LA-Z-BOY INC
Form 10-Q
August 24, 2011

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 QUARTERLY PERIOD ENDED JULY 30, 2011
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

None

(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.

Yesþ No¨

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yesþ 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 the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer¨ Accelerated filer þ Non-accelerated filer¨ Smaller Reporting Company¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yeso Noþ

The number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Outstanding at August 16, 2011
Common Shares, $1.00 par value	52,057,065

LA-Z-BOY INCORPORATED
FORM 10-Q FIRST QUARTER OF FISCAL 2012

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FINANCIAL INFORMATION
Item 1. Financial Statements

LA-Z-BOY INCORPORATED
CONSOLIDATED STATEMENT OF OPERATIONS

	First Quarter Ended	
(Unaudited, amounts in thousands, except per share data)	7/30/11	7/24/10
Sales	$ 280,094	$ 263,313
Cost of sales		
Cost of goods sold	199,134	190,500
Restructuring	32	(21)
Total cost of sales	199,166	190,479
Gross profit	80,928	72,834
Selling, general and administrative	77,371	74,320
Restructuring	84	165
Operating income (loss)	3,473	(1,651)
Interest expense	424	590
Interest income	183	243
Income from Continued Dumping and Subsidy Offset Act, net	322	0
Other income (expense), net	373	351
Earnings (loss) before income taxes	3,927	(1,647)
Income tax expense (benefit)	(41,929)	(705)
Net income (loss)	45,856	(942)
Net (income) loss attributable to noncontrolling interests	(320)	726
Net income (loss) attributable to La-Z-Boy Incorporated	$ 45,536	$ (216)
Basic average shares	51,942	51,785
Basic net income attributable to La-Z-Boy Incorporated per share	$ 0.86	$ 0.00
Diluted average shares	52,443	51,785
Diluted net income attributable to La-Z-Boy Incorporated per share	$ 0.85	$ 0.00

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

LA-Z-BOY INCORPORATED
CONSOLIDATED BALANCE SHEET

(Unaudited, amounts in thousands)	7/30/11	4/30/11
Current assets		
Cash and equivalents	$ 110,426	$ 115,262
Receivables, net of allowance of $24,179 at 7/30/11 and $23,937 at 4/30/11	147,857	161,299
Inventories, net	149,132	138,444
Deferred income tax assets - current	20,106	0
Other current assets	18,812	17,218
Total current assets	446,333	432,223
Property, plant and equipment, net	119,044	120,603
Trade names	3,100	3,100
Deferred income tax assets – long-term	26,273	2,883
Other long-term assets	33,272	34,646
Total assets	$ 628,022	$ 593,455
Current liabilities		
Current portion of long-term debt	$ 917	$ 5,120
Accounts payable	45,907	49,537
Accrued expenses and other current liabilities	75,404	77,447
Total current liabilities	122,228	132,104
Long-term debt	30,029	29,937
Other long-term liabilities	64,833	67,274
Contingencies and commitments	0	0
Shareholders' Equity		
Common shares, $1 par value – 150,000 authorized; 52,025 outstanding July 30, 2011 and 51,909 outstanding April 30, 2011	52,025	51,909
Capital in excess of par value	199,547	201,589
Retained earnings	175,206	126,622
Accumulated other comprehensive loss	(19,019)	(18,804)
Total La-Z-Boy Incorporated shareholders' equity	407,759	361,316
Noncontrolling interests	3,173	2,824
Total equity	410,932	364,140
Total liabilities and equity	$ 628,022	$ 593,455

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

LA-Z-BOY INCORPORATED
CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited, amounts in thousands)	Quarter Ended 7/30/11	7/24/10
Cash flows from operating activities		
Net income (loss)	$ 45,856	$ (942)
Adjustments to reconcile net income (loss) to cash provided by (used for) operating activities		
(Gain) loss on sale of assets	(69)	27
Deferred income tax expense/(benefit)	(43,355)	37
Restructuring	116	144
Provision for doubtful accounts	1,038	914
Depreciation and amortization	5,907	5,806
Stock-based compensation expense	1,559	1,027
Pension plan contributions	(930)	0
Change in receivables	13,408	16,949
Change in inventories	(10,358)	(9,007)
Change in other assets	(2,203)	(295)
Change in payables	(3,630)	(10,667)
Change in other liabilities	(4,317)	(16,044)
Net cash provided by (used for) operating activities	3,022	(12,051)
Cash flows from investing activities		
Proceeds from disposals of assets	88	22
Capital expenditures	(3,288)	(2,436)
Purchases of investments	(3,502)	(4,333)
Proceeds from sales of investments	3,379	4,353
Cash effects on deconsolidation of VIE	0	(632)
Other	0	(13)
Net cash used for investing activities	(3,323)	(3,039)
Cash flows from financing activities		
Proceeds from debt	0	10,238
Payments on debt	(4,590)	(10,566)
Stock issued from stock and employee benefit plans	50	24
Net cash used for financing activities	(4,540)	(304)
Effect of exchange rate changes on cash and equivalents	5	(32)
Change in cash and equivalents	(4,836)	(15,426)
Cash and equivalents at beginning of period	115,262	108,427
Cash and equivalents at end of period	$ 110,426	$ 93,001

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

LA-Z-BOY INCORPORATED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited, amounts in thousands)	Common Shares	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Compre-hensive Loss	Non-Controlling Interests	Total
At April 24, 2010	$ 51,770	$ 201,873	$ 106,466	$ (20,284)	$ 3,289	$ 343,114
Comprehensive income						
Net income (loss)			24,047		(6,674)	
Unrealized gain on marketable securities arising during the period				1,085		
Reclassification adjustment for gain on marketable securities included in net income				(495)		
Translation adjustment				(298)	353	
Net pension amortization and net actuarial loss				640		
Change in fair value of cash flow hedge				548		
Total comprehensive income						19,206
Stock issued for stock and employee benefit plans, net of cancellations	139	(4,001)	3,757			(105)
Stock option and restricted stock expense		3,717				3,717
Acquisition of VIE and other			(8,573)		8,633	60
Cumulative effect of change in accounting for noncontrolling interests			925		(2,777)	(1,852)
At April 30, 2011	$ 51,909	$ 201,589	$ 126,622	$ (18,804)	$ 2,824	$ 364,140
Comprehensive income						
Net income (loss)			45,536		320	
Unrealized loss on marketable securities arising during the period (net of tax of $0.2 million)				(260)		
Reclassification adjustment for gain on marketable securities included in net income (net of tax of $0.1 million)				(244)		
Translation adjustment				16	29	
Net pension amortization (net of tax of $0.2 million)				245		
Change in fair value of cash flow hedge				28		
Total comprehensive income						45,670
Stock issued for stock and employee benefit plans, net of cancellations	116	(3,601)	3,048			(437)

Stock option and restricted stock expense		1,559				1,559
At July 30, 2011	$ 52,025	$ 199,547	$ 175,206	$ (19,019)	$ 3,173	$ 410,932

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1: Basis of Presentation

The accompanying consolidated financial statements include the consolidated accounts of La-Z-Boy Incorporated, including our wholly-owned subsidiaries, and the Variable Interest Entities ("VIEs") in which we are the primary beneficiary. The April 30, 2011 balance sheet was derived from our audited financial statements. 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 2011 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 (except as otherwise disclosed), which are necessary for a fair presentation of results for the respective interim period. The interim results reflected in the accompanying financial statements are not necessarily indicative of the results of operations which will occur for the full fiscal year ending April 28, 2012. Fiscal 2012 is a 52 week year as compared to fiscal 2011, which was 53 weeks. The additional week in fiscal 2011 occurred in the fourth quarter.

Our Consolidated Statement of Cash Flows for the period ended July 24, 2010 was reclassified to present the cash impact of deconsolidating VIEs as an investing activity to be consistent with the presentation in our fiscal 2011 Annual Report on Form 10-K.

Note 2: Allowance for Credit Losses

As of July 30, 2011, we had notes receivable of $9.1 million from 15 customers, with a corresponding allowance for credit losses of $2.3 million. We have collateral from the customer in the form of inventory or real estate to support the carrying value of the notes receivable. We do not accrue interest income on these notes receivable, but we record interest income when it is received. Of the $9.1 million in notes receivable as of July 30, 2011, $1.2 million is expected to be repaid in the next twelve months and therefore was included in receivables.

The following is an analysis of the allowance for credit losses related to our notes receivable as of and for the three months ended July 30, 2011 and July 24, 2010:

(Unaudited, amounts in thousands)	7/30/2011	7/24/2010
Beginning balance	$ 2,067	$ 1,004
Write-offs	0	0
Provision for credit losses	242	(213)
Ending balance	$ 2,309	$ 791

Note 3: Inventories

A summary of inventories is as follows:

(Unaudited, amounts in thousands)	7/30/11	4/30/11
Raw materials	$ 80,297	$ 70,326
Work in process	11,897	11,461
Finished goods	84,690	84,367
FIFO inventories	176,884	166,154
Excess of FIFO over LIFO	(27,752)	(27,710)
Inventories, net	$ 149,132	$ 138,444

Note 4: Investments

Included in other long-term assets were available-for-sale investments of $10.5 million and trading securities of $1.4 million at July 30, 2011 and available-for-sale investments of $11.2 million and trading securities of $1.8 million at April 30, 2011. These investments fund future obligations of our non-qualified retirement plan and our executive qualified deferred compensation plan. All unrealized gains or losses in the table below which have not been recognized as other-than-temporary losses were included in accumulated other comprehensive income/(loss) within our statement of changes in equity. We did not have any unrealized gains or losses which were considered other-than-temporary during fiscal 2012 or fiscal 2011.

The following is a summary of investments at July 30, 2011, and April 30, 2011:

As of July 30, 2011

(Unaudited amounts in thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity securities	$ 2,482	$ (31)	$ 6,830
Fixed income	96	(6)	3,498
Mutual funds	0	0	1,360
Other	0	0	205
Total securities	$ 2,578	$ (37)	$ 11,893

As of April 30, 2011

(Unaudited amounts in thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity securities	$ 3,286	$ (10)	$ 8,010
Fixed income	81	(9)	3,009
Mutual funds	0	0	1,837
Other	0	0	155
Total securities	$ 3,367	$ (19)	$ 13,011

The following table summarizes sales of available-for-sale securities (for the fiscal quarters ended):

(Amounts in thousands)	7/30/2011	7/24/2010
Proceeds from sales	$ 2,160	$ 2,137
Gross realized gains	395	147
Gross realized losses	(3)	(35)

The fair value of fixed income available-for-sale securities by contractual maturity was $0.1 million within one year, $1.3 million within two to five years, $1.3 million within six to ten years and $0.8 million thereafter.

Note 5: Pension Plans

Net periodic pension costs were as follows:

	Quarter Ended	
(Unaudited, amounts in thousands)	7/30/11	7/24/10
Service cost	$ 278	$ 291
Interest cost	1,391	1,356
Expected return on plan assets	(1,705)	(1,478)
Net amortization	409	435
Net periodic pension cost	$ 373	$ 604

Note 6: Financial Guarantees and Product Warranties

We have provided financial guarantees relating to leases in connection with certain La-Z-Boy Furniture Galleries® stores which are not operated by the company. The guarantees are generally for real estate leases and have remaining terms of one to two years. These guarantees enhance the credit of these dealers.

We would be required to perform under these agreements only if the dealer were to default on the guaranteed lease. The maximum amount of potential future payments under these guarantees was $1.2 million and $1.4 million as of July 30, 2011, and April 30, 2011, respectively.

We have, from time to time, entered into agreements which resulted in indemnifying third parties against certain liabilities, mainly environmental obligations. We believe that judgments, if any, against us related to such agreements would not have a significant effect on our business or financial condition.

Our accounting policy for product warranties is to accrue an estimated liability at the time the revenue is recognized. We estimate future warranty claims based on claim experience and any additional anticipated future costs on previously sold products. Our liability estimates incorporate the cost of repairs including materials consumed, labor and overhead amounts necessary to perform the repair and any costs associated with delivery of the repaired product to the customer. Over 90% of our warranty liability relates to our Upholstery Group where we generally warrant our products against defects for one year on fabric and leather, up to five years for padding and up to a lifetime on certain mechanisms and frames. Considerable judgment is used in the determination of our estimate. If actual costs were to differ significantly from our estimates, we would record the impact of these unforeseen costs in subsequent periods.

A reconciliation of the changes in our product warranty liability for the three months ended July 30, 2011, and July 24, 2010, is as follows:

	Quarter Ended	
(Unaudited, amounts in thousands)	7/30/11	7/24/10
Balance as of the beginning of the period	$ 13,854	$ 14,773
Accruals during the period	3,660	3,211
Settlements during the period	(3,667)	(3,269)
Balance as of the end of the period	$ 13,847	$ 14,715

As of July 30, 2011, and July 24, 2010, $7.9 million and $8.5 million, respectively, of our product warranty liability is included in accrued expenses and other current liabilities with the remainder included in other long-term liabilities.

Note 7: Stock-Based Compensation

Stock Options. In the first quarter of fiscal 2012, we granted 0.3 million stock options to employees. Compensation expense for stock options is equal to the fair value on the date the award was approved and is recognized over the service period. The vesting period for our stock options ranges from one to four years. The fair value for the employee stock options granted was estimated at the date of the grant using the Black-Scholes option-pricing model, which requires management to make certain assumptions. Expected volatility was estimated based on the historical volatility of our common shares. The average expected life was based on the contractual term of the stock option and expected employee exercise and post-vesting employment termination trends. The risk-free rate was based on U.S. Treasury issues with a term equal to the expected life assumed at the date of the grant. The turnover rate was estimated at the date of the grant based on historical experience. The fair value of stock options granted during the first quarter of fiscal 2012 was calculated using the following assumptions:

(Unaudited)	7/30/11
Risk-free interest rate	1.5 %
Dividend rate	0 %
Expected life in years	5.5
Stock price volatility	88.8 %
Turnover rate	4.0 %
Fair value per share	$ 6.68

Restricted Shares. We granted 0.2 million restricted shares to employees during the first quarter of fiscal 2012. Compensation expense for restricted stock is equal to the market value of our common shares on the date the award was approved and is recognized over the service period. The vesting period for our restricted shares is four years.

Performance Awards. We granted 0.7 million performance awards in the first quarter of fiscal 2012. The award opportunity ranges from 50% of the employee’s target award if minimum performance requirements are met to a maximum of 200% of the target award based on the attainment of certain financial goals over a specific performance period, which is generally three fiscal years. The shares are offered at no cost to the employees. The cost of performance awards is expensed over the service period based on the probability that the performance goals will be obtained.

Total compensation expense recognized in the Consolidated Statement of Operations for all equity based compensation was $1.6 million and $1.0 million, for the first quarter of fiscal 2012 and fiscal 2011, respectively.

Note 8: Total Comprehensive Income

The components of total comprehensive income are as follows:

	Quarter Ended	
(Unaudited, amounts in thousands)	7/30/11	7/24/10
Net income (loss)	$ 45,856	$ (942)
Other comprehensive income (loss):		
Currency translation adjustment	45	(128)
Change in fair value of cash flow hedge	28	113
Net unrealized losses on marketable securities arising during the period, net of tax	(504)	(758)
Net pension amortization, net of tax	245	435
Total other comprehensive loss	(186)	(338)
Total comprehensive income (loss) before allocation to noncontrolling interest	45,670	(1,280)
Comprehensive (income) loss attributable to noncontrolling interest	(349)	729
Comprehensive income (loss) attributable to La-Z-Boy Incorporated	$ 45,321	$ (551)

The components of accumulated other comprehensive loss are as follows:

(Unaudited, amounts in thousands)	7/30/2011	4/30/2011
Translation adjustment	$ 4,010	$ 3,994
Cash flow hedges	0	(28)
Unrealized gains/(losses) on marketable securities (net of tax)	2,844	3,348
Net actuarial loss (net of tax)	(25,873)	(26,118)
Total accumulated other comprehensive loss	$ (19,019)	$ (18,804)

Note 9: Variable Interest Entities

Our financial statements include the accounts of certain entities in which we hold a controlling interest based on exposure to economic risks and potential rewards (variable interests) for which we are the primary beneficiary. Accounting guidance states that a variable interest entity ("VIE") must be consolidated if the enterprise has both (a) the power to direct the activities of the VIE that most significantly impact the entity's economic performance, and (b) the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

We have a special operating agreement in place with one independent dealer that is a VIE which causes us to be considered its primary beneficiary. Through January 31, 2011, we consolidated a second independent dealer because of a similar operating agreement. During the fourth quarter of fiscal 2011 we acquired the fifteen stores of this VIE, and those stores are now included in our Retail Group. As a result, our VIEs' results included eight stores during the first quarter of fiscal 2012 and 23 stores during the first quarter of fiscal 2011.

The table below shows the amount of assets and liabilities of our single remaining VIE included in our Consolidated Balance Sheet as of July 30, 2011, and April 30, 2011:

	As of	
(Unaudited, amounts in thousands)	7/30/11	4/30/11
Cash and equivalents	$ 1,029	$ 1,642
Receivables, net	18	20
Inventories, net	2,353	2,719
Other current assets	74	79
Property, plant and equipment, net	301	374
Other long-term assets, net	204	188
Total assets	$ 3,979	$ 5,022
Accounts payable	$ 143	$ 278
Accrued expenses and other current liabilities	1,935	2,198
Other long-term liabilities	359	339
Total liabilities	$ 2,437	$ 2,815

In addition to our consolidated VIE, we had significant interests in three independent La-Z-Boy Furniture Galleries® dealers for which we are not the primary beneficiary. Our total exposure to losses related to these dealers as of July 30, 2011 and April 30, 2011 was $4.7 million and $5.0 million, respectively, which consists primarily of past due accounts receivable as well as notes receivable, net of reserves and collateral on inventory and real estate. We have not provided additional financial or other support to these dealers during fiscal 2012 and have no obligations or commitments to provide further support.

Note 10: Segment Information

Our reportable operating segments are the Upholstery Group, the Casegoods Group and the Retail Group.

Upholstery Group. The operating units in the Upholstery Group are La-Z-Boy, England and Bauhaus. This group manufactures or imports and sells upholstered furniture to furniture retailers. Upholstered furniture includes recliners and motion furniture, sofas, loveseats, chairs, ottomans and sleeper sofas. It sells directly to La-Z-Boy Furniture Galleries ® stores, operators of Comfort Studios, general dealers and department stores.

Casegoods Group. The operating units in the Casegoods Group consist of two groups, one including American Drew, Lea, and Hammary, the second being Kincaid. This group primarily sells manufactured or imported wood furniture to furniture retailers. Casegoods product includes bedroom, dining room, entertainment centers, accent pieces and some coordinated upholstered furniture. The Casegoods Group sells to proprietary stores and general dealers.

Retail Group. The Retail Group consists of 84 company-owned La-Z-Boy Furniture Galleries® stores in nine primary markets. The Retail Group sells upholstered furniture, as well as some casegoods and other accessories, to end consumers through the retail network.

	Quarter Ended	
(Unaudited, amounts in thousands)	7/30/11	7/24/10
Sales		
Upholstery Group	$ 217,462	$ 201,934
Casegoods Group	34,131	36,850
Retail Group	48,814	35,307
VIEs, net of intercompany sales eliminations	3,341	7,542
Corporate and Other	594	376
Eliminations	(24,248)	(18,696)
Consolidated Sales	$ 280,094	$ 263,313
Operating Income (Loss)		
Upholstery Group	$ 11,125	$ 10,057
Casegoods Group	557	1,575
Retail Group	(3,378)	(4,924)
VIEs	567	(1,608)
Corporate and Other	(5,282)	(6,607)
Restructuring	(116)	(144)
Consolidated Operating Income	$ 3,473	$ (1,651)

Note 11: Restructuring

During the past several years, we have committed to various restructuring plans as a result of declining demand and foreign competition to rationalize our manufacturing facilities, consolidate warehouse distribution centers and close underperforming retail stores. The majority of the restructuring expense in the first quarter of fiscal 2012 related to the ongoing costs of closed retail stores.

For the first quarter of fiscal 2012, restructuring liabilities along with pre-tax charges to expense, cash payments or asset write-downs were as follows:

		Fiscal 2012	
(Unaudited, amounts in thousands)	4/30/11 Balance	Charges to Expense	Cash Payments or Asset