



## ***NEWS RELEASE***

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## **LA-Z-BOY REPORTS FOURTH-QUARTER AND FULL-YEAR OPERATING RESULTS**

MONROE, MI. June 6, 2006—La-Z-Boy Incorporated (**NYSE, PCX: LZB**) today reported its operating results for the fourth fiscal quarter and full year ended April 29, 2006. Net sales for the quarter were \$508.4 million, down 10.1%, compared with the prior-year period. This year's fourth quarter included 13 weeks of sales versus 14 weeks last year. The company posted a quarterly loss from continuing operations of \$0.20 per share, which includes a write-down of intangible assets of \$0.44 per share and a \$0.02 per share restructuring gain related to the sale of property. The \$23 million, or \$0.44 per share, write-down relates to goodwill at Bauhaus, one of its non-branded upholstery companies, which, primarily as a result of department-store consolidation, had a significant decrease in sales and earnings. The company's tax rate for the quarter was adversely impacted by the write-down, which carries no tax effect.

For the full year ended April 29, 2006, net sales were \$1.92 billion, down 6.4% from the prior year. Sales for this year reflect 52 weeks versus 53 weeks last year. The company posted a loss of \$0.06 per share for the year, which includes the write-down of intangible assets of \$0.44 per share and a net restructuring charge of \$0.08 per share.

La-Z-Boy Incorporated President and CEO Kurt Darrow said, "Although our quarter had one less week of sales this year, we are pleased that we operated within our target margin ranges in our two largest segments. In upholstery, we achieved an 8.9% margin, and, in casegoods, our margin was 4.5%. For the full year, our top line was impacted by two factors: supply chain challenges in the first half of the year when the hurricanes caused an industry-wide shortage of foam and disrupted our operations; and macroeconomic issues which caused inconsistent demand in retail. From an operating margin perspective, although softness at retail persists, we gained traction in the second half of the fiscal year when many of the supply chain issues were behind us."

Darrow added, "We have made substantial progress as we have modified our business model and our operating margins demonstrate that, even on lower volume, the changes made to the underlying cost structure of our business are coming to fruition. Going forward, our focus will continue to be on our retail segment, which is not only important to the wholesale side of our business, but is a key element of our longer term strategy, and we are working diligently to make the changes necessary to improve our results."

## **Upholstery Segment**

For the fiscal fourth quarter, sales in the company's upholstery segment were \$361.6 million, a 12.5% decrease from the prior year, largely reflecting the 13-week quarter. The company's branded business continued to outperform that of its non-branded companies. Overall, the segment's operating margin increased sequentially for the quarter to 8.9% from 7.2% in the fiscal third quarter.

Darrow commented, "In the fourth quarter of our year, we were able to improve our margins and operate more efficiently as there was no disruption from foam supply and our Newton manufacturing facilities, disrupted by the hurricanes, were operating normally. Additionally, as a result of the Waterloo plant closure, we increased our capacity utilization and realized the full benefit of this consolidation throughout the entire quarter."

Darrow added, "Our order rate for the quarter was essentially flat on a 13-week basis comparable against last year. Additionally, because our rate of incoming orders was equal to our production, we will carry a higher than usual backlog into our first quarter, as we were in the process of recruiting, hiring and training new upholsterers during our fourth quarter. With additional trained upholsterers on staff, we expect to make progress in reducing the backlog to normal levels.

"Going forward, we will continue to evaluate and make changes to our cost structure to further strengthen our performance. We expect to drive our margin through a variety of means, including: an increase in the integration of global sourcing; the ongoing conversion of our production facilities to the cellular manufacturing process; the growth of existing and new channels of distribution; and, the continued expansion of our La-Z-Boy Furniture Galleries® store system in the New Generation format, which will provide for both top-line growth and margin expansion."

For the quarter, the company continued to grow its La-Z-Boy Furniture Galleries® store system, which includes both company-owned and independent-licensed stores. In the fourth quarter, the system opened five new stores, relocated and/or remodeled five and closed four, bringing the total store count to 337, of which 154 are in the New Generation format. For the year, with 49 new format stores added, we substantially increased the quality of the total system and, today, approximately 50% of our stores are less than five years old. For the first quarter of fiscal 2007, the system plans to open seven stores, including two new locations, two relocations and three remodels.

System-wide, for the first calendar quarter, including company-owned and independent-licensed stores, same-store written sales, which the company tracks as an indicator of retail activity, were up 1.7% and total sales, which includes new stores, increased 6.3%.

## **Casegoods Segment**

In the fourth quarter, casegoods sales were \$113.4 million, down 8.2% from the prior-year period and essentially flat on a 13-week basis. The operating margin was 4.5%, an increase from 2.1% in last year's fourth quarter. Commenting on the segment's performance, Darrow noted, "In December, we completed the transition to primarily an import model for our residential business and our results for the second half of the year demonstrate our success. For the second half of our year, we operated within our target margin range of 4% to 6% and are confident we will continue to operate in that range or higher as volume improves. Our hospitality business

continues to improve as the travel sector rebounds and sales and backlog are increasing with concurrent margin improvement. Looking ahead, we expect to further increase the segment's profitability and operating margin as we introduce new products to appeal to a broader customer base, expand our channels of distribution, focus on SKU management, continue to further pare down our overall cost structure and increase the effectiveness of our global sourcing."

## **Retail Segment**

For the quarter, retail sales were \$54.1 million, up 9.6% from the prior-year period, due to the stores the company acquired. For the year, sales were up 23.3% to \$213.4 million. On an operating basis, the segment incurred a loss, primarily a result of the ongoing costs related to the three markets acquired last year, but also the result of a weaker-than-expected retail environment at the end of the quarter. Darrow commented, "The dip at the end of the quarter impacted our company-owned stores across the board this quarter and the stores we acquired last year are not performing up to expectations. This was compounded by not only the costs associated to build out the markets, but the current cost structure of those markets as fixed costs continue to be concentrated among too few and older format stores. Additionally, we closed or are in the process of closing several stores and moved merchandise through the system at substandard margins.

"During the year, we continued to take the steps necessary to transform these markets into profitable operations. Although the progress is somewhat slower than we anticipated, we secured new real estate sites in a number of markets and will make significant progress in adding new stores this fiscal year. Increasing the number of stores in each market will enable us to garner greater efficiencies in warehousing, advertising and distribution while at the same time, will grow the top line. Of the 337 stores in our system, we own 63. Over the course of this fiscal year, we plan to open seven new company-owned stores and will remodel and relocate 11 stores, increasing substantially the number of stores in the New Generation format from 28 to 46."

"Retail remains an important element of our core strategy and it will play an integral and additive role in our future, substantially impacting the earnings power of the company," Darrow concluded.

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

For the quarter, cash flow generated from operations was \$37.9 million and was \$89.8 million for the year. Darrow noted, "Our strong cash flow generation enabled us to reduce our total debt for the quarter by \$26 million to \$184.2 million and our debt-to-capitalization ratio of 26.5% is within our target range. With a continued emphasis on lowering working capital requirements, cash flow generated was improved by \$71.4 million compared with last year. In early May, our Board approved a 9% increase in our dividend to \$0.12 per quarter and we will pay our 140<sup>th</sup> consecutive dividend. We did not repurchase shares this quarter, and have 5.9 million shares remaining in our program. Going forward, we will be opportunistic with our share repurchase program."

## **Business Outlook**

Commenting on the business outlook, Darrow noted: “While we are pleased with our progress in our upholstery and casegoods divisions, we are concerned about the macroeconomic environment as the energy markets remain volatile and interest rates continue to increase. In particular, there has been a change in the retail environment since the first calendar quarter with April and May being difficult months. Due to seasonal factors, the first quarter is typically our weakest. With that as a backdrop, we expect our first-quarter sales to be flat against last year’s \$451 million and reported earnings to be in the range of \$0.01 to \$0.05 per share, which will include up to a \$0.02 per share charge for stock option expense.

## **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: (a) changes in consumer confidence; (b) changes in demographics; (c) changes in housing sales; (d) the impact of terrorism or war; (e) continued energy price changes; (f) the impact of logistics on imports; (g) the impact of interest rate changes; (h) the potential disruptions from Chinese imports; (i) inventory supply price fluctuations; (j) the impact of imports as it relates to continued domestic production; (k) changes in currency exchange rates; (l) competitive factors; (m) operating factors, such as supply, labor, or distribution disruptions including changes in operating conditions or costs; (n) effects of restructuring actions; (o) changes in the domestic or international regulatory environment; (p) not fully realizing cost reductions through restructurings; (q) ability to implement global sourcing organization strategies; (r) the impact of new manufacturing technologies; (s) the future financial performance and condition of independently operated dealers that we are required to consolidate into our financial statements or changes requiring us to consolidate additional independently operated dealers; (t) fair value changes to our intangible assets due to actual results differing from projected; (u) the impact of adopting new accounting principles; (v) the impact from severe weather such as hurricanes and tornadoes; (w) the ability to turn around under-performing retail stores; (x) the impact of retail store relocation costs, the success of new stores or the timing of converting stores to the New Generation format; (y) the ability to procure fabric rolls or cut-and-sewn sets domestically or abroad; and (z) factors relating to acquisitions and other factors identified from time to time in our reports filed with the Securities and Exchange Commission. We undertake 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/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**

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 337 stand-alone La-Z-Boy Furniture Galleries® stores and 340 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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