

### **NEWS RELEASE**

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# LA-Z-BOY REPORTS SECOND QUARTER OPERATING RESULTS

MONROE, MI. November 9, 2004 – La-Z-Boy Incorporated (**NYSE, PCX: LZB**) today reported its operating results for the second fiscal quarter ended October 23, 2004. Net sales for the quarter were \$534 million, up \$23 million or 4.4% compared to a year earlier, with earnings of \$0.17 per fully-diluted share. The quarter includes after-tax restructuring charges of \$0.01 per share, an extraordinary gain of \$0.01 per share, and \$10 million of additional sales and an after-tax loss of \$0.05 per share related to the consolidation of certain Variable Interest Entities (VIEs). These VIEs were not reflected in our results in the year earlier reporting periods. This quarter's per share earnings compare against \$0.28 per fully diluted share earned in the fiscal 2004 second quarter, including \$0.02 per share of restructuring charges.

For the six months ended October 23, 2004 net sales were \$1 billion, an increase of \$38 million or 3.9% from the year earlier sales of \$962 million. Fully diluted earnings per share for the first half totaled \$0.10, including restructuring charges of \$0.13 per share on an after-tax basis, an extraordinary gain of \$0.01 per share, and \$23 million of additional sales and an after-tax loss of \$0.09 per share related to the consolidation of certain VIEs. This compares to \$0.38 per share in the first half of fiscal 2004, including restructuring charges of \$0.09 per share on an after-tax basis.

Operating margin for the most recent quarter was 3.0%, down from 5.3% a year earlier. This year's fiscal second quarter included restructuring charges amounting to 0.1% of net sales versus 0.4% last year. First half fiscal 2005 operating margin was 1.2% including 1.1% of net sales for restructuring charges, down from 4.0% in the same period of fiscal 2004. Last year's fiscal first half included restructuring charges amounting to 0.8% of net sales.

La-Z-Boy Incorporated President and CEO Kurt L. Darrow said, "In spite of challenging industry conditions we met our sales expectations for the quarter and are increasing market share with our La-Z-Boy branded business." Operating margins were weaker than last year primarily as a result of three factors:

- Continued and unprecedented increased raw material pricing coupled with our inability to immediately pass on these rising costs to our customers,
- Operating losses from several retail VIEs and,
- Significant unanticipated production inefficiencies at our Lewisburg, PA manufacturing facility of Pennsylvania House which we are in the process of closing.

He added, "During the second half of our fiscal year the increased material costs, including steel and plywood, should be partially offset by previously announced price increases to our customers."

# **Upholstery Segment**

The second quarter fiscal 2005 upholstery segment sales increased 4.8% from a year earlier and were up 4.3% through the first six months of the fiscal year. Darrow noted, "Our La-Z-Boy branded business experienced strong growth as we continue to increase market share through opening new distribution, new product offerings and the continued strength of executing our proprietary retail store strategy. The non-branded portion of our upholstery segment's sales more closely mirrored the industry, experiencing softness in sales and difficulty initiating the price increases needed to offset raw material price increases. We continue to see encouraging trends in upholstery orders particularly in our branded upholstery business." The upholstery segment operating margin for the quarter was 6.6% compared to a reported 8.3% for last year's second quarter, while first half operating margin declined to 5.4% from 7.6% a year earlier.

Darrow continued, "During this quarter we continued to strengthen our proprietary distribution network of mostly independently operated La-Z-Boy Furniture Galleries® stores by opening new stores and converting existing stores to the "New Generation" format introduced in mid 2001. 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 second quarter of fiscal 2005, two New Generation stores were opened and 11 were remodeled or relocated and three old format stores were closed bringing the total to 90 in this new 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. Thus far this year we have opened 22 of these new format stores. Currently, there are 324 stand-alone stores, of which 38 are companyowned."

System-wide, the mostly independent La-Z-Boy Furniture Galleries® stores' same store sales dollars were flat for the 2004 calendar third quarter and up 2.7% in the first nine months of calendar 2004. Total sales for the stores were up 3.4% for the calendar third quarter and up 6.6% in the first nine months of calendar 2004.

# **Casegoods Segment**

Casegoods sales declined 4.6% from a year earlier for the October quarter and were down 6.9% through the first six months. The casegoods segment's operating margin for the October 2005 quarter was 0.1% compared to 1.7% for last year and the first half operating margin declined to 0.3% from 1.3% a year earlier. Darrow commented, "Our casegoods sales trends, though still negative, have been steadily improving as several new product groups began to see good sell-through at retail. The contract portion of this segment, serving primarily the hospitality industry, is now beginning to demonstrate improving trends and appears to be entering the beginning stages of recovering from a prolonged severe downturn. We are extremely encouraged by recent order trends."

He added, "Margins also were strained by the transition of our business model from primarily a domestic manufacturer to primarily an importer, marketer and distributor of casegoods and the continued pricing pressure from imports, rising material prices, and aggressive competitor promotions."

# **Restructuring charge**

As previously announced, we began the closure of several production facilities during our second fiscal quarter and expect that production will be phased out at the last facility during the third fiscal quarter. During the second quarter charges of \$0.01 per diluted share on an after-tax basis were incurred representing severance and relocation costs.

# **FIN 46**

FIN 46 requires us to consolidate certain Variable Interest Entities (VIEs) beginning April 2004 which is included in corporate and other. Certain of our independent dealers meet this criteria and the attached schedule outlines the impact and offers further explanation. Darrow mentioned, "The operating results of a portion of these VIEs is less than desirable and we have and are in the process of taking specific actions to rectify those operations' results." The extraordinary gain is a result of the application of purchase accounting relating to the acquisition of a previously consolidated VIE.

### **Balance sheet**

During the quarter accounts receivable increased \$56 million primarily reflecting higher sales volumes. Inventories increased \$7 million primarily as a result of the shifting mix of business to imports and additional company owned retail locations.

Total debt at quarter end was \$268 million, and the company's second quarter debt-to-capitalization ratio was 34.1%. Darrow stated, "This ratio is higher than our targeted range of mid-twenties as a result of the write-down of trade names and goodwill in fiscal 2004's fourth quarter and the consolidation of VIEs which had a combined effect of increasing this ratio by 3.4 percentage points. Although management is opportunistic in execution of its stock repurchases, our prime focus is to bring our debt-to-capitalization ratio within our targeted range." At quarterend, 6.7 million shares remained available under the company's existing stock repurchase authorization.

## **Business Outlook**

Commenting on the business outlook, Darrow said, "We continue to face record high energy and raw material costs, rising interest rates, indifferent consumer confidence and are somewhat cautious about consumer discretionary spending in the coming months. Considering the current tone of the economy, in our third fiscal quarter we expect our sales to be even or slightly ahead compared to the prior year period, and we anticipate reported earnings for the third quarter to be in the range of \$0.11 - \$0.14 per diluted share, which includes restructuring charges of \$0.01 and up to a \$0.03 potential loss from the consolidation of VIEs. This would compare to the \$0.29 we earned per diluted share in fiscal 2004's third quarter, which included \$0.01 of restructuring charges."

# **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 <a href="http://www.la-z-boy.com/about/investorRelations/sec\_filings.aspx">http://www.la-z-boy.com/about/investorRelations/sec\_filings.aspx</a>. 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 \$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 324 stand-alone La-Z-Boy Furniture Galleries® stores and 337 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 <a href="http://www.la-z-boy.com/">http://www.la-z-boy.com/</a>.

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# LA-Z-BOY INCORPORATED CONSOLIDATED STATEMENT OF INCOME

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

#### Second Quarter Ended

						Percent of Sales					
		10/23/04	10/25/03		% Over (Under)	10/23/04	10/25/03				
Sales	\$	533,670	\$	511,018	4.4%	100.0%	100.0%				
Cost of sales Cost of goods sold Restructuring		410,404 749		394,257 1,976	4.1% -62.1%	76.9% 0.1%	77.2% 0.4%				
Total cost of sales		411,153		396,233	3.8%	77.0%	77.5%				
Gross profit Selling, general and administrative		122,517 106,399		114,785 87,727	6.7% 21.3%	23.0% 19.9%	22.5% 17.2%				
Operating income Interest expense Other income (expense), net		16,118 2,607 (353)		27,058 3,026 448	-40.4% -13.8% -178.8%	3.0% 0.5% 	5.3% 0.6% 0.1%				
Pre-tax income Income tax expense		13,158 5,000		24,480 9,303	-46.3% -46.3%	2.5% 38.0%*	4.8% 38.0%*				
Income before extraordinary item Extraordinary gain, net of income tax expense of \$430		8,158 702		15,177	-46.2% N/M	1.5% 0.1%	3.0%				
Net income	\$	8,860	\$	15,177	-41.6%	1.7%	3.0%				
Basic weighted average shares		52,040		54,159							
Basic income per share before extraordinary gain	\$	0.16	\$	0.28							
Extraordinary gain per share		0.01									
Basic net income per share	\$	0.17	\$	0.28							
Diluted weighted average shares		52,101		54,339							
Diluted income per share before extraordinary gain Extraordinary gain per share	\$	0.16 0.01	\$	0.28							
Diluted net income per share	\$	0.17	\$	0.28							
Dividends paid per share	\$	0.11	\$	0.10							

<sup>\*</sup>As a percent of pre-tax income, not sales.

## LA-Z-BOY INCORPORATED

# CONSOLIDATED STATEMENT OF INCOME

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

#### Six Months Ended

						Percent of Sales					
		10/23/04	10/25/03		% Over (Under)	10/23/04	10/25/03				
Sales	\$	1,000,041	\$	962,490	3.9%	100.0%	100.0%				
Cost of sales		770 552		746 720	2.20/	77.10/	77.60/				
Cost of goods sold Restructuring		770,553 11,149		746,738 8,249	3.2% 35.2%	77.1% 1.1%	77.6% 0.8%				
Total cost of sales		781,702		754,987	3.5%	78.2%	78.4%				
Gross profit Selling, general and administrative		218,339 206,064		207,503 169,146	5.2% 21.8%	21.8% 20.6%	21.6% 17.6%				
Operating income		12,275		38,357	-68.0%	1.2%	4.0%				
Interest expense Other income, net		4,816 17		6,239 1,720	-22.8% -99.0%	0.5%	0.6% 0.1%				
Pre-tax income Income tax expense		7,476 2,841		33,838 12,858	-77.9% -77.9%	0.7% 38.0%*	3.5% 38.0%*				
Income before extraordinary item		4,635		20,980	-77.9%	0.5%	2.2%				
Extraordinary gain, net of income tax expense of \$430		702			N/M						
Net Income	\$	5,337	\$	20,980	-74.6%	0.5%	2.2%				
Basic weighted average shares	-	52,003		54,444							
Basic income per share before extraordinary gain	\$	0.09	\$	0.39							
Extraordinary gain per share		0.01									
Basic net income per share	\$	0.10	\$	0.39							
Diluted weighted average shares		52,062		54,627							
Diluted income per share before extraordinary gain	\$	0.09	\$	0.38							
Extraordinary gain per share		0.01									
Diluted net income per share	\$	0.10	\$	0.38							
Dividends paid per share	\$	0.22	\$	0.20							

<sup>\*</sup>As a percent of pre-tax income, not sales.

## LA-Z-BOY INCORPORATED

## CONSOLIDATED BALANCE SHEET

(Unaudited, amounts in thousands)

						Increase/(Dec	crease)		
		10/23/04		10/25/03		Dollars	Percent		4/24/04
Current assets									
Cash and equivalents	\$	28.677	\$	24,587	\$	4.090	16.6%	\$	33.882
Receivables, net	Ψ	306,386	Ψ	320,527	Ψ	(14,141)	-4.4%	Ψ	299,801
Inventories, net		282,470		237,655		44,815	18.9%		250,568
Deferred income taxes		38,108		37,057		1,051	2.8%		37,969
Other current assets		21,088		19,411		1,677	8.6%		31,454
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Total current assets		676,729		639,237		37,492	5.9%		653,674
Property, plant and equipment, net		207,447		202,148		5,299	2.6%		212,739
Goodwill		68,544		78,807		(10,263)	-13.0%		68,116
Trade names		27,889		71,144		(43,255)	-60.8%		27,889
Other long-term assets		81,348		86,929		(5,581)	-6.4%		85,078
Total assets	\$	1,061,957	\$	1,078,265	\$	(16,308)	-1.5%	\$	1,047,496
Current liabilities									
Short-term borrowings	\$	33,686	\$	6,000	\$	27,686	461.4%	\$	37,219
Current portion of long-term		,		-,		,,,,,,,,,			,
debt and capital leases		3,018		4,902		(1.884)	-38.4%		5,344
Accounts payable		86,716		81,259		5,457	6.7%		93,298
Accrued expenses and other		ŕ		,		,			,
current liabilities		126,992		126,244		748	0.6%		147,460
Total current liabilities		250.412		218,405		32,007	14.7%		283,321
Long-term debt and capital leases		231,652		196,174		35,478	18.1%		181,807
Deferred income taxes		20,143		37,494		(17,351)	-46.3%		20,219
Other long-term liabilities		41,462		38,446		3,016	7.8%		39,821
Contingencies and commitments		ĺ		,		,			,
Shareholders' equity									
Common shares, \$1 par value		52,088		53,408		(1,320)	-2.5%		52,031
Capital in excess of par value		214,962		215,807		(845)	-0.4%		216,156
Retained earnings		250,434		318,306		(67,872)	-21.3%		253,012
Unearned compensation		(1,938)		·		(1,938)	N/M		, 
Accumulated other comprehensive income		2,742		225		2,517	N/M		1,129
Total shareholders' equity		518,288		587,746		(69,458)	-11.8%		522,328
Total liabilities and									
shareholders' equity	\$	1,061,957	\$	1,078,265	\$	(16,308)	-1.5%	\$	1,047,496

## LA-Z-BOY INCORPORATED

# CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited, amounts in thousands)

	Second Q 10/23/04		uarte	r Ended 10/25/03	Six Mon 10/23/04		nths Ended 10/25/03	
Cash flows from operating activities								
Net income	\$	8,860	\$	15,177	\$	5,337	\$	20,980
Adjustments to reconcile net income to								
cash provided by operating activities		(=00)				(500)		
Extraordinary gain		(702)		1.076		(702)		
Restructuring		749 7,092		1,976 7,326		11,149 14,000		8,249
Depreciation and amortization Change in receivables		(55,811)		(22,926)		(4,371)		14,637 21,029
Change in inventories		(6,618)		4,363		(33.902)		14,882
Change in payables		1,530		33,248		(6,582)		2,328
Change in other assets and liabilities		21,040		15,044		(8,803)		(11,576)
Change in deferred taxes		4,712		1,035		(215)		1,243
Total adjustments		(28,008)		40,066		(29,426)		50,792
Net cash provided by (used for) operating activities		(19,148)		55,243		(24,089)		71,772
Cash flows from investing activities								
Proceeds from disposals of assets		5,329		1,598		5,597		1,772
Capital expenditures		(7,705)		(7,773)		(17,179)		(14,626)
Change in other long-term assets		(3,055)	_	(4,304)		(3,850)	_	(747)
Net cash used for investing activities		(5,431)		(10,479)		(15,432)		(13,601)
Cash flows from financing activities								
Proceeds from debt		32,499		6,603		102,242		6,922
Payments on debt		(4,841)		(23,570)		(58,257)		(23,836)
Stock issued for stock option and employee benefits plans		1,275		1,566		2,757		6,012
Repurchase of common stock		 (5.500)		(28,803)		(2,476)		(42,220)
Dividends paid		(5,723)	_	(5,501)		(11,372)	_	(10,987)
Net cash provided by (used for) financing activities Effect of exchange rate changes on cash and		23,210		(49,705)		32,894		(64,109)
equivalents		1,081	_	1,106		1,422		1,708
Net decrease in cash and equivalents		(288)		(3,835)		(5,205)		(4,230)
Cash and equivalents at beginning of period		28,965		28,422		33,882		28,817
Cash and equivalents at end of period	\$	28,677	\$	24,587	\$	28,677	\$	24,587
Cash paid (net of refunds) during period - income taxes	\$	(1,016)	\$	9,135	\$	6,398	\$	10,493
Cash paid during period - interest	\$	1,508	\$	2,648	\$	4,060	\$	6,440

# LA-Z-BOY INCORPORATED Impact of FIN46 on Consolidation

		10/23/04			
	VI	Es	Consolidated		
(Unaudited, amounts in thousands)		<u> </u>			
Assets					
Cash and cash equivalents	\$	2,047	\$ 28,677		
Accounts receivable, net		(22,769)	306,386		
Inventories, net		11,770	282,470		
Deferred income taxes		5,443	38,108		
Other current assets		1,502	21,088		
Total current assets		(2,007)	676,729		
Property, plant and equipment, net		8,573	207,447		
Intangibles		7,714	96,433		
Other long-term assets		(14,707) <sup>(1)</sup>	81,348		
Total assets	\$	(427)	\$ 1,061,957		
Liabilities and shareholders' equity					
Short-term borrowings	\$		\$ 33,686		
Current portion of long-term debt and capital leases		1,429	3,018		
Accounts payable		2,635	86,716		
Other current liabilities		2,265	126,992		
Total current liabilities		6,329	250,412		
Long-term debt and capital leases		6,685	231,652		
Deferred income taxes			20,143		
Other long-term liabilities		141	41,462		
Shareholders' equity (deficit)		(13,582)	518,288		
Total liabilities and shareholders' equity	\$	(427)	\$ 1,061,957		

<sup>(1)</sup> Reflects the elimination of intercompany accounts and notes receivable.

(Unaudited, amounts in thousands)	 VIEs	Consolidated	VIEs		Consolidated		
Sales	\$ 9,654 (2)	\$ 533,670	\$ 23,295 (2)	\$	1,000,041		
Cost of sales Cost of goods sold Restructuring	(266) (2)	410,404 749	676 (2) 		770,553 11,149		
Total cost of sales	 (266)	411,153	676		781,702		
Gross profit Selling, general and administrative	 9,920 12,712	122,517 106,399	 22,619 27,388		218,339 206,064		
Operating income (loss)	(2,792)	16,118	(4,769)		12,275		
Interest expense	69	2,607	236		4,816		
Other income (expense), net	(1,093) (3)	(353)	(2,387) (3)		17		
Pre-tax income (loss)	(3,954)	13,158	(7,392)		7,476		
Income tax expense (benefit)	(1,503)	5,000	(2,809)		2,841		
Income (loss) before extraordinary item Extraordinary gain, net of income taxes of \$430	(2,451)	8,158 702	(4,583)		4,635 702		
Net income (loss)	\$ (2,451)	\$ 8,860	\$ (4,583)	\$	5,337		

<sup>(2)</sup> Reflects the elimination of intercompany sales and cost of sales.

La-Z-Boy Furniture Galleries® 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 \$0.05 and \$0.09 for the second quarter and first six months of fiscal 2005, respectively. 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 \$17.5 million. The extraordinary gain of \$1.1 million (\$0.7 million net of income taxes), is a result of the application of purchase accounting relating to the acquisition of a previously consolidated VIE.

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 second quarter financial statements. The table above shows the impact of this standard on our consolidated balance sheet and statement of income as of October 23, 2004. 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.

<sup>(3)</sup> Incorporates the elimination of intercompany interest income and interest expense.