



## ***NEWS RELEASE***

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## **LA-Z-BOY REPORTS THIRD-QUARTER OPERATING RESULTS**

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

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

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

### **Upholstery Segment**

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

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

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

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

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

### **Casegoods Segment**

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

## **Retail Segment**

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

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

## **Operating Cash Flow and Balance Sheet**

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

## **Business Outlook**

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

## **Forward-looking Information**

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

## **Additional Information**

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

[http://www.la-z-boy.com/about/investorRelations/IR\\_email\\_alerts.aspx](http://www.la-z-boy.com/about/investorRelations/IR_email_alerts.aspx).

## **Background Information**

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

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

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