performance requirements are met to a maximum of 200% of the target award based on the attainment of certain financial and shareholder-return goals over a specific performance period, which is generally three fiscal years. Grants of performance-based shares during fiscal 2021 were weighted the same as those granted during fiscal 2022 while grants of performance-based shares during fiscal 2020 were weighted (80%) on financial performance and (20%) on market-based conditions.

We account for performance-based shares as equity-based awards because when they vest, they will be settled in common shares. We have elected to recognize forfeitures as an adjustment to compensation expense in the same period as the forfeitures occur. For shares that vest based on our results relative to the performance goals, we expense as compensation cost the fair value of the shares as of the day we granted the awards recognized over the performance period, taking into account the probability that we will satisfy the performance goals. The fair value of each share of the awards we granted in fiscal 2022 that vest based on attaining performance goals was $36.13, the market value of our common shares on the date we granted the awards less the dividends we expect to pay before the shares vest. For shares that vest based on market conditions, we use a Monte Carlo valuation model to estimate each share's fair value as of the date of grant. The Monte Carlo valuation model uses multiple simulations to evaluate our probability of achieving various stock price levels to determine our expected performance ranking relative to our peer group. For shares that vest based on market conditions, we expense compensation cost over the vesting period regardless of whether the market condition is ultimately satisfied. Based on the Monte Carlo model, the fair value as of the grant date of the fiscal 2022 grant of shares that vest based on market conditions was $51.85.

Note 11: Accumulated Other Comprehensive Income (Loss)

The activity in accumulated other comprehensive income (loss) for the quarters ended October 23, 2021, and October 24, 2020, is as follows:

(Unaudited, amounts in thousands)	**Translation adjustment**	**Unrealized gain (loss) on marketable securities**	**Net pension amortization and net actuarial loss**	**Accumulated other comprehensive income (loss)**
Balance at July 24, 2021	$ 2,229	$ 818	$ (4,870)	$ (1,823)
Changes before reclassifications	111	(660)	—	(549)
Amounts reclassified to net income	—	(2)	75	73
Tax effect	—	164	(18)	146
Other comprehensive income (loss) attributable to La-Z-Boy Incorporated	111	(498)	57	(330)
Balance at October 23, 2021	$ 2,340	$ 320	$ (4,813)	$ (2,153)
Balance at July 25, 2020	$ (278)	$ 491	$ (5,445)	$ (5,232)
Changes before reclassifications	1,275	(61)	—	1,214
Amounts reclassified to net income	—	(25)	86	61
Tax effect	—	21	(21)	—
Other comprehensive income (loss) attributable to La-Z-Boy Incorporated	1,275	(65)	65	1,275
Balance at October 24, 2020	$ 997	$ 426	$ (5,380)	$ (3,957)

The activity in accumulated other comprehensive income (loss) for the six months ended October 23, 2021 and October 24, 2020, is as follows:

(Unaudited, amounts in thousands)	Translation adjustment	Unrealized gain (loss) on marketable securities	Net pension amortization and net actuarial loss	Accumulated other comprehensive income (loss)
Balance at April 24, 2021	$ 3,041	$ 370	$ (4,932)	$ (1,521)
Changes before reclassifications	(701)	(69)	—	(770)
Amounts reclassified to net income	—	2	150	152
Tax effect	—	17	(31)	(14)
Other comprehensive income (loss) attributable to La-Z-Boy Incorporated	(701)	(50)	119	(632)
Balance at October 23, 2021	$ 2,340	$ 320	$ (4,813)	$ (2,153)
Balance at April 25, 2020	$ (1,891)	$ 449	$ (5,510)	$ (6,952)
Changes before reclassifications	2,888	16	—	2,904
Amounts reclassified to net income	—	(47)	173	126
Tax effect	—	8	(43)	(35)
Other comprehensive income (loss) attributable to La-Z-Boy Incorporated	2,888	(23)	130	2,995
Balance at October 24, 2020	$ 997	$ 426	$ (5,380)	$ (3,957)

We reclassified both the unrealized gain (loss) on marketable securities and the net pension amortization from accumulated other comprehensive loss to net income through other income (expense), net.

The components of non-controlling interest were as follows:

	Quarter Ended		Six Months Ended	
(Unaudited, amounts in thousands)	10/23/2021	10/24/2020	10/23/2021	10/24/2020
Balance as of the beginning of the period	$ 8,918	$ 7,425	$ 8,648	$ 15,553
Net income	842	369	1,542	250
Other comprehensive income (loss)	(120)	79	(550)	577
Dividends distributed to joint venture minority partners	(1,260)	—	(1,260)	(8,507)
Balance as of the end of the period	$ 8,380	$ 7,873	$ 8,380	$ 7,873

Note 12: Revenue Recognition

Our revenue is primarily derived from product sales. We report product sales net of discounts and recognize them when control (rights and obligations associated with the product) passes to the customer. For sales to furniture retailers or distributors, control typically transfers when we ship the product. In cases where we sell directly to the end consumer, control of the product is generally transferred upon delivery.

For shipping and handling activities, we have elected to apply the accounting policy election permitted in ASC 606-10-25-18B, which allows an entity to account for shipping and handling activities as fulfillment activities (rather than as a promised good or service) when the activities are performed even if those activities are performed after the control of the good has been transferred. We expense shipping and handling costs at the time we recognize revenue in accordance with this election.

For sales tax, we have elected to apply the accounting policy election permitted in ASC 606-10-32-2A, which allows an entity to exclude from the measurement of the transaction price all taxes imposed on and concurrent with a specific revenue-producing transaction and collected by the entity from a customer, including sales, use, excise, value-added, and franchise taxes (collectively referred to as sales taxes). This allows us to present revenue net of these certain types of taxes.

We have elected the practical expedient permitted in ASC 606-10-32-18, which allows an entity to recognize the promised amount of consideration without adjusting for the effects of a significant financing component if the contract has a duration of one year or less. As our contracts typically are less than one year in length and do not have significant financing components, we have not adjusted consideration.

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The following table presents our revenue disaggregated by product category and by segment or unit:

(Unaudited, amounts in thousands)	Quarter Ended October 23, 2021 Wholesale	Quarter Ended October 23, 2021 Retail	Quarter Ended October 23, 2021 Corporate and Other	Quarter Ended October 23, 2021 Total	Quarter Ended October 24, 2020 Wholesale	Quarter Ended October 24, 2020 Retail	Quarter Ended October 24, 2020 Corporate and Other	Quarter Ended October 24, 2020 Total
Motion Upholstery Furniture	$ 234,702	$ 109,980	$ 96	$ 344,778	$ 200,448	$ 99,462	$ 162	$ 300,072
Stationary Upholstery Furniture	98,693	44,146	50,272	193,111	92,679	30,980	36,424	160,083
Bedroom Furniture	11,382	1,803	3,602	16,787	8,437	1,323	2,296	12,056
Dining Room Furniture	8,393	3,411	1,107	12,911	6,874	2,799	844	10,517
Occasional Furniture	11,751	6,965	818	19,534	12,541	5,351	806	18,698
Delivery	44,321	6,825	1,765	52,911	31,039	6,135	1,396	38,570
Other (1)	29,850	19,290	(12,647)	36,493	(9,002)	16,225	(8,211)	(988)
Total	$ 439,092	$ 192,420	$ 45,013	$ 676,525	$ 343,016	$ 162,275	$ 33,717	$ 539,008
Eliminations				(100,636)				(79,888)
Consolidated Net Sales				$ 575,889				$ 459,120

(Unaudited, amounts in thousands)	Six Months Ended October 23, 2021 Wholesale	Six Months Ended October 23, 2021 Retail	Six Months Ended October 23, 2021 Corporate and Other	Six Months Ended October 23, 2021 Total	Six Months Ended October 24, 2020 Wholesale	Six Months Ended October 24, 2020 Retail	Six Months Ended October 24, 2020 Corporate and Other	Six Months Ended October 24, 2020 Total
Motion Upholstery Furniture	$ 461,314	$ 212,484	$ 250	$ 674,048	$ 332,712	$ 152,909	$ 223	$ 485,844
Stationary Upholstery Furniture	190,102	86,511	97,619	374,232	150,993	48,635	52,497	252,125
Bedroom Furniture	23,307	3,788	6,850	33,945	15,549	2,418	3,527	21,494
Dining Room Furniture	15,379	6,660	2,207	24,246	11,421	4,617	1,501	17,539
Occasional Furniture	24,350	12,987	1,813	39,150	20,651	8,761	1,535	30,947
Delivery	83,150	13,665	3,532	100,347	50,575	9,035	2,104	61,714
Other (1)	34,989	38,172	(23,624)	49,537	(15,312)	27,037	(10,929)	796
Total	$ 832,591	$ 374,267	$ 88,647	$ 1,295,505	$ 566,589	$ 253,412	$ 50,458	$ 870,459
Eliminations				(194,833)				(125,881)
Consolidated Net Sales				$ 1,100,672				$ 744,578

(1) Primarily includes revenue for advertising, royalties, parts, accessories, after-treatment products, surcharges, discounts and allowances, rebates and other sales incentives.

Motion Upholstery Furniture - Includes gross revenue for upholstered furniture, such as recliners, sofas, loveseats, chairs, sectionals, and modulars that have a mechanism that allows the back of the product to recline or the product's footrest to extend. This gross revenue includes sales to La-Z-Boy Furniture Galleries® stores (including company-owned stores), operators of La-Z-Boy Comfort Studio® locations, England Custom Comfort Center locations, other major dealers, independent retailers, and the end consumer.

Stationary Upholstery Furniture - Includes gross revenue for upholstered furniture, such as sofas, loveseats, chairs, sectionals, modulars, and ottomans that do not have a mechanism. This gross revenue includes sales to La-Z-Boy Furniture Galleries® stores (including company-owned stores), operators of La-Z-Boy Comfort Studio® locations, England Custom Comfort Center locations, other major dealers, independent retailers, and the end consumer.

Bedroom Furniture - Includes gross revenue for casegoods furniture typically found in a bedroom, such as beds, chests, dressers, nightstands and benches. This gross revenue includes sales to La-Z-Boy Furniture Galleries® stores (including company-owned stores), independent retailers, and the end consumer.

Dining Room Furniture - Includes gross revenue for casegoods furniture typically found in a dining room, such as dining tables, dining chairs, storage units and stools. This gross revenue includes sales to La-Z-Boy Furniture Galleries® stores (including company-owned stores), independent retailers, and the end consumer.

Occasional Furniture - Includes gross revenue for casegoods furniture found throughout the home, such as cocktail tables, chairsides, sofa tables, end tables, and entertainment centers. This gross revenue includes sales to La-Z-Boy Furniture Galleries® stores (including company-owned stores), independent retailers, and the end consumer.

Contract Assets and Liabilities. We receive customer deposits from end consumers before we recognize revenue and in some cases we have the unconditional right to collect the remaining portion of the order price before we fulfill our performance obligation, resulting in a contract asset and a corresponding deferred revenue liability. In our consolidated balance sheet, customer deposits and deferred revenue (collectively, the "contract liabilities") are reported in accrued expenses and other current liabilities while contract assets are reported as other current assets. The following table presents our contract assets and liabilities:

(Unaudited, amounts in thousands)	**10/23/2021**	**4/24/2021**
Contract assets	$ 135,542	$ 108,460
Customer deposits	$ 194,015	$ 180,766
Deferred revenue	135,542	108,460
Total contract liabilities (1)	$ 329,557	$ 289,226

(1) During the six months ended October 23, 2021, we recognized revenue of $244.0 million related to our contract liability balance at April 24, 2021.

Note 13: Segment Information

Our reportable operating segments include the Wholesale segment and the Retail segment.

Wholesale Segment. Our Wholesale segment consists primarily of three operating segments: La-Z-Boy, our largest operating segment, our England subsidiary, and our casegoods operating segment that sells furniture under three brands: American Drew®, Hammary® and Kincaid®. The Wholesale segment also includes our international wholesale businesses. We aggregate these operating segments into one reportable segment because they are economically similar and meet the other aggregation criteria for determining reportable segments. Our Wholesale segment manufactures and imports upholstered furniture such as recliners and motion furniture, sofas, loveseats, chairs, sectionals, modulars, ottomans and sleeper sofas and imports casegoods (wood) furniture such as bedroom sets, dining room sets, entertainment centers and occasional pieces. The Wholesale segment sells directly to La-Z-Boy Furniture Galleries® stores, operators of La-Z-Boy Comfort Studio® locations, England Custom Comfort Center locations, major dealers, and a wide cross-section of other independent retailers.

Retail Segment. Our Retail segment consists of one operating segment comprised of our 159 company-owned La-Z-Boy Furniture Galleries® stores. The Retail segment sells primarily upholstered furniture, in addition to some casegoods and other accessories, to end consumers through these stores.

Corporate & Other. Corporate & Other includes the shared costs for corporate functions, including human resources, information technology, finance and legal, in addition to revenue generated through royalty agreements with companies licensed to use the La-Z-Boy® brand name on various products. We consider our corporate functions to be other business activities and have aggregated them with our other insignificant operating segments, including our global trading company in Hong Kong and Joybird, an e-commerce retailer that manufactures upholstered furniture such as sofas, loveseats, chairs, ottomans, sleeper sofas and beds, and also imports casegoods (wood) furniture, such as occasional tables and other accessories. Joybird sells to the end consumer primarily online through its website, www.joybird.com. None of the operating segments included in Corporate & Other meet the requirements of reportable segments.

The following table presents sales and operating income (loss) by segment:

(Unaudited, amounts in thousands)	Quarter Ended 10/23/2021	Quarter Ended 10/24/2020	Six Months Ended 10/23/2021	Six Months Ended 10/24/2020
Sales				
Wholesale segment:				
Sales to external customers	$ 341,823	$ 266,189	$ 645,440	$ 445,944
Intersegment sales	97,269	76,827	187,151	120,645
Wholesale segment sales	439,092	343,016	832,591	566,589
Retail segment sales	192,420	162,275	374,267	253,412
Corporate and Other:				
Sales to external customers	41,646	30,656	80,965	45,222
Intersegment sales	3,367	3,061	7,682	5,236
Corporate and Other sales	45,013	33,717	88,647	50,458
Eliminations	(100,636)	(79,888)	(194,833)	(125,881)
Consolidated sales	$ 575,889	$ 459,120	$ 1,100,672	$ 744,578
Operating Income (Loss)				
Wholesale segment	$ 43,128	$ 41,683	$ 61,459	$ 59,623
Retail segment	23,962	15,093	44,400	8,466
Corporate and Other	(12,977)	(8,837)	(17,375)	(15,825)
Consolidated operating income	54,113	47,939	88,484	52,264
Interest expense	(242)	(346)	(553)	(805)
Interest income	106	123	223	617
Other income (expense), net	1,031	(11)	938	1,463
Income before income taxes	$ 55,008	$ 47,705	$ 89,092	$ 53,539

Note 14: Income Taxes

Our effective tax rate was 26.6% and 26.3% for the second quarter and six months ended October 23, 2021, respectively, compared with 26.0% and 25.3% for the second quarter and six months ended October 24, 2020, respectively. Our effective tax rate varies from the 21% federal statutory rate primarily due to state taxes.

Note 15: Earnings per Share

Certain share-based compensation awards that entitle their holders to receive non-forfeitable dividends prior to vesting are considered participating securities. Prior to fiscal 2019, we granted restricted stock awards that contained non-forfeitable rights to dividends on unvested shares, and we are required to include these participating securities in calculating our basic earnings per common share, using the two-class method. Beginning in fiscal 2019 and going forward, the restricted stock awards we granted do not have non-forfeitable rights to dividends and therefore are not considered participating securities. The dividends on these restricted stock awards are, and will continue to be, held in escrow until the stock awards vest at which time we will pay any accumulated dividends.

The following is a reconciliation of the numerators and denominators we used in our computations of basic and diluted earnings per share:

(Unaudited, amounts in thousands, except per share data)	Quarter Ended 10/23/2021	Quarter Ended 10/24/2020	Six Months Ended 10/23/2021	Six Months Ended 10/24/2020
Numerator (basic and diluted):				
Net income attributable to La-Z-Boy Incorporated	$ 39,516	$ 34,935	$ 64,082	$ 39,733
Income allocated to participating securities	—	(11)	(6)	(22)
Net income available to common Shareholders	$ 39,516	$ 34,924	$ 64,076	$ 39,711
Denominator:				
Basic weighted average common shares outstanding	44,251	46,023	44,662	45,966
Contingent common shares	—	148	—	127
Stock option dilution	172	152	253	74
Diluted weighted average common shares outstanding	44,423	46,323	44,915	46,167
Earnings per Share:				
Basic	$ 0.89	$ 0.76	$ 1.43	$ 0.86
Diluted	$ 0.89	$ 0.75	$ 1.43	$ 0.86

The values for contingent common shares set forth above reflect the dilutive effect of common shares that we would have issued to employees under the terms of performance-based share awards if the relevant performance period for the award had been the reporting period.

We exclude the effect of options from our diluted share calculation when the weighted average exercise price of the options is higher than the average market price, since including the options' effect would be anti-dilutive. For the second quarter and six months ended October 23, 2021, we excluded options to purchase 0.3 million shares from the diluted share calculation. For the second quarter and six months ended October 24, 2020, we excluded 0.3 million and 0.6 million shares, respectively, from the diluted share calculation.

Note 16: Fair Value Measurements

Accounting standards require that we put financial assets and liabilities into one of three categories based on the inputs we use to value them:

- Level 1 — Financial assets and liabilities, the values of which are based on unadjusted quoted market prices for identical assets and liabilities in an active market that we have the ability to access.

- Level 2 — Financial assets and liabilities, the values of which are based on quoted prices in markets that are not active or on model inputs that are observable for substantially the full term of the asset or liability.

- Level 3 — Financial assets and liabilities, the values of which are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

Accounting standards require that in making fair value measurements, we use observable market data when available. When inputs used to measure fair value fall within different levels of the hierarchy, we categorize the fair value measurement as being in the lowest level that is significant to the measurement. We recognize transfers between levels of the fair value hierarchy at the end of the reporting period in which they occur.

In addition to assets and liabilities that we record at fair value on a recurring basis, we are required to record assets and liabilities at fair value on a non-recurring basis. We measure non-financial assets such as other intangible assets, goodwill, and other long-lived assets at fair value when there is an indicator of impairment, and we record them at fair value only when we recognize an impairment loss.

The following table presents the fair value hierarchy for those assets and liabilities we measured at fair value on a recurring basis at October 23, 2021 and April 24, 2021. There were no transfers into or out of Level 1, Level 2, or Level 3 for any of the periods presented.

At October 23, 2021

	Fair Value Measurements				
(Unaudited, amounts in thousands)	**Level 1**	**Level 2**	**Level 3**	**NAV(1)**	**Total**
Assets					
Marketable securities	$ —	$ 37,580	$ —	$ 8,011	$ 45,591
Held-to-maturity investments	1,371	—	—	—	1,371
Cost basis investments	—	—	7,579	—	7,579
Total assets	$ 1,371	$ 37,580	$ 7,579	$ 8,011	$ 54,541
Liabilities					
Contingent consideration liability	$ —	$ —	$ 4,600	$ —	$ 4,600

At April 24, 2021

	Fair Value Measurements				
(Unaudited, amounts in thousands)	**Level 1**	**Level 2**	**Level 3**	**NAV(1)**	**Total**
Assets					
Marketable securities	$ 119	$ 37,572	$ —	$ 7,602	$ 45,293
Held-to-maturity investments	2,532	—	—	—	2,532
Cost basis investment	—	—	7,579	—	7,579
Total assets	$ 2,651	$ 37,572	$ 7,579	$ 7,602	$ 55,404
Liabilities					
Contingent consideration liability	$ —	$ —	$ 14,100	$ —	$ 14,100

(1) Certain marketable securities investments are measured at fair value using net asset value per share under the practical expedient methodology.

At October 23, 2021 and April 24, 2021, we held marketable securities intended to enhance returns on our cash and to fund future obligations of our non-qualified defined benefit retirement plan, as well as marketable securities to fund future obligations of our executive deferred compensation plan and our performance compensation retirement plan. We also held other fixed income and cost basis investments.

The fair value measurements for our Level 1 and Level 2 securities are based on quoted prices in active markets, as well as through broker quotes and independent valuation providers, multiplied by the number of shares owned exclusive of any transaction costs.

At October 23, 2021, our Level 3 assets included non-marketable preferred shares and warrants to purchase common shares of two privately held start-up companies. The fair value for our Level 3 investments is not readily determinable so we estimate the fair value as costs minus impairment, if any, plus or minus adjustments resulting from observable price changes in orderly transactions for identical or similar investments with the same issuer. There were no changes to the fair value of our Level 3 assets during the six months ended October 23, 2021.

Our Level 3 liability includes our contingent consideration liability resulting from the Joybird acquisition. Based on the achievement of fiscal 2021 performance metrics, we paid $10.0 million of contingent consideration during the second quarter of fiscal 2022. The fair value of our contingent consideration liability as of October 23, 2021, reflects our expectation that consideration will be owed under the terms of the earn out agreement based on fiscal 2023 projections of Joybird revenue and earnings. The fair value is determined using a variation of the income approach, known as the real options method, whereby revenue and earnings are simulated over the earnout periods in a risk-neutral framework using Geometric Brownian Motion. For each simulation path, the potential earnout payments were calculated based on management’s probability estimates for achievement of the revenue and earnings milestones and then were discounted to the valuation date using a discount rate of 1.8%. During the second quarter of fiscal 2022, we recognized an increase in the fair value of our contingent consideration liability of $0.5 million based on an updated valuation reflecting our most recent financial projections. There were no other changes to the fair value of our Level 3 liabilities during the six months ended October 23, 2021.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We have prepared this Management’s Discussion and Analysis as an aid to understanding our financial results. It should be read in conjunction with the accompanying Consolidated Financial Statements and related Notes to Consolidated Financial Statements. After a cautionary note regarding forward-looking statements, we begin with an introduction to our key businesses and then provide discussions of our results of operations, liquidity and capital resources, and critical accounting policies.

Cautionary Note Regarding Forward-Looking Statements

La-Z-Boy Incorporated and its subsidiaries (individually and collectively, "we," "our," "us," "La-Z-Boy" or the "Company") make "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. Generally, forward-looking statements include information concerning expectations, projections or trends relating to our results of operations, financial results, financial condition, strategic initiatives and plans, expenses, dividends, share repurchases, liquidity, use of cash and cash requirements, borrowing capacity, investments, future economic performance, business and industry and the effect of the novel coronavirus ("COVID-19") pandemic on our business operations and financial results.

Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements may include words such as "anticipates," "believes," "continues," "estimates," "expects," "feels," "forecasts," "hopes," "intends," "plans," "projects," "likely," "seeks," "short-term," "non-recurring," "one-time," "outlook," "target," "unusual," or words of similar meaning, or future or conditional verbs, such as "will," "should," "could," or "may." A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances may not occur. You should not place undue reliance on forward-looking statements, which speak to our views only as of the date of this report. These forward-looking statements are all based on currently available operating, financial, and competitive information and are subject to various risks and uncertainties, many of which are unforeseeable and beyond our control, such as the continuing and developing impact of, and uncertainty caused by, the COVID-19 pandemic. Additional risks and uncertainties that we do not presently know about or that we currently consider to be immaterial may also affect our business operations and financial performance.

Our actual future results and trends may differ materially from those we anticipate depending on a variety of factors, including, but not limited to, the risks and uncertainties discussed in our Annual Report for the year ended April 24, 2021, under Item 1A, "Risk Factors" and Item 7, "Management’s Discussion and Analysis of Financial Condition and Results of Operations." Given these risks and uncertainties, you should not rely on forward-looking statements as a prediction of actual results. Any or all of the forward-looking statements contained in our Annual Report or any other public statement made by us, including by our management, may turn out to be incorrect. We are including this cautionary note to make applicable and take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for forward-looking statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or for any other reason.

Introduction

Our Business

We are the leading global producer of reclining chairs and the second largest manufacturer/distributor of residential furniture in the United States. The La-Z-Boy Furniture Galleries® stores retail network is the third largest retailer of single-branded furniture in the United States. We manufacture, market, import, export, distribute and retail upholstery furniture products under the La-Z-Boy®, England, Kincaid®, and Joybird® tradenames. In addition, we import, distribute and retail accessories and casegoods (wood) furniture products under the Kincaid®, American Drew®, Hammary®, and Joybird® tradenames.

As of October 23, 2021, our supply chain operations included the following:

- Five major manufacturing locations and seven regional distribution centers in the United States and four facilities in Mexico to support our speed-to-market and customization strategy
- A logistics company that distributes a portion of our products in the United States
- A wholesale sales office that is responsible for distribution of our product in the United Kingdom and Ireland
- A global trading company in Hong Kong which helps us manage our Asian supply chain by establishing and maintaining relationships with our Asian suppliers, as well as identifying efficiencies and savings opportunities

We also participate in two consolidated joint ventures in Thailand that support our international businesses: one that operates a manufacturing facility and another that operates a wholesale sales office. Additionally, we also have contracts with several suppliers in Asia to produce products that support our pure import model for casegoods.

We sell our products through multiple channels: to furniture retailers or distributors in the United States, Canada, and approximately 65 other countries, including the United Kingdom, China, Australia, South Korea and New Zealand, directly to consumers through retail stores that we own and operate, and through our websites, www.la-z-boy.com and www.joybird.com.

- The centerpiece of our retail distribution strategy is our network of 351 La-Z-Boy Furniture Galleries® stores and 560 La-Z-Boy Comfort Studio® locations, each dedicated to marketing our La-Z-Boy branded products. We consider this dedicated space to be "proprietary."

    - La-Z-Boy Furniture Galleries® stores help consumers furnish their homes by combining the style, comfort, and quality of La-Z-Boy furniture with our available design services. We own 159 of the La-Z-Boy Furniture Galleries® stores, while the remainder are independently owned and operated.
    - La-Z-Boy Comfort Studio® locations are defined spaces within larger independent retailers that are dedicated to displaying and selling La-Z-Boy branded products. All 560 La-Z-Boy Comfort Studio® locations are independently owned and operated.
    - In total, we have approximately 7.8 million square feet of proprietary floor space dedicated to selling La-Z-Boy branded products in North America.
    - We also have approximately 3.0 million square feet of floor space outside of the United States and Canada dedicated to selling La-Z-Boy branded products.

- Our other brands, England, American Drew, Hammary, and Kincaid enjoy distribution through many of the same outlets, with slightly over half of Hammary's sales originating through the La-Z-Boy Furniture Galleries® store network.

    - Kincaid and England have their own dedicated proprietary in-store programs with 636 outlets and approximately 2.0 million square feet of proprietary floor space.
    - In total, our proprietary floor space includes approximately 12.8 million square feet worldwide.

- Joybird sells product primarily online and has a limited amount of proprietary retail showroom floor space it uses to develop its brand.

Our goal is to deliver value to our shareholders over the long term through executing our strategic initiatives. The foundation of our strategic initiatives is driving profitable sales growth in all areas of our business.

We plan to drive growth in the following ways:

- *Leveraging and reinvigorating our brand with a consumer focus and expanded omni-channel presence.* Our strategic initiatives to leverage and reinvigorate our iconic La-Z-Boy brand center on a renewed focus on aging down our core consumer, leveraging the compelling La-Z-Boy comfort message, and accelerating our omni-channel offering. Our marketing platform featuring celebrity brand ambassador Kristen Bell drives brand recognition and injects youthful style and sensibility into our marketing campaign, which enhances the appeal of our brand with a younger consumer base. Further, our goal is to connect with consumers along their purchase journey through multiple means, whether online or in person. We are driving change throughout our digital platforms to improve the user experience, with a specific focus on the ease with which customers browse through our broad product assortment, customize products to their liking, find stores to make a purchase, or purchase at www.la-z-boy.com.

- *Expanding the reach of our branded distribution channels, which include the La-Z-Boy Furniture Galleries® store network and the La-Z-Boy Comfort Studio® locations, our store-within-a-store format*. While the consumer's purchase journey may start digitally, our consumers also demonstrate an affinity for visiting our stores to shop, allowing us to deliver the flagship La-Z-Boy Furniture Galleries® store experience and provide design services. We expect our strategic initiatives in this area to generate growth in our Retail segment through an increased company-owned store count and in our Wholesale segment as our proprietary distribution network expands. We are not only focused on growing the number of locations, but also on upgrading existing store locations to our new concept designs.

- *Growing our company-owned retail business.* We are focused on growing this business by increasing same-store sales through improved execution at the store level and by acquiring existing La-Z-Boy Furniture Galleries® stores and opening new La-Z-Boy Furniture Galleries® stores, primarily in markets that can be serviced through our regional distribution centers, where we see opportunity for growth, or where we believe we have opportunities for further market penetration.

- *Accelerating the growth of the Joybird brand.* During fiscal 2019, we purchased Joybird, a leading e-commerce retailer and manufacturer of upholstered furniture with a direct-to-consumer model. We believe that Joybird is a brand with significant potential and our strategic initiatives in this area focus on fueling profitable growth through an increase in digital marketing spend to drive awareness and customer acquisition, ongoing investments in technology, an expansion of product assortment, and additional small format stores in our key urban markets to enhance our consumers' omni-channel experience.

- *Enhancing our enterprise capabilities to support the growth of our consumer brands and enable potential tack-on acquisitions for growth.* In addition to our branded distribution channels, nearly 2,000 other dealers sell La-Z-Boy products, providing us the benefit of multi-channel distribution. These outlets include some of the best-known names in the industry, including Slumberland, Nebraska Furniture Mart, Mathis Brothers and Raymour & Flanagan. We believe there is significant growth potential for our consumer brands through these retail channels. Our strategic initiatives focus on enhancing our enterprise capabilities to support the growth of our consumer brands and improving the agility of our supply chain so that it can more broadly support all our consumer brands.

Our reportable operating segments include the Wholesale segment and the Retail segment.

- *Wholesale Segment*. Our Wholesale segment consists primarily of three operating segments: La-Z-Boy, our largest operating segment, our England subsidiary, and our casegoods operating segment that sells furniture under three brands: American Drew®, Hammary® and Kincaid®. The Wholesale segment also includes our international wholesale businesses. We aggregate these operating segments into one reportable segment because they are economically similar and meet the other aggregation criteria for determining reportable segments. Our Wholesale segment manufactures and imports upholstered furniture such as recliners and motion furniture, sofas, loveseats, chairs, sectionals, modulars, ottomans and sleeper sofas and imports casegoods (wood) furniture such as bedroom sets, dining room sets, entertainment centers and occasional pieces. The Wholesale segment sells directly to La-Z-Boy Furniture Galleries® stores, operators of La-Z-Boy Comfort Studio® locations, England Custom Comfort Center locations, major dealers, and a wide cross-section of other independent retailers.

- *Retail Segment*. Our Retail segment consists of one operating segment comprised of our 159 company-owned La-Z-Boy Furniture Galleries® stores. The Retail segment sells primarily upholstered furniture, in addition to some casegoods and other accessories, to end consumers through these stores.

- *Corporate & Other.* Corporate & Other includes the shared costs for corporate functions, including human resources, information technology, finance and legal, in addition to revenue generated through royalty agreements with companies licensed to use the La-Z-Boy® brand name on various products. We consider our corporate functions to be other business activities and have aggregated them with our other insignificant operating segments, including our global trading company in Hong Kong and Joybird, an e-commerce retailer that manufactures upholstered furniture such as sofas, loveseats, chairs, ottomans, sleeper sofas and beds, and also imports casegoods (wood) furniture, such as occasional tables and other accessories. Joybird sells to the end consumer primarily online through its website, www.joybird.com. None of the operating segments included in Corporate & Other meet the requirements of reportable segments.

Impact of COVID-19

We have been and continue to be impacted by the COVID-19 pandemic. Specifically, beginning in the fourth quarter of fiscal 2020, the temporary closure of our manufacturing facilities, state and local restrictions limiting our ability to deliver product to consumers, and the temporary closure of our company-owned stores consistent with most retailers across North America negatively impacted our financial results. In response to the financial impacts of the pandemic, beginning at the end of fiscal 2020, we took several actions to conserve cash in the near term and during the first quarter of fiscal 2021, we announced our business realignment plan, which included the reduction of our global workforce by about 10% across our manufacturing, retail, and corporate locations, including the closure of our Newton, Mississippi upholstery manufacturing facility.

By the end of the first quarter of fiscal 2021, all retail and manufacturing locations had reopened, and since that time, we have experienced a strong pace of written order trends as consumers continue to allocate more discretionary spending to home furnishings. In response to demand for our products outpacing our production capacity and with backlog still at a high level, our supply chain team continues to demonstrate agility and flexibility to identify ways to increase production capacity. We have increased capacity by adding manufacturing cells at our Mexico Cut-and-Sew Center, adding second shifts and weekend production shifts to our U.S. plants, and temporarily reactivating a portion of our Newton, Mississippi upholstery manufacturing facility. In addition, we opened a leased upholstery assembly plant in San Luis Rio Colorado, Mexico and a leased sewing facility in Parras, Mexico during the third quarter of fiscal 2021 and the first quarter of fiscal 2022, respectively. Further, during the first quarter of fiscal 2022, we signed a lease to open additional manufacturing capacity in Torreon, Mexico which we expect to begin operations in the latter part of the third quarter of fiscal 2022.

We continue to actively manage the impact of the COVID-19 crisis as we face continued uncertainty regarding the impact COVID-19 will have on our financial operations in the near and long term. We also continue to actively manage our global supply chain and manufacturing operations, which have been adversely impacted with respect to availability and pricing of raw materials and freight based on uncontrollable factors as well as COVID-19 related constraints on our manufacturing capacity as we continue to prioritize the health and safety of our employees. The need for, or timing of, any future actions in response to COVID-19 is largely dependent on the mitigation of the spread of the virus along with the adoption and continued effectiveness of vaccines, status of government orders, directives and guidelines, recovery of the business environment, global supply chain conditions, economic conditions, and consumer demand for our products, all of which are highly uncertain.

Results of Operations

Fiscal 2022 Second Quarter Compared with Fiscal 2021 Second Quarter

La-Z-Boy Incorporated

	Quarter Ended			Six Months Ended		
(Unaudited, amounts in thousands, except percentages)	10/23/2021	10/24/2020	% Change	10/23/2021	10/24/2020	% Change
Sales	$ 575,889	$ 459,120	25.4%	$ 1,100,672	$ 744,578	47.8 %
Operating income	54,113	47,939	12.9%	88,484	52,264	69.3 %
Operating margin	9.4%	10.4%		8.0%	7.0%	

<u>Sales</u>

Consolidated sales increased $116.8 million, or 25.4%, and $356.1 million, or 47.8%, in the second quarter and first six months of fiscal 2022, respectively, compared with the same periods a year ago. Sales in the first half of fiscal 2021 were adversely impacted by COVID-19, which caused temporary store and manufacturing facility closures in the latter part of the fourth quarter of fiscal 2020 and a phased reopening in the first two months of fiscal 2021, and had a negative impact on our ability to deliver product to customers. Since retail and manufacturing locations reopened by the end of the first quarter of fiscal 2021, we have experienced a strong pace of written order trends while facing challenges in the global supply chain. In response, we have expanded our manufacturing capacity, increased our strategic raw material reserves, and taken pricing and surcharge actions in response to rising materials costs. The ongoing impact of these strategic actions and sustained demand led to record sales in the second quarter of fiscal 2022.

<u>Operating Margin</u>

Operating margin, which is calculated as operating income as a percentage of sales, decreased 100 basis points in the second quarter of fiscal 2022, but increased 100 basis points in the first six months of fiscal 2022, compared with the same periods a year ago.

- Gross margin, which is calculated as gross profit as a percentage of sales, decreased 490 basis points and 400 basis points in the second quarter and first six months of fiscal 2022, respectively, compared with the same periods a year ago.
    - Changes in our consolidated mix reduced gross margin by 40 basis points but improved gross margin by 60 basis points in the second quarter and first six months of fiscal 2022, respectively. Our Retail segment and Joybird have higher gross margins than our Wholesale segment and, as such, the impact in the second quarter was due to growth in our Wholesale segment relative to growth in our Retail segment, whereas the benefit in the first six months was led by growth in our Retail segment and Joybird relative to growth in our Wholesale segment.
    - Availability challenges in the global supply chain caused by COVID-19, as well as an increase in demand, led to higher raw material and freight costs resulting in a decline in gross margin.

- ◦ Gross margin declined further as the expansion of our manufacturing capacity in response to the increase in written order demand led to higher production costs, mainly related to the start-up of new facilities, along with continued labor challenges.
- ◦ Partially offsetting these decreases, gross margin in our Wholesale segment benefited from pricing and surcharge actions taken in response to rising manufacturing costs.

- Selling, general and administrative ("SG&A") expenses as a percentage of sales decreased 390 basis points and 500 basis points in the second quarter and first six months of fiscal 2022, respectively, compared with the same periods a year ago.

  - ◦ Higher sales volume relative to both fixed costs and marketing spend in both the Wholesale and Retail segment drove the decrease during the second quarter and first six months of fiscal 2022.
  - ◦ Additionally, the second quarter and first six months of fiscal 2022 included a gain resulting from the sale of our Newton, Mississippi manufacturing facility while the second quarter and first six months of fiscal 2021 included expenses resulting from our business realignment plan. These actions resulted in a comparative 60 basis point decrease in SG&A as a percentage of sales in both the second quarter and first six months of fiscal 2022.

We discuss each segment's results in the following section.

Wholesale Segment

	Quarter Ended			Six Months Ended		
(Unaudited, amounts in thousands, except percentages)	10/23/2021	10/24/2020	% Change	10/23/2021	10/24/2020	% Change
Sales	$ 439,092	$ 343,016	28.0%	$ 832,591	$ 566,589	46.9 %
Operating income	43,128	41,683	3.5%	61,459	59,623	3.1 %
Operating margin	9.8%	12.2%		7.4%	10.5%	

Sales

The Wholesale segment's sales increased $96.1 million, or 28.0%, and $266.0 million, or 46.9%, in the second quarter and first six months of fiscal 2022, respectively, compared with the same periods a year ago. The sales increase in the second quarter was driven relatively equally by an increase in delivered unit volume and favorable pricing and surcharge actions taken in response to rising manufacturing costs. The sales increase in the first six months was primarily attributable to higher volume and to a lesser extent pricing and surcharge actions, as they were increasingly realized in the second quarter. Higher sales volume for both periods was primarily driven by the adverse impact that COVID-19 had in the prior year, which caused temporary store and manufacturing closures in the latter part of the fourth quarter of fiscal 2020 and a phased reopening in the first two months of fiscal 2021. Since reopening by the end of the first quarter of fiscal 2021, we have continued to expand and scale our manufacturing capabilities in response to significant increases in order demand.

Operating Margin

Operating margin decreased 240 basis points and 310 basis points in the second quarter and first six months of fiscal 2022, respectively, compared with the same periods a year ago.

- Gross margin decreased 460 basis points and 510 basis points in the second quarter and first six months of fiscal 2022, respectively, compared with the same periods a year ago.

  - ◦ Rising raw material and freight costs due to higher demand and global supply chain challenges resulted in a 800 basis point and 710 basis point decrease in gross margin in the second quarter and first six months of fiscal 2022, respectively.
  - ◦ Continued manufacturing capacity expansion, in response to significant increases in written order demand, drove an increase in production costs and labor challenges resulting in a 280 basis point and 310 basis point decrease in gross margin in the second quarter and first six months of fiscal 2022, respectively.
  - ◦ Partially offsetting these decreases, gross margin benefited 610 basis points and 460 basis points from pricing and surcharge actions taken in response to rising manufacturing costs in the second quarter and first six months of fiscal 2022, respectively.

- SG&A expense as a percentage of sales decreased 220 basis points and 200 basis points in the second quarter and first six months of fiscal 2022, respectively, compared with the same periods a year ago.
    - The decrease in SG&A as a percentage of sales in both periods, was primarily due to higher sales volume relative to both fixed costs and marketing spend.
    - The second quarter and first six months of fiscal 2022 included a gain resulting from the sale of our Newton, Mississippi manufacturing facility while the second quarter and first six months of fiscal 2021 included expenses resulting from our business realignment plan. These actions resulted in a comparative 70 basis point decrease in the segment's SG&A as a percentage of sales in both the second quarter and first six months of fiscal 2022.

Retail Segment

	Quarter Ended			Six Months Ended		
(Unaudited, amounts in thousands, except percentages)	10/23/2021	10/24/2020	% Change	10/23/2021	10/24/2020	% Change
Sales	$ 192,420	$ 162,275	18.6%	$ 374,267	$ 253,412	47.7 %
Operating income	23,962	15,093	58.8 %	44,400	8,466	424.5 %
Operating margin	12.5%	9.3%		11.9%	3.3%	

Sales

The Retail segment’s sales increased $30.1 million, or 18.6%, and $120.9 million, or 47.7%, in the second quarter and first six months of fiscal 2022, respectively, compared with the same periods a year ago, led by a 16.5% and 43.8% increase in delivered same-store sales, respectively. The first half of fiscal 2021 was negatively impacted by COVID-19 related closures which began in the fourth quarter of fiscal 2020 followed by a phased reopening of our retail locations through the first two months of fiscal 2021. After the reopening of all our retail stores, we experienced a significant surge in demand and, as a result, when compared with the prior year, written same-store sales decreased 7.2% in the second quarter of fiscal 2022. However, we continue to see sustained higher demand for products in the home furnishings category and are continuing to experience strong sales trends as written same-store sales increased 5.4% in first six months of fiscal 2022 compared with the prior year. Compared to the pre-pandemic second quarter of fiscal 2020, written-same store sales in the second quarter of fiscal 2022 increased at a compound annual growth rate of 12.3%. Same-store delivered sales include the sales of all currently active stores which have been open for each comparable period.

Operating Margin

Operating margin increased 320 basis points and 860 basis points in the second quarter and first six months of fiscal 2022, respectively, compared with the same periods a year ago.

- Gross margin decreased 150 basis points and 60 basis points in the second quarter and first six months of fiscal 2022, respectively, compared with the same periods a year ago, primarily due to higher product costs from the pricing and surcharge actions taken in the manufacturing business.

- SG&A expense as a percentage of sales decreased 470 basis points and 920 basis points in the second quarter and first six months of fiscal 2022, respectively, compared with the same periods a year ago, primarily due to higher delivered sales relative to marketing spend and fixed costs, mainly occupancy and selling expenses.

Corporate and Other

	Quarter Ended			Six Months Ended		
(Unaudited, amounts in thousands, except percentages)	10/23/2021	10/24/2020	% Change	10/23/2021	10/24/2020	% Change
Sales	$ 45,013	$ 33,717	33.5%	$ 88,647	$ 50,458	75.7 %
Intercompany eliminations	(100,636)	(79,888)	(26.0)%	(194,833)	(125,881)	(54.8)%
Operating loss	(12,977)	(8,837)	(46.8)%	(17,375)	(15,825)	(9.8)%

Sales

Sales increased $11.3 million and $38.2 million in the second quarter and first six months of fiscal 2022, respectively, compared with the same periods a year ago, primarily led by Joybird sales which increased 36.6% to $40.2 million and 84.0%

to $78.9 million, respectively. The growth in Joybird sales was driven by increased demand for products in the home furnishings category, investments in marketing and website enhancements resulting in higher online conversion, and the addition of retail store locations. Further, sales in the first half of fiscal 2021 were negatively impacted by COVID-19, although to a lesser extent than our other retail businesses as Joybird primarily operates in the online, direct-to-consumer marketplace. Despite this, and driven by significant investments in marketing, written sales for Joybird were up 55.8% and 43.2% in the second quarter and first six months of fiscal 2022, respectively, compared with the same periods a year ago.

Intercompany eliminations increased in the second quarter and first six months of fiscal 2022 compared with the same periods a year ago due to higher sales from our Wholesale segment to our Retail segment, driven by higher sales in the Retail segment.

Operating Loss

Our Corporate and Other operating loss increased $4.1 million and $1.6 million in the second quarter and first six months of fiscal 2022, respectively, compared with the same periods a year ago. The increase in operating loss in the second quarter of fiscal 2022 was primarily due to decreased operating profits at Joybird resulting from significant investments in marketing to drive customer acquisition and awareness combined with rising raw material and freight costs due to higher demand and global supply chain challenges. Despite raw material and freight headwinds, Joybird has sustained structural profitability and we will continue to invest in marketing to drive future growth. The increase in operating loss in the first six months of fiscal 2022 was primarily due to higher investments in our technology infrastructure and a slight decrease in Joybird operating profits for the reasons noted above.

Non-Operating Income (Expense)

Other Income (Expense), Net

Other income (expense), net was $1.0 million of income in the second quarter of fiscal 2022 compared with de minimis expense in the second quarter of fiscal 2021. The income in fiscal 2022 was primarily due to unrealized gains on investments.

Other income (expense), net was $0.9 million of income in the first six months of fiscal 2022 compared with $1.5 million of income in the first six months of fiscal 2021, both primarily due to unrealized gains on investments.

Income Taxes

Our effective tax rate was 26.6% and 26.3% for the second quarter and six months ended October 23, 2021, respectively, compared with 26.0% and 25.3% for the second quarter and six months ended October 24, 2020, respectively. Our effective tax rate varies from the 21% federal statutory rate primarily due to state taxes.

Liquidity and Capital Resources

Our sources of liquidity include cash and cash equivalents, short-term and long-term investments, cash from operations, and amounts available under our credit facility. We believe these sources remain adequate to meet our short-term and long-term liquidity requirements, finance our long-term growth plans, and fulfill other cash requirements for day-to-day operations and capital expenditures. We had cash, cash equivalents and restricted cash of $296.6 million at October 23, 2021, compared with $394.7 million at April 24, 2021. In addition, we had investments to enhance our returns on cash of $31.0 million at October 23, 2021, compared with $32.5 million at April 24, 2021.

On October 15, 2021, we entered into a new five-year $200.0 million unsecured revolving credit facility (the “Credit Facility”). Borrowings under the Credit Facility may be used by the Company for general corporate purposes and working capital. We may increase the size of the facility, either in the form of additional revolving commitments or new term loans, subject to the discretion of each lender to participate in such increase, up to an additional amount of $100 million. The Credit Facility will mature on October 15, 2026 and provides us the ability to extend the maturity date for two additional one-year periods, subject to customary conditions. As of October 23, 2021, we have no borrowings outstanding under the Credit Facility.

The Credit Facility contains certain restrictive loan covenants, including, among others, financial covenants requiring a maximum consolidated net lease adjusted leverage ratio and a minimum consolidated fixed charge coverage ratio, as well as customary covenants limiting our ability to incur indebtedness, grant liens, make acquisitions, merge or consolidate, and dispose of assets. As of October 23, 2021, we were in compliance with our financial covenants under the Credit Facility. We believe our cash on hand, in addition to our available Credit Facility, will provide adequate liquidity for our business operations over the next 12 months.

The Credit Facility replaces our previous $150.0 million revolving credit facility, which had been secured primarily by all of our accounts receivable, inventory, cash deposits, and securities accounts. The previous revolving credit facility was terminated on October 15, 2021, and is no longer in effect.

Capital expenditures for the first six months of fiscal 2022 were $33.3 million compared with $15.4 million during the first six months of fiscal 2021. Capital expenditures in the first six months of fiscal 2022 included improvements to our retail stores, plant upgrades to our upholstery manufacturing and distribution facilities, new upholstery manufacturing capacity in Mexico, and technology upgrades. We have no material contractual commitments outstanding for future capital expenditures. We expect capital expenditures to be in the range of $75 to $85 million for fiscal 2022, which will include improvements to a number of our retail stores, plant upgrades to our upholstery manufacturing and distribution facilities in Neosho, Missouri, new upholstery manufacturing capacity in Mexico, and technology upgrades.

Our board of directors has sole authority to determine if and when we will declare future dividends and on what terms. We expect the board to continue declaring regular quarterly cash dividends for the foreseeable future, but it may discontinue doing so at any time.

Our board of directors has authorized the repurchase of company stock. We spent $50.6 million in the first six months of fiscal 2022 to repurchase 1.4 million shares. On August 17, 2021, the board of directors approved a 6.5 million increase in its share repurchase authorization and as of October 23, 2021, 8.6 million shares remained available for repurchase pursuant to this authorization.

The following table illustrates the main components of our cash flows:

	Six Months Ended	
(Unaudited, amounts in thousands)	**10/23/2021**	**10/24/2020**
Cash Flows Provided By (Used For)		
Net cash provided by operating activities (1)	$ 15,434	$ 195,710
Net cash used for investing activities	(32,472)	(15,600)
Net cash used for financing activities	(80,728)	(92,155)
Exchange rate changes	(330)	1,944
Change in cash, cash equivalents and restricted cash	$ (98,096)	$ 89,899

(1) The decrease in net cash provided by operating activities year over year is primarily due to the significant increase in customer deposits during fiscal 2021 resulting from a surge in written sales once retail stores reopened, along with a significant increase in inventory balances in fiscal 2022 to support increased sales demand and manufacturing capacity.

Operating Activities

During the first six months of fiscal 2022, net cash provided by operating activities was $15.4 million. Our cash provided by operating activities was primarily attributable to net income generated during the period partially offset by an increase in working capital. The increase in working capital was led by higher inventory to ensure input material availability to support increased sales demand and manufacturing capacity along with higher receivables due to increased sales.

Investing Activities

During the first six months of fiscal 2022, net cash used for investing activities was $32.5 million, primarily due to cash used for capital expenditures in the period of $33.3 million, which primarily related to spending on retail store improvements, plant upgrades to our upholstery manufacturing and distribution facilities, new upholstery manufacturing capacity in Mexico, and technology upgrades.

Financing Activities

During the first six months of fiscal 2022, net cash used for financing activities was $80.7 million, primarily due to $50.6 million used to repurchase our common stock pursuant to our share repurchase authorization, $13.5 million of holdback payments for acquisition purchases, which primarily included contingent consideration and guaranteed payments related to the acquisition of Joybird, and $13.4 million paid to our shareholders in quarterly dividends.

Exchange Rate Changes

Due to changes in exchange rates, our cash, cash equivalents, and restricted cash decreased by $0.3 million from the end of fiscal year 2021 to the end of the second quarter of fiscal 2022. These changes impacted our cash balances held in Canada, Thailand, and the United Kingdom.

Other

During the second quarter of fiscal 2022, there were no material changes to the information about our contractual obligations and commitments shown in the table contained in our Annual Report on Form 10-K for the fiscal year ended April 24, 2021. We do not expect our continuing compliance with existing federal, state and local statutes dealing with protection of the environment to have a material effect on our capital expenditures, earnings, competitive position or liquidity.

Critical Accounting Policies

We disclosed our critical accounting policies in our Annual Report on Form 10-K for the fiscal year ended April 24, 2021. There were no material changes to our critical accounting policies during the six months ended October 23, 2021.

Recent Accounting Pronouncements

See Note 1, Basis of Presentation, to the consolidated financial statements included in this Form 10-Q for a discussion of recently adopted accounting standards and other new accounting standards.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

During the first six months of fiscal 2022, there were no material changes from the information contained in Item 7A of our Annual Report on Form 10-K for the fiscal year ended April 24, 2021.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) of the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that such disclosure controls and procedures are effective to ensure that information required to be disclosed in our periodic reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC’s rules and forms and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting. There were no changes in our internal controls over financial reporting that occurred during the second quarter of fiscal 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1A. RISK FACTORS

We disclosed our risk factors in our Annual Report on Form 10-K for the fiscal year ended April 24, 2021. There have been no material changes to our risk factors during the first six months of fiscal 2022.

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

Our board of directors has authorized the repurchase of company stock. During the fourth quarter of fiscal 2021, pursuant to the existing board authorization, we adopted a plan to repurchase company stock pursuant to Rule 10b5-1 of the Securities Exchange Act of 1934. The plan was effective April 26, 2021. Under this plan, our broker has the authority to repurchase company shares on our behalf, subject to SEC regulations and the price, market volume and timing constraints specified in the plan. The plan expires at the close of business on November 26, 2021. We spent $15.0 million in the second quarter of fiscal 2022 to repurchase 0.4 million shares. As of October 23, 2021, 8.6 million shares remained available for repurchase pursuant to this authorization. With the operating cash flows we anticipate generating in fiscal 2022, we expect to continue repurchasing company stock.

The following table summarizes our repurchases of company stock during the quarter ended October 23, 2021:

(Unaudited, amounts in thousands, except per share data)	**Total number of shares repurchased (1)**	**Average price paid per share**	**Total number of shares repurchased as part of publicly announced plan (2)**	**Maximum number of shares that may yet be repurchased under the plan**
Fiscal August (July 25 – August 28, 2021)	434	$ 34.52	434	8,592
Fiscal September (August 29 – September 25, 2021)	—	—	—	8,592
Fiscal October (September 26 – October 23, 2021)	—	—	—	8,592
Fiscal Second Quarter of 2022	434	$ 34.52	434	8,592

(1) In addition to the 434,247 shares we repurchased during the quarter as part of our publicly announced, board-authorized plan described above, this column includes 179 shares repurchased from employees to satisfy their withholding tax obligations upon vesting of restricted and performance based shares.

(2) On October 28, 1987, our board of directors announced the authorization of the plan to repurchase company stock. The plan originally authorized 1.0 million shares, and since October 1987, 33.5 million shares have been added to the plan for repurchase, including 6.5 million shares approved by the company's board of directors on August 17, 2021. The authorization has no expiration date.

ITEM 6. EXHIBITS

Exhibit Number	Description
(4.1)	Credit Agreement dated as of October 15, 2021, among La-Z-Boy Incorporated, the lenders party thereto and Wells Fargo Bank, National Association, as administrative agent (Incorporated by reference to an exhibit to Form 8-K filed October 15, 2021).
(31.1)	Certifications of Chief Executive Officer pursuant to Rule 13a-14(a)
(31.2)	Certifications of Chief Financial Officer pursuant to Rule 13a-14(a)
(32)	Certifications of Executive Officers pursuant to 18 U.S.C. Section 1350(b)
(101.INS)	Inline XBRL Instance Document
(101.SCH)	Inline XBRL Taxonomy Extension Schema Document
(101.CAL)	Inline XBRL Taxonomy Extension Calculation Linkbase Document
(101.LAB)	Inline XBRL Taxonomy Extension Label Linkbase Document
(101.PRE)	Inline XBRL Taxonomy Extension Presentation Linkbase Document
(101.DEF)	Inline XBRL Taxonomy Extension Definition Linkbase Document
(104)	The cover page from the Company’s Quarterly Report on Form 10-Q for the quarter ended October 23, 2021, formatted in Inline XBRL (included in Exhibit 101)

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LA-Z-BOY INCORPORATED
(Registrant)

Date: November 16, 2021

BY: /s/ Jennifer L. McCurry
Jennifer L. McCurry
Vice President, Corporate Controller and Chief Accounting Officer

Exhibit 31.1

CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER
PURSUANT TO RULE 13a-14(a)

I, Melinda D. Whittington, certify that:

1. I have reviewed this quarterly report on Form 10-Q of La-Z-Boy Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 16, 2021	/s/ Melinda D. Whittington
	Melinda D. Whittington
	President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13a-14(a)

I, Robert G. Lucian, certify that:

1. I have reviewed this quarterly report on Form 10-Q of La-Z-Boy Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 16, 2021	/s/ Robert G. Lucian
	Robert G. Lucian
	Senior Vice President and Chief Financial Officer

EXHIBIT 32

CERTIFICATION OF EXECUTIVE OFFICERS*

Pursuant to 18 U.S.C. section 1350, each of the undersigned officers of La-Z-Boy Incorporated (the “Company”) hereby certifies, to such officer’s knowledge, that the Company’s Quarterly Report on Form 10-Q for the period ended October 23, 2021 (the “Report”) fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Melinda D. Whittington

Melinda D. Whittington
President and Chief Executive Officer
November 16, 2021

/s/ Robert G. Lucian

Robert G. Lucian
Senior Vice President and Chief Financial Officer
November 16, 2021

*The foregoing certification is being furnished solely pursuant to 18 U.S.C. section 1350 and is not being filed as part of the Report or as a separate disclosure document.