SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549-1004

FORM 10-Q

Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934

FOR QUARTER ENDED JANUARY 26, 2002 COMMISSION FILE NUMBER 1-9656

LA-Z-BOY INCORPORATED

(Exact name of registrant as specified in its charter)

MICHIGAN	38-0751137
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1284 North Telegraph Road, Monroe, Michigan	48162-3390
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (734) 241-4414

None

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

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 and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

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

Class	Outstanding at January 26, 2002
Common Shares, $1.00 par value	60,870,368

LA-Z-BOY INCORPORATED
FORM 10-Q SECOND QUARTER OF FISCAL 2002

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PART I FINANCIAL INFORMATION ITEM 1. FINANCIAL STATEMENTS LA-Z-BOY INCORPORATED CONSOLIDATED BALANCE SHEET (Amounts in thousands)

Unaudited -- Increase/(Decrease) -------------------- Audited 1/26/02 1/27/01 Dollars Percent 4/28/01 ----------- ----------- -------- -------- -----------

~~Current assets Cash and equivalents \$26,781 \$20,409 \$6,372 31% \$23,565 Receivables - net 352,522 365,469 (12,947) -4% 380,867 Inventories Raw materials 79,539 103,044 (23,505) -23% 90,381 Work in progress 59,544 67,074 (7,530) -11% 62,465 Finished goods 100,535 111,210 (10,675) -10% 115,425~~

~~-------- FIFO inventories 239,618 281,328 (41,710) -15% 268,271 Excess of FIFO over LIFO (12,480) (7,838) (4,642) -59% (10,384)~~

~~--------- Total inventories 227,138 273,490 (46,352) -17% 257,887 Deferred income taxes 27,251 20,805 6,446 31% 26,168 Income taxes - current 2,944 - 2,944 N/A 2,944 Other current assets 15,424 19,987 (4,563) -23% 17,345~~

~~--------- Total current assets 652,060 700,160 (48,100) -7% 708,776 Property, plant and equipment 214,952 223,562 (8,610)~~

~~-4% 230,341~~
~~Goodwill 109,371~~
~~113,486 (4,115)~~
~~-4% 112,755 Trade~~
~~names 117,824~~
~~123,821 (5,997)~~
~~-5% 120,981 Other~~
~~long-term assets~~
~~57,808 59,492~~
~~(1,684) -3% 52,944~~
~~------------------~~
~~------ ---------- --~~
~~------- -----------~~
~~Total assets~~
~~$1,152,015~~
~~$1,220,521~~
~~($68,506) -6%~~
~~$1,225,797~~
~~==========~~
~~==========~~
~~========= ========~~
~~==========~~
~~Current~~
~~liabilities Lines~~
~~of credit $700 $0~~
~~$700 N/A $10,380~~
~~Current portion of~~
~~long term debt 638~~
~~1,604 (966) -60%~~
~~5,304 Current~~
~~portion of capital~~
~~leases 546 457 89~~
~~19% 541 Accounts~~
~~payable 73,198~~
~~90,784 (17,586)~~
~~-19% 92,830~~
~~Payroll and other~~
~~compensation~~
~~72,239 64,551~~
~~7,688 12% 78,550~~
~~Income taxes 1,716~~
~~1,413 303 21%~~
~~11,490 Other~~
~~current~~
~~liabilities 55,461~~
~~47,875 7,586 16%~~
~~50,820 ------------~~
~~------------------~~
~~--- ---------- -----~~
~~------ Total~~
~~current~~
~~liabilities~~
~~204,498 206,684~~
~~(2,186) -1%~~
~~249,915 Long term~~
~~debt 141,451~~
~~240,688 (99,237)~~
~~-41% 196,923~~
~~Capital leases~~
~~2,083 2,739 (656)~~
~~-24% 2,496~~
~~Deferred income~~
~~taxes 46,545~~
~~52,488 (5,943)~~
~~-11% 45,709 Other~~
~~long term~~
~~liabilities 41,365~~
~~30,448 10,917 36%~~
~~35,608~~
~~Contingencies and~~
~~commitments~~
~~Shareholders'~~
~~equity Common~~
~~shares, $1 par~~
~~value 60,870~~
~~60,259 611 1%~~
~~60,501 Capital in~~
~~excess of par~~
~~value 211,375~~
~~211,017 358 0%~~
~~210,924 Retained~~

~~earnings 451,793 418,706 33,087 8% 427,616 Accum. other comprehensive loss (7,965) (2,508) (5,457) -218% (3,895) ----------- ----------- ----------- ---------- Total shareholders' equity 716,073 687,474 28,599 4% 695,146 Total liabilities and -- ----------- ----------- ----------- ----------- shareholders' equity $1,152,015 $1,220,521 ($68,506) -6% $1,225,797 =========== =========== ========= ========= =========== The accompanying Notes to Consolidated Financial Statements are an integral part of these statements. Page 3 of 17~~

~~LA-Z-BOY INCORPORATED CONSOLIDATED STATEMENT OF INCOME (Amounts in thousands, except per share data) (UNAUDITED) THIRD QUARTER ENDED -- ----- Percent of Sales 1/26/02 1/27/01 % Over --- ----------------- (13 Weeks) (13 Weeks) (Under) 1/26/02 1/27/01 ---------- ---------- ---------- ---------- ---------- Sales $544,980 $552,019 -1% 100.0% 100.0% Cost of sales 406,324 428,945 -5% 74.6% 77.7% ---------- ---------- ---------- Gross profit 138,656 123,074 13% 25.4% 22.3% S, G & A 101,298 95,855 6% 18.6% 17.4% Loss on divestiture 11,689 0 N/A 2.1% 0.0% ---------- ---------- ---------- Operating income 25,669 27,219 -6% 4.7% 4.9% Interest expense 3,004~~

~~4,821 -38% 0.6% 0.9% Interest income 370 502 -26% 0.1% 0.1% Other income, net 576 2,623 -78% 0.1% 0.5%~~

~~- Pretax income 23,611 25,523 -7% 4.3% 4.6% Income tax expense 1,948 9,406 -79% 8.2%* 36.9%*~~

~~Net income $21,663 $16,117 34% 4.0% 2.9%~~

~~Basic EPS $0.35 $0.27 30% Diluted avg. shares 61,062 60,399 1% Diluted EPS $0.35 $0.27 30% Dividends paid $0.09 $0.09 0% per share (UNAUDITED) NINE MONTHS ENDED~~

~~Percent of Sales 1/26/02 1/27/01 % Over (39 Weeks) (39 Weeks) (Under) 1/26/02 1/27/01~~

~~Sales $1,563,150 $ 1,661,426 -6% 100.0% 100.0% Cost of sales 1,202,951 1,279,880 -6% 77.0% 77.0%~~

~~- Gross profit 360,199 381,546 -6% 23.0% 23.0% S, G & A 294,258 284,911 3% 18.8% 17.2% Loss on divestiture 11,689 0 N/A 0.7% 0.0%~~

~~Operating income 54,252 96,635 -44% 3.5% 5.8% Interest expense 8,004 13,670 -41% 0.5% 0.8% Interest income 1,115 1,284 -13% 0.0% 0.1% Other income, net 1,202 9,099 -87% 0.1% 0.5%~~

~~- Pretax income 48,565 93,348 -48% 3.1% 5.6% Income tax expense 11,680 35,312 -67% 24.1%*~~

~~37.8%* --~~

~~Net income $36,885 $58,036 -36% 2.4% 3.5% ========== ========== ======= ======= =======~~

~~Basic EPS $0.60 $0.96 -38% Diluted avg. shares 61,000 60,769 0% Diluted EPS $0.60 $0.96 -38% Dividends paid $0.27 $0.26 4% per share * As a percent of pretax income, not sales. The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.~~

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~~LA-Z-BOY INCORPORATED CONSOLIDATED STATEMENT OF CASH FLOWS (Amounts in thousands) (Unaudited) (Unaudited) Third Quarter Ended Nine Months Ended --~~

~~1/26/02 1/27/01 1/26/02 1/27/01 --~~

~~Cash flows from operating activities Net income $21,663 $16,117 $36,885 $58,036 Adjustments to reconcile net income to cash provided by operating activities Loss on divestiture 11,689 -- 11,689 -- Depreciation and amortization 11,122 11,601 32,743 33,639 Change in receivables 20,008 34,274 23,610 27,623 Change in inventories 7,936 1,889 21,368 (27,686) Change in payables (14,409) (17,521) (18,635) 392 Change in other assets and liabilities~~

~~(7,709) (13,283) (7,631) (35,921) Proceeds from insurance recovery -- -- -- 5,116 Change in deferred taxes (7,171) (2,041) (247) 3,777 --------- --------- --------- --------- Total adjustments 21,466 14,919 62,897 6,940 --------- --------- --------- --------- Cash provided by operating activities 43,129 31,036 99,782 64,976 Cash flows from investing activities Proceeds from disposals of assets 1,365 221 2,208 660 Capital expenditures (11,386) (5,986) (23,342) (23,059) Proceeds from divestiture 6,048 -- 6,048 -- Change in other long-term assets 2,617 (2,145) 1,879 185 --------- --------- --------- --------- Cash used for investing activities (1,356) (7,910) (13,207) (22,214) Cash flows from financing activities Proceeds from debt 50,700 -- 92,276 77,000 Payment of debt (85,947) (15,148) (162,094) (81,765) Capital leases (137) (129) (408) 583 Stock issued for stock options & 401(k) plans 2,070 887 11,598 6,802 Repurchase of common stock (473) (151) (7,059) (23,400) Dividends paid (5,471) (5,424) (16,427)~~

~~(15,762)~~

~~Cash used for financing activities (39,258) (19,965) (82,114) (36,542) Effect of exchange rate changes on cash (531) 507 (1,245) (164)~~

~~Change in cash and equivalents 1,984 3,668 3,216 6,056 Cash and equivalents at beginning of period 24,797 16,741 23,565 14,353~~

~~Cash and equivalents at end of period $26,781 $20,409 $26,781 $20,409 ========= ========= ========= ========= Cash paid during period - Income taxes $14,366 $21,430 $22,866 $46,156 - Interest $1,822 $6,490 $7,038 $12,739 The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.~~

~~NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Note 1: Basis of Presentation The unaudited interim financial information is prepared in conformity with generally accepted accounting principles and, except as indicated in Notes 7 and 8, such principles are applied on a basis consistent with those reflected in our 2001 Annual Report~~

~~on Form 10-K, filed with the Securities and Exchange Commission. Management has prepared the financial information included in these consolidated financial statements. The consolidated balance sheet as of April 28, 2001, has been audited by our independent certified public accountants. The unaudited interim financial information as of and for the interim periods ended January 26, 2002 and January 27, 2001 has been prepared on a basis consistent with, but does not include all the disclosures contained in, the audited consolidated financial statements for the year ended April 28, 2001. The unaudited interim financial information includes all adjustments and accruals, consisting only of normal recurring adjustments, which are, in our opinion, necessary for a fair presentation of results for the respective interim period. Certain prior year information has been reclassified to be comparable to the current year presentation. Note 2: Interim Results The foregoing interim results are not necessarily indicative of~~

~~the results of operations for the full fiscal year ending April 27, 2002.~~

~~Note 3: Restructuring~~

~~In the second quarter of this year we recorded an expense of $13.2 million in cost of sales as a result of a restructuring plan. This plan involved closing down three of our manufacturing facilities and converting two others to warehousing, sub assembly and import service operations. In the fourth quarter of last fiscal year, we recorded a restructuring expense of $11.2 million in cost of sales as a result of strategic decisions to rationalize production capacity to achieve more efficient production utilization and exit certain unprofitable product lines.~~

~~Restructuring liabilities along with charges to expense, cash payments or asset write-offs were as follows:~~

~~Fiscal 2002~~

			~~Cash Payments~~	
	~~4/28/01~~	~~Charges to~~	~~or Asset~~	~~1/26/02~~
~~(Amounts in thousands)~~	~~Balance~~	~~Expense*~~	~~Write-offs~~	~~Balance~~
~~Fixed asset write-downs~~	~~--~~	~~$6,200~~	~~($6,200)~~	~~--~~
~~Severance and benefit~~				

~~related costs $1,200 4,000 (1,479) $3,721 Inventory write downs -- 1,500 (1,500) -- -- Other 2,700 1,500 (1,750) 2,450 -------- -------- -------- -------- Total restructuring $3,900 $13,200 ($10,929) $6,171 ======== ========= ========= ======== * All additions in this year are due to the restructuring announced in the second quarter. Page 6 of 17 Fiscal 2001 -------------------------- Cash Payments 4/29/00 Charges to or Asset 4/28/01 (Amounts in thousands) Balance Expense Write offs Balance -------- -------- --------- -------- --------- Fixed asset write downs -- $4,000 ($4,000) -- Severance and benefit related costs -- 1,200 -- $1,200 Inventory write downs -- 3,300 (3,300) -- Other -- 2,700 -- 2,700 -------- -------- -------- -------- Total restructuring -- $11,200 ($7,300) $3,900 ======== ========= ========= ======= Note 4: Divestiture Effective November 30, 2001, we sold the assets of our Pilliod Furniture subsidiary to Michels South Carolina Incorporated. Pilliod, which produces promotionally-priced bedroom and occasional~~

~~furniture, was part of our January 2000 acquisition of Greensboro, NC-based LADD Furniture, Inc. The transaction generated a pretax loss of $11.7 million. Tax expense, however, was favorably impacted with a tax benefit of $11.8 million resulting in a small net gain with no earnings per share effect.~~

~~Note 5: Other Income: Insurance Recovery~~

~~Other income in the nine months ended January 27, 2001 included $4.9 million resulting from a business interruption insurance recovery.~~

~~Note 6: Earnings per Share~~

~~Basic earnings per share is computed using the weighted-average number of shares outstanding during the period. Diluted earnings per share uses the weighted-average number of shares outstanding during the period plus the additional common shares that would be outstanding if the dilutive potential common shares issuable under employee stock options were issued.~~

~~(Unaudited) (Unaudited) Third Quarter Ended Nine Months Ended~~

~~(Amounts in thousands) 1/26/02 1/27/01 1/26/02 1/27/01~~

~~Weighted average common shares outstanding (basic) 60,827 60,240 60,837 60,615 Effect of options 235 159 163 154 ------- ------- ------- -------~~

~~Weighted average common shares outstanding (diluted) 61,062 60,399 61,000 60,769 ======= ======= ======= =======~~

~~Note 7: Accounting Change Beginning with our first quarter ended July 28, 2001, we implemented Financial Accounting Standards Board Statement (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. Interest rate swap arrangements have been formally designated as hedges and the effect of marking these contracts to market as of April 29, 2001 was recorded in "Accum. other comprehensive loss" on the balance sheet in the amount of $1.2 million, net of taxes.~~

~~Note 8: Segment Information Our reportable operating segments are the Upholstery Group and the Casegoods Group. These segments are different from the segments used in our fiscal 2001 annual report. The new segments reflect the organizational~~

~~change announced July 23, 2001 that realigned our top management team. The operating units that comprise the Upholstery Group are Bauhaus, Centurion, Clayton Marcus, England, HickoryMark, La-Z-Boy, La-Z-Boy Contract Furniture and Sam Moore. The primary products produced and sold in the Upholstery Group are recliners, sofas, occasional chairs and reclining sofas. These products are mostly or fully covered with fabric, leather or vinyl, although exposed wood and other materials are used as well. The operating units that comprise the Casegoods Group are Alexvale, American Drew, American of Martinsville, Hammary, Kincaid, Lea and Pennsylvania House. The primary products produced or sold in the Casegoods Group are casegoods, business furniture and upholstered furniture. Casegoods include dining room tables and chairs, chinas, beds, dressers, chests, youth furniture and other case pieces for both the dining room and bedroom, as well as coffee tables, end tables, and entertainment centers for the living room and~~

~~great room area. Comparable segment information for all quarters in fiscal 2000 and fiscal 2001 can be found in our first quarter Form 10-Q filed September 7, 2001. The financial results of our operating segments are shown below. Results for the Casegoods Group include Pilliod through November 30, 2001. Page 8 of 17~~

~~(Unaudited) (Unaudited) (Amounts in thousands) Third Quarter Ended Nine Months Ended~~

~~1/26/02 1/27/01 1/26/02 1/27/01~~

~~Sales~~

~~Upholstery Group $397,388 $372,443 $1,097,346 $1,085,001 Casegoods Group 147,872 180,275 466,503 577,348 Eliminations (280) (699) (699) (923)~~

~~Consolidated $544,980 $552,019 $1,563,150 $1,661,426~~

~~========= ========= ========== ==========~~

~~Operating Income~~

~~Upholstery Group Without restructuring $37,277 $30,767 $85,193 $91,377 Restructuring 0 0 (3,735) 0~~

~~Net Upholstery Group 37,277~~

~~30,767 81,458 91,377 Casegoods Group W/O restructuring & divestiture 7,441 1,441 11,847 20,676 Restructuring 0 0 (9,452) 0 Loss on divestiture (11,689) 0 (11,689) 0 -- Net Casegoods Group (4,248) 1,441 (9,294) 20,676 Corporate expenses & other (7,360) (4,989) (17,912) (15,418) -- Consolidated $25,669 $27,219 $54,252 $96,635 ========= ========= ========== ========== Page 9 of 17 ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS Cautionary Statement Concerning Forward-Looking Statements We are making forward-looking statements in this item. Generally, forward-looking statements include information concerning possible or assumed future actions, events or results of operations. More specifically, forward-looking statements include the information in this document regarding: future income and margins future economic performance future growth industry trends adequacy and cost of~~

~~financial resources management plans Forward-looking statements also include those preceded or followed by the words "anticipates," "believes," "estimates," "hopes," "plans," " 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. Many important factors, including future economic, political and industry conditions (for example, changes in interest rates, changes in consumer demand, changes in currency exchange rates, changes in demographics and consumer preferences, e-commerce developments, oil price changes, terrorism impacts, and changes in the availability and cost of capital); competitive factors (such as the competitiveness of foreign made products, new manufacturing technologies, or other actions taken by current or new competitors); operating factors (for example,~~

~~supply, labor, or distribution disruptions, changes in operating conditions or costs, effects of restructuring actions and changes in regulatory environment); and factors relating to acquisitions, could affect our future results and could cause those results or other outcomes to differ materially from what may be expressed or implied in our forward looking statements. We undertake no obligation to update or revise any forward looking statements for new developments or otherwise.~~

~~Pilliod Divestiture~~

~~Effective November 30, 2001 we sold the assets of our Pilliod subsidiary that operated in our Casegoods Group segment. Results of operations prior to November 30, 2001 are fully included in results of operations. You can find more information on the Pilliod divestiture in Note 4 on page 7 as well as in the various comments or analysis that follow.~~

~~Results of Operations Sales Unaudited~~

~~Third Quarter Nine Months~~

~~----- FY02 FY02 $ Over Percent of Total $ Over Percent of Total (Under)~~

~~(Under) -------~~

~~---------- FY01 FY02 FY01 FY01 FY02 FY01~~

~~Upholstery Group 7% 73% 67% 1% 70% 65%~~

~~Casegoods Group -18% 27% 33% -19% 30% 35%~~

~~Other N/A 0% 0% N/A 0% 0%~~

~~Consolidated -1% 100% 100% -6% 100% 100%~~

~~======= ======= ======= ======= ======= =======~~

~~Operating Income Unaudited~~

~~---- Third Quarter Nine Months --------~~

~~FY02 FY02 $ Over Percent of Sales $ Over Percent of Sales (Under)~~

~~(Under)~~

~~FY01 FY02 FY01 FY01 FY02 FY01~~

~~Upholstery Group Without restructuring 21% 9.4% 8.3% 7% 7.8% 8.4%~~

~~Restructuring N/A N/A N/A N/M 0.3% 0.0%~~

~~Net Upholstery Group 21% 9.4%~~

~~8.3% -11% 7.4% 8.4% Casegoods Group W/O restructuring & divestiture 416% 5.0% 0.8% -43% 2.5% 3.6% Restructuring N/A N/A N/A N/M -2.0% 0.0% Loss on divestiture N/M -7.9% 0.0% N/M -2.5% 0.0%~~

~~------- ------- -------~~

~~Net Casegoods Group -395% -2.9% 0.8% -145% -2.0% 3.6% Corporate expenses & other 48% -1.4% -0.9% 16% -1.1% -0.9%~~

~~------- ------- -------~~

~~Consolidated -6% 4.7% 4.9% -44% 3.5% 5.8%~~

~~======= ======= ======= ======= ======= =======~~

~~Also, see page 4 for the consolidated statement of income with analysis of percentages and calculations.~~

~~Third Quarter Ended January 26, 2002 Compared to Third Quarter Ended January 27, 2001. Third quarter sales declined 1% from the prior year's third quarter. Upholstery Group sales were up 7% while Casegoods Group sales declined 18%. Excluding Pilliod from both periods, our Casegoods Group sales declined 13% vs. the reported 18% decline including Pilliod. We believe that our Upholstery Group sales performance was better than the industry and most of our major competitors. Last quarter, the Upholstery Group's sales were flat with the second quarter of the prior year. Therefore, the current 7% third quarter increase compared to the prior year's third quarter indicates positive sales momentum. The third quarter Upholstery Group improvement occurred in large part at La-Z-Boy Furniture Galleries, which are a major proprietary distribution channel for the Upholstery Group. Same store retail sales at La-Z-Boy Furniture Galleries were up 16% from last year's third quarter. Also, there were strong~~

~~sales at our England and Bauhaus operating units. Based on industry data, residential furniture industry sales of casegoods declined by double digit percentages across the country. Our Casegoods Group sales were adversely affected by this residential industry downturn and the impact of stronger competition from imported products. A more severe industry decline in the U.S. hospitality (hotel/motel) market was particularly impacted by the September 11, 2001 terrorist attack. Gross profit as a percent of sales for the third quarter ended January 26, 2002 increased from 22.3% to 25.4%. This improvement, despite a 1% sales decline, primarily reflects the results of management's efforts to adjust capacity and fixed costs in response to a weak sales environment. In particular, restructuring and other productivity improvements announced in April and October are now positively impacting gross profit margins. Selling, General & Administrative (S, G & A) expenses increased 6% or about $5.4 million. As a~~

~~percent of sales, S, G & A increased from 17.4% to 18.6%. Warehousing, research and development, employee benefits and information technology expenses were up as a percent of sales. Operating income margins declined from 4.9% of sales to 4.7%. Excluding the effect of the pretax loss on the Pilliod divestiture, our consolidated profit margin increased from 4.9% to 6.9%. We improved our margin in both of our segments. The Upholstery Group's margin of 9.4% was higher than last year's third quarter margin of 8.3%. Reasons for the Upholstery Group improvement~~

~~include the 7% sales increase, higher productivity and reductions in plywood and leather costs. The Casegoods Group's margin (excluding the loss on divestiture) improved from 0.8% to 5.0%. The 5.0% margin was almost double the margin of the second quarter. The Casegoods Group improvement compared to last year's third quarter was due to major retailer bankruptcies which adversely affected the prior year, a lower operating loss at Pilliod, and two restructurings~~

~~and other cost cutting measures to reflect reduced demand. Income tax expense declined from 36.9% of pretax income to 8.2% due to the effects of the Pilliod divestiture. Without the $11.8 million divestiture tax benefit, the third quarter income tax rate would have been 39.0%, which is comparable to the rate of the first six months of the year. Nine Months Ended January 26, 2002 Compared to Nine Months Ended January 27, 2001. Nine months sales declined 6% from the prior year primarily due to continued weak furniture industry demand and impacts of retailers going out of business or experiencing financial difficulties. Upholstery Group sales increased 1% while Casegoods Group sales declined 19%. Excluding Pilliod from both periods, our Casegoods Group sales declined 16% vs. the 19% reported decline. Our Upholstery Group sales increased 1% from last year. We believe this was better than the industry and most of our major competitors. Based on industry data, furniture industry sales of casegoods declined by double-digit percentages across the country. Our~~

~~Casegoods Group sales were adversely affected by this severe downturn in the casegoods segment of the U.S. furniture industry and the impact of stronger competition from imported products. Selling, General & Administrative (S, G & A) expenses increased 3% or about $9.3 million. As a percent of sales, S, G & A increased from 17.2% to 18.8% in part due to reduced sales volume. Warehousing, research and development, employee benefits, advertising and information technology expenses were up as a percent of sales. Operating income margins declined from 5.8% of sales to 3.5%. Excluding the effect of restructurings and the loss on the Pilliod divestiture, our profit margin decreased from 5.8% to 5.1%. The Upholstery Group's margin of 7.8% was less than last year's 8.4% primarily due to first quarter sales volume being Page 13 of 17 below plan and higher health care expenses for the first six months of the year. The Casegoods Group's margin (excluding restructuring expenses and the loss on divestiture) declined from 3.6% of sales~~

~~to 2.5%. The primary reason for the decline was a 16% decline in sales (excluding Pilliod from both periods). Interest expense declined 41%. As a percent of sales it declined from 0.8% last year to 0.5%. This decline was due to reduced debt levels and lower interest rates. Other income decreased $7.9 million. Last year's second quarter included a $4.9 million business interruption insurance recovery. Liquidity and Capital Resources Cash flows from operations amounted to $100 million in the first nine months of fiscal year 2002 compared to $65 million in the prior year. In the aggregate, capital expenditures, dividends and stock repurchases totaled approximately $47 million during the first nine months, which was down from $62 million in the first nine months of fiscal 2001. Inventories declined 17% or $46 million from last year on a LIFO basis. Inventories also declined 6% or $17 million compared to last quarter (our second quarter) whereas at the end of January last year they~~

~~decreased 1% from the second to the third quarter. These declines were primarily due to the Pilliod divestiture and the result of efforts to reduce inventories as sales levels declined. The largest reductions in inventory were in our Casegoods segment that also had our largest reduction in sales. We continued to pay down debt. In the third quarter of this year we paid down $35 million, which brings our nine months net cash debt reductions to $70 million. We believe we have a strong capital structure as evidenced by a low debt to capitalization ratio of 16.9% as well as a strong current ratio and interest coverage ratio. As of January 26, 2002, we had line of credit availability of approximately $361 million under several credit agreements. Capital expenditures were $11 million during the three months ended January 26, 2002 and $23 million for the nine months compared to last year's $6 million for the quarter and $23 million for the nine months. During the third quarter we repurchased approximately 24,000 shares of our common stock, at an~~

~~average price of $19.80 per share. On February 12, 2002, our board of directors authorized the repurchase of up to an additional four million shares of our stock at such times and prices deemed opportune by corporate management. The previous three million shares repurchase authorization, approved by the directors in February 2000, still had 590,000 shares remaining at February 12, 2002. Page 14 of 17 Outlook We remain cautiously positive regarding the longer term outlook for our industry -- especially for a company such as La-Z-Boy, operating under the umbrella of powerful consumer brand names and a strong and growing proprietary distribution system. We expect the low U.S. interest rates and other more localized economic forces to strengthen housing turnover and home remodeling - both strong drivers of retail furniture demand. In the shorter term we expect fourth quarter sales to decline a low single digit percentage amount. We expect our Upholstery Group segment sales to show low to mid single digit percentage improvements over the prior~~

~~year driven in part by much better sales order backlogs at the end of January this year than last year. Backlogs are stronger in part due to many retailers raising their lean current level of inventories to support higher current sales rates. We expect our Casegoods Group segment to continue to have a double-digit percentage decline in sales. The divestiture of the Pilliod operating unit is expected to adversely affect Casegoods Group prior year sales comparisons for the next three quarters. Casegoods Group sales backlogs at the end of January, similar to the end of October, were measurably less than at the same period of the prior year. We expect interest expense to continue to be substantially less next quarter than in the prior year quarter. We are anticipating the income tax rate in the upcoming fourth quarter to be 39.0% of pretax income. Excluding the tax effects of the divestiture of Pilliod, the tax rate for the first nine months of this fiscal year was also 39.0%. Because most of our April and October restructuring actions and the November Pilliod~~

~~disposition applied to our Casegoods Group segment, we are expecting improved operating income margins for this segment in future quarters. We estimate that our diluted net income per share (EPS) for the fourth quarter ending April 2002 will be between $0.42 - $0.46 compared to $0.17 last year. Last year's fourth quarter EPS included an $0.11 restructuring charge. EPS for the year would be $1.02 - $1.06 or $1.15 - $1.19 exclusive of restructuring charges. Last year EPS was $1.13 or $1.19 excluding restructuring charges and an insurance gain. We expect capital expenditures of approximately $30 million for the full year of fiscal 2002. Last year we spent $37 million. We expect to continue to be in the open market for purchasing our shares from time to time as changes in our stock price and other factors present appropriate opportunities. We expect to meet our cash needs for capital expenditures, stock repurchases and dividends during fiscal year 2002 from cash generated by operations and borrowings under available lines of~~

~~credit. Recently the Financial Accounting Standards Board issued SFAS No. 142, "Goodwill and Other Intangible Assets", which must be implemented at the beginning of our next fiscal year. We believe there will be at least two probable effects of implementing SFAS 142, although we have not yet determined other possible Page 15 of 17 effects including potential impairment charges upon adoption. One effect would be to cause goodwill amortization to cease. Our goodwill amortization expense last year (fiscal 2001) was $4.4 million. Goodwill amortization is not deductible for our tax expense purposes. We estimate that goodwill amortization expense will be similar this year to the expense of last year. If so, and assuming dilutive shares outstanding also are similar, then the cessation of goodwill amortization expense would favorably impact fiscal 2003 earnings per share by about $0.07. We believe that another probable effect of SFAS 142 would be to eliminate the amortization expense related to our~~

~~indefinite-lived trade names for financial reporting purposes. Our trade names amortization expense last year was $4.7 million. Trade names amortization is deductible for our tax expense accounting purposes. Given similar dilutive shares assumptions and assuming a similar tax rate to this year, next year's earnings per share would be about $0.05 higher than this year's due to the cessation of indefinite-lived trade names amortization expense. Recently the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". We have not yet determined the impact of this SFAS, if any, on our financial statements.~~

~~ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK~~

~~We are exposed to market risk from changes in interest rates. Our exposure to interest rate risk results from our floating rate $300 million revolving credit facility under which we had $70 million borrowed at January 26, 2002. We have entered into several interest rate swap agreements~~

~~with counter-parties that are participants in the revolving credit facility to reduce the impact of changes in interest rates on a portion of this floating rate debt. We believe that potential credit loss from counter-party non-performance is minimal. The purpose of these swaps is to fix interest rates on a notional amount of $70 million until December 2003 at 6.095% plus our applicable borrowing spread under the revolving credit facility, which can range from .475% to .800%. Management estimates that a 1% change in interest rates would not have a material impact on the results of operations for fiscal 2002 based upon the quarter-end levels of exposed liabilities. We are exposed to market risk from changes in the value of foreign currencies. Our exposure to changes in the value of foreign currencies is reduced through our use of foreign currency forward contracts. Substantially all of our imported purchased parts are denominated in U.S. dollars. Thus, we believe that gains or losses resulting from changes in the value of~~

~~foreign currencies will not be material to our results of operations in fiscal year 2002.~~

~~ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K~~

~~(a) Exhibits~~

~~(11) Statement of Computation of Earnings per Share See note 6 to the financial statements included in this report.~~

~~(b) Reports on Form 8-K~~

~~We filed Forms 8-K on December 3 and 4, 2001 containing a press release about the divestiture of Pilliod. We filed a Form 8-K on January 18, 2002 containing a press release about our expected third quarter financial results.~~

~~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 13, 2002~~

~~/s/ James J. Korsnack~~

~~James J. Korsnack Chief Accounting Officer~~