La-Z-Boy Reports Third-Quarter Operating Results

02/14/06

MONROE, Mich., Feb. 14 /PRNewswire-FirstCall/ -- La-Z-Boy Incorporated (NYSE: LZB; PCX) today reported its operating results for the third fiscal quarter ended January 28, 2006. Net sales for the quarter were $502.3 million, down $4.6 million, or 0.9%, compared with the prior-year period. The company posted earnings per share from continuing operations of $0.20, which includes an after-tax restructuring charge of $0.01 per share. In last year's third quarter, the company earned $0.20 per share from continuing operations, which included after-tax restructuring charges of $0.03 per share.

For the nine months ended January 28, 2006, net sales were $1.408 billion, a decrease of $74.4 million, or 5.0%, compared with sales of $1.483 billion in the prior-year period. The company posted earnings per share from continuing operations of $0.14 for the nine-month period, including restructuring charges of $0.11, compared with last year's earnings per share of $0.29 from continuing operations, which included restructuring charges of $0.16 per share.

La-Z-Boy Incorporated President and CEO Kurt Darrow said, "On essentially flat volume, our casegoods business improved its operating margin to 6.0% and our upholstery segment operating margin rebounded to 7.2%. In our retail segment, we continue to make the necessary investment in the basic infrastructure of the business to make it profitable as it is one of the key components to our long-term strategy and business model. Overall, we are encouraged with our results for the quarter as they indicate that the execution of our strategy in our two largest business segments, upholstery and casegoods, is progressing with the acceleration and speed we expected."

Upholstery Segment

For the fiscal third quarter, sales in the company's upholstery group were $352 million, down 1.4% compared with the prior-year period. The operating margin increased to 7.2% from 6.2% in last year's third quarter and sequentially from 3.9% in the second quarter of this fiscal year.

Darrow commented, "Given slightly lower volume for the quarter, the increase in our operating margin reflects the significant amount of work we have done to our cost structure and we expect to see continued improvement as we pare down non-essential costs. Mid-way through the quarter, we closed our Waterloo, Ontario facility, and, therefore, did not benefit fully from that rationalization. Also, production in November and December did not include the entire impact of the price increases we took to offset escalating foam costs. The realization of both these factors will have a positive effect on our fourth-quarter results. With a significantly greater percentage of imported cut and sewn kits in both fabric and leather, greater efficiencies in production through the Waterloo plant rationalization, and the full benefit of the poly surcharge, we expect to drive the operating margin in our upholstery business to its historical level of 8% to 10%."

For the quarter, the La-Z-Boy branded business posted a sales increase, although it was offset by a slowdown at some of the company's smaller upholstery companies as they recover from a number of retail bankruptcies and closings, making year-over-year comparables more challenging. Darrow continued, "Our branded business continues to be strong and, with the expansion of our store system, offers us the greatest growth opportunity of any of our companies. That, combined with a leaner and more efficient manufacturing system throughout our entire upholstery segment, should enable the company to perform solidly within our margin objectives."

La-Z-Boy continues to develop and grow its La-Z-Boy Furniture Galleries(R) store system, which includes both company-owned and independent licensed stores. The system's New Generation format stores have proven to enjoy greater total sales volumes, higher average sales per square foot due to an increase in floor traffic and higher ticket transactions. In the third quarter, the system opened 11 additional stores, remodeled and/or relocated eight stores and closed four, bringing the total store count to 336, of which 64 are company owned, and 146 are in the new format. Year to date, 39 new format stores have been added and the system is on track to open a total of 49 new format stores this fiscal year. In the fourth quarter, the system plans to open 10 new stores, including three relocated or refurbished stores.

System-wide, for the fourth calendar quarter, including company-owned and independent licensed stores, same-store written sales, which the company tracks as an indicator of retail activity, were down 3.5% and total sales, which includes new stores, decreased 0.5%.

Casegoods Segment

In the third quarter, casegoods sales were $109.9 million, down 1.8% compared with the prior-year period, while the operating margin improved to 6.0% versus 1.9% last year and 2.0% in this year's second quarter. Darrow said, "Our operating margin in this segment achieved the highest level of performance we have experienced since October 2002, reflecting the successful transition to an import and distribution model. Our American of Martinsville operation has enjoyed a rebound in its business and indications are that the hospitality sector will continue to grow. Additionally, we completed the transition of Pennsylvania House to an import and distribution model at calendar year end and, while we did not get all the upside of the transition due to its timing this quarter, it is expected to be a contributor to our results going forward. We see continued opportunity to grow our casegoods segment as we work to improve our service and value proposition to the customer. With an improved cost structure and incremental volume, we are well positioned to achieve our 4% to 6% operating margin objective for this segment."

Retail Segment

For the quarter, retail sales were $57.4 million, up $13.1 million, or 29.6%, versus last year's third quarter. The increase was primarily due to the 21 stores acquired in the fourth quarter of the last fiscal year. On an operating basis, the segment incurred a loss, primarily due to a volatile retail sales environment, under-developed markets and continued transition costs associated with the acquired stores.

Darrow commented, "The slow retail environment in the beginning of the quarter impacted the profitability at our more mature stores. Additionally, the segment incurred costs associated with opening new stores and streamlining operations in the markets we acquired last year. Because these markets are not built out, there is a significant amount of fixed costs concentrated among too few stores. While there is much to be done in this segment, proprietary retailing is an integral part of our company's future and we are confident we will be successful. The retail business is an important extension of our brand and, as a participant, we are able to get closer to our customers and better understand their needs, which, in turn, will enable us to further strengthen the entire store system. Building out our store program in the larger urban markets, while costly, is paramount to making this business profitable and it will take time, due to real estate constraints, to build out each market properly. By achieving critical mass in these markets, we will garner greater share of voice, market penetration and the efficiencies of distribution, administration and advertising. We continue to make progress with the key markets we acquired last year and are focusing on streamlining their operations, opening new stores and refurbishing or relocating others. Based on our experience, we are certain our store system will generate returns in keeping with our objectives and are confident retailing is a sound long- term strategy that will keep us well positioned for the future."

Operating Cash Flow and Balance Sheet

For the quarter, cash flow generated from operations was $33 million. Darrow mentioned, "We continue to focus on improved supply chain management and, as a result, achieved a $21 million reduction in inventories during the quarter." Total debt for the quarter was $210 million and the debt-to- capitalization ratio was 29.2% at quarter end, down from 31.1% last quarter. The company's debt-to-total capital target is in the mid twenties range and, going forward, it will use a blended strategy to pay down debt and repurchase shares, depending on market conditions. The company did not repurchase shares in the third quarter and has 5.9 million shares remaining in its repurchase authorization.

Business Outlook

Commenting on the fourth quarter, Darrow said, "We continue to make steady progress with our cost structure and we move into the last quarter of our fiscal year with a solid business model in place. Although our fourth quarter, which this year includes 13 weeks versus 14 last year, is typically one of our strongest, consumer confidence and the macro economic environment remain somewhat uncertain despite recent favorable trends. On a comparable 13-week quarter from the prior year, we expect sales to be essentially flat against last year's fourth quarter and reported earnings, with one less week, for the fiscal 2006 fourth quarter are forecasted to be in the range of $0.26 - $0.32 per share."

Forward-looking Information

Any forward-looking statements contained in this news release are based on current information and assumptions and represent management's best judgment at the present time. Actual results could differ materially from those anticipated or projected due to a number of factors. These factors include, but are not limited to: changes in consumer confidence, changes in demographics, changes in housing sales, the impact of terrorism or war, energy price changes, the impact of logistics on imports, the impact of interest rate changes, the effects of any additional rulings on tariffs by the U.S. Department of Commerce and potential disruptions from Chinese imports, the availability and cost of capital, the impact of imports as it relates to continued domestic production, raw material price changes, changes in currency rates, competitive factors, operating factors, such as supply, labor, or distribution disruptions including changes in operating conditions or costs, effects of restructuring actions, changes in the domestic or international regulatory environment, not fully realizing cost reductions through restructurings, ability to implement global sourcing organization strategies, the future financial performance and condition of independently owned dealers that we are required to consolidate into our financial statements or changes requiring us to consolidate additional independently owned dealers, the impact of new manufacturing technologies, the impact of adopting new accounting principles, fair value changes to our intangible assets due to actual results differing from projected, the impact of severe weather, factors relating to acquisitions, the ability to turn around under-performing stores, the impact of store relocation costs or the success of new stores; and other factors identified from time to time in the company's reports filed with the Securities and Exchange Commission.

Additional Information

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

Background Information

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

The corporation's vast proprietary distribution network is dedicated exclusively to selling La-Z-Boy Incorporated products and brands, and includes 336 stand-alone La-Z-Boy Furniture Galleries(R) stores and 338 La-Z-Boy In- Store Galleries, in addition to in-store gallery programs at the company's Kincaid, Pennsylvania House, Clayton Marcus, England and Lea operating units. According to industry trade publication In Furniture, the La-Z-Boy Furniture Galleries retail network is North America's largest single-brand furniture retailer. Additional information is available at http://www.la-z-boy.com/ .

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

	Third Quarter Ended				
			% Over	Percent of Sales	
	1/28/06	1/22/05	(Under)	1/28/06	1/22/05

Sales	$502,323	$506,959	-0.9%	100.0%	100.0%
Cost of sales					
Cost of goods sold	377,937	385,353	-1.9%	75.2%	76.0%
Restructuring	594	2,252	-73.6%	0.1%	0.4%
Total cost of sales	378,531	387,605	-2.3%	75.4%	76.5%
Gross profit	123,792	119,354	3.7%	24.6%	23.5%
Selling, general and administrative	105,301	99,620	5.7%	21.0%	19.7%
Operating income	18,491	19,734	-6.3%	3.7%	3.9%
Interest expense	2,965	2,684	10.5%	0.6%	0.5%
Other income, net	1,395	273	411.0%	0.3%	0.1%
Income from continuing operations before income taxes	16,921	17,323	-2.3%	3.4%	3.4%
Income tax expense	6,453	6,583	-2.0%	38.1%*	38.0%*
Income from continuing operations	10,468	10,740	-2.5%	2.1%	2.1%
Income from discontinued operations (net of tax)	-	352	-100.0%	-	0.1%
Net income	$10,468	$11,092	-5.6%	2.1%	2.2%
Basic average shares	51,673	52,122			
Basic income from continuing operations per share	$0.20	$0.20			
Discontinued operations (net of tax)	$ -	$0.01			
Basic net income per share	$0.20	$0.21			
Diluted average shares	51,857	52,193			
Diluted income from continuing operations per share	$0.20	$0.20			
Discontinued operations					

(net of tax)	$ -	$0.01
Diluted net income per share	$0.20	$0.21
Dividends paid per share	$0.11	$0.11

* As a percent of pretax income, not sales.

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

	Nine Months Ended				
			% Over	Percent of Sales	
	1/28/06	1/22/05	(Under)	1/28/06	1/22/05
Sales	$1,408,415	$1,482,826	-5.0%	100.0%	100.0%
Cost of sales					
Cost of goods sold	1,077,364	1,137,903	-5.3%	76.5%	76.7%
Restructuring	8,411	13,401	-37.2%	0.6%	0.9%
Total cost of sales	1,085,775	1,151,304	-5.7%	77.1%	77.6%
Gross profit	322,640	331,522	-2.7%	22.9%	22.4%
Selling, general and administrative	303,466	300,539	1.0%	21.5%	20.3%
Operating income	19,174	30,983	-38.1%	1.4%	2.1%
Interest expense	8,796	7,500	17.3%	0.6%	0.5%
Other income, net	1,705	292	483.9%	0.1%	-
Income from continuing operations before income taxes	12,083	23,775	-49.2%	0.9%	1.6%
Income tax expense	4,854	9,035	-46.3%	40.2%*	38.0%*
Income from continuing operations	7,229	14,740	-51.0%	0.5%	1.0%
Income from discontinued operations (net of tax)	-	987	-100.0%	-	0.1%
Extraordinary gains (net of tax)	-	702	-100.0%	-	-
Net income	$7,229	$16,429	-56.0%	0.5%	1.1%
Basic average shares	51,819	52,043			

Basic income from continuing operations per share	$0.14	$0.29
Discontinued operations (net of tax)	-	0.02
Extraordinary gains (net of tax)	-	0.01
Basic net income per share	$0.14	$0.32
Diluted average shares	51,950	52,100
Diluted income from continuing operations per share	$0.14	$0.29
Discontinued operations (net of tax)	-	0.02
Extraordinary gains (net of tax)	-	0.01
Diluted net income per share	$0.14	$0.32
Dividends paid per share	$0.33	$0.33

* As a percent of pretax income, not sales.

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

			Increase/(Decrease)		
	1/28/06	1/22/05	Dollars	Percent	4/30/05
Current assets					
Cash and equivalents	$20,508	$25,994	$(5,486)	-21.1%	$37,705
Receivables, net	274,001	278,269	(4,268)	-1.5%	283,915
Inventories, net	246,547	272,922	(26,375)	-9.7%	260,556
Deferred income taxes	29,385	38,961	(9,576)	-24.6%	22,779
Other current assets	24,794	20,558	4,236	20.6%	33,410
Total current assets	595,235	636,704	(41,469)	-6.5%	638,365
Property, plant and equipment,					

net	210,798	209,920	878	0.4%	210,565
Goodwill	79,770	68,615	11,155	16.3%	79,362
Trade names	18,794	27,889	(9,095)	-32.6%	21,484
Other long-term assets	86,036	84,367	1,669	2.0%	76,581
Total assets	$990,633	$1,027,495	$(36,862)	-3.6%	$1,026,357
Current liabilities					
Short-term borrowings	$13,718	$11,500	$2,218	19.3%	$9,700
Current portion of long-term debt	2,566	2,776	(210)	-7.6%	3,060
Accounts payable	77,479	72,618	4,861	6.7%	82,792
Accrued expenses and other current liabilities	129,203	122,148	7,055	5.8%	133,172
Total current liabilities	222,966	209,042	13,924	6.7%	228,724
Long-term debt	193,978	229,158	(35,180)	-15.4%	213,549
Deferred income taxes	4,946	20,329	(15,383)	-75.7%	5,389
Other long-term liabilities	57,723	42,813	14,910	34.8%	51,409
Contingencies and commitments					
Shareholders' equity					
Common shares, $1 par value	51,713	52,167	(454)	-0.9%	52,225
Capital in excess of par value	211,273	214,538	(3,265)	-1.5%	214,087
Retained earnings	261,272	257,099	4,173	1.6%	273,143
Unearned compensation	(3,448)	(1,683)	(1,765)	-104.9%	(1,536)
Accumulated other comprehensive income (loss)	(9,790)	4,032	(13,822)	-342.8%	(10,633)
Total shareholders' equity	511,020	526,153	(15,133)	-2.9%	527,286
Total liabilities and shareholders' equity	$990,633	$1,027,495	$(36,862)	-3.6%	$1,026,357

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

	Third Quarter Ended 1/28/06	Third Quarter Ended 1/22/05	Nine Months Ended 1/28/06	Nine Months Ended 1/22/05
Cash flows from operating activities				
Net income	$10,468	$11,092	$7,229	$16,429
Adjustments to reconcile net income to cash provided by operating activities				
Extraordinary gain	-	-	-	(702)
Restructuring	594	2,252	8,411	13,401
Change in allowance for doubtful accounts	293	(1,922)	444	450
Depreciation and amortization	7,499	7,154	21,675	21,154
Change in receivables	(13,132)	29,518	15,267	22,775
Change in inventories	20,773	9,098	17,411	(24,804)
Change in payables	4,082	(14,098)	(5,822)	(20,680)
Change in other assets and liabilities	4,296	(4,447)	(5,688)	(13,250)
Change in deferred taxes	(1,791)	(667)	(7,049)	(882)
Total adjustments	22,614	26,888	44,649	(2,538)
Net cash provided by operating activities	33,082	37,980	51,878	13,891
Cash flows from investing activities				
Proceeds from disposals of assets	905	8	8,625	5,605
Capital expenditures	(6,196)	(9,833)	(20,479)	(27,012)
Purchases of investments	(6,420)	(3,491)	(21,980)	(8,853)
Proceeds from sale of investments	5,047	4,194	9,115	7,007
Change in other long-term assets	841	(2,003)	(2,460)	(3,304)
Net cash used for investing activities	(5,823)	(11,125)	(27,179)	(26,557)
Cash flows from financing activities				
Proceeds from debt	14,334	3,746	86,471	105,988
Payments on debt	(31,406)	(28,668)	(103,525)	(86,925)
Stock issued for stock option and employee benefits plans	909	1,124	2,954	3,881
Repurchase of common stock	-	-	(10,889)	(2,476)
Dividends paid	(5,728)	(5,743)	(17,200)	(17,115)
Net cash provided by (used for) financing activities	(21,891)	(29,541)	(42,189)	3,353
Effect of exchange rate changes on cash and equivalents	103	3	293	1,425
Change in cash and equivalents	5,471	(2,683)	(17,197)	(7,888)
Cash and equivalents at beginning of period	15,037	28,677	37,705	33,882
Cash and equivalents at end of period	$20,508	$25,994	$20,508	$25,994
Cash paid (net of refunds) during period - income taxes	$47	$10,655	$1,638	$17,053
Cash paid during period - interest	$3,456	$2,772	$8,766	$6,832

LA-Z-BOY INCORPORATED
Segment Information

(Unaudited, amounts in thousands)	Third Quarter Ended 1/28/06	1/22/05	Nine Months Ended 1/28/06	1/22/05
Sales				
Upholstery Group	$351,520	$356,507	$986,369	$1,054,071
Casegoods Group	109,921	111,918	318,858	331,801
Retail Group	57,432	44,298	159,332	123,714
VIEs/Eliminations	(16,550)	(5,764)	(56,144)	(26,760)
Consolidated	$502,323	$506,959	$1,408,415	$1,482,826
Operating income (loss)				
Upholstery Group	$25,250	$22,253	$52,968	$62,926
Casegoods Group	6,649	2,152	13,106	2,732
Retail Group	(5,987)	(183)	(17,469)	842
Corporate and other*	(6,827)	(2,236)	(21,020)	(22,116)
Restructuring	(594)	(2,252)	(8,411)	(13,401)
Consolidated	$18,491	$19,734	$19,174	$30,983

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

LA-Z-BOY INCORPORATED
Impact of FIN 46 on Consolidation

La-Z-Boy Furniture Galleries(R) stores that are not operated by us are operated by 117 independent dealers. These stores sell La-Z-Boy manufactured product as well as various accessories purchased from approved La-Z-Boy vendors. In some cases we have extended credit beyond normal trade terms to the independent dealers, made direct loans and/or guaranteed certain loans or leases. Most of these independent dealers have sufficient equity to carry out their principal operating activities without subordinated financial support; however, there are certain independent dealers that we have determined may not have sufficient equity. In accordance with Financial Accounting Standards Board Interpretation No. 46R, we began to consolidate variable interest entities of which we were deemed the primary beneficiary as of April 24, 2004. The tables below show the impact on our consolidated balance sheet at January 28, 2006 and April 30, 2005 and statement of operations for the third quarter and nine months ended January 28, 2006 and January 22, 2005. The amounts reflected in the table include the elimination of related payables, receivables, sales, cost of sales, and interest as well as profit in inventory.

LA-Z-BOY INCORPORATED
Impact of FIN 46 on Consolidated Balance Sheet

(Unaudited, amounts in thousands)	VIEs 1/28/06	4/30/05
Assets		
Cash and equivalents	$3,837	$1,699
Accounts receivable, net	(17,097) (1)	(9,131) (1)
Inventories, net	11,583	7,211
Deferred income taxes	9,201	7,199
Other current assets	1,517	1,226
Total current assets	9,041	8,204
Property, plant and equipment, net	12,447	8,431
Intangibles	8,122	7,714
Other long-term assets	(19,740) (1)	(14,169) (1)
Total assets	$9,870	$10,180
Liabilities and shareholders' equity		
Current portion of long-term debt	$1,336	$1,934
Accounts payable	1,233	329

Other current liabilities	5,489	3,523
Total current liabilities	8,058	5,786
Long-term debt	7,058	6,256
Other long-term liabilities	(1,300)	(1,300)
Shareholders' equity (deficit)	(3,946)	(562)
Total liabilities and shareholders' equity	$9,870	$10,180

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

LA-Z-BOY INCORPORATED
Impact of FIN 46 on Consolidated Statement of Income

(Unaudited, amounts in thousands)	Quarter Ended 1/28/06	Quarter Ended 1/22/05	Nine Months Ended 1/28/06	Nine Months Ended 1/22/05
Sales	$10,838 (2)	$14,847 (2)	$27,272 (2)	$38,142 (2)
Cost of sales	1,313 (2)	1,765 (2)	4,221 (2)	2,441 (2)
Gross profit	9,525	13,082	23,051	35,701
Selling, general and administrative	10,489	11,321	26,950	38,710
Operating income (loss)	(964)	1,761	(3,899)	(3,009)
Interest expense	171	94	387	330
Other expense, net	(185) (3)	(676) (3)	(984) (3)	(3,062) (3)
Pre-tax income (loss)	(1,320)	991	(5,270)	(6,401)
Income tax expense (benefit)	(502)	378	(2,003)	(2,431)
Net income (loss) from continuing operations	$(818)	$613	$(3,267)	$(3,970)

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

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

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-0- 02/14/2006
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