

LA-Z-BOY INC  
Form 10-Q  
November 18, 2008

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549-1004  
FORM 10-Q  
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934  
For the quarterly period ended October 25, 2008  
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) 242-1444

N/A

(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 (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 is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer, accelerated filer, non-accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer\*  Smaller reporting company  
(\*Do not check if a smaller reporting company)

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:

At October 25, 2008, there were 51,469,071 shares, par value \$1.00, outstanding.

**LA-Z-BOY INCORPORATED**  
**FORM 10-Q SECOND QUARTER OF FISCAL 2009**  
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PART I  
FINANCIAL INFORMATION  
**Item 1. Financial Statements**  
**LA-Z-BOY INCORPORATED**  
**CONSOLIDATED STATEMENT OF OPERATIONS**

| <i>(Unaudited, amounts in thousands, except per share data)</i> | <b>Second Quarter Ended</b> |                 |
|---|-----------------------------|-----------------|
|   | <b>10/25/08</b>             | <b>10/27/07</b> |
| Sales   | \$ 331,948                  | \$ 365,434      |
| Cost of sales   |                             |                 |
| Cost of goods sold  | 242,681                     | 266,658         |
| Restructuring   | 2,236                       | 518             |
| Total cost of sales   | 244,917                     | 267,176         |
| Gross profit  | 87,031                      | 98,258          |
| Selling, general and administrative                             | 101,942                     | 98,098          |
| Write-down of intangibles                                       | 408                         | 5,809           |
| Restructuring   | 687                         | 449             |
| Operating loss  | (16,006)                    | (6,098)         |
| Interest expense  | 1,651                       | 2,120           |
| Interest income   | 630                         | 1,543           |
| Other expense, net  | 685                         | 169             |
| Loss from continuing operations before income taxes             | (17,712)                    | (6,844)         |
| Income tax expense/(benefit)                                    | 36,032                      | (3,192)         |
| Loss from continuing operations                                 | (53,744)                    | (3,652)         |
| Loss from discontinued operations (net of tax)                  |                             | (6,282)         |
| Net loss  | \$ (53,744)                 | \$ (9,934)      |
| Basic average shares  | 51,458                      | 51,410          |
| Basic loss from continuing operations per share                 | \$ (1.04)                   | \$ (0.07)       |
| Discontinued operations per share (net of tax)                  |                             | (0.12)          |
| Basic net loss per share  | \$ (1.04)                   | \$ (0.19)       |
| Diluted average shares  | 51,458                      | 51,410          |
| Diluted loss from continuing operations per share               | \$ (1.04)                   | \$ (0.07)       |
| Discontinued operations per share (net of tax)                  |                             | (0.12)          |
| Diluted net loss per share                                      | \$ (1.04)                   | \$ (0.19)       |
| Dividends paid per share  | \$ 0.04                     | \$ 0.12         |

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 OPERATIONS**

|   | <b>Six Months Ended</b> |                 |
|---|-------------------------|-----------------|
| <i>(Unaudited, amounts in thousands, except per share data)</i> | <b>10/25/08</b>         | <b>10/27/07</b> |
| Sales   | \$ 653,600              | \$ 709,830      |
| Cost of sales   |                         |                 |
| Cost of goods sold  | 477,795                 | 525,801         |
| Restructuring   | 8,032                   | 3,079           |
| Total cost of sales   | 485,827                 | 528,880         |
| Gross profit  | 167,773                 | 180,950         |
| Selling, general and administrative                             | 193,781                 | 192,606         |
| Write-down of intangibles                                       | 1,700                   | 5,809           |
| Restructuring   | 1,467                   | 1,569           |
| Operating loss  | (29,175)                | (19,034)        |
| Interest expense  | 3,146                   | 4,217           |
| Interest income   | 1,562                   | 2,936           |
| Other expense, net  | 541                     | 114             |
| Loss from continuing operations before income taxes             | (31,300)                | (20,429)        |
| Income tax expense/(benefit)                                    | 30,988                  | (8,235)         |
| Loss from continuing operations                                 | (62,288)                | (12,194)        |
| Loss from discontinued operations (net of tax)                  |                         | (6,434)         |
| Net loss  | \$ (62,288)             | \$ (18,628)     |
| Basic average shares  | 51,443                  | 51,395          |
| Basic loss from continuing operations per share                 | \$ (1.21)               | \$ (0.24)       |
| Discontinued operations per share (net of tax)                  |                         | (0.12)          |
| Basic net loss per share  | \$ (1.21)               | \$ (0.36)       |
| Diluted average shares  | 51,443                  | 51,395          |
| Diluted loss from continuing operations per share               | \$ (1.21)               | \$ (0.24)       |
| Discontinued operations per share (net of tax)                  |                         | (0.12)          |
| Diluted net loss per share                                      | \$ (1.21)               | \$ (0.36)       |
| Dividends paid per share  | \$ 0.08                 | \$ 0.24         |

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

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**LA-Z-BOY INCORPORATED**  
**CONSOLIDATED BALANCE SHEET**

| <i>(Unaudited, amounts in thousands)</i>          | <b>10/25/08</b>   | <b>4/26/08</b>    |
|---|-------------------|-------------------|
| Current assets                                    |                   |                   |
| Cash and equivalents                              | \$ 14,485         | \$ 14,982         |
| Receivables, net                                  | 196,804           | 200,422           |
| Inventories, net                                  | 167,113           | 178,361           |
| Deferred income taxes - current                   | 2,077             | 12,398            |
| Other current assets                              | 28,045            | 21,325            |
| <b>Total current assets</b>                       | <b>408,524</b>    | <b>427,488</b>    |
| Property, plant and equipment, net                | 164,244           | 171,001           |
| Deferred income taxes - long term                 | 810               | 26,922            |
| Goodwill  | 45,533            | 47,233            |
| Trade names                                       | 9,006             | 9,006             |
| Other long-term assets, net                       | 74,845            | 87,220            |
| <b>Total assets</b>                               | <b>\$ 702,962</b> | <b>\$ 768,870</b> |
| Current liabilities                               |                   |                   |
| Short-term borrowings                             | \$ 7,000          | \$                |
| Current portion of long-term debt                 | 10,164            | 4,792             |
| Accounts payable                                  | 58,348            | 56,421            |
| Accrued expenses and other current liabilities    | 88,964            | 102,700           |
| <b>Total current liabilities</b>                  | <b>164,476</b>    | <b>163,913</b>    |
| Long-term debt                                    | 99,819            | 99,578            |
| Deferred income taxes - long term                 | 6,406             |                   |
| Other long-term liabilities                       | 51,462            | 54,783            |
| Contingencies and commitments                     |                   |                   |
| Shareholders' equity                              |                   |                   |
| Common shares, \$1 par value                      | 51,469            | 51,428            |
| Capital in excess of par value                    | 203,489           | 209,388           |
| Retained earnings                                 | 131,371           | 190,215           |
| Accumulated other comprehensive loss              | (5,530)           | (435)             |
| <b>Total shareholders' equity</b>                 | <b>380,799</b>    | <b>450,596</b>    |
| <b>Total liabilities and shareholders' equity</b> | <b>\$ 702,962</b> | <b>\$ 768,870</b> |

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**

| <i>(Unaudited, amounts in thousands)</i>   | <b>Second Quarter Ended</b> |                 | <b>Six Months Ended</b> |                 |
|--|-----------------------------|-----------------|-------------------------|-----------------|
|  | <b>10/25/08</b>             | <b>10/27/07</b> | <b>10/25/08</b>         | <b>10/27/07</b> |
| Cash flows from operating activities   |                             |                 |                         |                 |
| Net loss   | \$ (53,744)                 | \$ (9,934)      | \$ (62,288)             | \$ (18,628)     |
| Adjustments to reconcile net loss to cash provided by<br>(used for) operating activities |                             |                 |                         |                 |
| (Gain)/loss on sale of assets  | (604)                       | (36)            | (2,670)                 | 16              |
| Loss on the sale of discontinued operations (net of tax)                                 |                             | 3,990           |                         | 3,990           |
| Write-down of businesses held for sale (net of tax)                                      |                             | 2,159           |                         | 2,159           |
| Write-down of intangibles  | 408                         | 5,809           | 1,700                   | 5,809           |
| Restructuring  | 2,923                       | 967             | 9,499                   | 4,648           |
| Provision for doubtful accounts  | 4,797                       | 1,505           | 9,000                   | 3,619           |
| Depreciation and amortization  | 5,989                       | 6,093           | 11,943                  | 12,313          |
| Stock-based compensation expense   | 986                         | 1,001           | 1,855                   | 1,862           |
| Change in receivables  | (22,261)                    | (13,409)        | (8,091)                 | 9,188           |
| Change in inventories  | (63)                        | 15,323          | 10,843                  | 9,252           |
| Change in payables   | 8,375                       | 1,205           | 1,927                   | (14,268)        |
| Change in other assets and liabilities   | (2,893)                     | 4,484           | (26,525)                | (18,814)        |
| Change in deferred taxes   | 41,677                      | (4,671)         | 42,838                  | (6,146)         |
| Total adjustments  | 39,334                      | 24,420          | 52,319                  | 13,628          |
| Net cash provided by (used for) operating activities                                     | (14,410)                    | 14,486          | (9,969)                 | (5,000)         |
| Cash flows from investing activities   |                             |                 |                         |                 |
| Proceeds from disposals of assets  | 2,805                       | 867             | 7,786                   | 7,282           |
| Proceeds from sale of discontinued operations  |                             | 4,019           |                         | 4,019           |
| Capital expenditures   | (2,618)                     | (5,970)         | (9,990)                 | (15,599)        |
| Purchases of investments   | (3,516)                     | (6,648)         | (8,965)                 | (13,270)        |
| Proceeds from sales of investments   | 5,233                       | 7,801           | 11,027                  | 14,593          |
| Change in other long-term assets   | 158                         | 365             | 229                     | 385             |
| Net cash provided by (used for) investing activities                                     | 2,062                       | 434             | 87                      | (2,590)         |
| Cash flows from financing activities   |                             |                 |                         |                 |
| Proceeds from debt   | 24,831                      | 112             | 39,466                  | 817             |
| Payments on debt   | (6,430)                     | (338)           | (25,287)                | (1,238)         |
| Stock issued/canceled for stock and employee benefit<br>plans                            | 2                           | (94)            |                         | (116)           |
| Dividends paid   | (2,076)                     | (6,232)         | (4,151)                 | (12,441)        |
| Net cash provided by (used for) financing activities                                     | 16,327                      | (6,552)         | 10,028                  | (12,978)        |
| Effect of exchange rate changes on cash and equivalents                                  | (604)                       | 538             | (643)                   | 1,539           |

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|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| Change in cash and equivalents              | 3,375     | 8,906     | (497)     | (19,029)  |
| Cash and equivalents at beginning of period | 11,110    | 23,786    | 14,982    | 51,721    |
| Cash and equivalents at end of period       | \$ 14,485 | \$ 32,692 | \$ 14,485 | \$ 32,692 |
| Cash paid (net of refunds) during period    |           |           |           |           |
| income taxes                                | \$ (719)  | \$ 758    | \$ 204    | \$ 3,893  |
| Cash paid during period                     |           |           |           |           |
| interest                                    | \$ 1,287  | \$ 1,495  | \$ 2,413  | \$ 3,405  |

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 CHANGES IN SHAREHOLDERS EQUITY**

|   | <b>Common</b> | <b>Capital<br/>in<br/>Excess of<br/>Par<br/>Value</b> | <b>Retained<br/>Earnings</b> | <b>Accumulated<br/>Other<br/>Compre-<br/>hensive<br/>Income(Loss)</b> | <b>Total</b> |
|---|---------------|---|------------------------------|---|--------------|
| <i>(Unaudited, amounts in thousands)</i>                                | <b>Shares</b> |   |                              |   |              |
| At April 28, 2007   | \$ 51,377     | \$ 208,283  | \$ 223,896                   | \$ 1,792  | \$ 485,348   |
| Stock issued for stock and employee benefit plans, net of cancellations | 51            | (3,422)   | 3,102                        |   | (269)        |
| Stock option, performance-based and restricted stock expense            |               | 4,527   |                              |   | 4,527        |
| Dividends paid  |               |   | (20,746)                     |   | (20,746)     |
| Comprehensive income (loss)   |               |   |                              |   |              |
| Net loss  |               |   | (13,537)                     |   |              |
| Unrealized loss on marketable securities (net of tax of \$0.1 million)  |               |   |                              | (222)   |              |
| Realized gain on marketable securities (net of tax of \$1.4 million)    |               |   |                              | (2,420)   |              |
| Translation adjustment  |               |   |                              | (117)   |              |
| Net actuarial gain (net of tax of \$0.2 million)                        |               |   |                              | 532   |              |
| Total comprehensive loss  |               |   |                              |   | (15,764)     |
| Impact of adoption of FIN 48  |               |   | (2,500)                      |   | (2,500)      |
| At April 26, 2008   | \$ 51,428     | \$ 209,388  | \$ 190,215                   | \$ (435)  | \$ 450,596   |
| Stock issued for stock and employee benefit plans, net of cancellations | 41            | (7,754)   | 7,595                        |   | (118)        |
| Stock option, performance-based and restricted stock expense            |               | 1,855   |                              |   | 1,855        |
| Dividends paid  |               |   | (4,151)                      |   | (4,151)      |
| Comprehensive loss  |               |   |                              |   |              |
| Net loss  |               |   | (62,288)                     |   |              |
| Unrealized loss on marketable securities                                |               |   |                              | (4,752)   |              |
| Realization of losses on marketable securities (net of tax)             |               |   |                              | (28)  |              |
| Translation adjustment  |               |   |                              | (91)  |              |
| Change in fair value of cash flow hedges                                |               |   |                              | (224)   |              |
| Total comprehensive loss  |               |   |                              |   | (67,383)     |
| At October 25, 2008   | \$ 51,469     | \$ 203,489  | \$ 131,371                   | \$ (5,530)  | \$ 380,799   |

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



**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****Note 1: Basis of Presentation**

The interim financial information is prepared in conformity with generally accepted accounting principles and such principles are applied on a basis consistent with those reflected in our fiscal 2008 Annual Report on Form 10-K, filed with the Securities and Exchange Commission, but does not include all the disclosures required by generally accepted accounting principles. In the opinion of management, the interim financial information includes all adjustments and accruals, consisting only of normal recurring adjustments, which are necessary for a fair presentation of results for the respective interim period.

During our first quarter of fiscal 2009, our largest division revised certain shipping agreements with third-party carriers such that risk of loss transfers to our customers upon shipment rather than upon delivery. Accordingly, substantially all of our shipments with third-party carriers for this division are now recognized upon shipment of the product.

**Note 2: Interim Results**

The foregoing interim results are not necessarily indicative of the results of operations which will occur for the full fiscal year ending April 25, 2009.

**Note 3: Reclassification**

Certain prior year information has been reclassified to be comparable with the current year presentation.

**Note 4: Inventories**

A summary of inventory follows:

| <i>(Unaudited, amounts in thousands)</i> | <b>10/25/08</b> | <b>4/26/08</b> |
|--|-----------------|----------------|
| Raw materials                            | \$ 60,205       | \$ 71,346      |
| Work in process                          | 13,778          | 14,624         |
| Finished goods                           | 120,972         | 119,270        |
| FIFO inventories                         | 194,955         | 205,240        |
| Excess of FIFO over LIFO                 | (27,842)        | (26,879)       |
| Inventories, net                         | \$ 167,113      | \$ 178,361     |

**Note 5: Goodwill and Other Intangible Assets**

In accordance with SFAS No. 142, goodwill and trade names are tested at least annually for impairment by comparing their fair value to their carrying values. The fair value for each trade name is established based upon a royalty savings approach. Additionally, goodwill is tested for impairment by comparing the fair value of our operating units to their carrying values. The fair value for each operating unit is established based upon the discounted cash flows. In situations where the fair value is less than the carrying value, indicating a potential impairment, a second comparison is performed using a calculation of implied fair value of goodwill to determine the monetary value of impairment.

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During the second quarter of fiscal 2009, our business was impacted by significant declines in consumer demand. As a result of the challenging retail environment, we found it necessary to review the valuations of the goodwill for our Retail markets. Our analysis of the fair value of the goodwill for the Retail operating units concluded that the fair values exceeded the carrying values and as such, no impairment charges were necessary. We will perform our annual testing on these operating units in the fourth quarter of fiscal 2009. If operating results continue to be negatively impacted by the economic conditions and our cost-cutting measures do not improve the profitability of these operating units, we could realize an impairment of goodwill for these operating units at that time.

During the first quarter of fiscal 2009, we committed to a plan to close the operations of our La-Z-Boy U.K. subsidiary. As a result of this plan, we recorded an impairment charge of \$1.3 million which represented the entire goodwill amount of the operating unit. During the second quarter of fiscal 2009, we committed to a plan to reorganize our Toronto, Ontario market which we consolidate as a VIE. As a result of this plan, we recorded a goodwill impairment charge of \$0.4 million which represented the entire goodwill amount of this market.

The following table summarizes the changes to goodwill and trade names during the first half of fiscal 2009:

|  | <b>Balance<br/>as<br/>of 4/26/08</b> | <b>Acquisitions,<br/>Dispositions<br/>and Other</b> | <b>Balance<br/>as<br/>of<br/>10/25/08</b> |
|--|--------------------------------------|---|---|
| <i>(Unaudited, amounts in thousands)</i> |                                      |   |   |
| <b>Goodwill</b>                          |                                      |   |   |
| Upholstery Group                         | \$ 19,632                            | \$ (1,292)  | \$ 18,340                                 |
| Retail Group                             | 22,096                               |   | 22,096                                    |
| Corporate and Other*                     | 5,505                                | (408)   | 5,097                                     |
| Consolidated                             | \$ 47,233                            | \$ (1,700)  | \$ 45,533                                 |

**Tradenames**