



**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 January 25, 2020

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
(State or other jurisdiction of incorporation or organization) 38-0751137
(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:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
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:

<u>Class</u>	<u>Outstanding at February 11, 2020</u>
Common Stock, \$1.00 Par Value	46,032,716

LA-Z-BOY INCORPORATED
FORM 10-Q THIRD QUARTER OF FISCAL 2020
TABLE OF CONTENTS

	Page Number(s)
<u>PART I Financial Information (Unaudited)</u>	3
<u>Item 1. Financial Statements</u>	3
<u>Consolidated Statement of Income</u>	3
<u>Consolidated Statement of Comprehensive Income</u>	4
<u>Consolidated Balance Sheet</u>	5
<u>Consolidated Statement of Cash Flows</u>	6
<u>Consolidated Statement of Changes in Equity</u>	7
<u>Notes to Consolidated Financial Statements</u>	9
<u>Note 1. Basis of Presentation</u>	9
<u>Note 2. Acquisitions</u>	10
<u>Note 3. Restricted Cash</u>	11
<u>Note 4. Inventories</u>	12
<u>Note 5. Leases</u>	12
<u>Note 6. Goodwill and Other Intangible Assets</u>	14
<u>Note 7. Investments</u>	14
<u>Note 8. Employee Benefits</u>	16
<u>Note 9. Product Warranties</u>	16
<u>Note 10. Stock-Based Compensation</u>	17
<u>Note 11. Accumulated Other Comprehensive Loss</u>	19
<u>Note 12. Revenue Recognition</u>	20
<u>Note 13. Segment Information</u>	23
<u>Note 14. Income Taxes</u>	24
<u>Note 15. Earnings per Share</u>	24
<u>Note 16. Fair Value Measurements</u>	25
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	28
<u>Cautionary Statement Concerning Forward-Looking Statements</u>	28
<u>Introduction</u>	28
<u>Results of Operations</u>	30
<u>Liquidity and Capital Resources</u>	34
<u>Critical Accounting Policies</u>	36
<u>Recent Accounting Pronouncements</u>	36
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	37
<u>Item 4. Controls and Procedures</u>	37
<u>PART II Other Information</u>	38
<u>Item 1A. Risk Factors</u>	38
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	38
<u>Item 6. Exhibits</u>	38
<u>Signature Page</u>	39

PART I - FINANCIAL INFORMATION (UNAUDITED)**ITEM 1. FINANCIAL STATEMENTS****LA-Z-BOY INCORPORATED
CONSOLIDATED STATEMENT OF INCOME**

<i>(Unaudited, amounts in thousands, except per share data)</i>	Quarter Ended		Nine Months Ended	
	1/25/20	1/26/19	1/25/20	1/26/19
Sales	\$ 475,856	\$ 467,582	\$ 1,336,701	\$ 1,291,610
Cost of sales	276,218	277,712	786,962	778,813
Gross profit	199,638	189,870	549,739	512,797
Selling, general and administrative expense	147,325	149,027	444,403	420,294
Operating income	52,313	40,843	105,336	92,503
Interest expense	(265)	(538)	(891)	(1,143)
Interest income	844	540	2,093	1,534
Other expense, net	(5,998)	(941)	(5,390)	(2,046)
Income before income taxes	46,894	39,904	101,148	90,848
Income tax expense	12,178	10,730	25,540	22,374
Net income	34,716	29,174	75,608	68,474
Net income attributable to noncontrolling interests	(204)	(443)	(434)	(1,428)
Net income attributable to La-Z-Boy Incorporated	\$ 34,512	\$ 28,731	\$ 75,174	\$ 67,046
Basic weighted average common shares	46,262	46,820	46,545	46,808
Basic net income attributable to La-Z-Boy Incorporated per share	\$ 0.75	\$ 0.61	\$ 1.61	\$ 1.43
Diluted weighted average common shares	46,584	47,091	46,867	47,212
Diluted net income attributable to La-Z-Boy Incorporated per share	\$ 0.74	\$ 0.61	\$ 1.60	\$ 1.42

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

LA-Z-BOY INCORPORATED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>(Unaudited, amounts in thousands)</i>	Quarter Ended		Nine Months Ended	
	01/25/20	01/26/19	01/25/20	01/26/19
Net income	\$ 34,716	\$ 29,174	\$ 75,608	\$ 68,474
Other comprehensive income (loss)				
Currency translation adjustment	(112)	1,469	2,028	(1,552)
Change in fair value of cash flow hedges, net of tax	—	70	10	(108)
Net unrealized gain on marketable securities, net of tax	16	90	170	154
Net pension amortization, net of tax	41	515	123	1,548
Total other comprehensive income (loss)	(55)	2,144	2,331	42
Total comprehensive income before allocation to noncontrolling interests	34,661	31,318	77,939	68,516
Comprehensive income attributable to noncontrolling interests	(42)	(1,112)	(1,118)	(1,488)
Comprehensive income attributable to La-Z-Boy Incorporated	<u>\$ 34,619</u>	<u>\$ 30,206</u>	<u>\$ 76,821</u>	<u>\$ 67,028</u>

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

LA-Z-BOY INCORPORATED
CONSOLIDATED BALANCE SHEET

<i>(Unaudited, amounts in thousands, except par value)</i>	1/25/20	4/27/19
Current assets		
Cash and equivalents	\$ 166,272	\$ 129,819
Restricted cash	1,973	1,968
Receivables, net of allowance of \$2,191 at 1/25/20 and \$2,180 at 4/27/19	153,721	143,288
Inventories, net	198,567	196,899
Other current assets	82,765	69,144
Total current assets	603,298	541,118
Property, plant and equipment, net	212,851	200,523
Goodwill	185,328	185,867
Other intangible assets, net	29,235	29,907
Deferred income taxes – long-term	19,928	20,670
Right of use lease asset	318,162	—
Other long-term assets, net	73,831	81,705
Total assets	\$ 1,442,633	\$ 1,059,790
Current liabilities		
Current portion of long-term debt	\$ —	\$ 180
Accounts payable	68,045	65,365
Lease liability, short-term	65,128	—
Accrued expenses and other current liabilities	195,349	173,091
Total current liabilities	328,522	238,636
Long-term debt	—	19
Lease liability, long-term	267,955	—
Other long-term liabilities	116,674	124,159
Shareholders' equity		
Preferred shares – 5,000 authorized; none issued	—	—
Common shares, \$1 par value – 150,000 authorized; 46,075 outstanding at 1/25/20 and 46,955 outstanding at 4/27/19	46,075	46,955
Capital in excess of par value	316,764	313,168
Retained earnings	353,419	325,847
Accumulated other comprehensive loss	(2,361)	(3,462)
Total La-Z-Boy Incorporated shareholders' equity	713,897	682,508
Noncontrolling interests	15,585	14,468
Total equity	729,482	696,976
Total liabilities and equity	\$ 1,442,633	\$ 1,059,790

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

LA-Z-BOY INCORPORATED
CONSOLIDATED STATEMENT OF CASH FLOWS

<i>(Unaudited, amounts in thousands)</i>	Nine Months Ended	
	1/25/20	1/26/19
Cash flows from operating activities		
Net income	\$ 75,608	\$ 68,474
Adjustments to reconcile net income to cash provided by (used for) operating activities		
(Gain)/loss on disposal of assets	(10,051)	41
Change in deferred taxes	1,238	2,538
Provision for doubtful accounts	210	477
Depreciation and amortization	23,035	23,182
Equity-based compensation expense	7,235	8,174
Pension plan contributions	—	(7,000)
Change in receivables	(11,178)	1,152
Change in inventories	(62)	(18,950)
Change in other assets	53,620	(10,103)
Change in payables	659	4,954
Change in other liabilities	(20,555)	18,509
Net cash provided by operating activities	119,759	91,448
Cash flows from investing activities		
Proceeds from disposals of assets	11,242	447
Proceeds from insurance	1,080	154
Capital expenditures	(35,464)	(35,766)
Purchases of investments	(26,248)	(14,956)
Proceeds from sales of investments	24,688	14,304
Acquisitions	(6,412)	(78,582)
Net cash used for investing activities	(31,114)	(114,399)
Cash flows from financing activities		
Net proceeds from credit facility	—	20,000
Payments on debt and finance lease liabilities	(135)	(169)
Stock issued for stock and employee benefit plans, net of shares withheld for taxes	828	4,012
Purchases of common stock	(35,346)	(16,726)
Dividends paid	(18,641)	(17,381)
Net cash used for financing activities	(53,294)	(10,264)
Effect of exchange rate changes on cash and equivalents	1,107	(74)
Change in cash, cash equivalents and restricted cash	36,458	(33,289)
Cash, cash equivalents and restricted cash at beginning of period	131,787	136,871
Cash, cash equivalents and restricted cash at end of period	\$ 168,245	\$ 103,582
Supplemental disclosure of non-cash investing activities		
Capital expenditures included in payables	\$ 4,026	\$ 2,827

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

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

<i>(Unaudited, amounts in thousands)</i>	Common Shares	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interests	Total
At April 27, 2019	\$ 46,955	\$ 313,168	\$ 325,847	\$ (3,462)	\$ 14,468	\$ 696,976
Net income (loss)	—	—	18,069	—	(81)	17,988
Other comprehensive income	—	—	—	281	486	767
Stock issued for stock and employee benefit plans, net of cancellations and withholding tax	126	126	(1,669)	—	—	(1,417)
Purchases of 391 shares of common stock	(391)	(3,762)	(8,160)	—	—	(12,313)
Stock option and restricted stock expense	—	1,675	—	—	—	1,675
Cumulative effect adjustment for leases, net of tax (1)	—	—	574	—	—	574
Reclassification of certain income tax effects (2)	—	—	547	(547)	—	—
Dividends declared and paid (\$0.13/share)	—	—	(6,112)	—	—	(6,112)
At July 27, 2019	<u>\$ 46,690</u>	<u>\$ 311,207</u>	<u>\$ 329,096</u>	<u>\$ (3,728)</u>	<u>\$ 14,873</u>	<u>\$ 698,138</u>
Net income	—	—	22,593	—	311	22,904
Other comprehensive income	—	—	—	1,260	359	1,619
Stock issued for stock and employee benefit plans, net of cancellations and withholding tax	84	1,908	(4)	—	—	1,988
Purchases of 335 shares of common stock	(335)	(1,908)	(8,611)	—	—	(10,854)
Stock option and restricted stock expense	—	3,032	—	—	—	3,032
Dividends declared and paid (\$0.13/share)	—	—	(6,039)	—	—	(6,039)
Dividends declared not paid (\$0.13/share)	—	—	(46)	—	—	(46)
At October 26, 2019	<u>\$ 46,439</u>	<u>\$ 314,239</u>	<u>\$ 336,989</u>	<u>\$ (2,468)</u>	<u>\$ 15,543</u>	<u>\$ 710,742</u>
Net income (loss)	—	—	34,512	—	204	34,716
Other comprehensive income (loss)	—	—	—	107	(162)	(55)
Stock issued for stock and employee benefit plans, net of cancellations and withholding tax	14	281	(37)	—	—	258
Purchases of 378 shares of common stock	(378)	(284)	(11,520)	—	—	(12,182)
Stock option and restricted stock expense	—	2,528	—	—	—	2,528
Dividends declared and paid (\$0.14/share)	—	—	(6,490)	—	—	(6,490)
Dividends declared not paid (\$0.14/share)	—	—	(35)	—	—	(35)
At January 25, 2020	<u>\$ 46,075</u>	<u>\$ 316,764</u>	<u>\$ 353,419</u>	<u>\$ (2,361)</u>	<u>\$ 15,585</u>	<u>\$ 729,482</u>

(1) Cumulative effect adjustment of deferred gains on prior sale/leaseback transactions as a result of adopting ASU 2016-02.

(2) Income tax effects of the Tax Cuts and Jobs Act are reclassified from Accumulated Other Comprehensive Income ("AOCI") to retained earnings due to the adoption of ASU 2018-02.

[Table of Contents](#)

<i>(Unaudited, amounts in thousands)</i>	Common Shares	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interests	Total
At April 28, 2018	\$ 46,788	\$ 298,948	\$ 291,644	\$ (25,199)	\$ 13,035	\$ 625,216
Net income	—	—	18,303	—	648	18,951
Other comprehensive (loss)	—	—	—	(2,737)	(1,228)	(3,965)
Stock issued for stock and employee benefit plans, net of cancellations and withholding tax	160	(42)	(2,127)	—	—	(2,009)
Purchases of 257 shares of common stock	(257)	(176)	(7,511)	—	—	(7,944)
Stock option and restricted stock expense	—	2,040	—	—	—	2,040
Cumulative effect adjustment for investments, net of tax	—	—	1,637	(1,637)	—	—
Dividends declared and paid (\$0.12/share)	—	—	(5,625)	—	—	(5,625)
At July 28, 2018	<u>\$ 46,691</u>	<u>\$ 300,770</u>	<u>\$ 296,321</u>	<u>\$ (29,573)</u>	<u>\$ 12,455</u>	<u>\$ 626,664</u>
Net income	—	—	20,012	—	337	20,349
Other comprehensive income	—	—	—	1,244	619	1,863
Stock issued for stock and employee benefit plans, net of cancellations and withholding tax	335	5,748	(35)	—	—	6,048
Purchases of 121 shares of common stock	(121)	(2,456)	(1,089)	—	—	(3,666)
Stock option and restricted stock expense	—	3,639	—	—	—	3,639
Dividends declared and paid (\$0.12/share)	—	—	(5,653)	—	—	(5,653)
Dividends declared not paid (\$0.12/share)	—	—	(13)	—	—	(13)
At October 27, 2018	<u>\$ 46,905</u>	<u>\$ 307,701</u>	<u>\$ 309,543</u>	<u>\$ (28,329)</u>	<u>\$ 13,411</u>	<u>\$ 649,231</u>
Net income	—	—	28,731	—	443	29,174
Other comprehensive loss	—	—	—	1,475	669	2,144
Stock issued for stock and employee benefit plans, net of cancellations and withholding tax	2	(5)	(24)	—	—	(27)
Purchases of 177 shares of common stock	(177)	(3,295)	(1,644)	—	—	(5,116)
Stock option and restricted stock expense	—	2,495	—	—	—	2,495
Dividends declared and paid (\$0.13/share)	—	—	(6,103)	—	—	(6,103)
Dividends declared not paid (\$0.13/share)	—	—	(12)	—	—	(12)
At January 26, 2019	<u>\$ 46,730</u>	<u>\$ 306,896</u>	<u>\$ 330,491</u>	<u>\$ (26,854)</u>	<u>\$ 14,523</u>	<u>\$ 671,786</u>

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 27, 2019, 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 2019 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 25, 2020.

To further strengthen our supply chain footprint, on August 8, 2019, we announced our plan to close our Redlands, California upholstered furniture manufacturing facility and move production to available capacity at our other North American facilities. The Company's Redlands upholstered furniture plant employed about 350 people, accounted for approximately 10% of the La-Z-Boy branded business total upholstery production, and manufactured recliners, motion sofas and classics (high-leg recliners). Production ceased at the Redlands plant as of the end of the second quarter of fiscal 2020 and in the third quarter of fiscal 2020, the facility, which is approximately 200,000 square feet, was sold for \$10.8 million, net of closing costs. The sale of the Redlands property resulted in a \$9.7 million pre-tax gain, recorded in selling, general and administrative expense ("SG&A") in our consolidated statement of income. In addition, we have transitioned the leather cut-and-sew operation from the Newton, Mississippi upholstered furniture manufacturing plant to another North American-based cut-and-sew facility. The move of the Newton leather cut-and-sew operation impacted about 105 of the 525 employees at that location.

As a part of our supply chain optimization initiative, we may incur expenses that qualify as exit and disposal costs under ASC 420, Exit or Disposal Cost Obligations. Other expenses that are an integral component of, and directly attributable to, restructuring activities do not qualify as exit and disposal costs, such as accelerated depreciation, asset impairments and other incremental costs. In the first nine months of fiscal 2020, we recognized pre-tax expenses associated with this initiative of \$5.3 million within cost of sales. These costs do not qualify as exit and disposal costs under ASC 420.

At January 25, 2020, we owned preferred shares of two privately held start-up companies, both of which are variable interest entities. We also hold a warrant to purchase common shares of one of these companies. We have not consolidated the results of either of these companies in our financial statements because we do not have the power to direct those activities that most significantly impact the economic performance of either of these companies and, therefore, are not the primary beneficiary.

Accounting pronouncement adopted in fiscal 2020

The accounting standards update ("ASU") described in the paragraph below had a significant impact on our accounting policies and our consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), requiring lessees to record all operating leases on their balance sheet. Under this standard, the lessee is required to record an asset for the right to use the underlying asset for the lease term and a corresponding liability for the contractual lease payments. We have adopted this standard in the first quarter of fiscal 2020 using the modified retrospective approach. See Note 5 for further information.

[Table of Contents](#)

The following table summarizes additional ASUs which were adopted in fiscal 2020, but did not have a material impact on our accounting policies or our consolidated financial statements and related disclosures.

ASU	Description
ASU 2017-06	Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): Employee Benefit Plan Master Trust Reporting
ASU 2017-12	Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities
ASU 2018-02	Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income
ASU 2018-07	Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting
ASU 2018-13	Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurements
ASU 2018-16	Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes

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 2016-13	Financial Instruments – Credit losses (Topic 326): Measurement of Credit Losses on Financial Instruments	Fiscal 2021
ASU 2018-14	Compensation – Retirement benefits – Defined Benefit Plans – General (Subtopic 715-20): Changes to the Disclosure Requirements for Defined Benefit Plans	Fiscal 2022
ASU 2019-12	Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes	Fiscal 2022
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 325, and Topic 815	Fiscal 2022

Subsequent events

Subsequent to the end of the third quarter of fiscal 2020, one of our largest customers made a public statement that they are actively exploring a variety of options with creditors, investors and landlords in order to continue serving their customers. As of the end of the third quarter of fiscal 2020, we had a trade receivable from this customer of approximately \$7 million, and have not provided for any potential credit losses. We are monitoring this fast-developing situation, including through direct discussions with this customer, and as of the date of this filing, based on all information available to us, believe that the amounts owed as of January 25, 2020, are materially collectible.

Note 2: Acquisitions

We did not complete any acquisitions during the nine months ended January 25, 2020.

Joybird acquisition

On July 30, 2018, we completed our acquisition of Stitch Industries, Inc. ("Joybird"), an e-commerce retailer and manufacturer of upholstered furniture, for guaranteed cash payments of \$75 million, which was subject to a working capital adjustment of \$2.5 million. We received the working capital adjustment during the third quarter of fiscal 2019 from amounts placed in escrow at the time of the closing of the transaction. We acquired Joybird to better position ourselves for growth in the online selling environment and increase our visibility with millennial and Gen X consumers, while simultaneously leveraging our supply chain assets.

The guaranteed payments include a closing date cash payment of \$37.5 million in purchase price consideration (net of the working capital adjustment), \$7.5 million in prepaid compensation, and the assumption of \$5.0 million of liabilities that will be paid within two years following the acquisition. The remaining \$25 million will be paid in five annual installments of \$5 million on the anniversary date of the acquisition, the first of which was paid in the first quarter of fiscal 2020. The merger agreement also includes two future earn-out opportunities based on Joybird's financial performance in fiscal 2021 and fiscal 2023.

[Table of Contents](#)

The \$7.5 million of prepaid compensation relates to the retention of the four Joybird founders, now our employees, each of whom will forfeit proportional amounts if one or more of them resigns in the two years following the acquisition. We are amortizing the \$7.5 million to SG&A expense over the two-year retention period on a straight-line basis. In addition to the guaranteed cash payments of \$75 million, we recorded a contingent consideration liability on the date of acquisition of \$7.5 million, which reflects the fair value of the earn-out opportunities as of the date of acquisition. We also recorded a finite-lived intangible asset of \$6.4 million reflecting the fair value of the acquired Joybird® trade name, which we are amortizing to SG&A expense on a straight-line basis over its useful life of eight years. The undiscounted range of the contingent consideration is zero to \$65 million and is based on sales and profitability of Joybird in fiscal 2021 and fiscal 2023. Subsequent adjustments to the fair value of the contingent consideration will impact SG&A expense in our consolidated statement of income.

We recorded \$78.8 million of goodwill related to the Joybird acquisition, related primarily to synergies we expect from the integration of the acquisition and the anticipated future benefits of these synergies. The finite-lived intangible asset and goodwill asset for Joybird are not deductible for federal income tax purposes. We included the Joybird operating segment in our other business activities which we report within our Corporate and Other reportable segment.

Refer to Note 6. Goodwill and Other Intangible Assets and Note 16. Fair Value Measurements for further information regarding the valuation of the contingent consideration, goodwill and intangible assets related to Joybird.

The following table summarizes the purchase price allocation for Joybird at the date of acquisition:

<i>(Unaudited, amounts in thousands)</i>	Joybird Acquisition
Fair value of consideration:	
Cash (paid at closing)	\$ 37,482
Guaranteed payment	22,489
Acquisition earn-out	7,500
Assumption of liability	5,000
Working capital adjustment	(2,486)
Total fair value of consideration	<u>69,985</u>
Amounts recognized for assets acquired and liabilities assumed:	
Inventory	5,258
Other current assets	3,733
Property, plant and equipment	2,057
Finite-lived tradename	6,400
Other long-term assets	3,647
Accounts payable	(8,222)
Customer deposits	(13,904)
Other current liabilities	(7,681)
Other long-term liabilities	(150)
Total identifiable net liabilities acquired	<u>(8,862)</u>
Goodwill	<u>\$ 78,847</u>

The Joybird acquisition was not material to our financial position or our results of operations, and therefore, pro-forma financial information is not presented.

[Table of Contents](#)**Note 3: 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.

<i>(Unaudited, amounts in thousands)</i>	1/25/20	1/26/19
Cash and cash equivalents	\$ 166,272	\$ 101,579
Restricted cash	1,973	2,003
Total cash, cash equivalents and restricted cash	<u>\$ 168,245</u>	<u>\$ 103,582</u>

Note 4: Inventories

A summary of inventories is as follows:

<i>(Unaudited, amounts in thousands)</i>	1/25/20	4/27/19
Raw materials	\$ 96,010	\$ 90,359
Work in process	14,055	13,728
Finished goods	110,168	114,478
FIFO inventories	220,233	218,565
Excess of FIFO over LIFO	(21,666)	(21,666)
Total inventories	<u>\$ 198,567</u>	<u>\$ 196,899</u>

Note 5: Leases

During the first quarter of fiscal 2020, we adopted ASU 2016-02, Leases (Topic 842) and all related amendments. The guidance requires lessees to recognize substantially all leases on their balance sheet as a right-of-use ("ROU") asset and a lease liability.

The Company leases real estate for retail stores, distribution centers, warehouses, plants, showrooms and office space. We also have equipment leases for tractors/trailers, IT and office equipment and vehicles. We determine if a contract contains a lease at inception based on our right to control the use of an identified asset and our right to obtain substantially all the economic benefits from the use of that identified asset. Most of our real estate leases include options to renew or terminate early. We assess these options to determine if we are reasonably certain of exercising these options based on all relevant economic and financial factors. Any options that meet these criteria are included in the lease term at lease commencement.

Most of our leases do not have an interest rate implicit in the lease. As a result, for purposes of measuring our ROU asset and lease liability, we determine our incremental borrowing rate by applying a spread above the U.S. Treasury borrowing rates. In the case an interest rate is implicit in a lease we will use that rate as the discount rate for that lease. Some of our leases contain variable rent payments based on a Consumer Price Index or percentage of sales. Due to the variable nature of these costs, they are not included in the measurement of the ROU asset and lease liability.

The Company has elected to apply the practical expedients permitted under transition guidance to forgo the restatement of comparative periods and to not reassess leases entered into prior to adoption. In addition, we have elected the practical expedient to not separate lease and non-lease components when determining the ROU asset and lease liability. We have also made an accounting policy election to not recognize an ROU asset and lease liability on the balance sheet for those leases with an initial term of one year or less and instead, such liabilities will be expensed on a straight-line basis over the lease term.

Supplemental balance sheet information related to leases:

<i>(Unaudited, amounts in thousands)</i>	1/25/20
Operating leases	
ROU assets	\$ 318,124
Lease liabilities, short-term	65,089
Lease liabilities, long-term	267,955
Finance leases	
ROU assets	\$ 38
Lease liabilities, short-term	39
Lease liabilities, long-term	—

[Table of Contents](#)

The ROU assets by segment are as follows:

<i>(Unaudited, amounts in thousands)</i>	1/25/20
Upholstery	\$ 57,800
Casegoods	4,214
Retail	242,987
Corporate & Other	13,161
Total ROU assets	<u>\$ 318,162</u>

The components of lease cost are as follows for the respective periods ended January 25, 2020:

<i>(Unaudited, amounts in thousands)</i>	Quarter Ended	Nine Months Ended
Operating lease cost	\$ 18,987	\$ 57,024
Financing lease cost	40	139
Short-term lease cost	25	76
Variable lease cost	48	142
Less: Sublease income	(633)	(1,893)
Total lease cost	<u>\$ 18,467</u>	<u>\$ 55,488</u>

The following tables present supplemental lease disclosures:

<i>(Unaudited, amounts in thousands)</i>	Nine Months Ended January 25, 2020	
	Operating Leases	Financing Leases
Cash paid for amounts included in the measurement of lease liabilities	\$ 57,851	\$ 138
Lease liabilities arising from new ROU assets	52,954	—

<i>(Unaudited, amounts in thousands)</i>	1/25/20	
	Operating Leases	Financing Leases
Weighted-average remaining lease term (years)	6.7	0.5
Weighted-average discount rate	3.8%	3.9%

The following table presents our undiscounted cash flows as of January 25, 2020, and our minimum contractual obligations on our leases as of April 27, 2019:

<i>(Unaudited, amounts in thousands)</i>	1/25/20		4/27/19	
	Operating Leases	Financing Leases	Operating Leases	Financing Leases
Within one year	\$ 76,348	\$ 40	\$ 76,508	\$ 180
After one year and within two years	66,953	—	71,544	19
After two years and within three years	55,988	—	58,763	—
After three years and within four years	44,375	—	46,541	—
After four years and within five years	37,576	—	36,082	—
After five years	95,660	—	102,782	—
Total lease payments	<u>376,900</u>	<u>40</u>	<u>\$ 392,220</u>	<u>\$ 199</u>
Less: Interest	43,856	1		
Total lease obligations	<u>\$ 333,044</u>	<u>\$ 39</u>		

Note 6: Goodwill and Other Intangible Assets

We have goodwill on our consolidated balance sheet as follows:

Reportable Segment/Unit	Related Acquisition
Upholstery segment	Acquisition of the wholesale business in the United Kingdom and Ireland
Retail segment	Acquisitions of La-Z-Boy Furniture Galleries® stores
Corporate & Other	Acquisition of Joybird

The following is a roll-forward of goodwill for the nine months ended January 25, 2020:

<i>(Unaudited, amounts in thousands)</i>	Upholstery Segment	Retail Segment	Corporate and Other	Total Goodwill
Balance at April 27, 2019	\$ 12,148	\$ 94,103	\$ 79,616	\$ 185,867
Acquisition adjustment	—	—	(769)	(769)
Translation adjustment	148	82	—	230
Balance at January 25, 2020	\$ 12,296	\$ 94,185	\$ 78,847	\$ 185,328

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

Reportable Segment/Unit	Intangible Asset	Useful Life
Upholstery 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
Casegoods 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 is a roll-forward of our other intangible assets for the nine months ended January 25, 2020:

<i>(Unaudited, amounts in thousands)</i>	Indefinite-Lived Trade Names	Finite-Lived Trade Name	Indefinite-Lived Reacquired Rights	Other Intangible Assets	Total Other Intangible Assets
Balance at April 27, 2019	\$ 1,155	\$ 5,801	\$ 20,117	\$ 2,834	\$ 29,907
Amortization	—	(598)	—	(165)	(763)
Translation adjustment	—	—	62	29	91
Balance at January 25, 2020	\$ 1,155	\$ 5,203	\$ 20,179	\$ 2,698	\$ 29,235

We test 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. Per the annual test performed in the fourth quarter of fiscal year 2019, the relative fair value of the Joybird reporting unit and the carrying value of our goodwill were not significantly different, which is to be expected given the short duration of time between the testing date and the Joybird acquisition date. Joybird, an e-commerce retailer, is an early stage business with an expectation of high growth. With all business acquisitions, primarily those in the early stage, the timing on fully leveraging synergies comes with uncertainty and as a result, valuation volatility may occur. Absent any impairment indicators, aligned with our annual testing during the fourth quarter of fiscal 2020, we will undertake a review of the Joybird business, which could result in an adjustment to the fair value of the intangible assets and goodwill related to Joybird.

Note 7: 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. 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.

[Table of Contents](#)

We also hold other investments consisting of cost-basis preferred shares of two privately held start-up companies. In the third quarter of fiscal year 2020, we recognized an other-than-temporary impairment of \$6.0 million, which represents the full cost-basis value of the investment in one of these privately held start-up companies. The impairment loss is recognized in Other income (expense), net on the consolidated statement of income. Refer to Note 16, Fair Value Measurements for further information.

The following summarizes our investments:

<i>(Unaudited, amounts in thousands)</i>	1/25/20	4/27/19
Short-term investments:		
Marketable securities	\$ 18,891	\$ 18,016
Held-to-maturity investments	3,542	3,341
Total short-term investments	22,433	21,357
Long-term investments:		
Marketable securities	21,902	24,085
Cost basis investments	6,479	11,979
Total long-term investments	28,381	36,064
Total investments	\$ 50,814	\$ 57,421
Investments to enhance returns on cash	\$ 30,109	\$ 31,470
Investments to fund compensation/retirement plans	14,226	13,972
Other investments	6,479	11,979
Total investments	\$ 50,814	\$ 57,421

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

<i>(Unaudited, amounts in thousands)</i>	1/25/20			4/27/19		
	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity securities	\$ 1,922	\$ (6,000)	\$ 13,600	\$ 1,841	\$ —	\$ 19,535
Fixed income	199	(8)	31,962	75	(111)	33,217
Other	376	—	5,252	258	(13)	4,669
Total securities	\$ 2,497	\$ (6,008)	\$ 50,814	\$ 2,174	\$ (124)	\$ 57,421

The following table summarizes sales of marketable securities:

<i>(Unaudited, amounts in thousands)</i>	Quarter Ended		Nine Months Ended	
	1/25/20	1/26/19	1/25/20	1/26/19
Proceeds from sales	\$ 11,517	\$ 6,550	\$ 23,887	\$ 14,304
Gross realized gains	431	726	618	811
Gross realized losses	(62)	(261)	(150)	(327)

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

<i>(Unaudited, amounts in thousands)</i>	1/25/20
Within one year	\$ 19,041
Within two to five years	10,000
Within six to ten years	1,639
Thereafter	1,282
Total	\$ 31,962

Note 8: Employee Benefits*Pension*

During the fourth quarter of fiscal 2019, we terminated our defined benefit pension plan for eligible factory hourly employees in our La-Z-Boy operating unit. In connection with the plan termination, we settled all future obligations under the plan through a combination of lump-sum payments to eligible participants who elected to receive them, and the transfer of any remaining benefit obligations under the plan to a highly rated insurance company.

During the second quarter of fiscal 2020, we received a pre-tax refund of \$1.9 million from the insurance company, representing an overpayment of the expected benefit obligations that were settled during the fourth quarter of fiscal 2019. The refund was recorded as a component of other income (expense), net in our consolidated statement of income.

There were no net periodic pension costs associated with the terminated pension plan in the quarter and nine months ended January 25, 2020. For the quarter and nine months ended January 26, 2019, net periodic pension costs were as follows:

<i>(Unaudited, amounts in thousands)</i>	Quarter Ended		Nine Months Ended	
	01/26/19		01/26/19	
Service cost	\$	223	\$	869
Interest cost		1,116		3,348
Expected return on plan assets		(1,136)		(3,408)
Net amortization		639		1,917
Net periodic pension cost	\$	842	\$	2,726

The components of net periodic pension cost other than the service cost were included in other income (expense), net in our consolidated statement of income. Service cost was recorded in cost of sales in our consolidated statement of income.

Employee Vacation Policy Changes

We enacted changes to our employee vacation policies that became effective on January 1, 2019. Our new vacation policies enhanced the amount of vacation time earned by our employees. Additionally, under these vacation policies, our salaried and office hourly employees now accrue vacation in the current calendar year for use in the current calendar year, and any vacation time earned but not used will be forfeited at the end of each calendar year. These changes reduced our salary and office hourly vacation liability and resulted in a one-time non-cash gain of \$5.1 million in our consolidated statement of income in the third quarter of fiscal 2019. Of the total \$5.1 million gain recorded, \$1.3 million was recorded in cost of sales with the remainder recorded in SG&A expense. Our factory vacation policies for hourly employees were only changed to enhance the amount of vacation time earned by our employees, with no change to accrual methodologies, and resulted in \$0.3 million incremental expense in the third quarter of fiscal 2019, recorded in cost of sales.

Note 9: Product Warranties

We accrue an estimated liability for product warranties when we recognize revenue on the sale of warranted products. We estimate future warranty claims on new sales based on our historical claims experience and also provide for any additional anticipated future costs on previously sold products. 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 Upholstery 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 Upholstery segment warranties cover labor costs relating to our parts for one year. We provide a limited lifetime warranty against defects on a majority of the products sold by Joybird, which is 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.

[Table of Contents](#)

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

<i>(Unaudited, amounts in thousands)</i>	Quarter Ended		Nine Months Ended	
	01/25/20	01/26/19	01/25/20	01/26/19
Balance as of the beginning of the period	\$ 23,081	\$ 25,197	\$ 22,736	\$ 21,205
Acquisitions	—	—	—	4,100
Accruals during the period	6,321	5,660	17,746	16,270
Settlements during the period	(6,057)	(5,560)	(17,137)	(16,278)
Balance as of the end of the period	\$ 23,345	\$ 25,297	\$ 23,345	\$ 25,297

As of January 25, 2020 and April 27, 2019, we included \$14.3 million and \$13.9 million, respectively, of our product warranty liability in accrued expenses and other current liabilities on our consolidated balance sheet, and included the remainder 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 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:

<i>(Unaudited, amounts in thousands)</i>	Quarter Ended		Nine Months Ended	
	01/25/20	01/26/19	01/25/20	01/26/19
Equity-based awards expense	\$ 2,528	\$ 2,495	\$ 7,235	\$ 8,174
Liability-based awards expense	(303)	144	37	10
Total stock-based compensation expense	\$ 2,225	\$ 2,639	\$ 7,272	\$ 8,184

Stock Options. We granted 248,662 stock options to employees during the first quarter of fiscal 2020 and we have stock options outstanding from previous grants. In fiscal 2020, we have changed the grant mix to include fewer stock options and have replaced those awards with restricted shares. 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 estimate forfeiture rates based on our employees' forfeiture history and believe they will approximate future results. 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. We estimate expected volatility based on the historical volatility of our common shares. We base the average expected life on the contractual term of the stock option and expected employee exercise trends. We base the risk-free rate on U.S. Treasury issues with a term equal to the expected life assumed at the date of the grant.

We calculated the fair value of stock options granted during the first quarter of fiscal 2020 using the following assumptions:

<i>(Unaudited)</i>	Fiscal 2020 grant
Risk-free interest rate	2.19%
Dividend rate	1.72%
Expected life in years	5.0
Stock price volatility	34.27%
Fair value per share	\$ 7.94

Stock Appreciation Rights ("SARs"). We have not granted any SARs to employees since fiscal 2014, but we have SARs outstanding from the fiscal 2013 and fiscal 2014 grants. All outstanding SARs are fully vested and have a term of ten years. SARs will be paid in cash upon exercise and, accordingly, we account for SARs as liability-based awards that we re-measure to fair value at the end of each reporting period.

[Table of Contents](#)

In fiscal 2013 and fiscal 2014, we granted SARs as described in our Annual Report on Form 10-K for the fiscal year ended April 27, 2013 and April 26, 2014, respectively. As of January 25, 2020, we had 7,149 and 13,869 SARs outstanding for the fiscal 2013 and fiscal 2014 awards, respectively. These awards have exceeded their expected life and will be re-measured to fair value based on their intrinsic value, which is the market value of our common stock on the last day of the reporting period less the exercise price, until the earlier of the exercise date or the contractual term date. At January 25, 2020, the intrinsic value per share of the fiscal 2013 and fiscal 2014 awards were \$20.59 and \$13.50, respectively.

Restricted Stock. We granted 166,649 shares of restricted stock to employees during the first nine months of fiscal 2020. We also have shares of restricted stock outstanding from previous grants. 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 awarded in the first nine months of fiscal 2020 was \$30.41 per share, the market value of our common shares on the date of grant. We estimate forfeiture rates based on our employees' forfeiture history and believe they will approximate future results. We recognize compensation expense for restricted stock over the vesting period equal to the fair value on the grant date of the award. 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 2020, we granted 28,332 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 \$31.77.

Performance Shares. During the first quarter of fiscal 2020, we granted 155,605 performance-based shares. We also have performance-based share awards outstanding from previous grants. Payout of these grants depends on our financial performance (80%) 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 (20%). 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.

We account for performance-based shares as equity-based awards because when they vest, they will be settled in common shares. We estimate forfeiture rates based on our employees' forfeiture history and believe they will approximate future results. 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 2020 that vest based on attaining performance goals was \$28.68, 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, net of estimated forfeitures, 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 2020 grant of shares that vest based on market conditions was \$38.75.

Note 11: Accumulated Other Comprehensive Income (Loss)

The activity in accumulated other comprehensive income (loss) for the quarters ended January 25, 2020, and January 26, 2019, is as follows:

<i>(Unaudited, amounts in thousands)</i>	Translation adjustment	Change in fair value of cash flow hedge	Unrealized gain (loss) on marketable securities	Net pension amortization and net actuarial loss	Accumulated other comprehensive loss
Balance at October 26, 2019	\$ 1,345	\$ —	\$ 418	\$ (4,231)	\$ (2,468)
Changes before reclassifications	50	—	41	—	91
Amounts reclassified to net income	—	—	(20)	55	35
Tax effect	—	—	(5)	(14)	(19)
Other comprehensive income attributable to La-Z-Boy Incorporated	50	—	16	41	107
Balance at January 25, 2020	\$ 1,395	\$ —	\$ 434	\$ (4,190)	\$ (2,361)
Balance at October 27, 2018	\$ (24)	\$ (24)	\$ (197)	\$ (28,084)	\$ (28,329)
Changes before reclassifications	800	—	72	—	872
Amounts reclassified to net income	—	93	48	687	828
Tax effect	—	(23)	(30)	(172)	(225)
Other comprehensive income attributable to La-Z-Boy Incorporated	800	70	90	515	1,475
Balance at January 26, 2019	\$ 776	\$ 46	\$ (107)	\$ (27,569)	\$ (26,854)

The activity in accumulated other comprehensive income (loss) for the nine months ended January 25, 2020, and January 26, 2019, is as follows:

<i>(Unaudited, amounts in thousands)</i>	Translation adjustment	Change in fair value of cash flow hedge	Unrealized gain (loss) on marketable securities	Net pension amortization and net actuarial loss	Accumulated other comprehensive loss
Balance at April 27, 2019	\$ 50	\$ 87	\$ 6	\$ (3,605)	\$ (3,462)
Changes before reclassifications	1,345	—	253	—	1,598
Reclassification of certain income tax effects (1)	—	(97)	258	(708)	(547)
Amounts reclassified to net income	—	14	(28)	164	150
Tax effect	—	(4)	(55)	(41)	(100)
Other comprehensive income (loss) attributable to La-Z-Boy Incorporated	1,345	(87)	428	(585)	1,101
Balance at January 25, 2020	\$ 1,395	\$ —	\$ 434	\$ (4,190)	\$ (2,361)
Balance at April 28, 2018	\$ 2,388	\$ 154	\$ 1,376	\$ (29,117)	\$ (25,199)
Changes before reclassifications	(1,612)	(369)	175	—	(1,806)
Cumulative effect adjustment for investments (2)	—	—	(1,637)	—	(1,637)
Amounts reclassified to net income	—	225	29	2,059	2,313
Tax effect	—	36	(50)	(511)	(525)
Other comprehensive income (loss) attributable to La-Z-Boy Incorporated	(1,612)	(108)	(1,483)	1,548	(1,655)
Balance at January 26, 2019	\$ 776	\$ 46	\$ (107)	\$ (27,569)	\$ (26,854)

(1) Income tax effects of the Tax Cuts and Jobs Act are reclassified from AOCI to retained earnings due to adoption of ASU 2018-02.

(2) The cumulative effect adjustment for investments is composed of \$2.1 million of unrealized gains on equity investments offset by \$0.5 million of tax expense. We reclassified the net \$1.6 million of cumulative effect adjustment from accumulated other comprehensive loss to retained earnings as a result of adopting ASU 2016-01.

[Table of Contents](#)

We reclassified the unrealized gain/(loss) on marketable securities from accumulated other comprehensive loss to net income through other income (expense), net in our consolidated statement of income, reclassified the change in fair value of cash flow hedges to net income through cost of sales, and reclassified the net pension amortization to net income through other income (expense), net.

The components of non-controlling interest were as follows:

<i>(Unaudited, amounts in thousands)</i>	Quarter Ended		Nine Months Ended	
	1/25/20	1/26/19	1/25/20	1/26/19
Balance as of the beginning of the period	\$ 15,543	\$ 13,411	\$ 14,468	\$ 13,035
Net income	204	443	434	1,428
Other comprehensive income (loss)	(162)	669	683	60
Balance as of the end of the period	<u>\$ 15,585</u>	<u>\$ 14,523</u>	<u>\$ 15,585</u>	<u>\$ 14,523</u>

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 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.

[Table of Contents](#)

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

Quarter Ended January 25, 2020					
<i>(Unaudited, amounts in thousands)</i>	Upholstery	Casegoods	Retail	Corporate and Other	Total
Motion Upholstery Furniture	\$ 212,079	\$ —	\$ 100,662	\$ —	\$ 312,741
Stationary Upholstery Furniture	96,429	4,131	33,348	29,094	163,002
Bedroom Furniture	—	7,772	1,517	1,842	11,131
Dining Room Furniture	—	5,981	3,040	596	9,617
Occasional Furniture	383	11,619	6,148	516	18,666
Other (1)	27,805	(1,388)	22,779	(6,379)	42,817
Total	\$ 336,696	\$ 28,115	\$ 167,494	\$ 25,669	\$ 557,974

Eliminations	(82,118)
Consolidated Net Sales	<u>\$ 475,856</u>

Quarter Ended January 26, 2019					
<i>(Unaudited, amounts in thousands)</i>	Upholstery	Casegoods	Retail	Corporate and Other	Total
Motion Upholstery Furniture	\$ 212,631	\$ —	\$ 100,232	\$ —	\$ 312,863
Stationary Upholstery Furniture	94,551	3,844	27,652	24,096	150,143
Bedroom Furniture	—	7,447	1,586	1,296	10,329
Dining Room Furniture	—	5,733	3,097	610	9,440
Occasional Furniture	391	12,292	5,959	338	18,980
Other (1)	26,875	(1,251)	20,891	(3,491)	43,024
Total	\$ 334,448	\$ 28,065	\$ 159,417	\$ 22,849	\$ 544,779

Eliminations	(77,197)
Consolidated Net Sales	<u>\$ 467,582</u>

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

Nine Months Ended January 25, 2020

<i>(Unaudited, amounts in thousands)</i>	Upholstery	Casegoods	Retail	Corporate and Other	Total
Motion Upholstery Furniture	\$ 588,820	\$ —	\$ 270,301	\$ —	\$ 859,121
Stationary Upholstery Furniture	281,699	12,873	96,306	79,477	470,355
Bedroom Furniture	—	24,711	4,513	4,800	34,024
Dining Room Furniture	—	17,656	8,036	1,436	27,128
Occasional Furniture	1,083	33,988	16,728	1,374	53,173
Other (1)	79,365	(4,588)	63,010	(16,555)	121,232
Total	\$ 950,967	\$ 84,640	\$ 458,894	\$ 70,532	\$ 1,565,033

Eliminations (228,332)

Consolidated Net Sales \$ 1,336,701

Nine Months Ended January 26, 2019

<i>(Unaudited, amounts in thousands)</i>	Upholstery	Casegoods	Retail	Corporate and Other	Total
Motion Upholstery Furniture	\$ 602,458	\$ —	\$ 260,924	\$ —	\$ 863,382
Stationary Upholstery Furniture	272,087	12,215	76,517	47,791	408,610
Bedroom Furniture	—	24,045	3,891	3,756	31,692
Dining Room Furniture	—	18,068	7,293	1,429	26,790
Occasional Furniture	1,202	38,003	15,000	828	55,033
Other (1)	69,192	(4,503)	54,706	(4,712)	114,683
Total	\$ 944,939	\$ 87,828	\$ 418,331	\$ 49,092	\$ 1,500,190

Eliminations (208,580)

Consolidated Net Sales \$ 1,291,610

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

Motion Upholstery Furniture - Includes gross revenue for upholstered furniture, such as recliners, sofas, loveseats, chairs, sectionals and modulares 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, modulares, 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.

At January 25, 2020, our consolidated balance sheet includes current assets of \$25.3 million that we reported as other receivables. These other receivables represent the remaining consideration to which we are entitled prior to fulfilling our performance obligation. At the beginning of fiscal 2020, we had \$17.0 million of other receivables.

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 deferred revenue (collectively, the “contract liabilities”). At January 25, 2020, we included \$60.9 million of customer deposits and \$25.3 million of deferred revenues in accrued expenses and other current liabilities on our consolidated balance sheet. At the beginning of fiscal 2020, we had \$42.8 million of customer deposits and \$17.0 million of deferred revenues. During the quarter and nine months ended January 25, 2020 we recognized revenue of \$0.5 million and \$55.0 million, respectively, related to our contract liability balance at April 27, 2019.

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.

Note 13: Segment Information

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

Upholstery Segment. Our Upholstery segment is our largest business segment and consists primarily of two operating segments: La-Z-Boy, our largest operating segment, and the operating segment for our England subsidiary. The Upholstery segment also includes our international wholesale businesses. We aggregate these operating segments into one reportable segment because they are economically similar and because they meet the other aggregation criteria for determining reportable segments. Our Upholstery segment manufactures and imports upholstered furniture such as recliners and motion furniture, sofas, loveseats, chairs, sectionals, modulars, ottomans and sleeper sofas. The Upholstery segment sells directly to La-Z-Boy Furniture Galleries® stores, operators of La-Z-Boy Comfort Studio® locations and England Custom Comfort Center locations, major dealers, and a wide cross-section of other independent retailers.

Casegoods Segment. Our Casegoods segment consists of one operating segment that sells furniture under three brands: American Drew®, Hammary®, and Kincaid®. The Casegoods segment is an importer, marketer, and distributor of casegoods (wood) furniture such as bedroom sets, dining room sets, entertainment centers and occasional pieces, and also manufactures some coordinated upholstered furniture. The Casegoods segment sells directly to major dealers, as well as La-Z-Boy Furniture Galleries® stores, and a wide cross-section of other independent retailers.

Retail Segment. Our Retail segment consists of one operating segment comprised of our 155 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.

[Table of Contents](#)

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

<i>(Unaudited, amounts in thousands)</i>	Quarter Ended		Nine Months Ended	
	1/25/20	1/26/19	1/25/20	1/26/19
Sales				
Upholstery segment:				
Sales to external customers	\$ 262,835	\$ 265,487	\$ 746,851	\$ 759,569
Intersegment sales	73,861	68,961	204,116	185,370
Upholstery segment sales	336,696	334,448	950,967	944,939
Casegoods segment:				
Sales to external customers	22,583	23,129	68,561	73,774
Intersegment sales	5,532	4,936	16,079	14,054
Casegoods segment sales	28,115	28,065	84,640	87,828
Retail segment sales	167,494	159,417	458,894	418,331
Corporate and Other:				
Sales to external customers	22,944	19,549	62,395	39,936
Intersegment sales	2,725	3,300	8,137	9,156
Corporate and Other sales	25,669	22,849	70,532	49,092
Eliminations	(82,118)	(77,197)	(228,332)	(208,580)
Consolidated sales	\$ 475,856	\$ 467,582	\$ 1,336,701	\$ 1,291,610
Operating Income (Loss)				
Upholstery segment	\$ 46,512	\$ 34,566	\$ 104,859	\$ 90,602
Casegoods segment	2,534	3,332	7,336	10,173
Retail segment	16,383	14,158	33,272	25,179
Corporate and Other	(13,116)	(11,213)	(40,131)	(33,451)
Consolidated operating income	52,313	40,843	105,336	92,503
Interest expense	(265)	(538)	(891)	(1,143)
Interest income	844	540	2,093	1,534
Other income (expense), net	(5,998)	(941)	(5,390)	(2,046)
Income before income taxes	\$ 46,894	\$ 39,904	\$ 101,148	\$ 90,848

Note 14: Income Taxes

Our effective tax rate was 26.0% and 25.3% for the third quarter and nine months ended January 25, 2020, respectively. Our effective tax rate was 26.9% and 24.6% for the third quarter and nine months ended January 26, 2019, respectively. Our effective tax rate varies from the 21% federal statutory rate primarily due to state taxes. Absent discrete adjustments, our effective tax rate in the third quarter of fiscal 2020 would have been 25.8%.

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 2020, 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. The restricted stock awards we granted in fiscal 2019 and fiscal 2020 do not have non-forfeitable rights to dividends and therefore are not considered participating securities. The dividends on the restricted stock awards granted in fiscal 2019 and fiscal 2020 are, and will continue to be held in escrow, until the stock awards vest at which time we will pay any accumulated dividends.

[Table of Contents](#)

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

<i>(Unaudited, amounts in thousands)</i>	Quarter Ended		Nine Months Ended	
	1/25/20	1/26/19	1/25/20	1/26/19
Numerator (basic and diluted):				
Net income attributable to La-Z-Boy Incorporated	\$ 34,512	\$ 28,731	\$ 75,174	\$ 67,046
Income allocated to participating securities	(45)	(92)	(121)	(231)
Net income available to common Shareholders	\$ 34,467	\$ 28,639	\$ 75,053	\$ 66,815
Denominator:				
Basic weighted average common shares outstanding	46,262	46,820	46,545	46,808
Add:				
Contingent common shares	148	131	147	135
Stock option dilution	174	140	175	269
Diluted weighted average common shares outstanding	46,584	47,091	46,867	47,212
Earnings per Share:				
Basic	\$ 0.75	\$ 0.61	\$ 1.61	\$ 1.43
Diluted	\$ 0.74	\$ 0.61	\$ 1.60	\$ 1.42

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 had outstanding options to purchase 0.3 million shares for the quarter and nine months ended January 25, 2020, with a weighted average exercise price of \$33.15. We excluded the effect of these options from our diluted share calculation since the weighted average exercise price of the options was higher than the average market price and including the options' effect would have been anti-dilutive. Similarly, we excluded options to purchase 0.4 million shares from the diluted share calculation for the quarter and nine months ended January 26, 2019.

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 aJanuary 25, 2020 and April 27, 2019. There were no transfers into or out of Level 1, Level 2, or Level 3 for any of the periods presented.

At January 25, 2020

<i>(Unaudited, amounts in thousands)</i>	Fair Value Measurements				
	Level 1	Level 2	Level 3	NAV(1)	Total
Assets					
Marketable securities	\$ 4	\$ 33,417	\$ —	\$ 7,372	\$ 40,793
Held-to-maturity investments	3,542	—	—	—	3,542
Cost basis investments	—	—	6,479	—	6,479
Total assets	\$ 3,546	\$ 33,417	\$ 6,479	\$ 7,372	\$ 50,814
Liabilities					
Contingent consideration liability	\$ —	\$ —	\$ 7,900	\$ —	\$ 7,900

At April 27, 2019

<i>(Unaudited, amounts in thousands)</i>	Fair Value Measurements				
	Level 1	Level 2	Level 3	NAV(1)	Total
Assets					
Marketable securities	\$ 5	\$ 34,390	\$ —	\$ 7,706	\$ 42,101
Held-to-maturity investments	3,341	—	—	—	3,341
Cost basis investment	—	—	11,979	—	11,979
Total assets	\$ 3,346	\$ 34,390	\$ 11,979	\$ 7,706	\$ 57,421
Liabilities					
Contingent consideration liability	\$ —	\$ —	\$ 7,900	\$ —	\$ 7,900

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

At January 25, 2020 and April 27, 2019, 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 January 25, 2020, our Level 3 assets included non-marketable preferred shares of two privately held start-up companies, and a warrant to purchase common shares of one of these 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.

During the quarter ended October 26, 2019, we invested an additional \$0.5 million in one of these privately held start-up companies. Subsequently and during the quarter ended January 25, 2020, with respect to the same investee, we recorded an impairment charge of \$6.0 million for the full carrying value as it was determined the value of the investment was not recoverable. For non-marketable equity investments, the measurement of fair value requires significant judgment and includes quantitative and qualitative analysis of identified events or circumstances that impact the fair value of the investment. Among other factors, we assessed the investee's ability to meet business milestones, its financial condition and near-term prospects (including the rate at which the investee was using its cash), the investee's need for possible additional funding at a lower valuation, and the competitive environment in which the investee operates its business.

There were no other changes to the fair value of our Level 3 assets during the quarter and nine months ended January 25, 2020.

Our Level 3 liability includes our contingent consideration liability from the Joybird acquisition. We estimated the contingent consideration liability based on future revenues and earnings in fiscal 2021 and fiscal 2023. The fair value was determined using a variation of the income approach, known as the real options method, whereby revenue and earnings were simulated over the earn-out periods in a risk-neutral framework using Geometric Brownian Motion. For each simulation path, the potential earn-out 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 4.2% for the fiscal 2021 milestone

[Table of Contents](#)

and 4.7% for the fiscal 2023 milestone. There were no changes to the fair value of our Level 3 liabilities during the first nine months of fiscal 2020. However, our integration efforts related to the acquired Joybird business are taking longer than anticipated. Consistent with our policy of testing of non-financial assets annually in the fourth quarter or more frequently, if an impairment indicator is identified, we will be undertaking a review of the Joybird business next quarter, which will include future revenue and earnings projections, and which could result in an adjustment to the fair value of the contingent consideration liability as well as intangible assets and goodwill related to Joybird.

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 about 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 Statement Concerning Forward-Looking Statements

La-Z-Boy Incorporated and its subsidiaries (individually and collectively, "we," "our" or the "Company") make forward-looking statements in this report, and its representatives may make oral forward-looking statements from time to time. Generally, forward-looking statements include information concerning possible or assumed future actions, events or results of operations. More specifically, forward-looking statements may include information regarding:

- future income, margins and cash flows
- future sales
- adequacy and cost of financial resources
- future economic performance
- industry and importing trends
- management plans and strategic initiatives

Forward-looking statements also include those preceded or followed by the words "anticipates," "believes," "estimates," "hopes," "plans," "could," "intends" and "expects" or similar expressions. With respect to all forward-looking statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

Actual results could differ materially from those we anticipate or project due to a number of factors, including: (a) changes in consumer confidence and demographics; (b) the possibility of a recession; (c) changes in the real estate and credit markets and their effects on our customers, consumers and suppliers; (d) international political unrest, terrorism or war; (e) volatility in energy and other commodities prices; (f) the impact of logistics on imports and exports; (g) tax rate, interest rate, and currency exchange rate changes; (h) changes in the stock market impacting our profitability and our effective tax rate; (i) operating factors, such as supply, labor or distribution disruptions (e.g. port strikes); (j) changes in legislation, including the tax code, or changes in the domestic or international regulatory environment or trade policies, including new or increased duties, tariffs, retaliatory tariffs, trade limitations and termination or renegotiation of bilateral and multilateral trade agreements impacting our business; (k) adoption of new accounting principles; (l) fires, severe weather or other natural events such as hurricanes, earthquakes, flooding, tornadoes and tsunamis; (m) our ability to procure, transport or import, or material increases to the cost of transporting or importing, fabric rolls, leather hides or cut-and-sewn fabric and leather sets domestically or abroad; (n) information technology conversions or system failures and our ability to recover from a system failure; (o) effects of our brand awareness and marketing programs; (p) the discovery of defects in our products resulting in delays in manufacturing, recall campaigns, reputational damage, or increased warranty costs; (q) litigation arising out of alleged defects in our products; (r) unusual or significant litigation; (s) our ability to locate new La-Z-Boy Furniture Galleries® stores (or store owners) and negotiate favorable lease terms for new or existing locations; (t) the ability to increase volume through our e-commerce initiatives; (u) the impact of potential goodwill or intangible asset impairments; and (v) those matters discussed in Item 1A of our Annual Report on Form 10-K for the year ended April 27, 2019, and other factors identified from time-to-time in our reports filed with the SEC. We undertake no obligation to update or revise any forward-looking statements, whether to reflect new information or new developments 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 January 25, 2020, we had six major manufacturing locations and six regional distribution centers in the United States and two facilities in Mexico to support our speed-to-market and customization strategy. We have closed our manufacturing facility located in Redlands, California as of the end of the second quarter of fiscal 2020. We operate a wholesale sales office that is responsible for distribution of our product in the United Kingdom and Ireland. We also participate in two joint ventures in Thailand that support our international businesses: one that operates a manufacturing facility and another that operates a

[Table of Contents](#)

wholesale sales office. We operate 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 have contracts with several suppliers in Asia to produce products that support our pure import model for casegoods.

We sell our products to furniture retailers or distributors in the United States, Canada, and approximately 60 other countries, including the United Kingdom, China, Australia, South Korea and New Zealand, directly to consumers through 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 355 La-Z-Boy Furniture Galleries® stores and 559 La-Z-Boy Comfort Studio® locations, each dedicated to marketing our La-Z-Boy branded products. We consider this dedicated space to be “proprietary.” We own 155 of the La-Z-Boy Furniture Galleries® stores. The remainder of the La-Z-Boy Furniture Galleries® stores, as well as all 559 La-Z-Boy Comfort Studio® locations, are independently owned and operated. 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. 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. In total, we have approximately 7.9 million square feet of proprietary floor space dedicated to selling La-Z-Boy branded products in North America. We also have approximately 2.7 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 approximately 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 602 outlets and approximately 1.8 million square feet of proprietary floor space. In total, our proprietary floor space includes approximately 12.5 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 drive growth in the following ways:

- *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.* We expect this initiative to generate growth in our Retail segment through an increased company-owned store count and in our wholesale Upholstery 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.
- *Our company-owned retail business.* We are 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.
- *Our unique multi-channel distribution network.* In addition to our branded distribution channels, nearly 2,200 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 Art Van, Nebraska Furniture Mart, and Slumberland. Our other brands, England, American Drew, Hammary, and Kincaid, enjoy distribution through many of the same outlets. We believe there is significant growth potential for our brands through these retail channels.
- *Our on-trend products including stationary upholstered furniture featured in our Live Life Comfortably® marketing campaign.* While we are known for our iconic recliners, they account for less than half of our sales in dollars, and we believe we have the potential to expand sales of our other products. To stimulate growth, our Live Life Comfortably® marketing campaign features celebrity brand ambassador, Kristen Bell, and focuses on expanding our digital marketing and e-commerce capabilities to build traffic across our multiple digital and physical properties. We are driving change throughout our digital platforms to improve the user experience, with a specific focus on the ease by 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.
- *Our innovative products, including stain-resistant iClean™ and eco-friendly Conserve™ fabrics and our power products, some of which include wireless hand remote, dual mechanisms and articulating headrests.* Our innovation, duo®, is a revolutionary product line that features the look of stationary furniture with the power to recline at the push of a button. We are committed to innovation throughout our business, and to support these efforts we opened our new state-of-the-art Innovation Center in January 2019 at our Dayton, Tennessee campus.

[Table of Contents](#)

- *Our multi-faceted online strategy to participate in and leverage the growth of online furniture sales* On July 30, 2018, we purchased Joybird, a leading e-commerce retailer and manufacturer of upholstered furniture, which positions us for growth in the ever-changing online selling environment and allows us to better reach millennial and Gen X consumers and leverage our supply chain assets. In addition, we continue to increase online sales of La-Z-Boy furniture through la-z-boy.com and other digital players, such as Wayfair and Amazon.

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

- *Upholstery Segment.* Our Upholstery segment is our largest business segment and consists primarily of two operating segments: La-Z-Boy, our largest operating segment, and the operating segment for our England subsidiary. The Upholstery segment also includes our international wholesale businesses. We aggregate these operating segments into one reportable segment because they are economically similar and because they meet the other aggregation criteria for determining reportable segments. Our Upholstery segment manufactures and imports upholstered furniture such as recliners and motion furniture, sofas, loveseats, chairs, sectionals, modulars, ottomans and sleeper sofas. The Upholstery 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.
- *Casegoods Segment.* Our Casegoods segment consists of one operating segment that sells furniture under three brands: American Drew[®], Hammary[®], and Kincaid[®]. The Casegoods segment is an importer, marketer, and distributor of casegoods (wood) furniture such as bedroom sets, dining room sets, entertainment centers and occasional pieces, and also manufactures some custom upholstered furniture. The Casegoods segment sells directly to major dealers, as well as La-Z-Boy Furniture Galleries[®] stores, and a wide cross-section of other independent retailers.
- *Retail Segment.* Our Retail segment consists of one operating segment comprising our 155 company-owned La-Z-Boy Furniture Galleries[®] stores. The Retail segment primarily sells upholstered furniture, in addition to some casegoods and other accessories, to the end consumer 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. Joybird manufactures and sells upholstered furniture such as sofas, loveseats, chairs, ottomans, sleeper sofas and beds, and also imports and sells casegoods (wood) furniture such as occasional tables and other accessories. Joybird sells to end consumers primarily online through its website, www.joybird.com. None of the operating segments included in Corporate & Other meets the requirements of reportable segments at this time.

Results of Operations

Fiscal 2020 Third Quarter Compared with Fiscal 2019 Third Quarter

La-Z-Boy Incorporated

<i>(Unaudited, amounts in thousands, except percentages)</i>	Quarter Ended			Nine Months Ended		
	01/25/20	01/26/19	% Change	01/25/20	01/26/19	% Change
Sales	\$ 475,856	\$ 467,582	1.8%	\$1,336,701	\$1,291,610	3.5%
Operating income	52,313	40,843	28.1%	105,336	92,503	13.9%
Operating margin	11.0%	8.7%		7.9%	7.2%	

Sales

Consolidated sales increased \$8.3 million and \$45.1 million in the third quarter and the first nine months of fiscal 2020, respectively, compared with the same periods a year ago. The sales increase in the fiscal 2020 periods was primarily due to sales growth in our Retail segment, higher tariff surcharge revenue in our Upholstery segment and higher Joybird sales. Additionally, sales in the first nine months of fiscal 2020 included the benefit of second quarter fiscal 2019 acquisitions, both in our Retail segment and from the acquisition of Joybird.

Operating Margin

Operating margin, which is calculated as operating income as a percentage of sales, increased 230 basis points and 70 basis points in the third quarter and first nine months of fiscal 2020, respectively, compared with the same periods a year ago.

- Gross margin, which is calculated as gross profit as a percentage of sales, increased 140 basis points in both the third quarter and the first nine months of fiscal 2020, respectively, compared with the same periods a year ago.
 - Changes in our consolidated sales mix improved gross margin by 60 basis points and 100 basis points in the third quarter and the first nine months of fiscal 2020, respectively, compared with the same periods last fiscal year. This benefit was driven by the growth of our Retail segment and Joybird, which have higher gross margins than our Upholstery and Casegoods segments.
 - In both the third quarter and the first nine months of fiscal 2020, the Upholstery gross margin was impacted by supply chain inflationary pressures which were more than offset by efficiencies and lower commodity costs. Additionally, the prior year third quarter included a one-time benefit due to changes to our employee vacation policies, which absent this quarter, resulted in a decreased the Upholstery segment's gross margin in the third quarter and first nine months of this year.
 - Partly offsetting these benefits was a decline in our Casegoods segment's gross margin, primarily due to higher ocean freight costs and the impact of higher tariff costs on certain occasional tables.
 - In connection with our supply chain initiative, we recognized costs resulting from the shift in manufacturing operations from closed facilities to other manufacturing locations in the third quarter and the first nine months of fiscal 2020, which resulted in a gross margin decrease of 20 basis points and 40 basis points, respectively.
- SG&A expenses as a percentage of sales decreased 90 basis points in the third quarter but increased 70 basis points in the first nine months of fiscal 2020, compared with the same periods a year ago.
 - Changes in our consolidated sales mix increased SG&A expenses as a percentage of sales by 70 basis points and 140 basis points in the third quarter and first nine months of fiscal 2020, respectively, compared with the same periods last fiscal year. This increase was driven by the growth of our Retail segment and the acquisition of Joybird, which have higher levels of SG&A expense as a percentage of sales than our Upholstery and Casegoods segments.
 - The sale of our Redlands facility, which resulted in a \$9.7 million pre-tax gain, drove a 200 basis point and 70 basis point improvement in SG&A expense as a percent of sales in the third quarter and first nine months of fiscal 2020, respectively.
 - In the third quarter of fiscal 2019 we recognized a one-time benefit of \$3.8 million due to changes to our employee vacation policies, the absence of which in fiscal 2020 resulted in a comparative 80 basis point and a 30 basis point increase in SG&A as percent of sales in the third quarter and first nine months of this year, respectively.

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

Upholstery Segment

<i>(Unaudited, amounts in thousands, except percentages)</i>	Quarter Ended			Nine Months Ended		
	01/25/20	01/26/19	% Change	01/25/20	01/26/19	% Change
Sales	\$ 336,696	\$ 334,448	0.7%	\$ 950,967	\$ 944,939	0.6%
Operating income	46,512	34,566	34.6%	104,859	90,602	15.7%
Operating margin	13.8%	10.3%		11.0%	9.6%	

Sales

The Upholstery segment's sales increased \$2.2 million and \$6.0 million in the third quarter and first nine months of fiscal 2020, respectively, compared with the same periods a year ago. In response to an increase in tariff rates, our tariff surcharges increased sales by 0.7% and 1.4% in the third quarter and the first nine months of fiscal 2020, respectively, compared with the same periods a year ago. The tariff rate on goods from China was increased to 25% at the start of the current fiscal year, compared to 10% in the prior year comparative periods. In the third quarter of fiscal 2020, unit volume increased 0.3% but was offset by increased promotional activity. For the first nine months of fiscal 2020, we experienced an unfavorable change in our

[Table of Contents](#)

product mix, which drove lower sales of our higher-priced products including power motion sofas and leather products, with a shift to stationary sofas and sectionals.

Operating Margin

Operating margin increased 350 basis points and 140 basis points in the third quarter and the first nine months of fiscal 2020, respectively, compared with the same periods a year ago.

- Gross margin increased 60 basis points and 50 basis points in the third quarter and in first nine months of fiscal 2020, respectively, compared with the same periods a year ago.
 - Inflationary pressures in our supply chain were more than offset by efficiencies in the third quarter and the first nine months of fiscal 2020, respectively.
 - Lower raw material commodity prices provided an 80 basis point and a 110 basis point benefit to the segment's gross margin in the third quarter and the first nine months of fiscal 2020, respectively.
 - Partially offsetting this, costs recognized in connection with our supply chain optimization initiative resulted in a gross margin decrease of 30 basis points and 60 basis points in the third quarter and the first nine months of fiscal 2020, respectively.
 - Additionally, the prior year third quarter included a one-time benefit due to changes to our employee vacation policies, the absence of which in fiscal 2020 resulted in a comparative 40 basis point and 10 basis point decrease in the segment's gross margin in the third quarter and first nine months of this year, respectively.
- SG&A expense as a percentage of sales decreased 290 basis points and 90 basis points in the third quarter and first nine months of fiscal 2020, respectively, compared with the same periods a year ago, primarily due to the \$9.7 million pre-tax gain on the sale of the Redlands facility. Partly offsetting this, the prior year third quarter included a one-time benefit due to changes to our employee vacation policies, the absence of which in fiscal 2020 resulted in a comparative 40 basis point and 20 basis point increase in the third quarter and first nine months of this year, respectively.

Casegoods Segment

<i>(Unaudited, amounts in thousands except percentages)</i>	Quarter Ended			Nine Months Ended		
	01/25/20	01/26/19	% Change	01/25/20	01/26/19	% Change
Sales	\$ 28,115	\$ 28,065	0.2 %	\$ 84,640	\$ 87,828	(3.6)%
Operating income	2,534	3,332	(23.9)%	7,336	10,173	(27.9)%
Operating margin	9.0%	11.9%		8.7%	11.6%	

Sales

The Casegoods segment's sales were flat in the third quarter of fiscal 2020, but decreased \$3.2 million in the first nine months of fiscal 2020, when compared with the same periods a year ago. The decrease in the first nine months was primarily due to lower sales volume on certain occasional tables that have been impacted by higher tariff costs.

Operating Margin

Operating margin decreased 290 basis points in both the third quarter and the first nine months of fiscal 2020 compared with the same periods a year ago.

- Gross margin decreased 330 basis points and 290 basis points in the third quarter and the first nine months of fiscal 2020, respectively, compared with the same periods a year ago, primarily due to higher ocean freight costs and the impact of higher tariff costs on certain occasional tables.
- SG&A expense as a percentage of sales was 40 basis points lower in the third quarter of fiscal 2020 and flat in the first nine months of fiscal 2020, compared with the same periods a year ago, primarily due to disciplined spending in response to lower sales volume. Partly offsetting this, the prior year third quarter included a one-time benefit due to changes to our employee vacation policies, the absence of which in fiscal 2020 resulted in a comparative 70 basis point and 20 basis point increase in the third quarter and first nine months of this year, respectively.

[Table of Contents](#)**Retail Segment**

<i>(Unaudited, amounts in thousands, except percentages)</i>	Quarter Ended			Nine Months Ended		
	01/25/20	01/26/19	% Change	01/25/20	01/26/19	% Change
Sales	\$ 167,494	\$ 159,417	5.1%	\$ 458,894	\$ 418,331	9.7%
Operating income	16,383	14,158	15.7%	33,272	25,179	32.1%
Operating margin	9.8%	8.9%		7.3%	6.0%	

Sales

The Retail segment's sales increased \$8.1 million and \$40.6 million in the third quarter and the first nine months of fiscal 2020, respectively, compared with the same periods a year ago. The increase in sales in the third quarter of fiscal 2020 compared to the same period a year ago was primarily due to a 5.5%, or \$8.6 million, increase in delivered same-store sales driven by improved traffic trends and continued strong execution at the store level. Same-store delivered sales include the sales of all currently active stores which have been open for each comparable period. Sales in the first nine months of fiscal 2020 increased compared to the same period a year ago primarily due to \$22.3 million in sales from acquired stores and a 3.6% increase in delivered same-store sales, or \$18.6 million.

Operating Margin

Operating margin increased 90 basis points and 130 basis points in the third quarter and the first nine months of fiscal 2020, respectively, compared with the same periods a year ago.

- Gross margin increased 80 basis points and 40 basis points in the third quarter and the first nine months of fiscal 2020, respectively, compared with the same period a year ago, primarily due to favorable product mix and lower purchase accounting charges.
- SG&A expense as a percentage of sales improved 10 basis points and 90 basis points in the third quarter and the first nine months of fiscal 2020, respectively, compared with the same periods a year ago, as we were better able to leverage our fixed costs (primarily occupancy and advertising) on increased delivered sales. The improvement in the first nine months of fiscal 2020 was primarily attributable to acquired stores which operate with lower SG&A expense as a percentage of sales compared with our existing stores. Partly offsetting this, the prior year third quarter included a one-time benefit due to changes to our employee vacation policies, the absence of which in fiscal 2020 resulted in a comparative 60 basis point and 20 basis point increase in the third quarter and first nine months of this year, respectively.

Corporate and Other

<i>(Unaudited, amounts in thousands, except percentages)</i>	Quarter Ended			Nine Months Ended		
	01/25/20	01/26/19	% Change	01/25/20	01/26/19	% Change
Sales	\$ 25,669	\$ 22,849	12.3 %	\$ 70,532	\$ 49,092	43.7 %
Intercompany eliminations	(82,118)	(77,197)	(6.4)%	(228,332)	(208,580)	(9.5)%
Operating loss	(13,116)	(11,213)	(17.0)%	(40,131)	(33,451)	(20.0)%

Sales

Sales increased \$2.8 million in the third quarter and \$21.4 million in the first nine months of fiscal 2020 compared with the same periods a year ago. The sales increase in the third quarter of fiscal 2020 was primarily due to \$3.3 million higher Joybird sales, a 17.9% increase to \$21.9 million for the quarter. Joybird was acquired at the start of the second quarter of fiscal 2019, and the sales comparison for the first nine months includes the benefit of two additional quarters of sales in fiscal 2020.

Intercompany eliminations increased in the third quarter and the first nine months of fiscal 2020 compared with the same periods a year ago due to higher sales from our Upholstery and Casegoods segments to our Retail segment, resulting from increased sales in the Retail segment and the impact of acquired stores.

Operating Loss

Our Corporate and Other operating loss increased \$1.9 million and \$6.7 million in the third quarter and the first nine months of fiscal 2020, respectively, compared with the same periods a year ago. Joybird operating loss for the quarter improved compared with the same quarter in the prior year, and has improved sequentially in each quarter of fiscal year 2020. The Company is continuing to make improvements across the business model with the objective to balance investments in growth with bottom-line performance. Our integration efforts are taking longer than anticipated and, as such, near-term growth and profitability expectations have been somewhat tempered. Nine-month results for Joybird also reflect these trends.

In addition, the prior year third quarter operating loss in Corporate and Other included a \$1.1 million one-time benefit due to changes to our employee vacation policies.

Non-Operating Income (Expense)

Other Income (Expense), Net

Other income (expense), net was \$6.0 million of expense in the third quarter of fiscal 2020 compared with \$0.9 million of expense in the third quarter of fiscal 2019. The expense in third quarter of fiscal year 2020 was primarily due to a \$6.0 million impairment of our investment in a privately held start-up company. The expense in fiscal 2019 was primarily due to pension and retirement-related expenses.

Other income (expense), net was \$5.4 million of expense during the first nine months of fiscal 2020 compared with \$2.0 million of expense during the first nine months of fiscal 2019. The expense in the first nine months of fiscal 2020 was due to the investment impairment charge noted above, partially offset by exchange rate gains. The expense in the first nine months of 2019 was primarily due to pension and retirement-related expenses, partially offset by exchange rate gains.

Income Taxes

Our effective tax rate was 26.0% and 25.3% for the third quarter and the first nine months of fiscal 2020, respectively, compared with 26.9% and 24.6% in the third quarter and the first nine months of fiscal 2019, respectively. Our effective tax rate varies from the 21% federal statutory rate primarily due to state taxes. Absent discrete adjustments, our effective tax rate in the third quarter of fiscal 2020 would have been 25.8%.

Liquidity and Capital Resources

Our sources of liquidity include cash and 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, dividends to shareholders, and capital expenditures. We had cash, cash equivalents and restricted cash of \$168.2 million at January 25, 2020, compared with \$131.8 million at April 27, 2019. In addition, we had investments to enhance our returns on cash of \$30.1 million at January 25, 2020, compared with \$31.5 million at April 27, 2019.

We maintain a revolving credit facility secured primarily by our accounts receivable, inventory, and cash deposit and securities accounts. Availability under the credit agreement fluctuates according to a borrowing base calculated on eligible accounts receivable and inventory. We amended this agreement on December 19, 2017, to extend its maturity date to December 19, 2022. The credit agreement includes affirmative and negative covenants that apply under certain circumstances, including a fixed-charge coverage ratio requirement that applies when excess availability under the credit line is less than certain thresholds. At January 25, 2020, we were not subject to the fixed-charge coverage ratio requirement, had no borrowings outstanding under the agreement, and had excess availability of \$145.5 million of the \$150.0 million credit commitment.

Capital expenditures for the first nine months of fiscal 2020 were \$35.5 million compared with \$35.8 million during the first nine months of fiscal 2019. Capital expenditures in the first nine months of fiscal 2020 included spending on manufacturing machinery and equipment, upgrades to our upholstered furniture manufacturing plant in Dayton, Tennessee, and improvements to select retail stores. We have no material contractual commitments outstanding for future capital expenditures. We expect capital expenditures to be in the range of \$45 to \$55 million for fiscal 2020, consisting of, among other things, plant upgrades to our upholstered furniture manufacturing facilities in Dayton, Tennessee and Neosho, Missouri, as well as improvements to several of our retail stores.

[Table of Contents](#)

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 purchase of company stock. As of January 25, 2020, 4.8 million shares remained available for purchase pursuant to this authorization. We purchased 1.1 million shares during the first nine months of fiscal 2020, for a total of \$35.3 million. With the cash flows we anticipate generating in fiscal 2020, we expect to continue being opportunistic in purchasing company stock.

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

<i>(Unaudited, amounts in thousands)</i>	Nine Months Ended	
	1/25/20	1/26/19
Cash Flows Provided By (Used For)		
Net cash provided by operating activities	\$ 119,759	\$ 91,448
Net cash used for investing activities	(31,114)	(114,399)
Net cash used for financing activities	(53,294)	(10,264)
Exchange rate changes	1,107	(74)
Change in cash, cash equivalents and restricted cash	<u>\$ 36,458</u>	<u>\$ (33,289)</u>

Operating Activities

During the first nine months of fiscal 2020, net cash provided by operating activities was \$119.8 million. Our cash provided by operating activities was primarily attributable to net income generated during the period, an increase in customer deposits driven from growth in our Retail business and improved working capital management.

During the first nine months of fiscal 2019, net cash provided by operating activities was \$91.4 million. Our cash provided by operating activities was primarily attributable to net income generated during the first nine months of the year, as well as an \$18.5 million increase in accrued expenses, primarily related to accrued incentive compensation costs. Partially offsetting net income was \$19.0 million to fund seasonal inventory growth in advance of Chinese New Year, \$7.0 million used for a discretionary pension contribution, and \$7.5 million used for prepaid compensation related to the Joybird acquisition.

Investing Activities

During the first nine months of fiscal 2020, net cash used for investing activities was \$31.1 million primarily due to \$35.5 million used for capital expenditures and \$6.4 million used to fund guaranteed payments related to the acquisition of Joybird. This was partially offset by \$11.2 million in proceeds from the disposal of assets primarily due to the sale of the Redlands upholstery facility in the third quarter of fiscal 2020. Our capital expenditures during the period primarily related to spending on manufacturing machinery and equipment, upgrades to our Dayton, Tennessee upholstered furniture manufacturing facility and improvements to select retail stores.

During the first nine months of fiscal 2019, net cash used for investing activities was \$114.4 million, primarily due to \$78.6 million used for acquisitions and \$35.8 million used for capital expenditures. Our cash used for acquisitions during the period included the acquisition of the assets of two independent operators of La-Z-Boy Furniture Galleries stores, one that operated nine stores and two warehouses in Arizona and one that operated one store in Massachusetts, as well as our acquisition of Joybird, an e-commerce retailer and manufacturer of upholstered furniture. Our capital expenditures during the period primarily related to spending on manufacturing machinery and equipment, construction of our new Innovation Center, upgrades to our Dayton, Tennessee Upholstery manufacturing facility, expansion of our England subsidiary's plant and construction of their new corporate office building, and relocation of one of our regional distribution centers.

Financing Activities

During the first nine months of fiscal 2020, net cash used for financing activities was \$53.3 million, primarily due to \$35.3 million used to purchase our common stock pursuant to our share repurchase authorization and \$18.6 million paid to our shareholders in quarterly dividends.

During the first nine months of fiscal 2019, net cash used for financing activities was \$10.3 million, primarily due to \$16.7 million used to purchase our common stock and \$17.4 million paid to our shareholders in quarterly dividends. This was partly

[Table of Contents](#)

offset by a net \$20.0 million borrowed from our credit facility, including \$35.0 million of borrowings during the second quarter, of which \$15.0 million was repaid during the third quarter.

Exchange Rate Changes

Due to changes in exchange rates, our cash, cash equivalents, and restricted cash increased by \$1.1 million and decreased by \$0.1 million from the end of fiscal year 2019 to the end of the third quarter of fiscal 2020 and from the end of fiscal 2018 to the end of the third quarter of fiscal 2019, respectively. These changes impacted our cash balances held in Canada, the United Kingdom, and Thailand.

Other

During the third quarter of fiscal 2020, there were no material changes to the information about our contractual obligations and commitments shown in the table contained in our fiscal 2019 Annual Report on Form 10-K.

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 27, 2019. There were no material changes to our critical accounting policies during the nine months ended January 25, 2020 except for changes related to our adoption of Accounting Standards Codification Topic 842 as described in Note 1 and Note 5 to the condensed consolidated financial statements included in this Form 10-Q.

Recent Accounting Pronouncements

See Note 1 to the condensed 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 nine months of fiscal 2020, 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 27, 2019.

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 third quarter of fiscal 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. During the quarter ended October 27, 2018, we acquired Stitch Industries, Inc. ("Joybird") and the business comprising the assets acquired from EBCO, Inc., an independent operator of nine La-Z-Boy Furniture Galleries® stores in Arizona. We are currently integrating Joybird and the business comprising the assets acquired from EBCO, Inc. into our operations, compliance programs, and internal control processes.

PART II — OTHER INFORMATION**ITEM 1A. RISK FACTORS**

We disclosed our risk factors in our Form 10-K for the fiscal year ended April 27, 2019. There have been no material changes to our risk factors during the first nine months of fiscal 2020.

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

Our board of directors has authorized the purchase of company stock. During the fourth quarter of fiscal 2019, pursuant to the existing board authorization, we adopted a plan to purchase company stock pursuant to Rule 10b5-1 of the Securities Exchange Act of 1934. The plan was effective October 28, 2019. Under this plan, our broker has the authority to purchase company shares on our behalf, subject to SEC regulations and the price, market volume and timing constraints specified in the plan. The plan expired at the close of business on January 24, 2020. We spent \$12.2 million in the third quarter of fiscal 2020 to purchase 0.4 million shares. As of January 25, 2020, 4.8 million shares remained available for purchase pursuant to the board authorization. With the cash flows we anticipate generating in fiscal 2020, we expect to continue being opportunistic in purchasing company stock.

The following table summarizes our purchases of company stock during the quarter ended January 25, 2020:

<i>(Unaudited, amounts in thousands, except per share data)</i>	Total number of shares purchased (1)	Average price paid per share	Total number of shares purchased as part of publicly announced plan (2)	Maximum number of shares that may yet be purchased under the plan
Fiscal November (October 27 – November 30, 2019)	103	\$ 34.09	103	5,105
Fiscal December (December 1 – December 28, 2019)	163	\$ 31.42	163	4,942
Fiscal January (December 29 – January 25, 2020)	113	\$ 31.70	112	4,830
Fiscal Third Quarter of 2020	<u>379</u>	<u>\$ 32.23</u>	<u>378</u>	<u>4,830</u>

- (1) In addition to the 377,662 shares we purchased during the quarter as part of our publicly announced, board-authorized plan described above, this column includes 1,215 shares purchased from employees to satisfy their withholding tax obligations upon vesting of restricted 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, 27.0 million shares have been added to the plan for repurchase. The authorization has no expiration date.

ITEM 6. EXHIBITS

Exhibit Number	Description
(4.1)	Amendment Number One to Second Amended and Restated Credit Agreement, dated December 13, 2019
(31.1)	Certifications of Chief Executive Officer pursuant to Rule 13a14(a)
(31.2)	Certifications of Chief Financial Officer pursuant to Rule 13a14(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 January 25, 2020, formatted in Inline XBRL (included in Exhibit 101)

SIGNATURE

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: February 18, 2020

BY: /s/ Lindsay A. Barnes

Lindsay A. Barnes

Vice President, Corporate Controller and Chief Accounting Officer

AMENDMENT NUMBER ONE TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT

This **AMENDMENT NUMBER ONE TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT** (this "Amendment"), dated as of December [], 2019, by and among **LA-Z-BOY INCORPORATED**, a Michigan corporation (the "Parent"), **ENGLAND, INC.**, a Michigan corporation, **LA-Z-BOY CANADA LIMITED**, an Ontario corporation, **LA-Z-BOY CASEGOODS, INC.**, a North Carolina corporation, and **LZB MANUFACTURING, INC.**, a Michigan corporation (each, a "Subsidiary Borrower" and collectively, the "Subsidiary Borrowers"), and, together with the Parent, each, a "Borrower" and, collectively, the "Borrowers") as the Borrowers, **LZB FINANCE, INC.**, a Michigan corporation, **LA-Z-BOY LOGISTICS, INC.**, a Michigan corporation, and **LZB RETAIL, INC.**, a Michigan corporation (each, a "Subsidiary Guarantor" and, collectively, the "Subsidiary Guarantors"), as Subsidiary Guarantors, the lenders identified on the signature pages hereof, as Lenders (the "Lenders"), and **WELLS FARGO CAPITAL FINANCE, LLC**, a Delaware limited liability company, in its capacity as the Administrative Agent for the Lenders (in such capacity, the "Administrative Agent").

WITNESSETH:

WHEREAS, Parent, the Subsidiary Borrowers, the Subsidiary Guarantors, the Lenders, and the Administrative Agent, are parties to that certain Second Amended and Restated Credit Agreement, dated as of December 19, 2017 (as amended, restated, supplemented or otherwise modified from time to time prior to the date hereof, the "Credit Agreement");

WHEREAS, (a) Borrowers have requested that the Administrative Agent and Lenders make certain amendments to the Credit Agreement and (b) each Credit Party desires to expressly ratify and confirm each Loan Document, including the Credit Agreement as amended hereby, executed by such Credit Party and the rights granted thereby in favor of the Administrative Agent.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Defined Terms. Capitalized terms used herein (including the preamble and recitals hereof) and not otherwise defined herein shall have the meanings ascribed to them in the Credit Agreement.

2. Amendments to the Credit Agreement.

(a) Section 1.1 of the Credit Agreement is hereby amended and modified by adding the following definitions, in the appropriate alphabetical order:

"BHC Act Affiliate" of a Person means an "affiliate" (as such term is defined under, and interpreted in accordance with, 12 U.S.C. 1841(k)) of such Person.

"Covered Entity" means any of the following:

(a) a "covered entity" as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 252.82(b);

(b) a "covered bank" as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 47.3(b); or

(c) a “covered FSI” as that term is defined in, and interpreted in accordance with, 12 C.F.R. § 382.2(b).

“Covered Party” has the meaning specified therefor in Section 15.33 of this Agreement.

“Default Right” has the meaning assigned to that term in, and shall be interpreted in accordance with, 12 C.F.R. §§ 252.81, 47.2 or 382.1, as applicable.

“QFC” has the meaning assigned to the term “qualified financial contract” in, and shall be interpreted in accordance with, 12 U.S.C. § 5390(c)(8)(D).

“QFC Credit Support” has the meaning specified therefor in Section 15.33 of this Agreement.

“Supported QFC” has the meaning specified therefor in Section 15.33 of this Agreement.

“U.S. Special Resolution Regimes” has the meaning specified therefor in Section 15.33 of this Agreement.

(b) Article 15 of the Credit Agreement is hereby amended and modified by adding the following section directly after Section 15.32 of the Credit Agreement:

SECTION 15.33 Acknowledgment Regarding Any Supported QFCs. To the extent that the Loan Documents provide support, through a guarantee or otherwise, for hedge agreements or any other agreement or instrument that is a QFC (such support, “QFC Credit Support” and each such QFC a “Supported QFC”), the parties acknowledge and agree as follows with respect to the resolution power of the Federal Deposit Insurance Corporation under the Federal Deposit Insurance Act and Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act (together with the regulations promulgated thereunder, the “U.S. Special Resolution Regimes”) in respect of such Supported QFC and QFC Credit Support (with the provisions below applicable notwithstanding that the Loan Documents and any Supported QFC may in fact be stated to be governed by the laws of the State of North Carolina and/or of the United States or any other state of the United States): In the event a Covered Entity that is party to a Supported QFC (each, a “Covered Party”) becomes subject to a proceeding under a U.S. Special Resolution Regime, the transfer of such Supported QFC and the benefit of such QFC Credit Support (and any interest and obligation in or under such Supported QFC and such QFC Credit Support, and any rights in property securing such Supported QFC or such QFC Credit Support) from such Covered Party will be effective to the same extent as the transfer would be effective under the U.S. Special Resolution Regime if the Supported QFC and such QFC Credit Support (and any such interest, obligation and rights in property) were governed by the laws of the United States or a state of the United States. In the event a Covered Party or a BHC Act Affiliate of a Covered Party becomes subject to a proceeding under a U.S. Special Resolution Regime, Default Rights under the Loan Documents that might otherwise apply to such Supported QFC or any QFC Credit Support that may be exercised against such Covered Party are permitted to be exercised to no greater extent than such Default Rights could be exercised under the U.S. Special Resolution Regime if the Supported QFC and the Loan Documents were governed by the laws of the United States or a state of the United States. Without limitation of the foregoing, it is understood and agreed that rights and remedies of the parties with respect to a Defaulting Lender shall in no event affect the rights of any Covered Party with respect to a Supported QFC or any QFC Credit Support.

3. Reaffirmation and Ratification. The undersigned Credit Parties each hereby (a) represents and warrants to the Administrative Agent and Lenders that the execution, delivery, and

performance of this Amendment (i) are within its powers, (ii) have been duly authorized by all necessary action, and (iii) do not and will not, by the passage of time, the giving of notice or otherwise, (w) require any Governmental Approval or violate any Applicable Law relating to any Credit Party or any of their Subsidiaries, (x) conflict with, result in a breach of or constitute a default under the articles of incorporation, bylaws or other organizational documents of any Credit Party or any of their Subsidiaries or any indenture, agreement or other instrument to which such Person is a party or by which any of its properties may be bound or any Governmental Approval relating to such Person, (y) result in or require the creation or imposition of any Lien upon or with respect to any property now owned or hereafter acquired by such Person other than Liens arising under the Loan Documents or (z) require any consent or authorization of, filing with, or other act in respect of, an arbitrator or Governmental Authority and no consent of any other Person is required in connection with the execution, delivery, performance, validity or enforceability of this Amendment; (b) acknowledges and reaffirms its obligations owing to the Lender Group and the Bank Product Providers under any Loan Document to which it is a party; (c) agrees that each of the Loan Documents to which it is a party is and shall remain in full force and effect; (d) (i) reaffirms, acknowledges, agrees and confirms that it has granted to the Administrative Agent a perfected security interest in the Collateral pursuant to the Loan Documents in order to secure all of its present and future Debt to the Lender Group and the Bank Product Providers and ratifies and reaffirms the validity and enforceability of all of the Liens and security interests heretofore granted, pursuant to and in connection with the Credit Agreement, the Security Agreement or any other Loan Document to the Administrative Agent, on behalf and for the benefit of each member of the Lender Group and each Bank Product Provider, as collateral security for the obligations under the Loan Documents in accordance with their respective terms, and (ii) acknowledges that all of such Liens and security interests, and all Collateral heretofore pledged as security for such obligations, continue to be and remain collateral for such obligations from and after the date hereof (including, without limitation, after giving effect to this Amendment); and (e) represents and warrants that it has read and understands this Amendment, has consulted with and been represented by independent legal counsel of its own choosing in negotiations for and the preparation of such Loan Documents, has read such Loan Documents in full and final form, and has been advised by its counsel of its rights and obligations hereunder and thereunder. Without limiting the generality of the foregoing, each of the undersigned hereby restates, ratifies and reaffirms each and every term and condition set forth in the Credit Agreement, the Security Agreement and the other Loan Documents to which it is a party effective as of the date hereof and as amended by this Amendment. All Obligations are unconditionally owing by the undersigned Credit Parties to the Lender Group and the Bank Product Providers, without offset, defense (other than defense of payment), withholding, counterclaim or deduction of any kind, nature or description whatsoever.

4. Conditions Precedent to Amendment. The satisfaction of each of the following shall constitute conditions precedent to the effectiveness of the Amendment (such date being the "Amendment Effective Date"):

(a) The Administrative Agent shall have received this Amendment, duly executed by the parties hereto, and the same shall be in full force and effect.

(b) After giving effect to this Amendment, the representations and warranties contained in this Amendment, the Credit Agreement, the Security Agreement and the other Loan Documents shall be true and correct in all material respects (unless any such representation or warranty is qualified as to materiality, in which case such representation and warranty shall be true and correct in all respects) on and as of the date hereof.

(c) No Default or Event of Default shall have occurred and be continuing as of the Amendment Effective Date.

5. Representations and Warranties. Each Credit Party hereby represents and warrants to the Administrative Agent and each other member of the Lender Group as follows:

(a) It (i) is duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or formation, has the power and authority to own its properties and to carry on its business as now being and hereafter proposed to be conducted and is duly qualified and authorized to do business in each jurisdiction in which the character of its properties or the nature of its business requires such qualification and authorization, except to the extent that the failure to so qualify or be in good standing could not, in the aggregate, reasonably be expected to have a Material Adverse Effect and (ii) has all requisite power and authority to enter into this Amendment and the other Loan Documents to which it is a party and to carry out the transactions contemplated hereby and thereby.

(b) This Amendment is, and each other Loan Document to which it is or will be a party, when executed and delivered by each Person that is a party thereto, will be the legally valid and binding obligation of such Person, enforceable against such Person in accordance with its respective terms, except as enforcement may be limited by equitable principles or by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally.

(c) No injunction, writ, restraining order, or other order of any nature prohibiting, directly or indirectly, the consummation of the transactions contemplated herein shall have been issued and remain in force by any Governmental Authority against any Borrower, any Subsidiary Guarantor, the Administrative Agent, any other member of the Lender Group, or any Bank Product Provider.

(d) After giving effect to this Amendment, the representations and warranties contained in this Amendment, the Credit Agreement, the Security Agreement and the other Loan Documents shall be true and correct in all material respects (unless any such representation or warranty is qualified as to materiality, in which case such representation and warranty shall be true and correct in all respects) on and as of the date hereof.

(e) This Amendment has been entered into without force or duress, of the free will of each Credit Party, and the decision of each Credit Party to enter into this Amendment is a fully informed decision and such Person is aware of all legal and other ramifications of each decision.

6. GOVERNING LAW; WAIVER OF JURY TRIAL; BINDING ARBITRATION. THIS AMENDMENT SHALL BE SUBJECT TO THE PROVISIONS REGARDING GOVERNING LAW, WAIVER OF JURY TRIAL AND BINDING ARBITRATION PROVISION SET FORTH IN SECTION 15.4 AND SECTION 15.5 OF THE CREDIT AGREEMENT, AND SUCH PROVISIONS ARE INCORPORATED HEREIN BY THIS REFERENCE, *MUTATIS MUTANDIS*.

7. Amendments. This Amendment cannot be altered, amended, changed or modified in any respect except in accordance with Section 15.11 of the Credit Agreement.

8. Counterpart Execution. This Amendment may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Amendment. Delivery of an executed counterpart of this Amendment by telefacsimile or other electronic method of transmission shall be equally as effective as delivery of an original executed counterpart of this Amendment. Any party delivering an executed counterpart of this Amendment by telefacsimile or other electronic method of transmission also shall deliver an original executed counterpart of this Amendment, but the failure to deliver an original executed counterpart shall not affect the validity, enforceability, and binding effect of this Amendment.

9. Effect on Loan Documents.

(a) The Credit Agreement, as amended hereby, and each of the other Loan Documents shall be and remain in full force and effect in accordance with their respective terms and hereby are ratified and confirmed in all respects. The execution, delivery, and performance of this Agreement shall not operate, except as expressly set forth herein, as a modification or waiver of any right, power, or remedy of the Administrative Agent or any Lender under the Credit Agreement or any other Loan Document. Except for the amendments to the Credit Agreement expressly set forth herein, the Credit Agreement and the other Loan Documents shall remain unchanged and in full force and effect. The waivers, consents and modifications set forth herein are limited to the specifics hereof (including facts or occurrences on which the same are based), shall not apply with respect to any facts or occurrences other than those on which the same are based, shall neither excuse any future non-compliance with the Loan Documents nor operate as a waiver of any Default or Event of Default, shall not operate as a consent to any further waiver, consent or amendment or other matter under the Loan Documents, and shall not be construed as an indication that any future waiver or amendment of covenants or any other provision of the Credit Agreement will be agreed to, it being understood that the granting or denying of any waiver or amendment which may hereafter be requested by Borrowers remains in the sole and absolute discretion of the Administrative Agent and Lenders. To the extent that any terms or provisions of this Amendment conflict with those of the Credit Agreement or the other Loan Documents, the terms and provisions of this Amendment shall control.

(b) Upon and after the effectiveness of this Amendment, each reference in the Credit Agreement to “this Agreement”, “hereunder”, “herein”, “hereof” or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to “the Credit Agreement”, “thereunder”, “therein”, “thereof” or words of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement as modified and amended hereby.

(c) To the extent that any of the terms and conditions in any of the Loan Documents shall contradict or be in conflict with any of the terms or conditions of the Credit Agreement after giving effect to this Amendment, such terms and conditions are hereby deemed modified or amended accordingly to reflect the terms and conditions of the Credit Agreement as modified or amended hereby.

(d) This Amendment is a Loan Document.

10. Entire Amendment. This Amendment, and the terms and provisions hereof, the Credit Agreement and the other Loan Documents constitute the entire understanding and agreement between the parties hereto with respect to the subject matter hereof and supersede any and all prior

or contemporaneous amendments or understandings with respect to the subject matter hereof, whether express or implied, oral or written.

11. Integration. This Amendment, together with the other Loan Documents, incorporates all negotiations of the parties hereto with respect to the subject matter hereof and is the final expression and agreement of the parties hereto with respect to the subject matter hereof.

12. Severability. In case any provision in this Amendment shall be invalid, illegal or unenforceable, such provision shall be severable from the remainder of this Amendment and the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

[Signature pages follow]

IN WITNESS WHEREOF, the parties have entered into this Amendment as of the date first written above.

BORROWERS:

LA-Z-BOY INCORPORATED, a Michigan corporation

By: _____
Name: Greg A. Brinks
Title: Vice President and Treasurer

ENGLAND, INC., a Michigan corporation

By: _____
Name: Greg A. Brinks
Title: Vice President and Treasurer

LA-Z-BOY CANADA LIMITED, an Ontario corporation

By: _____
Name: Greg A. Brinks
Title: Vice President and Treasurer

LA-Z-BOY CASEGOODS, INC., a North Carolina corporation

By: _____
Name: Greg A. Brinks
Title: Vice President and Treasurer

LZB MANUFACTURING, INC., a Michigan corporation

By: _____
Name: Greg A. Brinks
Title: Vice President and Treasurer

[SIGNATURE PAGE TO AMENDMENT NUMBER ONE TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT]

SUBSIDIARY GUARANTORS:

LA-Z-BOY LOGISTICS, INC., a Michigan corporation

By: _____
Name: Greg A. Brinks
Title: Vice President and Treasurer

LZB RETAIL, INC., a Michigan corporation

By: _____
Name: Greg A. Brinks
Title: Vice President and Treasurer

LZB FINANCE, INC., a Michigan corporation

By: _____
Name: Greg A. Brinks
Title: Vice President and Treasurer

[SIGNATURE PAGE TO AMENDMENT NUMBER ONE TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT]

ADMINISTRATIVE AGENT
AND THE LENDERS:

WELLS FARGO CAPITAL FINANCE, LLC, as
Administrative Agent, Joint Lead Arranger, Joint Bookrunner, Swingline Lender, and a Lender

By: _____
Name: _____
Title: _____

WELLS FARGO BANK, N.A., as Issuing Lender and a Lender

By: _____
Name: _____
Title: _____

BANK OF AMERICA, N.A., as Documentation Agent, Joint Lead Arranger,
Joint Bookrunner, and a Lender

By: _____
Name: _____
Title: _____

JPMORGAN CHASE BANK, N.A., as Syndication Agent, Joint Lead Arranger,
Joint Bookrunner, and a Lender

By: _____
Name: _____
Title: _____

COMERICA BANK, as a Lender

By: _____
Name: _____
Title: _____

[SIGNATURE PAGE TO AMENDMENT NUMBER ONE TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT]

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

I, Kurt L. Darrow, 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: February 18, 2020

/s/ Kurt L. Darrow

Kurt L. Darrow

Chairman, President and Chief Executive Officer

CERTIFICATIONS OF CHIEF FINANCIAL 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: February 18, 2020

/s/ Melinda D. Whittington

Melinda D. Whittington

Senior Vice President and Chief Financial Officer

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 January 25, 2020 (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/ Kurt L. Darrow

Kurt L. Darrow

Chairman, President and Chief Executive Officer

February 18, 2020

/s/ Melinda D. Whittington

Melinda D. Whittington

Senior Vice President and Chief Financial Officer

February 18, 2020

*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.