

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

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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
Total current assets	408,524	427,488
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
Total assets	\$ 702,962	\$ 768,870
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
Total current liabilities	164,476	163,913
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)
Total shareholders' equity	380,799	450,596
Total liabilities and shareholders' equity	\$ 702,962	\$ 768,870

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 (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 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 in Excess of Par Value</b>	<b>Retained Earnings</b>	<b>Accumulated Other Compre- hensive 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 as of 4/26/08</b>	<b>Acquisitions, Dispositions and Other</b>	<b>Balance as of 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
<b>Tradenames</b>			
Casegoods Group	\$ 9,006	\$	\$ 9,006

\* Corporate and Other includes goodwill from our VIEs.

**Note 6: Investments**

Included in other long-term assets were \$26.3 million and \$34.0 million at October 25, 2008 and April 26, 2008, respectively, of available-for-sale marketable securities to fund future obligations of one of our non-qualified retirement plans and our captive insurance company. All unrealized gains or losses, which have not otherwise been recognized as other than temporary losses, are reflected net of tax in accumulated other comprehensive loss within Shareholders' Equity. The net unrealized loss was \$5.5 million and \$0.9 million at October 25, 2008 and April 26, 2008, respectively. We evaluated our investments for other-than-temporary impairment and; as such have recognized \$0.1 million of losses related to investments which were determine to be other than temporarily impaired. This evaluation included consideration of downgrades in the securities, overall market conditions and other factors. If the market conditions continue, we may be required to recognize further impairment charges, which would adversely impact our future earnings.

**Table of Contents****Note 7: Pension Plans**

Net periodic pension costs were as follows:

<i>(Unaudited, amounts in thousands)</i>	<b>Second Quarter</b>		<b>Six Months Ended</b>	
	<b>Ended</b>			
	<b>10/25/08</b>	<b>10/27/07</b>	<b>10/25/08</b>	<b>10/27/07</b>
Service cost	\$ 328	\$ 441	\$ 656	\$ 882
Interest cost	1,359	1,346	2,718	2,692
Expected return on plan assets	(1,728)	(1,839)	(3,456)	(3,678)
Net periodic pension cost (benefit)	\$ (41)	\$ (52)	\$ (82)	\$ (104)

We did not make any contributions to the plans during the first half of fiscal 2009. We are not required to make any contributions to the defined benefit plans in fiscal year 2009; however we may make contributions.

**Note 8: 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 lease guarantees are generally for real estate leases and have remaining terms of one to nine years. These lease guarantees enhance the credit of these dealers. The dealer is required to make periodic fee payments to compensate us for our guarantees. We have recognized liabilities for the fair values of the lease agreements that we have entered into, but they are not material to our financial position. We would be required to perform under these agreements only if the dealer were to default on the lease. The maximum amount of potential future payments under lease guarantees was \$11.4 million at the end of the second quarter of fiscal 2009.

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 material 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. This estimate is based on historical claims and adjusted for currently known warranty issues.

A reconciliation of the changes in our product warranty liability is as follows:

<i>(Unaudited, amounts in thousands)</i>	<b>Second Quarter</b>		<b>Six Months Ended</b>	
	<b>Ended</b>			
	<b>10/25/08</b>	<b>10/27/07</b>	<b>10/25/08</b>	<b>10/27/07</b>
Balance as of the beginning of the period	\$ 14,645	\$ 14,267	\$ 14,334	\$ 14,283
Accruals during the period	3,993	4,189	8,097	8,379
Settlements during the period	(4,201)	(4,198)	(7,994)	(8,404)
Balance as of the end of the period	\$ 14,437	\$ 14,258	\$ 14,437	\$ 14,258

**Note 9: Stock-Based Compensation**

Total compensation expense recognized in the Consolidated Statement of Operations for all equity based compensation was \$1.0 million and \$1.9 million, for the second quarter and first six months of fiscal 2009, respectively. For the second quarter and first six months of fiscal 2008, we recorded total stock-based compensation expense of approximately \$1.0 million and \$1.9 million, respectively.

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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 Bauhaus, England, and La-Z-Boy. This group primarily manufactures and sells upholstered furniture to furniture retailers. Upholstered furniture includes recliners and motion furniture, sofas, loveseats, chairs, ottomans and sleeper sofas.

*Casegoods Group.* The operating units in the Casegoods Group are American Drew/Lea, Hammary and Kincaid. This group primarily sells manufactured or imported wood furniture to furniture retailers. Casegoods product includes tables, chairs, entertainment centers, headboards, dressers, accent pieces and some upholstered furniture.

*Retail Group.* The Retail Group consists of 70 company-owned La-Z-Boy Furniture Galleries® stores in eight primary markets. The Retail Group sells mostly upholstered furniture to end consumers.

	Second Quarter Ended		Six Months Ended	
	10/25/08	10/27/07	10/25/08	10/27/07
	(13	(13	(26	(26
	weeks)	weeks)	weeks)	weeks)
<i>(Unaudited, amounts in thousands)</i>				
<b>Sales</b>				
Upholstery Group	\$ 247,934	\$ 269,749	\$ 485,052	\$ 524,506
Casegoods Group	48,473	58,892	96,594	112,466
Retail Group	39,484	46,163	81,911	91,394
VIEs/Eliminations	(3,943)	(9,370)	(9,957)	(18,536)
Consolidated	\$ 331,948	\$ 365,434	\$ 653,600	\$ 709,830
<b>Operating income (loss)</b>				
Upholstery Group	\$ 8,118	\$ 19,036	\$ 17,975	\$ 27,903
Casegoods Group	755	3,577	2,132	6,177
Retail Group	(10,391)	(9,119)	(20,401)	(19,193)
Corporate and Other*	(11,157)	(12,816)	(17,682)	(23,464)
Intangible write-down	(408)	(5,809)	(1,700)	(5,809)
Restructuring	(2,923)	(967)	(9,499)	(4,648)
	\$ (16,006)	\$ (6,098)	\$ (29,175)	\$ (19,034)

\* *Variable Interest Entities ( VIEs ) are included in corporate and other.*

**Note 11: Restructuring**

During the past several years, we have entered into various restructuring plans to rationalize our manufacturing facilities and to consolidate retail distribution centers and close underperforming retail facilities. The majority of our restructuring charges related to our manufacturing and wholesale distribution facilities were reported as a component of Cost of Sales on our Consolidated Statement of Operations, while restructuring charges related to our retail operations were reported as a line item within our Selling, General and Administrative expenses section of our Consolidated Statement of Operations. With these restructuring plans, we have written-down various fixed assets



which were accounted for in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Additionally, we recorded charges for severance and benefits, contract terminations and other transition costs related to relocating manufacturing and closing facilities. These other costs were expensed as

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incurred and accounted for in accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* as the employees were required to render service until they were terminated in order to receive their benefits.

In the first quarter of fiscal 2009, we committed to a restructuring plan to close the operations of our La-Z-Boy U.K. subsidiary due to a change in our strategic direction for this operation. The closure of this operation occurred in the second quarter of fiscal 2009 and impacted about 17 employees. In connection with this closure, we recorded pre-tax restructuring charges of about \$0.6 million and \$1.8 million, in the second quarter and first half of fiscal 2009, respectively, covering the write-down of inventory (\$1.2 million), the write-down of fixed assets and other restructuring charges (\$0.6 million).

During the fourth quarter of fiscal 2008, we committed to a restructuring plan to consolidate all of our domestic cutting and sewing operations in Mexico and transfer production from our Tremonton, Utah plant, to our five remaining La-Z-Boy branded upholstery manufacturing facilities. The transition of our cutting and sewing operations to Ramos Arizpe, Mexico, in the state of Coahuila, was expected to impact approximately 1,000 La-Z-Boy employees at the five remaining facilities over the next 18 to 24 months. As a result of the current global economic conditions and the overall decrease in sales volume, we are expecting to accelerate the majority of this reduction in headcount into the third quarter of fiscal 2009. We expect to begin production at our Mexican facility in early calendar 2009. Our Utah facility, which employed 630 people, ceased operations during the first quarter of fiscal 2009 and production was shifted to our remaining manufacturing facilities. In connection with these activities, we have spent \$10.0 million since the inception of this plan for severance and benefits, write-down of certain fixed assets, and other restructuring costs. We expect the total pre-tax restructuring and related asset impairment charges to be \$17 to \$20 million. During the second quarter and first six months of fiscal 2009, we had restructuring charges of \$1.9 million and \$7.4 million, respectively, covering severance and benefits (\$3.2 million) and other restructuring costs (\$4.2 million). Other restructuring costs include transportation, freight surcharges and other transition costs as we move production to other plants.

In the fourth quarter of fiscal 2007, we committed to a restructuring plan which included the closures of our Lincolnton, North Carolina and Iuka, Mississippi upholstery manufacturing facilities, the closure of our rough mill lumber operation in North Wilkesboro, North Carolina, the consolidation of operations at our Kincaid Taylorsville, North Carolina upholstery operation and the elimination of a number of positions throughout the remainder of the organization. The Lincolnton and Iuka facility closures occurred in the first quarter of fiscal 2008 and impacted approximately 250 and 150 employees, respectively. The closure of our North Wilkesboro lumber operation, the consolidation of operations at Kincaid's Taylorsville operation and the remaining activities occurred in the fourth quarter of fiscal 2007 and impacted approximately 100 positions. These decisions were made to help align our company with the current business environment and strengthen our positioning going forward. During the first half of fiscal 2009, we had restructuring reversals of \$0.5 million, relating to lower benefit costs than originally estimated. During fiscal 2007 and 2008, several of our retail warehouses were consolidated into larger facilities and several underperforming stores were closed. Approximately 130 jobs were eliminated as a result of these changes. In the second quarter and first six months of fiscal 2009, we had restructuring charges of \$0.4 million and \$0.8 million, respectively, related to contract terminations.

As of the end of the second quarter of fiscal 2009, we had a remaining restructuring liability of \$3.8 million which is expected to be settled as follows: \$3.3 million in fiscal 2009, \$0.3 million in fiscal 2010, and \$0.2 million thereafter. Contract terminations resulting from the closure of several of our retail stores and warehouses result in our restructuring liability being paid out over an extended length of time.

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Restructuring liabilities along with charges to expense, cash payments or asset write-downs for all of our restructuring actions were as follows:

	<b>Fiscal 2009</b>			<b>10/25/08 Balance</b>
	<b>4/26/08 Balance</b>	<b>Charges to Expense</b>	<b>Cash Payments or Asset Write-Offs</b>	
<i>(Unaudited, amounts in thousands)</i>				
Severance and benefit-related costs	\$2,842	\$2,909	\$(2,730)	\$3,021
Fixed asset write-downs, net of gains		49	(49)	
Contract termination costs	939	790	(987)	742
Other		5,751	(5,751)	
<b>Total restructuring</b>	<b>\$3,781</b>	<b>\$9,499</b>	<b>\$(9,517)</b>	<b>\$3,763</b>

	<b>Fiscal 2008</b>			<b>4/26/08 Balance</b>
	<b>4/28/07 Balance</b>	<b>Charges to Expense</b>	<b>Cash Payments or Asset Write-Offs</b>	
<i>(Unaudited, amounts in thousands)</i>				
Severance and benefit-related costs	\$ 2,177	\$ 3,253	\$ (2,588)	\$ 2,842
Fixed asset write-downs, net of gains		364	(364)	
Contract termination costs	1,257	2,019	(2,337)	939
Other		2,499	(2,499)	
<b>Total restructuring</b>	<b>\$ 3,434</b>	<b>\$ 8,135</b>	<b>\$ (7,788)</b>	<b>\$ 3,781</b>

**Note 12: Income Taxes**

In accordance with Statement of Financial Accounting Standards ( SFAS ) No. 109, *Accounting for Income Taxes*, we evaluate our deferred taxes to determine if a valuation allowance is required. SFAS No. 109 requires that companies assess whether a valuation allowance should be established based on the consideration of all available evidence using a more likely than not standard with significant weight being given to evidence that can be objectively verified. Our current and prior year losses present the most significant negative evidence as to whether we need to record a valuation allowance against our net deferred tax assets. Given the current economic climate and the losses that we have sustained, we have recorded a \$38.2 million valuation allowance against the deferred tax assets of the U.S. operations.

We adopted FASB Interpretation No. 48 ( FIN 48 ), *Accounting for Uncertainty in Income Taxes* an interpretation of FASB 109, effective as of April 29, 2007. The total amount of unrecognized tax benefits as of April 26, 2008 was \$7.1 million, which included \$1.7 million attributable to timing differences that once resolved would have no impact on our effective tax rate. Through the second quarter of fiscal 2009 various issues were resolved which reduced this amount to \$6.3 million.

We believe that it is reasonably possible that the amount of unrecognized tax benefits will decrease by \$0.6 million within the next 12 months. This decrease relates to anticipated settlements of several outstanding issues with several

taxing authorities.

**Table of Contents****Note 13: Variable Interest Entities**

Financial Accounting Standards Board Interpretation No. 46R, *Consolidation of Variable Interest Entities* ( FIN 46 ), requires the primary beneficiary of a VIE to include the VIE's assets, liabilities and operating results in its consolidated financial statements. In general, a VIE is a corporation, partnership, limited-liability company, trust or any other legal structure used to conduct activities or hold assets that either (a) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (b) has a group of equity owners that are unable to make significant decisions about its activities, or (c) has a group of equity owners that do not have the obligation to absorb losses or the right to receive returns generated by its operations.

La-Z-Boy Furniture Galleries® stores that are not operated by us are operated by independent dealers. These stores sell La-Z-Boy manufactured products as well as various accessories purchased from approved La-Z-Boy vendors. 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. In some cases we have extended credit beyond normal trade terms to the independent dealers, made direct loans, entered into leases and/or guaranteed certain loans or leases.

Based on the criteria for consolidation of VIEs, we have consolidated several dealers where we were the primary beneficiary based on the fair value of our variable interests. All of our consolidated VIEs were recorded at fair value on the date we became the primary beneficiary. Because these entities are accounted for as if the entities were consolidated based on voting interests, we absorb all net losses of the VIEs in excess of their equity. We recognize all net earnings of these VIEs to the extent of recouping the losses previously recorded. Earnings in excess of our losses are attributed to equity owners of the dealers and are recorded as minority interest. We had four consolidated VIEs for fiscal 2009 and 2008.

Our consolidated VIEs recognized \$11.8 million and \$12.2 million of sales, net of intercompany eliminations, in the second quarter of fiscal 2009 and fiscal 2008, respectively. Our consolidated VIEs recognized \$25.9 million and \$24.0 million of sales, net of intercompany eliminations, in the first six months of fiscal 2009 and fiscal 2008, respectively. Additionally, we recognized a net loss per share of \$0.03 and \$0.04 in the second quarter of fiscal 2009 and fiscal 2008, respectively, resulting from the operating results of these VIEs. We recognized a net loss per share of \$0.04 and \$0.07 for the first six months of fiscal 2009 and fiscal 2008, respectively.

During the second quarter of fiscal 2009, we committed to a plan to reorganize our Toronto, Ontario retail 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 balance of this market.

**Note 14: Discontinued Operations**

During the second quarter of fiscal 2008, we completed the sale of our Clayton Marcus operating unit and our Pennsylvania House trade name. These dispositions were accounted for as discontinued operations.

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The results of the discontinued operations for Clayton Marcus and Pennsylvania House for the second quarter and first six months of fiscal 2008 were as follows:

<i>(Unaudited, amounts in thousands)</i>	<b>Second Quarter Ended 10/27/07</b>	<b>Six Months Ended 10/27/07</b>
Net sales	\$ 10,323	\$21,058
Loss from discontinued operations, net of tax	\$ (2,292)	\$ (2,444)
Loss on the sale of discontinued operations, net of tax	\$ (3,990)	\$ (3,990)

In the Consolidated Statement of Cash Flows, the activity of these operating units was included along with the activity from our continuing operations.

**Note 15: Earnings per Share**

Basic earnings per share is computed using the weighted average number of shares outstanding during the period. Diluted net income per share uses the weighted average number of shares outstanding during the period plus the additional common shares that would be outstanding if the dilutive potential common shares issuable under employee stock options and unvested restricted stock were issued. A reconciliation of basic and diluted weighted average common shares outstanding follows:

<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>
Weighted average common shares outstanding (basic)	51,458	51,410	51,443	51,395
Effect of options and unvested restricted stock				
Weighted average common shares outstanding (diluted)	51,458	51,410	51,443	51,395

The weighted average common shares outstanding (diluted) at October 25, 2008 and October 27, 2007 exclude outstanding stock options of 0.5 million and 0.2 million, respectively, because the net loss in the second quarter and first six months of fiscal 2009 and fiscal 2008, respectively, would cause the effect of options to be anti-dilutive. The effect of options to purchase 2.6 million and 2.7 million shares for the quarters ended October 25, 2008 and October 27, 2007 with a weighted average exercise price of \$15.44 and \$15.52 respectively, were excluded from the diluted share calculation because the exercise prices of these options were higher than the weighted average share price for the quarters and would have been anti-dilutive.

**Note 16: Fair Value Measurements**

We adopted FASB Statement of Financial Accounting Standards No. 157 ( SFAS No. 157 ), *Fair Value Measurements*, effective April 27, 2008 for our financial assets and liabilities. Adoption of SFAS No. 157 did not have a material effect on our financial position, results of operations or cash flows.

In February 2008, the Financial Accounting Standards Board issued FASB Staff Position FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13* ( FSP 157-1 ). FSP FAS 157-1 amended SFAS No. 157 to exclude from its scope SFAS No. 13, *Accounting for Leases*, and its related interpretive accounting pronouncements that address leasing transactions. Also in February 2008, the FASB issued FASB Staff Position FAS 157-2, *Effective Date of FASB Statement No. 157* ( FSP 157-2 ). FSP 157-2 amended SFAS No. 157 to defer the effective date of SFAS No. 157 until fiscal years beginning after November 15, 2008 for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial



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statements on a recurring basis, at least annually. We are currently assessing the impact of SFAS No. 157 on our non-financial assets and non-financial liabilities measured at fair value on a nonrecurring basis.

SFAS No. 157 requires the categorization of financial assets and liabilities, based on the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to the quoted prices in active markets for identical assets and liabilities and lowest priority to unobservable inputs. The various levels of the SFAS No. 157 fair value hierarchy are described as follows:

Level 1 Financial assets and liabilities whose values are based on unadjusted quoted market prices for identical assets and liabilities in an active market that the Company has the ability to access.

Level 2 Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable for substantially the full term of the asset or liability.

Level 3 Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

SFAS No. 157 requires the use of observable market data, when available, in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

The following table presents the fair value hierarchy for those assets measured at fair value on a recurring basis as of October 25, 2008:

	<b>Fair Value Measurements</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<i>(Unaudited, amounts in thousands)</i>			
<b>Assets</b>			
Available-for-sale securities	\$ 9,541	\$ 16,726	\$
Interest rate swap		(224)	
Total	\$ 9,541	\$ 16,502	\$

We hold available-for-sale marketable securities to fund future obligations of one of our non-qualified retirement plans and our captive insurance company. The fair value measurements for our available-for-sale securities are based upon quoted prices in active markets, as well as through broker quotes and independent valuation providers, multiplied by the number of shares owned exclusive of any transaction costs and without any adjustments to reflect discounts that may be applied to selling a large block of the securities at one time.

We entered into a three year interest rate swap agreement in order to fix a portion of our floating rate debt. The fair value of the swap agreement was measured as the present value of all expected future cash flows based on the LIBOR-based swap yield curve as of the date of the valuation and considered counterparty non-performance risk. These assumptions can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.



**Table of Contents****Note 17: Hedging Activities**

During the first quarter of fiscal 2009, we entered into an interest rate swap agreement which we accounted for as a cash flow hedge. This swap hedges the interest on \$20 million of floating rate debt. Under the swap, we are required to pay 3.33% through May 16, 2011 and we receive three month LIBOR from the counterparty. This offsets the three month LIBOR component of interest which we are required to pay under \$20 million of floating rate debt. Interest under this debt as of October 25, 2008 was three month LIBOR plus 2.0%.

**Note 18: Recent Accounting Pronouncements***FASB Statement of Financial Accounting Standards No. 159*

The FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ( SFAS No. 159 ), which allows a company to choose to measure selected financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007.

We adopted SFAS No. 159 on April 27, 2008 and have not elected the permitted fair value measurement provisions of this statement.

*FASB Statement of Financial Accounting Standards No. 160*

The FASB issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51* ( SFAS No. 160 ). It is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Earlier application is prohibited. SFAS No. 160 requires that accounting and reporting for minority interests will be re-characterized as non-controlling interests and classified as a component of equity. SFAS No. 160 also establishes reporting requirements that provide disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. This statement applies to all entities that prepare consolidated financial statements, but will affect only those entities that have an outstanding non-controlling interest in one or more subsidiaries or that deconsolidate a subsidiary.

We are currently evaluating the impact SFAS No. 160 will have on our financial statements. This statement will be effective for interim periods beginning in fiscal 2010.

*FASB Statement of Financial Accounting Standards No. 141(R)*

The FASB issued Statement of Financial Accounting Standards No. 141 (Revised 2007), *Business Combinations*, ( SFAS No. 141(R) ), which replaces FASB Statement No. 141. SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. The Statement also establishes disclosure requirements that will enable users to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective for business combinations that occur during or after fiscal years that begin after December 15, 2008.

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We are currently evaluating the impact SFAS No. 141(R) will have on our financial statements. This statement will be effective in fiscal 2010.

*FASB Statement of Financial Accounting Standards No. 161*

The FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, ( SFAS No. 161 ). It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early adoption encouraged. The objective of this statement is to require enhanced disclosures about an entity's derivative and hedging activities and to improve the transparency of financial reporting. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows requires disclosure of the fair values of derivative instruments and their gains and losses in tabular format and derivative features that are credit risk related. This statement will be effective for the fourth quarter of fiscal 2009 and it will require expanded disclosure of our hedging activities.

*FASB Statement of Financial Accounting Standards No. 163*

The FASB issues Statement of Financial Accounting Standards No. 163, *Accounting for Financial Guarantee Insurance Contracts – an interpretation of Statement No. 60* ( SFAS No. 163 ). SFAS No. 163 provides insurance enterprises clarification for recognizing and measuring claim liabilities related to financial guarantee insurance contracts. This statement is effective for financial statements issued for fiscal years beginning after December 15, 2008, except for some disclosures on the insurance enterprise's risk-management activities. This statement requires that disclosures about the risk-management activities of the insurance enterprise be effective for the first period (including interim periods) beginning after issuance of this Statement. Except for those disclosures, earlier application is not permitted.

We are currently determining the impact, if any, SFAS No. 163 will have on our financial statements. This statement will be effective for interim periods beginning in fiscal 2010.

*FASB Staff Position EITF 03-6-1: Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*

In June 2008, the FASB issued FASB Staff Position No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*, ( FSP EITF 03-6-1 ). FSP EITF 03-6-1 requires that unvested share-based payment awards containing non-forfeited rights to dividends be included in the computation of earnings per common share. The adoption of FSP EITF 03-6-1 is effective January 1, 2009 and retrospective application is required.

This statement will be effective beginning with our third quarter of this fiscal year and will require us to include unvested shares of our share-based payment awards into our calculation of earnings per share. We will adopt this statement in the third quarter of fiscal 2009. This is expected to increase our basic shares outstanding by about 0.8 million and 0.5 million for the periods ending October 25, 2008 and October 27, 2007, respectively.

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**Note 19: Subsequent Event**

On November 6, 2008, we announced a corporate initiative aimed at cutting costs across the entire company. These cuts included a 10% or approximately 850 employee headcount reduction in the third quarter of fiscal 2009, the anticipated closure of 15 to 20, primarily dealer owned, La-Z-Boy Furniture Galleries® stores, over the next 90 to 120 days, a \$7 to \$9 million reduction of planned capital expenditures for the remainder of fiscal 2009 and other cost and inventory reductions needed to bring the company in line with current market conditions. Severance and other benefit costs will result in an approximate \$1.5 million to \$2.5 million pre-tax charge, which will be cash expenditures incurred mainly in the third quarter of fiscal 2009.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Our Management's Discussion and Analysis is an integral part of understanding our financial results. This **Management's Discussion and Analysis** should be read in conjunction with the accompanying Consolidated Financial Statements and related Notes to Consolidated Financial Statements. We begin the Management's Discussion and Analysis with an introduction to La-Z-Boy Incorporated's key businesses, strategies and significant operational events in fiscal 2009. We then provide a discussion of our results of operations, liquidity and capital resources, quantitative and qualitative disclosures about market risk, and critical accounting policies.

**Cautionary Statement Concerning Forward-Looking Statements**

We are making forward-looking statements in this report. Generally, forward-looking statements include information concerning possible or assumed future actions, events or results of operations. More specifically, forward-looking statements include the information in this document regarding:

- |                                          |                               |
|------------------------------------------|-------------------------------|
| future income, margins and cash flows    | future economic performance   |
| future growth                            | industry and importing trends |
| adequacy and cost of financial resources | management plans              |

Forward-looking statements also include those preceded or followed by the words anticipates, believes, estimates, hopes, plans, intends and expects or similar expressions. With respect to all forward-looking statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

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) further changes in housing market; (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) changes in currency exchange rates; (i) competitive factors; (j) operating factors, such as supply, labor or distribution disruptions including changes in operating conditions or costs; (k) effects of restructuring actions; (l) changes in the domestic or international regulatory environment; (m) ability to implement global sourcing organization strategies; (n) fair value changes to our intangible assets due to actual results differing from projected; (o) the impact of adopting new accounting principles; (p) the impact from natural events such as hurricanes, earthquakes and tornadoes; (q) the ability to procure fabric rolls and leather hides or cut and sewn fabric and leather sets domestically or abroad; (r) continued decline in the credit market and potential impacts on our customers; (s) those matters discussed in Item 1A of our fiscal 2008 Annual Report and 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.

**Introduction**

La-Z-Boy Incorporated manufactures, markets, imports, distributes and retails upholstery products and casegoods (wood) furniture products. Our La-Z-Boy brand is the most recognized brand in the furniture industry, and we are the leading global producer of reclining chairs. We own 70 La-Z-Boy Furniture Galleries® stores, which are retail locations dedicated to marketing our La-Z-Boy branded product. These 70 stores are part of the larger store network of La-Z-Boy Furniture Galleries® stores which includes a total of 330 stores, the balance of which are independently owned and operated. The network constitutes the industry's largest single-branded upholstered furniture retailer in North America. These stores

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combine the style, comfort and quality of La-Z-Boy furniture with our in-home design service to help consumers furnish certain rooms in their homes.

In addition to our company-owned stores, we consolidate certain of our independent dealers who did not have sufficient equity to carry out their principal business activities without our financial support. These dealers are referred to as Variable Interest Entities ( VIEs ). During the second quarter of fiscal 2009 we had four VIEs, operating 34 stores, consolidated into our Statement of Operations. At the end of the fiscal 2008 second quarter, we had four VIEs, operating 30 stores, in our Consolidated Statement of Operations.

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

*Upholstery Group.* In terms of revenue, our largest segment is the Upholstery Group, which includes La-Z-Boy, our largest operating unit. Also included in the Upholstery Group are the operating units Bauhaus and England. This group primarily manufactures and sells upholstered furniture to proprietary stores and other furniture retailers.

Upholstered furniture includes recliners and motion furniture, sofas, loveseats, chairs, ottomans and sleeper sofas.

*Casegoods Group.* Our Casegoods Group today is primarily an importer, marketer and distributor of casegoods (wood) furniture. It also operates two manufacturing facilities in North Carolina. The operating units in the Casegoods Group are American Drew/Lea, Hammary and Kincaid. Casegoods product includes tables, chairs, entertainment centers, headboards, dressers, accent pieces and some coordinated upholstered furniture.

*Retail Group.* The Retail Group consists of 70 company-owned La-Z-Boy Furniture Galleries® stores located in eight markets. These markets range from the Midwest to the East Coast of the United States and also include Southeastern Florida. The Retail Group sells mostly upholstered furniture to end consumers through the retail network.

The chart below shows the current structure of the La-Z-Boy Furniture Galleries® store network.

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During the first quarter of fiscal 2008, we began rolling out a new proprietary distribution model referred to as Comfort Studios. Comfort Studios are typically smaller and more adaptable than the former in-store gallery model. At the end of the second quarter of fiscal 2009, we had 434 Comfort Studios, of which some were new studios and the rest were conversions of former in-store galleries and general dealers. We expect to open or convert approximately 46 more Comfort Studios during the remainder of fiscal 2009. Kincaid, England and Lea also have in-store gallery programs.

**Impact of Current Market Conditions**

During the second quarter of fiscal 2009, we were impacted by significant declines in consumer demand brought on by a weak job market, declining prices and tightening credit which resulted in the failure of several prominent financial institutions. These events have intensified concerns about credit and liquidity risks and have had a major impact on the economy and our business. Due to the decline in consumer confidence and the discretionary nature of home furnishing purchases, we are taking the following actions to align our operating structure with today's level of business:

We are reducing headcount by 10% or approximately 850 employees across all levels of the company by the end of the calendar year.

Due to the overall tightening of the financial markets, and our decision to withdraw credit support to certain independent dealers, we anticipate the closure of 15 to 20, primarily dealer owned, La-Z-Boy Furniture Galleries® stores, over the next 90 to 120 days.

We will significantly reduce our planned fiscal 2009 capital expenditures from approximately \$27 million to approximately \$18 million to \$20 million.

In addition to these initiatives we plan to aggressively reduce overall operating expenses and inventories to be in alignment with today's volumes. We believe the reduction in headcount alone will result in savings of \$16 million to \$20 million annually. Severance and other benefit costs will result in an approximate \$1.5 million to \$2.5 million pre-tax charge, the majority of which will be incurred in the third quarter of fiscal 2009.

Dealer owned stores that have been closed or will be closed increased our bad debt expense by \$1.9 million for the first six months of fiscal 2009 and had sales of \$7.8 million for the first six months of fiscal 2009. The majority of the stores closing are owned by independent dealers that are struggling in the current economic conditions, as such we are recording bad debt expense as a result of their anticipated closure.

As a result of our losses sustained during the quarter, the impact of the restructuring actions we have taken over the past two years, the significant decline in current and projected demand for consumer furniture purchases and resulting uncertainty in the economic climate, we reassessed the likelihood that we will be able to realize the benefit of our deferred tax assets. Due to these economic conditions, we have concluded that a valuation allowance of \$38.2 million should be recorded against the deferred tax assets, or \$0.74 per share.

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In addition to analyzing our deferred tax assets as a result of the economic downturn, we also reviewed the valuation of goodwill in our Retail segment. While the economic downturn impacted our current operating results, we recently implemented operational improvements in this business that we believe will have a favorable impact on our long-term operating results. These improvements included management changes and a focus on aggressive cost-cutting measures. Our analysis of the fair value of the goodwill for the Retail operating units concluded that the fair values exceeded the carrying values of \$22.1 million 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.

**Table of Contents****Results of Operations****Analysis of Operations: Quarter Ended October 25, 2008****(Second Quarter 2009 compared with 2008)**

<i>(Amounts in thousands, except per share amounts and percentages)</i>	<b>Quarter Ended</b>		<b>Percent change</b>
	<b>10/25/08</b>	<b>10/27/07</b>	
Upholstery sales	\$247,934	\$269,749	(8.1)%
Casegoods sales	48,473	58,892	(17.7)%
Retail sales	39,484	46,163	(14.5)%
Other/eliminations*	(3,943)	(9,370)	57.9%
<b>Consolidated sales</b>	<b>\$331,948</b>	<b>\$365,434</b>	<b>(9.2)%</b>
Consolidated gross profit	\$ 87,031	\$ 98,258	(11.4)%
<b>Consolidated gross margin</b>	<b>26.2%</b>	<b>26.9%</b>	
Consolidated S,G&A	\$101,942	\$ 98,098	3.9%
<b>S,G&amp;A as a percent of sales</b>	<b>30.7%</b>	<b>26.8%</b>	
Upholstery operating income	\$ 8,118	\$ 19,036	(57.4)%
Casegoods operating income	755	3,577	(78.9)%
Retail operating loss	(10,391)	(9,119)	(13.9)%
Corporate and other	(11,157)	(12,816)	12.9%
Intangible write-down	(408)	(5,809)	93.0%
Restructuring	(2,923)	(967)	(202.3)%
<b>Consolidated operating loss</b>	<b>\$ (16,006)</b>	<b>\$ (6,098)</b>	<b>(162.5)%</b>
Upholstery operating margin	3.3%	7.1%	
Casegoods operating margin	1.6%	6.1%	
Retail operating margin	(26.3)%	(19.8)%	
<b>Consolidated operating margin</b>	<b>(4.8)%</b>	<b>(1.7)%</b>	
<b>Loss from continuing operations</b>	<b>\$ (53,744)</b>	<b>\$ (3,652)</b>	
<b>Loss from discontinued operations</b>	<b>\$</b>	<b>\$ (6,282)</b>	
<b>Diluted loss per share from continuing operations</b>	<b>\$ (1.04)</b>	<b>\$ (0.07)</b>	
<b>Diluted loss per share from discontinued operations</b>	<b>\$</b>	<b>\$ (0.12)</b>	

\* Includes sales from our VIEs.



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***Sales***

**Consolidated** sales were down 9.2% or \$33.5 million when compared with the second quarter of fiscal 2008 due in large part to a weak retail environment attributable to current economic factors, such as record low consumer confidence, an uncertain housing market and a deteriorating consumer credit environment.

**Upholstery Group** sales were down 8.1% or \$21.8 million compared with the second quarter of fiscal 2008. Sales price increases resulted in a 1.9% increase in sales; however this was offset by a decrease in sales volume due to an overall weak consumer demand, which we associate with the significant decline in consumer confidence and the uncertainty in the housing and mortgage markets.

**Casegoods Group** sales decreased 17.7% or \$10.4 million compared with the second quarter of fiscal 2008. The decrease in sales volume occurred across all of our Casegoods operating units and directly related to the overall weakness at retail. Additionally, with the Casegoods product typically priced higher than upholstered furniture, we believe the consumers are postponing or foregoing these purchases to a greater extent than they are upholstery.

**Retail Group** sales decreased 14.5% or \$6.7 million when compared with the second quarter of fiscal 2008. The decrease in sales was related to the significant decrease in new housing starts, sales of already existing homes and the subprime mortgage collapse, which has had an extremely negative effect on the home furnishings market and the overall weakness at retail for furniture.

Included in Other/eliminations are the sales by our VIEs and the elimination of sales from our Upholstery and Casegoods Groups to our Retail Group. The majority of the change in Other/eliminations was attributable to a \$4.2 million decrease in the sales between our Upholstery Group and Retail Group with the remaining decline being attributed to an increase in sales at our VIEs. The increase in sales at our VIEs is due to an increase of four stores when compared to the second quarter of fiscal 2008.

***Gross Margin***

Gross margin decreased 0.7 percentage points in the second quarter of fiscal 2009 in comparison to the second quarter of fiscal 2008. Gross margin was positively impacted by the following:

Selling price increases, net of discounts, mainly for our La-Z-Boy branded product, increased our gross margin by 1.4 percentage points.

The completion of our cellular conversion and the closure of the Tremonton plant increased the overall efficiency in our La-Z-Boy branded manufacturing, which increased our gross margin by 1.4 percentage points.

A 0.6 percentage point increase due to the national advertising campaign with La-Z-Boy Furniture Galleries® stores from which we receive a partial reimbursement that was not included in revenue in the second quarter of fiscal 2008.

These were offset by the following:

Restructuring charges increased 0.6 percentage points in the second quarter of fiscal 2009 as compared to the second quarter of fiscal 2008.

A 3.1 percentage point decrease due to steel, polyurethane foam, plywood, fabric and leather cost increases.

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Charges associated with the transition of our cutting and sewing operations to Ramos Arizpe, Mexico, in the state of Coahuila which we did not have in the second quarter of fiscal 2008 decreased our gross margin by 0.5 percentage points.

***Selling, General and Administrative Expenses***

Selling, general and administrative expenses (S,G&A) increased when compared to the prior year's second quarter and increased as a percent of sales by 3.9 percentage points. During the second quarter of fiscal 2009, the Florida, Michigan, Southern California and Nevada markets were impacted to a greater extent by the weak retail environment than other markets. As a result, our charges for bad debts increased by about \$3.3 million when compared with the second quarter of fiscal 2008. Advertising expenses increased \$2.1 million in the second quarter of fiscal 2009 as compared to the second quarter of fiscal 2008 due to the national advertising campaign which began in the fall of 2007. Due to the weak retail environment and the uncertainty in our sales volume for the second half of the year, we expect advertising expense to be lower for the second half of the year. The S,G&A increases discussed above were somewhat offset by the decline in variable selling expenses which resulted from the decline in sales.

***Restructuring***

Restructuring costs totaled \$2.9 million for the second quarter of fiscal 2009 as compared with \$1.0 million in restructuring expenses for the same period the prior year. The restructuring costs in fiscal 2009 related to the closure of our Tremonton, Utah facility, the restructuring of our La-Z-Boy U.K. facility and the ongoing costs for the closure of retail facilities. These costs were comprised mainly of severance and benefits, fixed asset and inventory impairments, transition costs for the Utah plant closure and the ongoing lease cost for our closed retail facilities. The restructuring costs in fiscal 2008 related to the closure of several of our manufacturing facilities, consolidation of retail warehouses and the closure of underperforming retail stores; however, this expense was partially offset by a gain on a sale of a property held for sale relating to a previous restructuring.

***Intangible Write-down***

In the first quarter of fiscal 2009, we committed to a plan to close the operations of our La-Z-Boy U.K. subsidiary due to a change in our strategic direction for this operation. As a result of this plan, we recorded a goodwill 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 the Toronto, Ontario retail 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 balance of this market. During the second quarter of fiscal 2008, we evaluated the goodwill at our South Florida retail market as a result of a decision to delay our planned store openings in this market. This delay was the result of a slow housing market causing double-digit declines in sales in the market over the previous twelve months. We recognized a \$5.8 million impairment charge for the full amount of the goodwill of this retail market in the second quarter of fiscal 2008.

***Operating Margin***

Our consolidated operating margin was (4.8)% for the second quarter of fiscal 2009 and included 0.9 percentage points of restructuring charges and 0.1 percentage points for the intangible write-down. Operating margin for the second quarter of fiscal 2008 was (1.7)% and included 1.6 percentage points for the impairment of goodwill, related to our South Florida retail market, and 0.3 percentage points for restructuring costs. With a slight decrease in our gross margin as a percent of sales and our inability to

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absorb our fixed S,G&A costs we have been unable to maintain our operating margin due to the continued decrease in sales volume.

The **Upholstery Group** operating margin decreased 3.8 percentage points to 3.3% when compared with the second quarter of fiscal 2008. The change in our manufacturing footprint from assembly to cellular as well as selling price increases positively impacted our operating margin. However, this increase was offset by an increase in bad debt expense, an increase in raw material costs and higher advertising costs in the second quarter of fiscal 2009 as compared to the second quarter of fiscal 2008. The increase in advertising was as a result of our national campaign which began in the fall of 2007 and had a minimal impact on the second quarter of fiscal 2008. This campaign is a shared advertising program with La-Z-Boy Furniture Galleries® stores from which we receive a partial reimbursement. The costs for the program are a component of S,G&A and the reimbursements are a component of net sales.

Our **Casegoods Group** operating margin decreased by 4.5 percentage points to 1.6% in the second quarter of fiscal 2009 versus the second quarter of fiscal 2008. With a 17.7% decrease in sales volume, we were unable to reduce our costs quickly enough to maintain our operating margin.

Our **Retail Group** operating margin decreased by 6.5 percentage points to (26.3)% during the second quarter of fiscal 2009 when compared with the second quarter of fiscal 2008. The reduction primarily resulted from the continued decline in sales and the fixed occupancy costs of our Retail operations, partially offset by selling price increases.

**Corporate and Other** operating loss decreased \$1.7 million during the second quarter of fiscal 2009 in comparison to the second quarter of fiscal 2008. Our VIEs losses for the second quarter of fiscal 2009 were \$0.3 million more than the same quarter the prior year and realized gains on property sales for the quarter were \$0.6 million as compared to an insignificant gain in the second quarter of fiscal 2008. Additionally, during the second quarter of fiscal 2008, we continued a retail test marketing program at the corporate level, which increased our expense by \$1.6 million; this program was completed at the end of fiscal 2008, and therefore did not impact the second quarter of fiscal 2009.

***Interest Expense***

Interest expense for the second quarter of fiscal 2009 was \$0.5 million less than the second quarter of fiscal 2008 due to a \$38.4 million decrease in our average debt and a 0.1 percentage point decrease in our weighted average interest rate.

***Income Taxes***

Our effective tax rate was 203.4 % in the second quarter of fiscal 2009 compared to 46.6% in second quarter of fiscal 2008. The change in our tax rate during fiscal 2009 was primarily attributable to the recording of a \$38.2 million valuation allowance against our deferred tax assets in the current quarter, which had the effect of significantly increasing our effective tax rate.

As a result of our losses sustained during the quarter, the impact of the restructuring actions we have taken over the past two years, the significant decline in current and projected demand for consumer furniture purchases and resulting uncertainty in the economic climate, we reassessed the likelihood that we will be able to realize the benefit of our deferred tax assets. Due to these economic conditions, we have concluded that a valuation allowance of \$38.2 million should be recorded against the deferred tax assets, or \$0.74 per share.

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***Discontinued Operations***

In the second quarter of fiscal 2009 we had no discontinued operations. During the second quarter of fiscal 2008, our discontinued operations recognized a loss of \$6.3 million after-tax. The sale of our Clayton Marcus operating unit and our Pennsylvania House trade name to Rowe Fine Furniture, Incorporated, resulted in a loss of about \$5.8 million or \$3.6 million after-tax. Of this loss, about \$3.4 million pre-tax related to the intangible assets of Clayton Marcus. The Pennsylvania House trade name was sold to Universal Furniture for \$1.7 million, resulting in a pre-tax charge of about \$0.6 million. We also recorded an additional loss of \$3.0 million to adjust the inventory to fair value due to the liquidation of the remaining inventory at discounted prices.

**Table of Contents****Results of Operations****Analysis of Operations: Six Months Ended October 25, 2008****(First Six Months of 2009 compared with 2008)**

<i>(Amounts in thousands, except per share amounts and percentages)</i>	<b>Six Months Ended</b>		<b>Percent change</b>
	<b>10/25/08</b>	<b>10/27/07</b>	
Upholstery sales	\$ 485,052	\$ 524,506	(7.5)%
Casegoods sales	96,594	112,466	(14.1)%
Retail sales	81,911	91,394	(10.4)%
Other/eliminations*	(9,957)	(18,536)	46.3%
<b>Consolidated sales</b>	<b>\$ 653,600</b>	<b>\$ 709,830</b>	<b>(7.9)%</b>
Consolidated gross profit	\$ 167,773	\$ 180,950	(7.3)%
<b>Consolidated gross margin</b>	<b>25.7%</b>	<b>25.5%</b>	
Consolidated S,G&A	\$ 193,781	\$ 192,606	0.6%
<b>S,G&amp;A as a percent of sales</b>	<b>29.6%</b>	<b>27.1%</b>	
Upholstery operating income	\$ 17,975	\$ 27,903	(35.6)%
Casegoods operating income	2,132	6,177	(65.5)%
Retail operating loss	(20,401)	(19,193)	(6.3)%
Corporate and other	(17,682)	(23,464)	24.6%
Intangible write-down	(1,700)	(5,809)	70.7%
Restructuring	(9,499)	(4,648)	(104.4)%
<b>Consolidated operating loss</b>	<b>\$ (29,175)</b>	<b>\$ (19,034)</b>	<b>(53.3)%</b>
Upholstery operating margin	3.7%	5.3%	
Casegoods operating margin	2.2%	5.5%	
Retail operating margin	(24.9)%	(21.0)%	
<b>Consolidated operating margin</b>	<b>(4.5)%</b>	<b>(2.7)%</b>	
<b>Loss from continuing operations</b>	<b>\$ (62,288)</b>	<b>\$ (12,194)</b>	
<b>Loss from discontinued operations</b>	<b>\$</b>	<b>\$ (6,434)</b>	
<b>Diluted loss per share from continuing operations</b>	<b>\$ (1.21)</b>	<b>\$ (0.24)</b>	
<b>Diluted loss per share from discontinued operations</b>	<b>\$</b>	<b>\$ (0.12)</b>	

\* Includes sales from our VIEs.

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***Sales***

**Consolidated** sales were down 7.9% or \$56.2 million when compared with the first six months of fiscal 2008 due in large part to a weak retail environment attributable to current economic factors, such as record low consumer confidence, an uncertain housing market, and a deteriorating consumer credit environment.

**Upholstery Group** sales were down 7.5% or \$39.5 million compared with the first six months of fiscal 2008. Sales price increases resulted in a 1.9% increase in sales; however this was offset by a decrease in sales volume due to an overall weak consumer demand, which we associate with the significant decline in consumer confidence and the uncertainty in the housing and mortgage markets. In addition, the decline in sales volume was partially offset by a change in contractual relationships with our third party carriers, which resulted in revenue recognition at shipping point. As reported in our Form 10-K for the fiscal year ended April 26, 2008, revenue for our largest upholstery operation had previously been recognized upon delivery.

**Casegoods Group** sales decreased 14.1% or \$15.9 million compared with the prior year first six months of fiscal 2008. The decrease in sales volume occurred across all of our Casegoods operating units and directly related to the overall weakness at retail, which we attribute to current economic conditions. Additionally, with the Casegoods product typically priced higher than upholstered furniture, we believe consumers are postponing or foregoing these purchases to a greater extent than they are upholstery products.

**Retail Group** sales decreased 10.4% or \$9.5 million when compared with the first half of fiscal 2008. The decrease in sales was related to the significant decrease in new housing starts and sales of already existing homes, low consumer confidence and the overall weakness at retail for furniture.

Included in Other/eliminations are the sales by our VIEs and the elimination of sales from our Upholstery and Casegoods Groups to our Retail Group. The majority of the change in Other/eliminations was attributable to a \$4.9 million decrease in sales from our Upholstery Group to our Retail Group during the first six months of fiscal 2009 in comparison to the first six months of fiscal 2008. Additionally, sales from VIEs increased \$1.9 million during the first half of 2009 when compared to 2008.

***Gross Margin***

Gross margin increased 0.2 percentage points in the first six months of fiscal 2009 when compared with the same period a year ago. Gross margin was positively impacted by the following:

The increased efficiencies gained from the completion of our cellular conversion and the closure of the Tremonton plant in our La-Z-Boy branded manufacturing which resulted in a 1.4 percentage point increase to our gross margin.

Selling price increases, net of discounts, mainly for our La-Z-Boy branded product, increased our gross margin by 1.2 percentage points.

A 0.6 percentage point increase due to the national advertising campaign with La-Z-Boy Furniture Galleries® stores from which we receive a partial reimbursement that was not included in revenue in the first half of fiscal 2008.

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These were offset by the following:

A 2.0 percentage point decrease due to steel, polyurethane foam, plywood, fabric and leather cost increases.

Charges associated with the transition of our cutting and sewing operations to Ramos Arizpe, Mexico, in the state of Coahuila which we did not have in the first half of fiscal 2008 decreased our gross margin by 0.3 percentage points.

Restructuring charges increased 0.8 percentage points in the first six months of fiscal 2009 as compared to the same period a year ago.

***Selling, General and Administrative Expenses***

Selling, general and administrative expenses (S,G&A) increased when compared to the prior year's first six months. During the first half of fiscal 2009, the Florida, Michigan, Southern California and Nevada markets were impacted to a greater extent by the weak retail environment than other markets. As a result, our charges for bad debts increased by about \$5.4 million when compared with the first six months of fiscal 2008. Additionally, we realized gains on property sales of \$2.7 million compared to an insignificant loss in the first half of fiscal 2008 which decreased S,G&A. However, advertising expenses increased \$3.8 million in the first six months of fiscal 2009 in comparison to the first six months of fiscal 2008 due to the national advertising campaign which began in the fall of 2007. Due to the weak retail environment and the uncertainty in our sales volume for the second half of the year, we expect advertising expense to be lower for the second half of the year.

***Restructuring***

Restructuring costs totaled \$9.5 million for the six months ended October 25, 2008 as compared with \$4.6 million in restructuring expenses in the six months ended October 27, 2007. The restructuring costs in fiscal 2009 related to the closure of our Tremonton, Utah facility, the restructuring of our La-Z-Boy U.K. facility and the ongoing costs for the closure of retail facilities. These costs were comprised mainly of severance and benefits, fixed asset and inventory impairments, transition costs for the Utah plant closure and the ongoing lease cost for our closed retail facilities. The restructuring costs in fiscal 2008 related to the closure of our Lincolnton, NC facility in addition to contract termination and ongoing lease costs for our closed retail facilities; however, this expense was partially offset by a gain on a sale of a property held for sale relating to a previous restructuring.

***Intangible Write-down***

In the first quarter of fiscal 2009, we committed to a plan to close the operations of our La-Z-Boy U.K. subsidiary due to a change in our strategic direction for this operation. As a result of this plan, we recorded a goodwill 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 the Toronto, Ontario retail 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 balance of this market. During the second quarter of fiscal 2008, we evaluated the goodwill at our South Florida retail market as a result of a decision to delay our planned store openings in this market. This delay was the result of a slow housing market causing double-digit declines in sales in the market over the previous twelve months. We recognized a \$5.8 million impairment charge for the full amount of the goodwill of this retail market in the second quarter of fiscal 2008.

**Table of Contents*****Operating Margin***

Our consolidated operating margin was (4.5)% or \$(29.2) million for the first half of fiscal 2009 and included 0.3 percentage points for the intangible write-down and 1.5 percentage points for restructuring charges. Operating margin for the second quarter of fiscal 2008 was (2.7)% or \$(19.0) million and included 0.8 percentage points for the intangible write-down and 0.7 percentage points for restructuring costs.

The **Upholstery Group** operating margin decreased 1.6 percentage points to 3.7% when compared with the first six months of fiscal 2008. With a \$39.5 million decrease in sales volume, \$4.9 million increase in bad debt expense and \$4.3 million increase in advertising costs of our national campaign as compared with the same period a year ago; we were unable to maintain our operating margin. Additionally, our upholstery margin was negatively impacted by 2.8 percentage points due to increased costs associated with steel, polyurethane foam, plywood, fabric and leather. However, the change in our manufacturing footprint from assembly to cellular as well as selling price increases positively impacted our operating margin. Additionally, the upholstery operating income benefited from the change in third party freight carrier contracts as noted previously in our sales discussion.

Our **Casegoods Group** operating margin decreased by 3.3 percentage points to 2.2% in the six months ended October 25, 2008 when compared to the six months ended October 27, 2007. With a 14.1% decrease in sales volume, we were unable to reduce our costs enough to maintain our operating margin.

Our **Retail Group** operating margin decreased by 3.9 percentage points to (24.9)% during the first half of fiscal 2009 in comparison to the same period the prior year. The reduction primarily resulted from the continued decline in sales and the fixed occupancy costs of our Retail operations, partially offset by selling price increases.

**Corporate and Other** operating loss decreased \$5.8 million to \$(17.7) million during the first six months of fiscal 2009 when compared with the first six months of fiscal 2008. Our VIEs losses for the first half of fiscal 2009 were \$0.1 million less than the same period the prior year and realized gains on property sales for the first six months were \$2.7 million as compared to an insignificant loss in the first six months of fiscal 2008. Additionally, during the first six months of fiscal 2008, we continued a retail test market program which increased our fiscal 2008 expenses by \$2.5 million. This program was not repeated in fiscal 2009.

***Interest Expense***

Interest expense for the first half of fiscal 2009 was \$1.1 million less than the first half of fiscal 2008 due to a \$40.0 million decrease in our average debt and a 0.3 percentage point decrease in our weighted average interest rate.

***Income Taxes***

Our effective tax rate was 99.0% in the first six months of fiscal 2009 compared to 40.3% in first six months of fiscal 2008. The change in our tax rate during fiscal 2009 was primarily attributable to the recording of a \$38.2 million valuation allowance against our deferred tax assets, which had the effect of significantly increasing our effective tax rate.

As a result of our losses sustained during the quarter, the impact of the restructuring actions we have taken over the past two years, the significant decline in current and projected demand for consumer



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furniture purchases and resulting uncertainty in the economic climate, we reassessed the likelihood that we will be able to realize the benefit of our deferred tax assets. Due to these economic conditions, we have concluded that a valuation allowance of \$38.2 million should be recorded against the deferred tax assets, or \$0.74 per share.

***Discontinued Operations***

In the first half of fiscal 2009 we had no discontinued operations. During the first half of fiscal 2008, our discontinued operations recognized a loss of \$6.3 million after-tax. During the second quarter of fiscal 2008, we completed the sale of our Clayton Marcus operating unit and we completed the sale of our Pennsylvania House trade name. The stock of Clayton Marcus was sold to Rowe Fine Furniture, Incorporated, resulting in a loss of about \$5.8 million or \$3.6 million after-tax. Of this loss, about \$3.4 million pre-tax related to the intangible assets of Clayton Marcus. The Pennsylvania House trade name was sold to Universal Furniture for \$1.7 million, resulting in a pre-tax charge of about \$0.6 million. We also recorded an additional loss of \$3.0 million to adjust the inventory to fair value due to the liquidation of the remaining inventory at discounted prices.

**Liquidity and Capital Resources**

Our total assets at the end of the second quarter of fiscal 2009 decreased \$65.9 million compared with the end of fiscal 2008. The majority of this decline was attributed to an increase in our deferred tax valuation allowance, decreases in inventory associated with our sales volume and the decline in investments due to the instability in the financial markets.

Our sources of cash liquidity include cash and equivalents, cash from operations and amounts available under our credit facility. These sources have been adequate for day-to-day operations, dividends to shareholders and capital expenditures. Further deterioration of market conditions resulting in a sustained adverse impact on the global retail sector could reduce our sales further and harm our results of operations, cash flows and financial position including, but not limited to, significant operating losses, potential asset impairments and reduced availability under asset-backed credit arrangements. Additionally, in light of the uncertainty of the business environment, the company made the decision to reduce its quarterly dividend to shareholders from \$0.04 per share to \$0.02 per share.

Under our credit agreement we have certain covenants and restrictions, including a fixed charge coverage ratio which would become effective if excess availability fell below \$30.0 million. As of October 25, 2008 we had \$82.0 million outstanding and \$58.3 million of excess availability under the credit agreement. Our borrowing capacity is based on eligible trade accounts receivables and inventory of the company. Since our accounts receivable increased about \$17 million for the quarter, the capacity to borrow on the line increased proportionally with the increase in our borrowings on our line of credit.

Our plan to manage liquidity in the remainder of fiscal 2009 includes: aggressively reducing our operating expenses based on our announcement earlier this month, reducing capital expenditures to be below planned levels including new store openings, reducing inventory levels to current sales trends, suspending our quarterly cash dividend, potentially liquidating non-essential investments that are supporting some benefit plans and focus on selling to credit-worthy customers. Historically, cash flows from operating activities are strongest in the third quarter.

It is anticipated that the obligations of Wachovia Bank and National City Bank, as participating lenders under our credit facility, will be assumed by Wells Fargo Bank and PNC Financial Services, respectively, upon completion of the proposed transactions to combine these entities.

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Capital expenditures for the first half of fiscal 2009 were \$10.0 million compared with \$15.6 million in the prior year of which \$5.2 million related to an option to purchase property that was exercised, which we subsequently sold and leased back. There are no material purchase commitments for capital expenditures, which are expected to be in the range of \$18 to \$20 million in fiscal 2009. We expect restructuring costs from our plan to consolidate the cutting and sewing operations in Mexico and the recently announced corporate initiatives to impact cash by \$3.0 million during the remainder of fiscal 2009, \$7.1 million during fiscal 2010 and \$0.6 million during fiscal 2011.

The following table illustrates the main components of our cash flows:

<b>Cash Flows Provided By (Used For)</b> <i>(Unaudited, amounts in thousands)</i>	<b>Six Months Ended</b>	
	<b>10/25/08</b>	<b>10/27/07</b>
<b>Operating activities</b>		
Net loss, depreciation, stock expense and deferred taxes	\$ (5,652)	\$ (10,599)
Restructuring	9,499	4,648
Working capital and other	(13,816)	951
<b>Cash used for operating activities</b>	<b>(9,969)</b>	<b>(5,000)</b>
<b>Investing activities</b>	<b>87</b>	<b>(2,590)</b>
<b>Financing activities</b>		
Net increase in debt	14,179	(421)
Other financing activities	(4,151)	(12,557)
<b>Cash provided by (used for) financing activities</b>	<b>10,028</b>	<b>(12,978)</b>
Exchange rate changes	(643)	1,539
Net decrease in cash and equivalents	\$ (497)	\$ (19,029)

**Operating Activities**

During the first half of fiscal 2009 and 2008, net cash used for operating activities was \$10.0 million and \$5.0 million, respectively. Discontinued operations had no impact on the cash provided by operating activities in the first half of fiscal 2009 and minimal impact in the first half of fiscal 2008.

**Investing Activities**

During the first six months of fiscal 2009, net cash provided by investing activities was \$0.1 million, whereas \$2.6 million was used for investing activities during the same period the prior year. In the first half of fiscal 2009, \$7.8 million in proceeds were received from the sale of several properties, offset by \$10.0 million of capital expenditures. During the first half of fiscal 2008, \$6.4 million in proceeds was generated by a sale-leaseback transaction we entered into with a third party. We exercised an option to purchase a property, sold it to a third party and then subsequently leased it back. Capital expenditures in the first six months of fiscal 2008 were \$15.6 million.

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***Financing Activities***

Our financing activities included borrowings and payments on our debt facilities and dividend payments. We generated \$10.0 million of cash in financing activities during the first six months of fiscal 2009. Of the increase in cash generated by financing activities, \$8.3 million related to a decrease in dividends paid as a result of the company's decision to reduce the dividend rate from \$0.12 to \$0.04 in the fourth quarter of fiscal 2008. During the first six months of fiscal 2008 \$13.0 million of cash was used in financing activities in order to fund working capital requirements.

In the first quarter of fiscal 2008, we adopted FIN 48 and as a consequence, the balance sheet at the end of the second quarter of fiscal 2009 reflected a \$3.4 million liability for uncertain income tax positions. Of this amount only \$0.9 million will be settled within the next 12 months. The remaining balance, to the extent it is ever paid, will be paid as tax audits are completed or settled. There were no material changes to our contractual obligations table during the quarter.

Our debt-to-capitalization ratio was 23.5% at October 25, 2008 and 18.8% at April 26, 2008. The debt-to-capitalization ratio increased from the last quarter as a result of the change in shareholders' equity, driven primarily by the deferred tax valuation allowance.

Our Board of Directors has authorized the repurchase of company stock. As of October 25, 2008, 5.4 million additional shares could be purchased pursuant to this authorization. We did not purchase any shares during the first half of fiscal 2009.

We have guaranteed various leases of dealers with proprietary stores. The total amount of these guarantees is \$11.4 million. Of this, \$2.3 million will expire within one year, \$3.5 million in one to three years, \$2.0 million in four to five years, and \$3.6 million thereafter. In recent years, we have increased our imports of casegoods product and leather and fabric for upholstery product. At the end of the second quarter of fiscal 2009, we had \$53.8 million in open purchase orders with foreign casegoods, leather and fabric sources. Some of these open purchase orders are cancelable. We are not required to make any contributions to our defined benefit plans; however, we may make contributions.

Continuing compliance with existing federal, state and local statutes dealing with protection of the environment is not expected to have a material effect upon our capital expenditures, earnings, competitive position or liquidity.

**Critical Accounting Policies**

Our critical accounting policies are disclosed in our Form 10-K for the year ended April 26, 2008.

**Regulatory Developments**

The Continued Dumping and Subsidy Offset Act of 2000 ( CDSOA ) provides for distribution of monies collected by U.S. Customs and Border Protection ( CBP ) from anti-dumping cases to domestic producers that supported the anti-dumping petition. The Dispute Settlement Body of the World Trade Organization ( WTO ) ruled that such payments violate the United States' WTO obligations. In response to that ruling, on February 8, 2006, the President signed legislation passed by Congress that repeals CDSOA distributions to eligible domestic producers for duties collected on imports entered into the United States after September 30, 2007.

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We received \$7.1 million in payments and funds related to the antidumping order on wooden bedroom furniture from China during fiscal 2008. In view of the uncertainties associated with this program, we are unable to predict the amounts, if any, we may receive in the future under CDSOA. However, assuming CDSOA distributions continue, these distributions could be material depending on the results of legal appeals and administrative reviews and our actual percentage allocation.

**Recent Accounting Pronouncements**

Refer to Note 18 for updates on recent accounting pronouncements since the filing of our Form 10-K for the year ended April 26, 2008.

**Business Outlook**

The instability that continues to define the overall macroeconomic environment points to the likelihood of a protracted recession. We are particularly concerned with the inconsistency and lack of visibility of our incoming order rates coupled with the consumer confidence index falling to its lowest level on record. With that as a backdrop, the company deemed it prudent to suspend yearly guidance at this time. We will continue to run our business to improve profitability in this uncertain economic environment.

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to market risk from changes in interest rates. Our exposure to interest rate risk results from our variable rate debt under which we had \$88.5 million of borrowings at October 25, 2008. In May 2008, we entered into an interest rate swap agreement to mitigate the impact of changes in interest rates on a portion of our floating rate debt. Management estimates that a one percentage point change in interest rates would not have a material impact on our results of operations for fiscal 2009 based upon the current levels of exposed liabilities.

We are exposed to market risk from changes in the value of foreign currencies. Substantially all of our imports purchased outside of North America are denominated in U.S. dollars. Therefore, we believe that gains or losses resulting from changes in the value of foreign currencies will not be material to our results from operations in fiscal year 2009.

**ITEM 4. CONTROLS AND PROCEDURES**

We maintain a system of disclosure controls and procedures that are designed to provide reasonable assurance that information that is required to be timely disclosed is accumulated and communicated to management in a timely fashion. An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended) was performed as of the end of the period covered by this report. This evaluation was performed under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information we are required to disclose in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms.

There was no change in the Company's internal controls over financial reporting that occurred during the quarter covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II OTHER INFORMATION****ITEM 1A. RISK FACTORS**

There have been no material changes to our risk factors during the first six months of fiscal 2009. Our risk factors are disclosed in our Form 10-K for the year ended April 26, 2008.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

The Annual Meeting of Shareholders of La-Z-Boy Incorporated was held on August 20, 2008. The shareholders voted to re-elect four directors for three-year terms expiring in 2011, approve an amendment to the La-Z-Boy Incorporated articles of incorporation eliminating the high vote requirement for certain mergers and other transactions, ratify the selection of the independent registered public accounting firm for fiscal year 2009, reject an amendment to the articles of incorporation reducing the vote required for shareholders to amend the bylaws from 67% to a majority, and reject an amendment to the bylaws to reorganize the Board of Directors into one class, with each director serving a term of one year.

	<b>Shares Voted In Favor</b>	<b>Percent Shares In Favor</b>	<b>Shares Withheld</b>
<b>Proposal Election of Directors for terms expiring in 2011:</b>			
Kurt L. Darrow	42,110,679	94.9%	2,257,492
James W. Johnston	41,244,880	93.0%	3,123,291
H. George Levy, M.D.	40,488,769	91.3%	3,879,402
W. Alan McCollough	42,037,784	94.8%	2,330,387

**Directors whose term in office continued after the annual meeting:**

John H. Foss  
Richard M. Gabrys  
David K. Hehl  
Rocque E. Lipford  
Jack L. Thompson  
Nido R. Quebin

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<b>Proposal</b>	<b>Shares Voted In Favor</b>	<b>Shares Voted Against</b>	<b>Shares Abstained</b>	<b>Broker Non- Votes</b>
Ratify the selection of the independent registered public accounting firm for FYE 2009 (1)	42,531,138	228,332	1,608,701	
Amend the La-Z-Boy Incorporated articles of incorporation and bylaws reducing the vote required for shareholders to amend the bylaws from 67% to a majority (2)	33,152,379	5,327,876	1,663,398	4,224,518
Amend the La-Z-Boy Incorporated articles of incorporation eliminating the high vote requirement for certain mergers and other transactions (3)	36,697,230	1,748,692	1,697,731	4,224,518
Amend the La-Z-Boy Incorporated bylaws to reorganize the Board of Directors into one class, with each director serving a term of one year (2)	23,106,932	15,286,919	1,749,802	4,224,518

(1) Approval required affirmative votes of majority of shares voted on proposal.

(2) Approval required affirmative votes of at least 34,484,278 shares (67% of shares outstanding).

(3) Approval required affirmative votes of at least 25,734,536 shares (majority of shares outstanding).

**ITEM 6. EXHIBITS****Exhibit**

<b>Number</b>	<b>Description</b>
(3.1)	La-Z-Boy Incorporated Restated Articles of Incorporation (Incorporated by reference to an exhibit to Form 10-Q for the quarter ended October 26, 1996)
(3.2)	Amendment to Restated Articles of Incorporation effective August 21, 1998 (Incorporated by reference to an exhibit to Form 10-K/A filed September 27, 1999)
(3.3)	Amendment to Restated Articles of Incorporation effective August 22, 2008
(10.1)*	La-Z-Boy Incorporated Deferred Stock Unit Plan for Non-employee Directors
(10.2)*	Form of Change in Control Agreement (Incorporated by reference to an exhibit to Form 8-K dated February 6, 1995). In effect for: Mark S. Bacon, Sr., Kurt L. Darrow, Steven M. Kincaid, Louis M. Riccio, Jr., and Otis Sawyer
(31.1)	Certifications of Chief Executive Officer pursuant to Rule 13a-14(a)
(31.2)	Certifications of Chief Financial Officer pursuant to Rule 13a-14(a)
(32)	Certifications of Executive Officers pursuant to 18 U.S.C. Section 1350(b)
(99.1)	Press Release dated November 18, 2008

\* Indicates a management contract or compensatory plan or arrangement under which a director or executive officer may receive benefits.



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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**LA-Z-BOY INCORPORATED**

(Registrant)

Date: November 18, 2008

BY: /s/ Margaret L. Mueller  
Margaret L. Mueller  
Corporate Controller  
On behalf of the registrant and as  
Chief Accounting Officer  
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