La-Z-Boy Reports First Quarter Operating Results

08/09/04

MONROE, Mich., Aug. 9 /PRNewswire-FirstCall/ -- La-Z-Boy Incorporated (NYSE: LZB; PCX) today reported its operating results for the first fiscal quarter ended July 24, 2004. Net sales for the quarter were $466 million up 3.3% compared to a year earlier, with a loss of $0.07 per fully-diluted share. The quarter includes an after-tax restructuring charge of $0.12 per share and $13.6 million of additional sales and an after-tax loss of $0.04 per share related to the consolidation of certain Variable Interest Entities (VIEs) under FASB Interpretation No. 46 "Consolidation of Variable Interest Entities" ("FIN 46"). These VIEs were not reflected in our results in the year earlier quarter. This quarter's per share earnings compare against $0.11 per fully diluted share earned in the July 2003 first quarter, after a $0.07 per share restructuring charge.

Operating margin for the most recent quarter was (0.8%), down from 2.5% a year earlier. This year's fiscal first quarter included restructuring charges amounting to 2.2% of net sales. Last year's fiscal first quarter also included restructuring charges amounting to 1.4% of net sales.

La-Z-Boy Incorporated President and CEO Kurt L. Darrow said, "Our focus on improving our top line performance is beginning to have an impact, even in the face of challenging industry conditions. Though our overall sales were slightly below our expectations, we had solid growth in our core upholstery business. Operating margins continued to be pressured primarily from less than optimal capacity utilization in our casegoods segment and increased raw material costs experienced during the quarter." He added, "During our upcoming second fiscal quarter these increased material costs, including steel and wood, will be partially offset by previously announced price increases to our customers."

Upholstery Segment

Fiscal 2005's first quarter upholstery segment sales increased 3.8% from a year earlier. Darrow noted, "Our core La-Z-Boy Residential branded business experienced strong growth as we continue to be focused on increasing our market share through new product offerings and strong marketing programs. Additionally, we are encouraged by the improving order trends we saw during our first quarter in our upholstery business as we head into the traditionally strong autumn furniture selling season." The upholstery segment operating margin for the quarter was 4.0% compared to a reported 6.8% for last year's first quarter.

Darrow continued, "This quarter we continued to build and strengthen our proprietary distribution network of mostly independently operated La-Z-Boy Furniture Galleries(R) stores. In 2001 we introduced a 'New Generation' La-Z- Boy Furniture Galleries(R) store concept. These stores are generating increased traffic levels, higher average sales per square foot and greater total sales volumes than the previous format stores. During our first quarter in fiscal 2005, four New Generation stores were opened and five were remodeled bringing the total to 77 in this format. Plans are to open 40 plus of these updated format stores during the current fiscal year, with over 20 of these being new stores and the remainder being store remodels or relocations. Currently, there are 325 stand-alone stores, of which 36 are company-owned."

System-wide, La-Z-Boy Furniture Galleries(R) stores' same store sales dollars were up 4.1% in the first six months of calendar 2004, while total sales were up 8.2%. In the first two months of this fiscal quarter, May and June, same store sales dollars are up 3.9% while total sales were up 7.0% in the same period.

Casegoods Segment

Casegoods sales declined 9.3% from a year earlier for the July quarter. The casegoods segment's operating margin for the July 2005 quarter was 0.5% compared to 0.9% for last year. Darrow commented, "Casegoods sales continued to be challenging this quarter as retailers remained cautious and worked off inventories built prior to the mid-June antidumping decision. Several new product groups will begin shipping in our second quarter and we expect to see positive trends in the core residential furniture portion of this segment. The contract portion of this segment, serving primarily the hospitality industry, continues to negatively impact the casegoods group accounting for about 43% of the quarter's sales decrease. We believe the hospitality industry is in the beginning stages of recovering from a prolonged severe downturn, but a major domestic terrorist event could quickly extinguish this prospect."

He added, "The relatively low levels of preliminary antidumping tariffs imposed on bedroom furniture were not sufficient to significantly alter current or future domestic capacity utilization resulting in lower margins. In fact, all of our major Chinese import bedroom suppliers received the preliminary 10.92% or lower tariff rate, and we do not anticipate any material effect on our import programs. Margins also were strained by continued pricing pressure from imports, rising material prices, and aggressive competitor promotions."

Restructuring charge

Darrow noted, "Now that the preliminary antidumping tariffs have been determined, it is clear that the near-term competitive landscape of domestic casegoods manufacturing is at risk. Consequently, we are in the process of executing previously planned strategies which will enable us to accelerate our transition to a greater mix of imported versus domestically produced product within each of our residential casegoods companies. While we are intensifying our focus on casegoods merchandising, sales, marketing, and product development, we must take the appropriate actions to ensure we can provide competitively priced products to our retail partners. Though we remain committed to limited domestic production where design and price points allow us to be competitive, we are intensifying our effort to be a cost competitive global manufacturer and sourcing company."

As a result, during the third quarter, Pennsylvania House will cease manufacturing at the almost 100 year-old Lewisburg, PA plant and the nearby White Deer, PA dining room chair assembly facility. Separately, the Lewisburg area warehouses will close at an appropriate time in the future to minimize any disruption of service to our customers. This will result in the loss of approximately 425 jobs, or 15.4% of the casegoods group's current employee base. Production will be phased out at these facilities during the third fiscal quarter. A portion of that production will be relocated to our other solid wood casegoods manufacturing facility and a significant portion will be sourced globally. Additionally, a Kincaid plant in Hudson, NC, will be closed by mid September 2004, with a temporary layoff of about 120 employees until our consolidated casegoods solid wood domestic production demand is determined.

In the upholstery group, a small satellite upholstery manufacturing facility of our England subsidiary in Booneville, MS will be closed, resulting in the loss of approximately 100 jobs. Production will be phased out of this facility in the second quarter and its production absorbed into England's New Tazewell, TN facilities as a result of production efficiencies gained there. Additionally, a former Clayton Marcus manufacturing facility, currently being used as a warehouse will be closed.

"We are disheartened by these additional plant closures and the disruption to the lives of our employees at the affected locations," Darrow commented, "but we strongly believe these actions are necessary for the company to remain competitive on a long-term basis. We plan to provide transition assistance to these employees during this difficult period."

As a result of these actions, during the first fiscal quarter, a non-cash charge of $10.4 million or $0.12 per diluted share was taken to write-down certain fixed assets and inventories. These actions will result in total pre- tax charges of approximately $13 million, or $0.16 per diluted share on an after-tax basis for the full year. The majority of the balance of the charge representing severance and relocation costs will be incurred throughout the remainder of our fiscal year.

Darrow concluded, "These actions will take several months to implement and we will do our best to make them seamless, smooth, and transparent to our customers."

FIN 46

FIN 46 requires us to consolidate certain independent dealers beginning April 2004. See the attached schedule for impact and further explanation. Darrow mentioned, "The operating results of a portion of these VIEs is less than desirable and we are working diligently with these dealers to improve their operating performance."

Balance sheet

Cash flows from working capital during the quarter amounted to $13.7 million largely as a result of accounts receivable decreasing $49.1 million from the prior quarter primarily due to seasonality and quicker collections, which was offset by a planned increase in inventories of $27.3 million during the July quarter in preparation for the fall selling season. Compared to a year ago, accounts receivable declined $47.3 million of which $20.1 million was reflective of the elimination of receivables from VIEs. Inventories climbed $33.8 million over last year's July quarter of which $12.3 million was attributable to the consolidation of VIE inventories and the balance reflected our anticipation of improving business conditions.

During fiscal 2005's first quarter, the company repurchased an additional 120,000 shares of its outstanding common stock for $2.5 million. At quarter-end, 6.7 million shares remained available under the company's existing stock repurchase authorization.

Total debt increased modestly during the first quarter, to $240.7 million, and the company's first quarter debt-to-capitalization ratio of 32.0% was up from 30.0% at the start of the quarter primarily because of the restructuring charge. Consolidating VIEs increased this ratio by 120 basis points. Darrow stated, "This ratio continues to be above our targeted range because of the largely non-cash charges taken this quarter and in the fourth quarter of fiscal 2004. This ratio is expected to decrease in the coming quarters. Although management is opportunistic in execution of its stock repurchases it is unlikely to be active in the market during the second quarter."

Business Outlook

Commenting on the business outlook, Darrow said, "Although we continue to face record high energy costs and rising interest rates, consumer confidence has risen in recent months. As we move into one of the industry's better seasonal selling periods we also think that the 'underfurnished' demographic of consumers who spent so much on their new houses will begin the decorating process. In our second quarter we expect a mid-single digit increase in sales compared to the prior year period, and we anticipate reported earnings for the second quarter to be in the range of $0.29 - $0.33 per diluted share, which includes a restructuring charge of $0.01 and up to a $0.02 potential loss from the consolidation of VIEs. This would compare to the $0.28 we earned per diluted share in fiscal 2004's second quarter, which included a $0.02 restructuring charge."

Forward-looking Information

Any forward-looking statements contained in this news release are based on current information and assumptions and represent management's best judgment at the present time. Actual results could differ materially from those anticipated or projected due to a number of factors. These factors include, but are not limited to: changes in consumer sentiment or demand, changes in demographics, changes in housing sales, the impact of terrorism or war, energy price changes, the impact of logistics on imports, the impact of interest rate changes, the ultimate effect of the antidumping duties imposed by the U.S. International Trade Commission on wooden bedroom furniture imported from China and potential disruptions of Chinese imports, the availability and cost of capital, the impact of imports as it relates to continued domestic production, changes in currency rates, competitive factors, operating factors, such as supply, labor, or distribution disruptions including changes in operating conditions or costs, effects of restructuring actions, changes in the domestic or international regulatory environment, not fully realizing cost reductions through restructurings, ability to implement global sourcing organization strategies, the future financial performance and condition of independently owned dealers that we are required to consolidate into our financial statements or changes requiring us to consolidate additional independently owned dealers, the impact of new manufacturing technologies, the impact of adopting new accounting principles, fair value changes to our intangible assets due to actual results differing from projected, factors relating to acquisitions and other factors identified from time to time in the company's reports filed with the Securities and Exchange Commission. The company undertakes no obligation to update or revise any forward-looking statements, either to reflect new developments, or for any other reason.

Additional Information

This news release is just one part of La-Z-Boy's financial disclosures and should be read in conjunction with other information filed with the Securities and Exchange Commission, which is available at http://www.la-z-boy.com/about/ir_sec.asp . 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://my.lazboy.com/mygallery/investor_relations.cfm .

Background Information

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

The corporation's vast proprietary distribution network is dedicated exclusively to selling La-Z-Boy Incorporated products and brands, and includes 325 stand-alone La-Z-Boy Furniture Galleries(R) stores and 342 La-Z-Boy In- Store Gallerys, in addition to in-store gallery programs at the company's Kincaid, Pennsylvania House, Clayton Marcus, England and Lea operating units. According to industry trade publication Furniture/Today, the La-Z-Boy Furniture Galleries retail network by itself represents the industry's fourth largest U.S. furniture retailer and the second largest single source furniture retailer. Additional information is available at http://www.la-z-boy.com/ .

LA-Z-BOY INCORPORATED
CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited, amounts in thousands, except per share data)

First Quarter Ended

	7/24/04	7/26/03	% Over (Under)	Percent of Sales 7/24/04	Percent of Sales 7/26/03
Sales	$466,371	$451,472	3.3%	100.0%	100.0%
Cost of sales					
Cost of goods sold	360,149	352,481	2.2%	77.3%	78.1%
Restructuring	10,400	6,273	65.8%	2.2%	1.4%
Total cost of sales	370,549	358,754	3.3%	79.5%	79.5%
Gross profit	95,822	92,718	3.3%	20.5%	20.5%
Selling, general and administrative	99,665	81,419	22.4%	21.3%	18.0%
Operating income (loss)	(3,843)	11,299	-134.0%	-0.8%	2.5%
Interest expense	2,209	3,213	-31.2%	0.5%	0.7%
Other income, net	370	1,272	-70.9%	0.1%	0.3%
Pre-tax income (loss)	(5,682)	9,358	-160.7%	-1.2%	2.1%
Income tax expense (benefit)	(2,159)	3,555	-160.7%	38.0%*	38.0%*
Net income (loss)	$(3,523)	$5,803	-160.7%	-0.8%	1.3%
Basic average shares	51,967	54,729			
Basic net income (loss) per share	$(0.07)	$0.11			
Diluted average shares	51,967	54,916			
Diluted net income (loss) per share	$(0.07)	$0.11			

Dividends paid per share	$0.11	$0.10

*As a percent of pretax income, not sales.

LA-Z-BOY INCORPORATED
CONSOLIDATED BALANCE SHEET

(Unaudited, amounts in thousands)

	7/24/04	7/26/03	Increase/(Decrease) Dollars	Increase/(Decrease) Percent	4/24/04
Current assets					
Cash and equivalents	$28,965	$28,422	$543	1.9%	$33,882
Receivables, net	250,081	297,341	(47,260)	-15.9%	299,801
Inventories, net	275,852	242,018	33,834	14.0%	250,568
Deferred income taxes	42,707	37,709	4,998	13.3%	37,969
Other current assets	27,316	17,282	10,034	58.1%	31,454
Total current assets	624,921	622,772	2,149	0.3%	653,674
Property, plant and equipment, net	206,622	205,392	1,230	0.6%	212,739
Goodwill	68,116	78,807	(10,691)	-13.6%	68,116
Trade names	27,889	71,144	(43,255)	-60.8%	27,889
Other long-term assets	83,651	80,055	3,596	4.5%	85,078
Total assets	$1,011,199	$1,058,170	$(46,971)	-4.4%	$1,047,496
Current liabilities					
Short-term borrowings	$6,000	$290	$5,710	N/M	$37,219
Current portion of long-term debt and capital leases	1,864	992	872	87.9%	5,344
Accounts payable	85,186	48,011	37,175	77.4%	93,298
Accrued expenses and other current liabilities	113,317	106,734	6,583	6.2%	147,460
Total current liabilities	206,367	156,027	50,340	32.3%	283,321
Long-term debt	231,620	221,611	10,009	4.5%	180,988
Capital leases	1,213	1,151	62	5.4%	819
Deferred income taxes	20,030	37,111	(17,081)	-46.0%	20,219
Other long-term liabilities	39,585	39,039	546	1.4%	39,821
Contingencies and commitments					
Shareholders' equity					
Common shares, $1 par value	52,003	54,645	(2,642)	-4.8%	52,031
Capital in excess of par value	215,822	215,905	(83)	0.0%	216,156
Retained earnings	243,208	334,532	(91,324)	-27.3%	253,012
Accumulated other comprehensive income (loss)	1,351	(1,851)	3,202	173.0%	1,129
Total shareholders'					

equity	512,384	603,231	(90,847)	-15.1%	522,328
Total liabilities and shareholders' equity	$1,011,199	$1,058,170	$(46,971)	-4.4%	$1,047,496

N/M = not meaningful

LA-Z-BOY INCORPORATED
CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited, amounts in thousands)

	First Quarter Ended	
	7/24/04	7/26/03
Cash flows from operating activities		
Net income (loss)	$(3,523)	$5,803
Adjustments to reconcile net income (loss) to cash provided by operating activities		
Restructuring	10,400	6,273
Depreciation and amortization	6,908	7,311
Change in receivables	49,134	43,955
Change in inventories	(27,284)	10,519
Change in payables	(8,112)	(30,920)
Change in other assets and liabilities	(29,843)	(26,620)
Change in deferred taxes	(4,927)	208
Total adjustments	(3,724)	10,726
Net cash provided by (used for) operating activities	(7,247)	16,529
Cash flows from investing activities		
Proceeds from disposals of assets	268	174
Capital expenditures	(9,474)	(6,853)
Change in other long-term assets	1,511	3,557
Net cash used for investing activities	(7,695)	(3,122)
Cash flows from financing activities		
Proceeds from debt	69,000	319
Payments on debt	(53,416)	(120)
Capital leases	743	(146)
Stock issued for stock option and employee benefit plans	1,482	4,446
Repurchase of common stock	(2,476)	(13,417)
Dividends paid	(5,649)	(5,486)
Net cash provided by (used for) financing activities	9,684	(14,404)
Effect of exchange rate changes on cash and equivalents	341	602
Net decrease in cash and equivalents	(4,917)	(395)
Cash and equivalents at beginning of period	33,882	28,817
Cash and equivalents at end of period	$28,965	$28,422
Cash paid during period - Income taxes	$7,414	$1,358
- Interest	$2,552	$3,792

LA-Z-BOY INCORPORATED
Impact of FIN46 on Consolidation

(Unaudited, amounts in thousands)	July 24, 2004 VIEs	Consolidated
Assets		
Cash and cash equivalents	$2,307	$28,965
Accounts receivable, net	(20,075) (1)	250,081
Inventories, net	12,345	275,852
Deferred income taxes	6,407	42,707
Other current assets	1,557	27,316
Total current assets	2,541	624,921
Property, plant and equipment, net	8,302	206,622
Intangibles	7,714	96,005
Other long-term assets	(14,699) (1)	83,651
Total assets	$3,858	$1,011,199
Liabilities and shareholders' equity		
Short-term borrowings	$--	$6,000
Current portion of long-term debt and capital leases	427	1,864
Accounts payable	1,545	85,186
Other current liabilities	4,383	113,317
Total current liabilities	6,355	206,367
Long-term debt and capital leases	7,843	232,833
Deferred income taxes	--	20,030
Other long-term liabilities	115	39,585
Shareholders' equity (deficit)	(10,455)	512,384
Total liabilities and shareholders' equity	$3,858	$1,011,199

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

(Unaudited, amounts in thousands)	First Quarter Ended July 24, 2004 VIEs	Consolidated
Sales	$13,641 (2)	$466,371
Cost of sales		
Cost of goods sold	942 (2)	360,149
Restructuring	--	10,400
Total cost of sales	942	370,549
Gross profit	12,699	95,822
Selling, general and administrative	14,676	99,665
Operating loss	(1,977)	(3,843)
Interest expense	167	2,209
Other income (expense), net	(1,294) (3)	370
Pre-tax loss	(3,438)	(5,682)
Income tax benefit	(1,306)	(2,159)
Net loss	$(2,132)	$(3,523)

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

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

La-Z-Boy Furniture Galleries(R) stores that are not operated by us are operated by independent dealers. These stores sell La-Z-Boy manufactured product as well as various accessories purchased from approved La-Z-Boy vendors. In some cases we have extended credit beyond normal trade terms to the independent dealers, made direct loans and/or guaranteed certain loans or leases. Most of these independent dealers have sufficient equity to carry out their principal operating activities without subordinated financial support, however, there are certain independent dealers that we have determined may not have sufficient equity. Based on the criteria for consolidation of VIEs, we have determined that several dealers are VIEs of which, under FIN 46, we are deemed the primary beneficiary. The operating results of the consolidated VIEs negatively impacted our diluted earnings per share by $0.04 for the first quarter of fiscal 2005. Additionally, there are certain independent dealers that qualify as VIEs; however, we are not the primary beneficiary. Our interest in these dealers is comprised of accounts and notes receivable of $16.1 million.

In prior years, we have evaluated the collectibility of our trade accounts receivable from our independent dealers and we have provided an appropriate reserve relating to the collectibility of our receivables with these dealers or the contingent payout under any guarantees. There are no VIEs consolidated in our fiscal 2004 first quarter financial statements. The table above shows the impact of this standard on our consolidated balance sheet and statement of operations as of July 24, 2004. The changes reflected in the table include the elimination of related payables, receivables, sales, cost of sales, and interest as well as profit in inventory.

SOURCE La-Z-Boy Incorporated

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