

LA-Z-BOY INC  
Form 10-Q  
February 17, 2016  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549-1004

**FORM 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**FOR QUARTERLY PERIOD ENDED JANUARY 23, 2016**

**COMMISSION FILE NUMBER 1-9656**

**LA-Z-BOY INCORPORATED**

(Exact name of registrant as specified in its charter)

**MICHIGAN**

(State or other jurisdiction of incorporation or organization)

**38-0751137**

(I.R.S. Employer Identification No.)

Edgar Filing: LA-Z-BOY INC - Form 10-Q

One La-Z-Boy Drive, Monroe, Michigan  
(Address of principal executive offices)

48162-5138  
(Zip Code)

Registrant's telephone number, including area code (734) 242-1444

None

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

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 the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

Yes  No

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

Class	Outstanding at February 10, 2016
Common Shares, \$1.00 par value	49,892,109



Table of Contents

**LA-Z-BOY INCORPORATED**  
**FORM 10-Q THIRD QUARTER OF FISCAL 2016**

TABLE OF CONTENTS

	<b>Page Number(s)</b>
<b><u>PART I Financial Information (Unaudited)</u></b>	<b>3</b>
<b><u>Item 1.</u></b> <b><u>Financial Statements</u></b>	<b>3</b>
<u>Consolidated Statement of Income</u>	3
<u>Consolidated Statement of Comprehensive Income</u>	5
<u>Consolidated Balance Sheet</u>	6
<u>Consolidated Statement of Cash Flows</u>	7
<u>Consolidated Statement of Changes in Equity</u>	8
<u>Notes to Consolidated Financial Statements</u>	9
<u>Note 1. Basis of Presentation</u>	9
<u>Note 2. Acquisitions</u>	9
<u>Note 3. Restructuring</u>	10
<u>Note 4. Discontinued Operations</u>	11
<u>Note 5. Inventories</u>	11
<u>Note 6. Investments</u>	12
<u>Note 7. Pension Plans</u>	13
<u>Note 8. Product Warranties</u>	13
<u>Note 9. Stock-Based Compensation</u>	14
<u>Note 10. Accumulated Other Comprehensive Loss</u>	16
<u>Note 11. Segment Information</u>	18
<u>Note 12. Income Taxes</u>	19
<u>Note 13. Earnings per Share</u>	20
<u>Note 14. Fair Value Measurements</u>	21
<u>Note 15. Recent Accounting Pronouncements</u>	22
<b><u>Item 2.</u></b> <b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	<b>22</b>
<u>Cautionary Statement Concerning Forward-Looking Statements</u>	23
<u>Introduction</u>	24
<u>Results of Operations</u>	26
<u>Liquidity and Capital Resources</u>	31
<u>Critical Accounting Policies</u>	34
<u>Recent Accounting Pronouncements</u>	34
<u>Business Outlook</u>	35
<b><u>Item 3.</u></b> <b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b>	<b>35</b>
<b><u>Item 4.</u></b> <b><u>Controls and Procedures</u></b>	<b>35</b>
<b><u>PART II Other Information</u></b>	<b>35</b>
<b><u>Item 1A.</u></b> <b><u>Risk Factors</u></b>	<b>35</b>
<b><u>Item 2.</u></b> <b><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	<b>36</b>
<b><u>Item 6.</u></b> <b><u>Exhibits</u></b>	<b>37</b>
<b><u>Signature Page</u></b>	<b>38</b>



Table of Contents**PART I FINANCIAL INFORMATION (UNAUDITED)****ITEM 1. FINANCIAL STATEMENTS**

**LA-Z-BOY INCORPORATED**  
**CONSOLIDATED STATEMENT OF INCOME**

(Unaudited, amounts in thousands, except per share data)	Quarter Ended	
	1/23/16	1/24/15
Sales	\$ 384,014	\$ 357,876
Cost of sales	236,024	228,317
Gross profit	147,990	129,559
Selling, general and administrative expense	113,206	102,631
Operating income	34,784	26,928
Interest expense	120	131
Interest income	204	232
Income from Continued Dumping and Subsidy Offset Act, net	102	
Other income (expense), net	(93)	805
Income from continuing operations before income taxes	34,877	27,834
Income tax expense	12,643	9,477
Income from continuing operations	22,234	18,357
Income from discontinued operations, net of tax		115
Net income	22,234	18,472
Net income attributable to noncontrolling interests	(328)	(524)
Net income attributable to La-Z-Boy Incorporated	\$ 21,906	\$ 17,948
Net income attributable to La-Z-Boy Incorporated:		
Income from continuing operations attributable to La-Z-Boy Incorporated	\$ 21,906	\$ 17,833
Income from discontinued operations		115
Net income attributable to La-Z-Boy Incorporated	\$ 21,906	\$ 17,948
Basic weighted average common shares	50,038	51,576
Basic net income attributable to La-Z-Boy Incorporated per share:		
Income from continuing operations attributable to La-Z-Boy Incorporated	\$ 0.44	\$ 0.35
Income from discontinued operations		
Basic net income attributable to La-Z-Boy Incorporated per share	\$ 0.44	\$ 0.35
Diluted weighted average common shares	50,539	52,139
Diluted net income attributable to La-Z-Boy Incorporated per share:		
Income from continuing operations attributable to La-Z-Boy Incorporated	\$ 0.43	\$ 0.34
Income from discontinued operations		
Diluted net income attributable to La-Z-Boy Incorporated per share	\$ 0.43	\$ 0.34
Dividends declared per share	\$ 0.10	\$ 0.08

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



Table of Contents

**LA-Z-BOY INCORPORATED**  
**CONSOLIDATED STATEMENT OF INCOME**

(Unaudited, amounts in thousands, except per share data)	Nine Months Ended	
	1/23/16	1/24/15
Sales	\$ 1,108,328	\$ 1,050,457
Cost of sales	690,300	679,497
Gross profit	418,028	370,960
Selling, general and administrative expense	329,884	297,349
Operating income	88,144	73,611
Interest expense	365	408
Interest income	573	667
Income from Continued Dumping and Subsidy Offset Act, net	102	
Other income, net	2,387	699
Income from continuing operations before income taxes	90,841	74,569
Income tax expense	32,825	25,975
Income from continuing operations	58,016	48,594
Income from discontinued operations, net of tax		2,897
Net income	58,016	51,491
Net income attributable to noncontrolling interests	(1,482)	(933)
Net income attributable to La-Z-Boy Incorporated	\$ 56,534	\$ 50,558
Net income attributable to La-Z-Boy Incorporated:		
Income from continuing operations attributable to La-Z-Boy Incorporated	\$ 56,534	\$ 47,661
Income from discontinued operations		2,897
Net income attributable to La-Z-Boy Incorporated	\$ 56,534	\$ 50,558
Basic weighted average common shares	50,371	52,015
Basic net income attributable to La-Z-Boy Incorporated per share:		
Income from continuing operations attributable to La-Z-Boy Incorporated	\$ 1.12	\$ 0.91
Income from discontinued operations		0.06
Basic net income attributable to La-Z-Boy Incorporated per share	\$ 1.12	\$ 0.97
Diluted weighted average common shares	50,880	52,540
Diluted net income attributable to La-Z-Boy Incorporated per share:		
Income from continuing operations attributable to La-Z-Boy Incorporated	\$ 1.11	\$ 0.90
Income from discontinued operations		0.06
Diluted net income attributable to La-Z-Boy Incorporated per share	\$ 1.11	\$ 0.96
Dividends declared per share	\$ 0.26	\$ 0.20

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



Table of Contents**LA-Z-BOY INCORPORATED****CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

<b>(Unaudited, amounts in thousands)</b>	<b>Quarter Ended</b>	
	<b>1/23/16</b>	<b>1/24/15</b>
Net income	\$ 22,234	\$ 18,472
Other comprehensive income (loss)		
Currency translation adjustment	27	(761)
Change in fair value of cash flow hedges, net of tax	(653)	(291)
Net unrealized gain (loss) on marketable securities, net of tax	(729)	55
Net pension amortization, net of tax	488	434
Total other comprehensive income (loss)	(867)	(563)
Total comprehensive income before allocation to noncontrolling interests	21,367	17,909
Comprehensive income attributable to noncontrolling interests	(196)	(474)
Comprehensive income attributable to La-Z-Boy Incorporated	\$ 21,171	\$ 17,435

<b>(Unaudited, amounts in thousands)</b>	<b>Nine Months Ended</b>	
	<b>1/23/16</b>	<b>1/24/15</b>
Net income	\$ 58,016	\$ 51,491
Other comprehensive income (loss)		
Currency translation adjustment	(3,251)	(715)
Change in fair value of cash flow hedges, net of tax	(618)	(491)
Net unrealized gain (loss) on marketable securities, net of tax	(1,042)	154
Net pension amortization, net of tax	1,464	1,303
Total other comprehensive income (loss)	(3,447)	251
Total comprehensive income before allocation to noncontrolling interests	54,569	51,742
Comprehensive income attributable to noncontrolling interests	(560)	(861)
Comprehensive income attributable to La-Z-Boy Incorporated	\$ 54,009	\$ 50,881

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

Table of Contents

**LA-Z-BOY INCORPORATED**  
**CONSOLIDATED BALANCE SHEET**

(Unaudited, amounts in thousands)	1/23/16	4/25/15
<b>Current assets</b>		
Cash and equivalents	\$ 97,698	\$ 98,302
Restricted cash	8,976	9,636
Receivables, net of allowance of \$3,118 at 1/23/16 and \$4,622 at 4/25/15	142,802	158,548
Inventories, net	183,245	156,789
Deferred income taxes - current	9,853	11,255
Other current assets	38,377	41,921
Total current assets	480,951	476,451
Property, plant and equipment, net	173,103	174,036
Goodwill	33,423	15,164
Other intangible assets	7,958	5,458
Deferred income taxes - long-term	31,594	35,072
Other long-term assets, net	60,173	68,423
Total assets	\$ 787,202	\$ 774,604
<b>Current liabilities</b>		
Current portion of long-term debt	\$ 300	\$ 397
Accounts payable	46,017	46,168
Accrued expenses and other current liabilities	108,683	108,326
Total current liabilities	155,000	154,891
Long-term debt	555	433
Other long-term liabilities	80,442	86,180
Contingencies and commitments		
<b>Shareholders' equity</b>		
Preferred shares - 5,000 authorized; none issued		
Common shares, \$1 par value - 150,000 authorized; 49,891 outstanding at 1/23/16 and 50,747 outstanding at 4/25/15	49,891	50,747
Capital in excess of par value	277,428	270,032
Retained earnings	249,036	235,506
Accumulated other comprehensive loss	(34,664)	(32,139)
Total La-Z-Boy Incorporated shareholders' equity	541,691	524,146
Noncontrolling interests	9,514	8,954
Total equity	551,205	533,100
Total liabilities and equity	\$ 787,202	\$ 774,604

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

Table of Contents**LA-Z-BOY INCORPORATED****CONSOLIDATED STATEMENT OF CASH FLOWS**

(Unaudited, amounts in thousands)	Nine Months Ended	
	1/23/16	1/24/15
Cash flows from operating activities		
Net income	\$ 58,016	\$ 51,491
Adjustments to reconcile net income to cash provided by (used for) operating activities		
Restructuring	430	(1,106)
Deferred income tax expense (benefit)	5,000	(3,987)
Provision for doubtful accounts	(675)	(2,060)
Depreciation and amortization	19,308	16,297
Equity-based compensation expense	6,868	6,094
Pension plan contributions	(7,000)	
Change in receivables	15,284	7,011
Change in inventories	(23,121)	(11,913)
Change in other assets	1,991	5,794
Change in payables	349	(7,659)
Change in other liabilities	(6,736)	(4,898)
Net cash provided by operating activities	69,714	55,064
Cash flows from investing activities		
Proceeds from disposal of assets	2,506	8,940
Capital expenditures	(19,825)	(56,512)
Purchases of investments	(15,816)	(30,544)
Proceeds from sales of investments	23,896	23,987
Acquisitions, net of cash acquired	(19,232)	(1,774)
Change in restricted cash	660	2,935
Net cash used for investing activities	(27,811)	(52,968)
Cash flows from financing activities		
Payments on debt	(415)	(7,413)
Payments for debt issuance costs		(164)
Stock issued for stock and employee benefit plans	253	496
Excess tax benefit on stock option exercises	774	234
Purchases of common stock	(29,096)	(35,752)
Dividends paid	(13,137)	(10,416)
Net cash used for financing activities	(41,621)	(53,015)
Effect of exchange rate changes on cash and equivalents	(886)	(332)
Change in cash and equivalents	(604)	(51,251)
Cash and equivalents at beginning of period	98,302	149,661
Cash and equivalents at end of period	\$ 97,698	\$ 98,410
Supplemental disclosure of non-cash investing activities		
Capital expenditures included in payables	\$	\$ 6,275

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



Table of Contents**LA-Z-BOY INCORPORATED****CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

(Unaudited, amounts in thousands)	Common Shares	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Non- Controlling Interests	Total
At April 26, 2014	\$ 51,981	\$ 262,901	\$ 238,384	\$ (31,380)	\$ 7,832	\$ 529,718
Net income			70,773		1,198	71,971
Other comprehensive loss				(759)	(76)	(835)
Stock issued for stock and employee benefit plans, net of cancellations and withholding tax	898	26	(10,684)			(9,760)
Purchases of common stock	(2,132)	(1,267)	(48,454)			(51,853)
Stock option and restricted stock expense		6,780				6,780
Tax benefit from exercise of options		1,592				1,592
Dividends paid			(14,513)			(14,513)
At April 25, 2015	50,747	270,032	235,506	(32,139)	8,954	533,100
Net income			56,534		1,482	58,016
Other comprehensive loss				(2,525)	(922)	(3,447)
Stock issued for stock and employee benefit plans, net of cancellations and withholding tax	222	(49)	(2,046)			(1,873)
Purchases of common stock	(1,078)	(197)	(27,821)			(29,096)
Stock option and restricted stock expense		6,868				6,868
Tax benefit from exercise of options		774				774
Dividends paid			(13,137)			(13,137)
At January 23, 2016	\$ 49,891	\$ 277,428	\$ 249,036	\$ (34,664)	\$ 9,514	\$ 551,205

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

Table of Contents

**LA-Z-BOY INCORPORATED**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**Note 1: Basis of Presentation**

The accompanying consolidated financial statements include the consolidated accounts of La-Z-Boy Incorporated and our majority-owned subsidiaries. We derived the April 25, 2015, balance sheet from our audited financial statements. We prepared the interim financial information in conformity with generally accepted accounting principles, which we applied on a basis consistent with those reflected in our fiscal 2015 Annual Report on Form 10-K filed with the Securities and Exchange Commission, but the information does not include all of the disclosures required by generally accepted accounting principles. In management's opinion, the interim financial information includes all adjustments and accruals, consisting only of normal recurring adjustments (except as otherwise disclosed), that are necessary for a fair statement of results for the respective interim periods. The interim results reflected in the accompanying financial statements are not necessarily indicative of the results of operations which will occur for the full fiscal year ending April 30, 2016. Fiscal 2016 is a 53-week year as compared with fiscal 2015, which was 52 weeks, with the additional week occurring in the fourth quarter of fiscal 2016.

During the third quarter and first nine months of fiscal 2016 and fiscal 2015, we recorded a benefit related to legal settlements as part of cost of sales. Due to the legal settlements, gross margin improved 0.3 percentage point during the nine months ended January 23, 2016, and improved 1.5 percentage points and 0.5 percentage point in the third quarter and first nine months of fiscal 2015, respectively. Gross margin for the third quarter of fiscal 2016 was not impacted by legal settlements.

**Note 2: Acquisitions**

In the second quarter of fiscal 2016, we acquired the assets of three independent operators of ten La-Z-Boy Furniture Galleries® stores in Wisconsin, North and South Carolina, and Ohio for \$21.6 million, composed of \$19.2 million of cash and \$2.4 million of prepaid expenses and forgiveness of these dealers' accounts receivable. We began including the ten stores in our Retail segment results upon acquisition.

Prior to the acquisitions, we licensed the exclusive right to own and operate La-Z-Boy Furniture Galleries® stores (and to use the associated trademarks and trade name) in those markets to the dealers whose assets we acquired, and we reacquired these rights when we purchased the dealers' other assets. The effective settlement of these arrangements resulted in no settlement gain or loss as the contractual terms were at market. We recorded an indefinite-lived intangible asset of \$2.5 million related to these reacquired rights. We also recognized \$18.3 million of goodwill, which primarily relates to the expected synergies resulting from the integration of the acquired stores and the anticipated future benefits. We recorded the goodwill and other intangible assets in our Retail segment and will amortize and deduct them for federal income tax purposes over 15 years.



Table of Contents

We based the purchase price allocations on fair values at the dates of acquisition and summarize them in the following table:

(Unaudited, amounts in thousands)	10/24/15	
Current assets	\$	3,302
Goodwill and other intangible assets		20,758
Net property, plant, and equipment		162
Total assets acquired		24,222
Current liabilities		(2,600)
Net assets acquired	\$	21,622

Since the impact of these acquisitions on our results of operations was not material pro forma financial information is not required.

**Note 3: Restructuring**

During fiscal 2014, we committed to a restructuring of our casegoods business to transition to an all-import model for our wood furniture. We ceased casegoods manufacturing operations at our Hudson, North Carolina facility during the second quarter of fiscal 2015. As a result of this restructuring, we transitioned our remaining Kincaid and American Drew bedroom product lines to imported product. We exited the hospitality business as we had manufactured those products in our Hudson facility. We transitioned our warehouse and repair functions from two North Wilkesboro, North Carolina facilities to our Hudson plant. In addition, during fiscal 2015, we sold both of the North Wilkesboro facilities and most of the wood-working equipment from our Hudson plant and completed the consolidation of our casegoods showroom.

We have recorded pre-tax restructuring charges of \$8.1 million (\$5.2 million after tax) since the inception of this restructuring plan, with \$4.9 million pre-tax (\$3.1 million after tax) related to continuing operations and \$3.2 million pre-tax (\$2.1 million after tax) related to discontinued operations. These charges relate to severance and benefit-related costs, rent for an idled showroom and various asset write-downs, including fixed assets, inventory and trade names.

During the quarter and nine months ended January 23, 2016, we recorded pre-tax restructuring expense of \$0.1 million (less than \$0.1 million after tax) and \$0.4 million (\$0.3 million after tax), respectively. During the quarter and nine months ended January 24, 2015, we recorded pre-tax restructuring income of \$0.8 million and \$1.1 million, respectively (\$0.5 million and \$0.7 million after tax, respectively). The pre-tax restructuring expense we recorded in fiscal 2016 resulted primarily from rent for an idled showroom, depreciation, and severance and benefit-related costs, while the pre-tax restructuring income we recorded in fiscal 2015 mainly related to gains realized on the sale of the North Wilkesboro warehouse in the third quarter, as well as inventory recoveries. This income was slightly offset by severance and benefit-related costs, as well as rent expense related to the idled showroom. We recorded the restructuring expense (income) from continuing operations in fiscal 2016 and fiscal 2015 as a component of cost of sales and a component of selling, general and administrative expense. We included restructuring expenses related to discontinued operations in income (loss) from discontinued operations in our consolidated statement of income.

We had \$0.2 million of restructuring liability remaining as of January 23, 2016, related to severance and warranty, which we expect to be settled by the end of fiscal 2016.





Table of Contents**Note 4: Discontinued Operations**

During fiscal 2015, we ceased operations and liquidated all the assets, consisting mostly of inventory, of Lea Industries, a division of La-Z-Boy Casegoods, Inc. (formerly La-Z-Boy Greensboro, Inc.). We reported Lea Industries' operating results as discontinued operations for the period ended January 24, 2015. Historically, we had reported the results of Lea Industries as a component of our Casegoods segment.

In the first quarter of fiscal 2015, we recorded \$3.8 million of income in discontinued operations related to our previously owned subsidiary, American Furniture Company, Incorporated. We sold this subsidiary in fiscal 2007, and reported it as discontinued operations at that time. The income we recorded related to the Continued Dumping and Subsidy Offset Act of 2000, which provides for distribution of duties, collected by U.S. Customs and Border Protection from antidumping cases, to domestic producers that supported the antidumping petition related to wooden bedroom furniture imported from China. When we sold American Furniture Company, Incorporated, our contract provided that we would receive a portion of any such duties to which that entity was entitled. That entity subsequently filed for bankruptcy. The funds were distributed by U.S. Customs to the bankruptcy trustee and by the trustee to be held in trust for us during the first quarter of fiscal 2015 and were received by us early in the second quarter of fiscal 2015.

The results of our discontinued operations for the quarter and nine months ended January 24, 2015, were as follows:

(Unaudited, amounts in thousands)	Quarter Ended 1/24/15		Nine Months Ended 1/24/15	
Net sales	\$	1,075	\$	7,863
Operating income from discontinued operations	\$	186	\$	747
Income from Continued Dumping and Subsidy Offset Act, net				3,763
Income tax expense		(71)		(1,613)
Income from discontinued operations, net of tax	\$	115	\$	2,897

We included the activity of these operating units in our consolidated statement of cash flows with our continuing operations for the nine months ended January 24, 2015.

**Note 5: Inventories**

A summary of inventories is as follows:

(Unaudited, amounts in thousands)	1/23/16		4/25/15	
Raw materials	\$	97,280	\$	75,024
Work in process		12,158		14,310
Finished goods		98,765		92,295

Edgar Filing: LA-Z-BOY INC - Form 10-Q

FIFO inventories		208,203		181,629
Excess of FIFO over LIFO		(24,958)		(24,840)
Inventories, net	\$	183,245	\$	156,789

Table of Contents**Note 6: Investments**

Our consolidated balance sheet at January 23, 2016, included \$12.4 million of available-for-sale investments in other current assets and \$31.8 million of available-for-sale investments in other long-term assets. We included available-for-sale investments of \$16.8 million and trading securities of \$1.1 million in other current assets and included available-for-sale investments of \$43.3 million in other long-term assets in our consolidated balance sheet at April 25, 2015. At January 23, 2016, and April 25, 2015, \$31.4 million and \$45.5 million, respectively, of these investments were to enhance returns on our cash. We designated the remaining investments to fund future obligations of our non-qualified defined benefit retirement plan, our executive deferred compensation plan, and our performance compensation retirement plan.

The following is a summary of investments at January 23, 2016, and April 25, 2015:

**At January 23, 2016**

(Unaudited, amounts in thousands)	Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
Equity securities	\$	664	\$	(244)	\$ 7,457
Fixed income		98		(56)	36,432
Other		1		(21)	325
Total securities	\$	763	\$	(321)	\$ 44,214

**At April 25, 2015**

(Unaudited, amounts in thousands)	Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
Equity securities	\$	2,014	\$	(78)	\$ 9,251
Fixed income		224		(14)	50,358
Mutual funds					1,127
Other		1		(22)	459
Total securities	\$	2,239	\$	(114)	\$ 61,195

The following table summarizes sales of available-for-sale securities:

(Unaudited, amounts in thousands)	Quarter Ended		Nine Months Ended	
	1/23/16	1/24/15	1/23/16	1/24/15
Proceeds from sales	\$ 4,487	\$ 6,160	\$ 23,896	\$ 23,987
Gross realized gains	267	209	970	254
Gross realized losses	(18)	(23)	(557)	(53)

Edgar Filing: LA-Z-BOY INC - Form 10-Q

The fair value of fixed income available-for-sale securities by contractual maturity was \$12.6 million within one year, \$22.2 million within two to five years, \$1.5 million within six to ten years and \$0.1 million thereafter.

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

Net periodic pension costs were as follows:

(Unaudited, amounts in thousands)	Quarter Ended		Nine Months Ended	
	1/23/16	1/24/15	1/23/16	1/24/15
Service cost	\$ 333	\$ 279	\$ 999	\$ 837
Interest cost	1,211	1,267	3,633	3,801
Expected return on plan assets	(1,226)	(1,269)	(3,678)	(3,807)
Net amortization	736	665	2,208	1,995
Net periodic pension cost	\$ 1,054	\$ 942	\$ 3,162	\$ 2,826

**Note 8: Product Warranties**

We accrue an estimated liability for product warranties when we recognize revenue on the sale of warranted products. We estimate future warranty claims based on our claims experience and any additional anticipated future costs on previously sold products. We incorporate repair costs into our liability estimates, including materials, labor and overhead amounts necessary to perform repairs and any costs associated with delivering repaired product to our customers. Approximately 95% of our warranty liability relates to our Upholstery segment as we generally warrant our products against defects for one year on fabric and leather, from one to ten years on cushions and padding, and provide a limited lifetime warranty on certain mechanisms and frames. Our warranties cover labor costs relating to our parts for one year. Our warranty period begins when the consumer receives our product. We use considerable judgment in making our estimates, and we record differences between our actual and estimated costs when the differences are known.

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

(Unaudited, amounts in thousands)	Quarter Ended		Nine Months Ended	
	1/23/16	1/24/15	1/23/16	1/24/15
Balance as of the beginning of the period	\$ 18,061	\$ 15,540	\$ 16,870	\$ 16,013
Accruals during the period	5,330	5,000	16,092	13,729
Accrual adjustments				(953)
Settlements during the period	(4,655)	(4,104)	(14,226)	(12,353)
Balance as of the end of the period	\$ 18,736	\$ 16,436	\$ 18,736	\$ 16,436

As of January 23, 2016, and April 25, 2015, we included \$11.2 million and \$10.2 million, respectively, of our product warranty liability in accrued expenses and other current liabilities in our consolidated balance sheet, and included the remainder in other long-term liabilities. We recorded accruals during the periods presented primarily to reflect charges that relate to warranties issued during the respective periods. Our accrual adjustments reflect a change in the prior estimates of our product warranty liability.



Table of Contents**Note 9: Stock-Based Compensation**

The table below summarizes the total stock-based compensation expense we recognized for all outstanding grants in our consolidated statement of income:

(Unaudited, amounts in thousands)	Quarter Ended		Nine Months Ended	
	1/23/16	1/24/15	1/23/16	1/24/15
Equity-based awards expense	\$ 1,745	\$ 1,047	\$ 6,868	\$ 6,094
Liability-based awards (income) expense	(1,645)	3,322	(577)	3,695
Total stock-based compensation expense	\$ 100	\$ 4,369	\$ 6,291	\$ 9,789

*Stock Options.* We granted 429,754 stock options to employees during the first quarter of fiscal 2016, and we have stock options outstanding from previous grants. We account for stock options as equity-based awards because when they are exercised, they will be settled in common shares. We recognize compensation expense for stock options over the vesting period equal to the fair value on the date our compensation committee approved the awards. The vesting period for our stock options ranges from one to four years, with accelerated vesting upon retirement. We expense options granted to retirement-eligible employees immediately. We estimate the fair value of the employee stock options at the date of grant using the Black-Scholes option-pricing model, which requires management to make certain assumptions. We estimate expected volatility based on the historical volatility of our common shares. We base the average expected life on the contractual term of the stock option and expected employee exercise trends. We base the risk-free rate on U.S. Treasury issues with a term equal to the expected life assumed at the date of the grant.

We calculated the fair value of stock options granted during the first quarter of fiscal 2016 using the following assumptions:

(Unaudited)	7/25/15
Risk-free interest rate	1.54%
Dividend rate	1.20%
Expected life in years	5.0
Stock price volatility	44.37%
Fair value per share	\$ 9.69

*Stock Appreciation Rights ( SARs ).* We did not grant any SARs to employees during the first nine months of fiscal 2016, but we have SARs outstanding from previous grants. SARs will be paid in cash upon exercise and, accordingly, we account for SARs as liability-based awards that we re-measure to reflect their fair value at the end of each reporting period. These awards vest at 25% per year, beginning one year from the grant date for a term of four years, with accelerated vesting upon retirement. We expense SARs granted to retirement-eligible employees immediately. We estimate the fair value of SARs at the end of each reporting period using the Black-Scholes option-pricing model, which requires management to make certain assumptions. We base the average expected life on the contractual term of the SARs and expected employee exercise trends (which is consistent with the expected life of our option awards). We base the risk-free rate on U.S. Treasury issues with a term equal to the expected life assumed at the end of the



reporting period.

In fiscal 2014 and fiscal 2013, we granted SARs as described in our Annual Reports on Form 10-K for the fiscal years ended April 26, 2014, and April 27, 2013, respectively. At January 23, 2016, we measured the fair value of the SARs granted during these fiscal years using the following assumptions:

Table of Contents

(Unaudited)	Fiscal 2014 grant	Fiscal 2013 grant
Risk-free interest rate	0.98%	0.65%
Dividend rate	1.87%	1.87%
Expected life in years	2.40	1.48
Stock price volatility	28.39%	25.69%
Fair value per share	\$ 4.37	\$ 8.98

*Restricted Stock.* We awarded 89,563 shares of restricted stock to employees during the first quarter of fiscal 2016. We issue restricted stock at no cost to the employees, and the shares are held in an escrow account until the vesting period ends. If a recipient's employment ends during the escrow period (other than through death or disability), the shares are returned at no cost to the company. We account for restricted stock awards as equity-based awards because upon vesting, they will be settled in common shares. The fair value of the restricted stock that was awarded in the first quarter of fiscal 2016 was \$26.69 per share, the market value of our common shares on the date of grant. We recognize compensation expense for restricted stock over the vesting period equal to the fair value on the date our compensation committee approved the awards. Restricted stock awards vest at 25% per year, beginning one year from the grant date for a term of four years.

*Restricted Stock Units.* We did not grant any restricted stock units to employees during the first nine months of fiscal 2016, but we have restricted stock units outstanding from previous grants. We account for these units as liability-based awards because upon vesting, these awards will be paid in cash. We measure and recognize initial compensation expense based on the market value (intrinsic value) of our common stock on the grant date and amortize the expense over the vesting period. We re-measure and adjust the liability based on the market value (intrinsic value) of our common shares on the last day of the reporting period until paid with a corresponding adjustment to reflect the cumulative amount of compensation expense. The fair value of each outstanding restricted stock unit at January 23, 2016, was \$21.35, the market value of our common shares on the last day of the reporting period. Each restricted stock unit is the equivalent of one common share. Restricted stock units vest at 25% per year, beginning one year from the grant date for a term of four years.

During the second quarter of fiscal 2016, we granted 21,632 restricted stock units to our non-employee directors. These restricted stock units vest when the director leaves the board. We account for these restricted stock units as equity-based awards as they will be settled in shares of our common stock upon vesting. We measure and recognize compensation expense for these awards based on the market price of our common shares on the date of grant, which was \$27.74.

*Performance Awards.* During the first quarter of fiscal 2016, we granted 182,008 performance-based shares, and we have performance-based share awards outstanding from previous grants. Payout of these grants depends on our financial performance (80%) and a market-based condition based on the total return our shareholders receive on their investment in our stock relative to returns earned through investments in other public companies (20%). The performance award opportunity ranges from 50% of the employee's target award if minimum performance requirements are met to a maximum of 200% of the target award based on the attainment of certain financial and shareholder-return goals over a specific performance period, which is generally three fiscal years.

We account for performance-based shares as equity-based awards because upon vesting, they will be settled in common shares. For shares that vest based on our results relative to the performance goals, we expense as compensation cost the fair value of the shares as of the day we granted the awards recognized over the performance period, taking into account the probability that we will satisfy the performance goals. The fair

Table of Contents

value of each share of the awards we granted in fiscal 2016 that vest based on attaining performance goals was \$25.73, the market value of our common shares on the date we granted the awards less the dividends we expect to pay before the shares vest. For shares that vest based on market conditions, we use a Monte Carlo valuation model to estimate each share's fair value as of the date of grant, and, similar to the way in which we expense awards of stock options, we expense compensation cost over the vesting period regardless of the value that award recipients ultimately receive. Based on the Monte Carlo model, the fair value as of the grant date of the fiscal 2016 grant of shares that vest based on market conditions was \$34.40.

We did not grant any performance-based units during the first nine months of fiscal 2016, but we have outstanding performance-based unit awards from our fiscal 2014 grant. We account for performance-based units as liability-based awards because upon vesting, they will be paid in cash. For units that vest based on our results relative to performance goals, we expense as compensation cost over the performance period the fair value of each unit, taking into account the probability that the performance goals will be attained. The fair value of each unit we granted in fiscal 2014 that vests based on attaining performance goals was \$21.15, the market value of our common shares on the last day of the reporting period less the dividends we expect to pay before the awards vest. For performance-based units that vest based on market conditions, we use a Monte Carlo valuation model to estimate each unit's fair value as of the last day of the reporting period. We re-measure and adjust the liability for these units based on the Monte Carlo valuation at the end of each reporting period until we pay out the units. Based on the Monte Carlo model, the fair value at January 23, 2016, of the fiscal 2014 grant of units that vest based on market conditions was \$26.41.

**Note 10: Accumulated Other Comprehensive Loss**

The activity in accumulated other comprehensive loss for the quarter ended January 23, 2016, and January 24, 2015, is as follows:

(Unaudited, amounts in thousands)	Translation adjustment	Change in fair value of cash flow hedge	Unrealized gain on marketable securities	Net pension amortization and net actuarial loss	Accumulated other comprehensive loss
Balance at October 24, 2015	\$ (971)	\$ (525)	\$ 1,292	\$ (33,725)	\$ (33,929)
Changes before reclassifications	159	(1,616)	(929)		(2,386)
Amounts reclassified to net income		560	(248)	789	1,101
Tax effect		403	448	(301)	550
Other comprehensive income (loss) attributable to La-Z-Boy Incorporated	159	(653)	(729)	488	(735)
Balance at January 23, 2016	\$ (812)	\$ (1,178)	\$ 563	\$ (33,237)	\$ (34,664)

Table of Contents

(Unaudited, amounts in thousands)	Translation adjustment	Change in fair value of cash flow hedge	Unrealized gain on marketable securities	Net pension amortization and net actuarial loss	Accumulated other comprehensive loss
Balance at October 25, 2014	\$ 2,523	\$ (253)	\$ 1,197	\$ (34,011)	\$ (30,544)
Changes before reclassifications	(711)	(874)	275		(1,310)
Amounts reclassified to net income		403	(186)	702	919
Tax effect		180	(34)	(268)	(122)
Other comprehensive income (loss) attributable to La-Z-Boy Incorporated	(711)	(291)	55	434	(513)
Balance at January 24, 2015	\$ 1,812	\$ (544)	\$ 1,252	\$ (33,577)	\$ (31,057)

The activity in accumulated other comprehensive loss for the nine months ended January 23, 2016, and January 24, 2015, is as follows:

(Unaudited, amounts in thousands)	Translation adjustment	Change in fair value of cash flow hedge	Unrealized gain on marketable securities	Net pension amortization and net actuarial loss	Accumulated other comprehensive loss
Balance at April 25, 2015	\$ 1,517	\$ (560)	\$ 1,605	\$ (34,701)	\$ (32,139)
Changes before reclassifications	(2,329)	(2,671)	(1,270)		(6,270)
Amounts reclassified to net income		1,672	(413)	2,366	3,625
Tax effect		381	641	(902)	120
Other comprehensive income (loss) attributable to La-Z-Boy Incorporated	(2,329)	(618)	(1,042)	1,464	(2,525)
Balance at January 23, 2016	\$ (812)	\$ (1,178)	\$ 563	\$ (33,237)	\$ (34,664)

(Unaudited, amounts in thousands)	Translation adjustment	Change in fair value of cash flow hedge	Unrealized gain on marketable securities	Net pension amortization and net actuarial loss	Accumulated other comprehensive loss
Balance at April 26, 2014	\$ 2,455	\$ (53)	\$ 1,098	\$ (34,880)	\$ (31,380)
Changes before reclassifications	(643)	(1,254)	449		(1,448)
Amounts reclassified to net income		461	(201)	2,105	2,365
Tax effect		302	(94)	(802)	(594)
Other comprehensive income (loss) attributable to La-Z-Boy Incorporated	(643)	(491)	154	1,303	323
Balance at January 24, 2015	\$ 1,812	\$ (544)	\$ 1,252	\$ (33,577)	\$ (31,057)

Table of Contents

We reclassified the unrealized gain on marketable securities from accumulated other comprehensive loss to net income through other income in our consolidated statement of income, reclassified the change in fair value of cash flow hedges to net income through cost of sales, and reclassified the net pension amortization to net income through selling, general and administrative expense.

The components of noncontrolling interest for the quarter and nine months ended January 23, 2016, and January 24, 2015, were as follows:

(Unaudited, amounts in thousands)	Quarter Ended		Nine Months Ended	
	1/23/16	1/24/15	1/23/16	1/24/15
Balance as of the beginning of the period	\$ 9,318	\$ 8,219	\$ 8,954	\$ 7,832
Net income	328	524	1,482	933
Other comprehensive loss	(132)	(50)	(922)	(72)
Balance as of the end of the period	\$ 9,514	\$ 8,693	\$ 9,514	\$ 8,693

**Note 11: Segment Information**

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

*Upholstery Segment.* The Upholstery segment consists primarily of two operating units: La-Z-Boy and England. This segment manufactures and imports upholstered furniture. Upholstered furniture includes recliners and motion furniture, sofas, loveseats, chairs, sectionals, modulars, ottomans and sleeper sofas. The Upholstery segment sells directly to La-Z-Boy Furniture Galleries® stores, operators of La-Z-Boy Comfort Studio® locations and England Custom Comfort Center locations, major dealers, and a wide cross-section of other independent retailers.

*Casegoods Segment.* The Casegoods segment consists of three brands: American Drew, Hammary, and Kincaid. This segment sells imported wood furniture to furniture retailers. Casegoods product includes bedroom, dining room, entertainment centers, occasional pieces and some manufactured coordinated upholstered furniture. The Casegoods segment sells directly to major dealers, as well as La-Z-Boy Furniture Galleries® stores, and a wide cross-section of other independent retailers.

*Retail Segment.* The Retail segment consists of 123 company-owned La-Z-Boy Furniture Galleries® stores. The Retail segment sells upholstered furniture, and some casegoods and other accessories, to end consumers through the retail network.

Table of Contents

(Unaudited, amounts in thousands)	Quarter Ended		Nine Months Ended	
	1/23/16	1/24/15	1/23/16	1/24/15
<b>Sales</b>				
Upholstery segment:				
Sales to external customers	\$ 250,740	\$ 243,390	\$ 743,304	\$ 725,590
Intersegment sales	51,652	42,946	137,581	120,872
Upholstery segment sales	302,392	286,336	880,885	846,462
Casegoods segment:				
Sales to external customers	22,528	24,134	69,517	75,542
Intersegment sales	2,091	1,866	6,714	8,269
Casegoods segment sales	24,619	26,000	76,231	83,811
Retail segment sales	110,160	89,791	293,291	247,285
Corporate and Other:				
Sales to external customers	586	561	2,216	2,040
Intersegment sales	1,328		2,594	
Corporate and Other sales	1,914	561	4,810	2,040
Eliminations	(55,071)	(44,812)	(146,889)	(129,141)
Consolidated sales	\$ 384,014	\$ 357,876	\$ 1,108,328	\$ 1,050,457
<b>Operating Income (Loss)</b>				
Upholstery segment	\$ 33,022	\$ 31,479	\$ 94,656	\$ 86,103
Casegoods segment	1,768	860	6,092	5,380
Retail segment	8,834	4,202	19,279	8,199
Restructuring	(78)	771	(430)	1,118
Corporate and Other	(8,762)	(10,384)	(31,453)	(27,189)
Consolidated operating income	34,784	26,928	88,144	73,611
Interest expense	120	131	365	408
Interest income	204	232	573	667
Income from Continued Dumping and Subsidy Offset Act, net	102		102	
Other income (expense), net	(93)	805	2,387	699
Income from continuing operations before income taxes	\$ 34,877	\$ 27,834	\$ 90,841	\$ 74,569

**Note 12: Income Taxes**

Our effective tax rates for continuing operations for the third quarter and nine months ended January 23, 2016, were 36.2% and 36.1%, respectively, compared with 34.0% and 34.8% for the third quarter and nine months ended January 24, 2015. Our effective tax rate varies from the 35% statutory rate primarily due to state taxes, less the benefit of the U.S. manufacturing deduction and foreign earnings in jurisdictions with lower tax rates than the U.S.

Table of Contents

Our consolidated balance sheet at the end of the third quarter of fiscal 2016 reflected a \$0.9 million net liability for uncertain income tax positions. We do not expect this net liability to change significantly in the next 12 months. We will either pay or release the liability for uncertain income tax positions as tax audits are completed or settled, statutes of limitation expire or other new information becomes available.

**Note 13: Earnings per Share**

Certain share-based compensation awards that entitle their holders to receive non-forfeitable dividends prior to vesting are considered participating securities. We grant restricted stock awards that contain non-forfeitable rights to dividends on unvested shares, and we are required to include these participating securities in calculating our basic earnings per common share, using the two-class method.

The following is a reconciliation of the numerators and denominators we used in our computations of basic and diluted earnings per share:

(Unaudited, amounts in thousands)	Quarter Ended		Nine Months Ended	
	1/23/16	1/24/15	1/23/16	1/24/15
<b>Numerator (basic and diluted):</b>				
Net income attributable to La-Z-Boy Incorporated	\$ 21,906	\$ 17,948	\$ 56,534	\$ 50,558
Income allocated to participating securities	(107)	(97)	(292)	(283)
Net income available to common shareholders	\$ 21,799	\$ 17,851	\$ 56,242	\$ 50,275
<b>Denominator:</b>				
Basic weighted average common shares outstanding	50,038	51,576	50,371	52,015
Add:				
Contingent common shares	171	210	172	223
Stock option dilution	330	353	337	302
Diluted weighted average common shares outstanding	50,539	52,139	50,880	52,540

The above values for contingent common shares reflect the dilutive effect of common shares that we would have issued to employees under the terms of performance-based share awards if the relevant performance period for the award had been the reporting period.

We had outstanding options to purchase 0.4 million shares for the quarter and nine months ended January 23, 2016, and January 24, 2015, with a weighted average exercise price of \$26.69 and \$23.63, respectively. We excluded the effect of these options from our diluted share calculation since, for each period presented, the weighted average exercise price of the options was higher than the average market price, and including the options effect would have been anti-dilutive.



Table of Contents**Note 14: Fair Value Measurements**

Accounting standards require that we put financial assets and liabilities into one of three categories based on the inputs we use to value them:

- **Level 1** Financial assets and liabilities the values of which are based on unadjusted quoted market prices for identical assets and liabilities in an active market that we have the ability to access.
- **Level 2** Financial assets and liabilities the values of which are based on quoted prices in markets that are not active or on model inputs that are observable for substantially the full term of the asset or liability.
- **Level 3** Financial assets and liabilities the values of which are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

Accounting standards require that in making fair value measurements, we use observable market data when they are available. When inputs used to measure fair value fall within different levels of the hierarchy, we categorize the fair value measurement as being in the lowest level that is significant to the measurement. We recognize transfers between levels of the fair value hierarchy at the end of the reporting period in which they occur.

In addition to assets and liabilities that we record at fair value on a recurring basis, we are required to record assets and liabilities at fair value on a non-recurring basis. We measure non-financial assets such as trade names, goodwill, and other long-lived assets at fair value when there is an indicator of impairment, and we record them at fair value only when we recognize an impairment loss.

The following table presents the fair value hierarchy for those assets we measured at fair value on a recurring basis at January 23, 2016, and April 25, 2015:

**At January 23, 2016**

(Unaudited, amounts in thousands)	Fair Value Measurements		
	Level 1(a)	Level 2(a)	Level 3
<b>Assets</b>			
Available-for-sale securities	\$ 1,231	\$ 42,983	\$

(a) There were no transfers between Level 1 and Level 2 during fiscal 2016.

At April 25, 2015

(Unaudited, amounts in thousands)	Fair Value Measurements		
	Level 1(b)	Level 2(b)	Level 3
<b>Assets</b>			
Available-for-sale securities	\$ 1,552	\$ 58,516	\$
Trading securities		1,127	
Total	\$ 1,552	\$ 59,643	\$

(b) There were no transfers between Level 1 and Level 2 during fiscal 2015.

At January 23, 2016, and April 25, 2015, we held available-for-sale marketable securities intended to enhance returns on our cash and to fund future obligations of our non-qualified defined benefit retirement plan, as well as trading securities to fund future obligations of our executive deferred compensation plan and our performance compensation retirement plan. The fair value measurements for our securities are based on 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.

Table of Contents

**Note 15: Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board ( FASB ) issued a new accounting standard that requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The new standard supersedes virtually all existing authoritative accounting guidance on revenue recognition and requires additional disclosures and greater use of estimates and judgments. During July 2015, the FASB deferred the effective date of the revenue recognition guidance by one year, thus making the new accounting standard effective for our fiscal year 2019. We are assessing the potential impact to our consolidated financial statements and financial statement disclosures.

In May 2015, the FASB issued a new accounting standard that requires entities to remove investments valued at net asset value per share under the practical expedient from the fair value hierarchy. Disclosure information on those assets will be required to help users understand the nature and risks of those investments. The standard is effective for our fiscal year 2017 and will be applied retrospectively. This standard will have no effect on our consolidated financial statements, but we are currently assessing the impact that this guidance will have on our fair value footnote disclosures.

In September 2015, the FASB released a new accounting standard for business combinations that requires the acquirer to recognize adjustments to provisional amounts identified during the measurement period in the reporting period in which the adjustments are determined. The standard is to be applied prospectively beginning with our fiscal year 2017. We are assessing the impact that this guidance will have on our consolidated financial statements.

In November 2015, the FASB issued a new accounting standard requiring all deferred income taxes to be classified as noncurrent in consolidated balance sheets. We presently classify our deferred income taxes on our consolidated balance sheet between current and noncurrent in accordance with generally accepted accounting principles. Adoption of this standard will only affect our consolidated balance sheet presentation of deferred income taxes by requiring that we remove the current income tax assets and liabilities presentation and reclassify those balances to noncurrent income tax assets and liabilities. This standard will be effective for our fiscal year 2017 with early adoption permitted.

In January 2016, the FASB issued a new accounting standard that requires equity investments to be measured at fair value with the fair value changes to be recognized through net income. This standard does not apply to investments that are accounted for under the equity method of accounting or that result in consolidation of the invested entity. We currently hold equity investments that are measured at fair value at the end of each reporting period and we recognize the fair value changes through other comprehensive income (loss) as unrealized gains (losses). Based on the fair value of our unrealized loss as of January 23, 2016, adoption of this standard would be immaterial to our consolidated financial statements. Adoption of this standard will be required for our fiscal year 2019 financial statements.

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

We have prepared this Management's Discussion and Analysis as an aid to understanding our financial results. It should be read in conjunction with the accompanying Consolidated Financial Statements and related Notes to Consolidated Financial Statements. After a cautionary note about forward-looking statements, we begin with an introduction to our key businesses and then provide discussions of our results of operations, liquidity and capital resources, and critical accounting policies.



Table of Contents

This Management's Discussion and Analysis reflects results only of our continuing operations, unless otherwise noted. During fiscal 2014, we marketed for sale our youth furniture business, Lea Industries, a division of La-Z-Boy Casegoods, Inc. (formerly known as La-Z-Boy Greensboro, Inc.). We were unable to find a buyer for the Lea Industries business, and instead we ceased operations and liquidated all the assets, consisting mostly of inventory, of Lea Industries during fiscal 2015. In the accompanying financial statements, we reported the operating results of Lea Industries as discontinued operations for all periods presented. For the quarter and nine months ended January 24, 2015, we recorded \$0.2 million and \$0.7 million pre-tax income (\$0.1 million and \$0.5 million after tax), respectively, in discontinued operations related to Lea Industries. We previously reported results of Lea Industries as a component of our Casegoods segment.

In the first nine months of fiscal 2015, we also recorded \$3.8 million of pre-tax income (\$2.4 million after tax) in discontinued operations related to our previously owned subsidiary, American Furniture Company, Incorporated. We sold this subsidiary in fiscal 2007 and reported it as discontinued operations at that time. The income related to the Continued Dumping and Subsidy Offset Act of 2000. The Act provided that duties collected on wooden bedroom furniture imported from China before the Act's repeal in 2007 were to be distributed to domestic producers that supported the antidumping petition that resulted in the duties. When we sold American Furniture Company, Incorporated, our contract provided that we would receive a portion of any such duties to which that entity was entitled.

**Cautionary Statement Concerning Forward-Looking Statements**

We make forward-looking statements in this report, and our representatives may make oral forward-looking statements from time to time. Generally, forward-looking statements include information concerning possible or assumed future actions, events or results of operations. More specifically, forward-looking statements may include information regarding:

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

Forward-looking statements also include those preceded or followed by the words anticipates, believes, estimates, hopes, plans, intends, 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 we anticipate or project due to a number of factors, including: (a) changes in consumer confidence and demographics; (b) the possibility of another recession; (c) changes in the real estate and credit markets and their effects on our customers, consumers and suppliers; (d) international political unrest, terrorism or war; (e) volatility in energy and other commodities prices; (f) the impact of logistics on imports and exports; (g) interest rate and currency exchange rate changes; (h) operating factors, such as supply, labor or distribution disruptions (e.g. port strikes); (i) changes in the domestic or international regulatory environment; (j) adoption of new accounting principles; (k) severe weather or other natural events such as hurricanes, earthquakes, flooding, tornadoes and tsunamis; (l) our ability to procure fabric rolls and leather hides or cut-and-sewn fabric and leather sets domestically or abroad; (m) information technology conversions or system failures and our ability to recover from a system failure; (n) effects of our brand awareness and marketing programs; (o) the discovery of defects in our products resulting in delays in manufacturing, recall campaigns, reputational damage, or increased warranty costs; (p) litigation arising out of



Table of Contents

alleged defects in our products; (q) unusual or significant litigation; (r) our ability to locate new La-Z-Boy Furniture Galleries® stores (or store owners) and negotiate favorable lease terms for new or existing locations; (s) the results of our restructuring actions; (t) the impact of potential goodwill or intangible asset impairments; and (u) those matters discussed in Item 1A of our fiscal 2015 Annual Report on Form 10-K 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, whether to reflect new information or new developments or for any other reason.

**Introduction**

*Our Business*

We manufacture, market, import, export, distribute and retail upholstery furniture products. In addition, we import, distribute and retail accessories and casegoods (wood) furniture products. We are the leading global producer of reclining chairs and the second largest manufacturer/distributor of residential furniture in the United States. The La-Z-Boy Furniture Galleries® stores retail network is the third largest retailer of single-branded furniture in the United States. We have seven major North American manufacturing locations and six regional distribution centers in the United States to support our speed-to-market and customization strategy.

We sell our products, primarily in the United States and Canada, as well as internationally, to furniture retailers and directly to consumers through stores that we own and operate. The centerpiece of our retail distribution strategy is our network of 331 La-Z-Boy Furniture Galleries® stores and 573 La-Z-Boy Comfort Studio® locations, each dedicated to marketing our La-Z-Boy branded products. We consider this dedicated space to be branded outlets or proprietary. We own 123 of the La-Z-Boy Furniture Galleries® stores. The remainder of the La-Z-Boy Furniture Galleries® stores, as well as all 573 La-Z-Boy Comfort Studio® locations, are independently owned and operated. La-Z-Boy Furniture Galleries® stores help consumers furnish their homes by combining the style, comfort and quality of La-Z-Boy furniture with our available In Home design service. La-Z-Boy Comfort Studio® locations are defined spaces within larger independent retailers that are dedicated to displaying and selling La-Z-Boy branded products. In addition to the La-Z-Boy Comfort Studio® locations, our Kincaid and England operating units have their own dedicated proprietary in-store programs with over 530 outlets and over 1.6 million square feet of proprietary floor space. In total, our proprietary floor space includes approximately 9.3 million square feet.

Our goal is to deliver value to our shareholders through improved sales and earnings over the long term through the execution of our strategic initiatives. The foundation of our strategic initiatives is driving sales growth in all areas of our business, but most importantly in our flagship La-Z-Boy brand. We are driving this growth in four ways:

- We are expanding our branded distribution channels by executing our 4-4-5 store growth initiative, through which we plan to expand the La-Z-Boy Furniture Galleries® stores network to 400 stores averaging \$4 million in sales

per store over the five-year period that began with fiscal 2014. Through this initiative, we intend not only to increase the number of stores but also to improve their quality, including upgrading old format stores to our new design concept through remodels and relocations. In addition, we are increasing our La-Z-Boy Comfort Studio® locations, our store-within-a-store format, as another avenue to expand our branded distribution channels. We expect these initiatives to generate growth in our Retail segment through an increased company-owned store count, and to generate growth in our wholesale Upholstery segment as the proprietary distribution network is expanded.

- We are also expanding the size of the company-owned retail business through acquisitions of La-Z-Boy Furniture Galleries® stores that are owned by our independent dealers, primarily in markets where we see opportunity for growth.



Table of Contents

- We are increasing our market share with the growth of sales through our multi-channel distribution network. In addition to the over 900 branded outlets dedicated to selling La-Z-Boy product (La-Z-Boy Furniture Galleries® stores and La-Z-Boy Comfort Studio® locations), approximately 2,800 other dealers also sell La-Z-Boy products. These outlets include some of the best known names in the industry, such as Art Van, Nebraska Furniture Mart and Slumberland. Additionally, our other brands England, American Drew, Hammary, and Kincaid enjoy distribution through a combined 1,700 dealers. We believe there is significant growth potential for our brands through these retail channels.
- We are also increasing our market share in stationary upholstered furniture through a combination of our *Live Life Comfortably*® marketing campaign, featuring Brooke Shields as our brand ambassador, and our innovative and on-trend product. We continue to invest in this campaign, aimed at changing the image of our brand and widening La-Z-Boy's appeal among a broader consumer demographic. Integral to this campaign is our Urban Attitudes® collection of smaller-scale stationary furniture targeted at a more style-conscious demographic, younger consumers, and people who live in smaller spaces in urban locations. Stationary upholstery furniture is a significant share of the industry's total upholstery furniture sales, and we feel that we can capture a much larger share of this market over time.

During the first nine months of fiscal 2016 the La-Z-Boy Furniture Galleries® network increased by six stores and our company-owned retail stores increased by 13 stores, including 10 that were acquired from independent dealers and the opening of three new stores. Our Upholstery segment grew sales and operating margin during the first nine months of fiscal 2016 through increased volume, favorable changes in our product mix, and improved supply chain efficiencies. Our Retail segment grew sales and improved its operating margin during both the third quarter and first nine months of fiscal 2016, including doubling its operating margin in the first nine months of fiscal 2016 compared with the same period a year ago. Our Casegoods segment more than doubled its operating margin in the third quarter compared with the same period a year ago and continues to make improvements as we complete the transition to an all-import model and the shift to more transitional and casual product lines.

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

- *Upholstery Segment.* Our Upholstery segment is our largest business and consists primarily of two operating units: La-Z-Boy, our largest operating unit, and our England subsidiary. Our Upholstery segment manufactures and imports upholstered furniture such as recliners and motion furniture, sofas, loveseats, chairs, sectionals, modulars, ottomans and sleeper sofas. The Upholstery segment sells directly to La-Z-Boy Furniture Galleries® stores, operators of La-Z-Boy Comfort Studio® locations and England Custom Comfort Center locations, major dealers, and a wide cross-section of other independent retailers.
- *Casegoods Segment.* Our Casegoods segment is an importer, marketer and distributor of casegoods (wood) furniture such as bedroom sets, dining room sets, entertainment centers and occasional pieces, and also manufactures some coordinated upholstered furniture. The Casegoods segment consists of three brands: American Drew, Hammary, and Kincaid. The Casegoods segment sells directly to major dealers, as well as La-Z-Boy Furniture Galleries® stores, and a wide cross-section of other independent retailers.

- *Retail Segment.* Our Retail segment consists of 123 company-owned La-Z-Boy Furniture Galleries® stores. The Retail segment primarily sells upholstered furniture, in addition to some casegoods and other accessories, to the end consumer through our retail network.

Table of Contents**Results of Operations****Fiscal 2016 Third Quarter and Nine Months Compared with Fiscal 2015 Comparable Periods***La-Z-Boy Incorporated*

(Unaudited, amounts in thousands, except percentages)	Quarter Ended 1/23/16	Quarter Ended 1/24/15	% Change	Nine Months Ended 1/23/16	Nine Months Ended 1/24/15	% Change
Sales	\$ 384,014	\$ 357,876	7.3%	\$ 1,108,328	\$ 1,050,457	5.5%
Operating income	34,784	26,928	29.2%	88,144	73,611	19.7%
Operating margin	9.1%	7.5%		8.0%	7.0%	

**Sales**

Consolidated sales increased \$26.1 million in the third quarter and \$57.9 million in the first nine months of fiscal 2016, compared with the same periods a year ago. These increases were due to higher sales in our Retail and Upholstery segments. Our Retail segment sales continued to benefit from volume increases in our stores that have been open for a minimum of 12 months, in addition to sales from new and acquired stores. Our Upholstery segment sales increase was driven by stronger volume and favorable changes to our product mix. Our Caseloads segment sales decreased in the third quarter and first nine months of fiscal 2016 compared with the same periods a year ago, due to the elimination of our hospitality product line in fiscal 2015 and higher sales and promotional activity of our older product lines during fiscal 2015. The lost volume of our hospitality product line was \$0.4 million and \$3.7 million in the third quarter and first nine months of fiscal 2015, respectively.

**Operating Margin**

Our operating margin increased 1.6 percentage points and 1.0 percentage point for the third quarter and first nine months of fiscal 2016, respectively, compared with the same periods a year ago.

- Our gross margin improved 2.3 percentage points and 2.4 percentage points in the third quarter and first nine months of fiscal 2016, respectively, compared with the prior-year comparable periods.
- Gross margin in our Upholstery segment improved due to higher unit volume and favorable changes in our product mix, as well as improved supply chain efficiencies, including procurement and plant efficiencies. In addition, our gross margin was impacted by favorable legal settlements, which provided a 0.3 percentage point benefit in the first nine months of fiscal 2016 compared with benefits of 1.5 percentage points and 0.5 percentage point, respectively, in the third quarter and first nine months of fiscal 2015. Gross margin in the third quarter of fiscal 2016

was not impacted by legal settlements.

- Our Retail segment gross margin improved due to increased custom orders and In Home design orders, which generate a higher gross margin than sales of stock units.
- Our Caseloads segment gross margin improved due to the transition to an all-import model and the consolidation of our caseloads operations.
- Our gross margin improved 1.1 percentage points and 0.9 percentage point in the third quarter and first nine months of fiscal 2016, respectively, due to changes in the consolidated sales mix. The growth of our Retail segment, which has a higher gross margin than our wholesale segments, also drove the improvement in our consolidated gross margin.
- Selling, General, and Administrative ( SG&A ) expenses as a percentage of sales increased 0.7 percentage point and 1.4 percentage points in the third quarter and first nine months of fiscal 2016, respectively, compared with the same periods a year ago.
- Our advertising expense was 0.4 percentage point higher and 0.2 percentage point higher in the third quarter and first nine months of fiscal 2016, respectively, compared with the same

Table of Contents

periods a year ago, due to increased investment in our *Live Life Comfortably*® marketing campaign and an increase in spending to enhance our share of voice in selected retail markets.

- Professional fees were 0.4 percentage point higher and 0.2 percentage point higher in the third quarter and first nine months of fiscal 2016, respectively, compared with the same periods a year ago, primarily due to spending for our continued ERP implementation, our new e-commerce web site and other matters.
- Higher costs associated with our new world headquarters, primarily depreciation, were 0.2 percentage point higher in both the third quarter and first nine months of fiscal 2016, respectively, compared with the same periods a year ago.
- Our warranty expense was flat as a percent of sales in the third quarter of fiscal 2016 compared with the same period a year ago, but was 0.3 percentage point higher in the first nine months of fiscal 2016 compared with the same period a year ago. Our increase in warranty expense in the first nine months of fiscal 2016 was primarily due to increasingly higher replacement part costs and labor costs from our more complex product lines. Additionally, warranty expense was higher due to favorable accrual adjustments which reflected a change in the prior estimates of our product warranty liability during the first nine months of fiscal 2015.
- Incentive compensation costs were flat as a percentage of sales in the third quarter of fiscal 2016 compared with the same period a year ago, and were 0.2 percentage point higher for the first nine months of fiscal 2016 compared with the same period a year ago. We have two large drivers of our incentive compensation costs, which in the current periods mostly offset each other. A portion of our incentive compensation is tied to our current year financial performance, and those costs were higher than the prior year due to the improvement in our current year consolidated financial performance against our incentive-based targets compared with our financial performance in the prior year against the prior year targets. This increase was offset by lower costs for equity compensation, due to a decline in our share price during the third quarter of fiscal 2016 compared with an increase in our share price during the third quarter of fiscal 2015. Several of our share-based compensation awards are liability-based awards, and their cumulative expense to date is adjusted at the end of each quarter based on the share price on the last day of the reporting period.
- Our SG&A expense as a percentage of sales increased 1.5 percentage points and 1.1 percentage points in the third quarter and first nine months of fiscal 2016, respectively, due to changes in the consolidated sales mix. The growth of our Retail segment, which has a higher level of SG&A expense as a percent of sales than our wholesale segments, also drove the increase in SG&A expense as a percent of sales.

These items are further explained in the discussion of each segment's results later in this Management's Discussion and Analysis.

Table of Contents*Upholstery Segment*

(Unaudited, amounts in thousands, except percentages)	Quarter Ended 1/23/16	Quarter Ended 1/24/15	% Change	Nine Months Ended 1/23/16	Nine Months Ended 1/24/15	% Change
Sales	\$ 302,392	\$ 286,336	5.6%	\$ 880,885	\$ 846,462	4.1%
Operating income	33,022	31,479	4.9%	94,656	86,103	9.9%
Operating margin	10.9%	11.0%		10.7%	10.2%	

Sales

Our Upholstery segment's sales increased \$16.1 million in the third quarter and \$34.4 million in the first nine months of fiscal 2016, compared with the same periods a year ago. Higher unit volume drove a 4.2% increase and a 2.9% increase in sales in the third quarter and first nine months of fiscal 2016, respectively. A favorable change in product mix resulted in a 1.5% increase and a 1.4% increase in sales in the third quarter and first nine months of fiscal 2016, respectively. Our product mix in the third quarter and first nine months of fiscal 2016 included a shift to more powered motion units and an increase in motion sofas as compared with the same periods a year ago. Powered motion units have a higher average selling price than motion units without power, as do motion sofas as compared with stationary products.

Operating Margin

Our Upholstery segment's operating margin declined 0.1 percentage point and improved 0.5 percentage point in the third quarter and first nine months of fiscal 2016, respectively, compared with the same periods a year ago.

- The segment's gross margin increased 0.6 percentage point and 1.6 percentage points during the third quarter and first nine months of fiscal 2016, respectively, compared with the same periods a year ago.
- Improved efficiencies in our supply chain, including procurement and manufacturing operations, provided a 2.6 percentage points and 1.5 percentage points benefit for the third quarter and first nine months of fiscal 2016, respectively. These improvements were in part a result of higher costs in the prior fiscal periods to support the ERP system implementation in our manufacturing facilities.
- In addition, our gross margin was impacted by favorable legal settlements, which provided a benefit of 0.1 percentage point and 0.4 percentage point, respectively, in the third quarter and first nine months of fiscal 2016, but were lower than the benefit of 2.0 percentage points and 0.7 percentage point, respectively, in the third quarter and first nine months of fiscal 2015.

- The segment's SG&A expense as a percentage of sales was 0.7 percentage point and 1.1 percentage points higher during the third quarter and first nine months of fiscal 2016, respectively, compared with the same periods a year ago.
- Professional fees were 0.5 percentage point higher as a percentage of sales in both the third quarter and first nine months of fiscal 2016, respectively, compared with the same periods a year ago due to spending for our continued ERP implementation and other matters.
- Higher costs associated with our new world headquarters resulted in a 0.3 percentage point increase in SG&A expense as a percent of sales during both the third quarter and first nine months of fiscal 2016.
- Warranty expense was 0.1 percentage point and 0.3 percentage point higher as a percent of sales in the third quarter and first nine months of fiscal 2016, respectively, compared with the same periods a year ago. Our warranty expense was higher primarily due to higher replacement part costs and labor costs from our more complex product lines. Additionally, our warranty expense was higher in the first nine months of fiscal 2016 due to favorable

Table of Contents

accrual adjustments during the first nine months of fiscal 2015 which reflected a change in the prior estimates of our product warranty liability during that time period.

*Casegoods Segment*

(Unaudited, amounts in thousands, except percentages)	Quarter Ended 1/23/16	Quarter Ended 1/24/15	% Change	Nine Months Ended 1/23/16	Nine Months Ended 1/24/15	% Change
Sales	\$ 24,619	\$ 26,000	(5.3)%	\$ 76,231	\$ 83,811	(9.0)%
Operating income	1,768	860	105.6%	6,092	5,380	13.2%
Operating margin	7.2%	3.3%		8.0%	6.4%	

Sales

Our Casegoods segment's sales decreased \$1.4 million in the third quarter and \$7.6 million in the first nine months of fiscal 2016 compared with the same periods a year ago. The elimination of our hospitality product line during fiscal 2015 resulted in \$0.4 million lower sales and \$3.7 million lower sales in the third quarter and first nine months of fiscal 2016, respectively, compared with the same periods a year ago. In addition, as we have shifted our product line to more transitional and casual styles over the last few years we have been selling through our older product lines, and higher sales and promotional activity related to these product lines during fiscal 2015 negatively impacted our casegoods sales compared with fiscal 2016.

Operating Margin

Our Casegoods segment's operating margin increased 3.9 percentage points and 1.6 percentage points in the third quarter and first nine months of fiscal 2016, respectively, compared with the same periods a year ago.

- The segment's gross margin increased 1.2 percentage points and 0.7 percentage point during the third quarter and first nine months of fiscal 2016, respectively, compared with the same period a year ago due to the transition to an all-import model for our wood furniture and the consolidation of our casegoods operations, as well as less discounting due to lower promotional activity in fiscal 2016 on our older product lines.

- The segment's SG&A expense as a percentage of sales decreased 2.7 percentage points and 0.9 percentage point in the third quarter and first nine months of fiscal 2016, respectively, compared with the same periods a year ago. This was primarily a result of lower incentive compensation resulting from lower financial performance of the segment against the incentive-based targets compared with our financial performance in the prior year against the prior year targets, as well as the consolidation of our casegoods operations and the elimination of redundant expenses.



*Retail Segment*

(Unaudited, amounts in thousands, except percentages)	Quarter Ended 1/23/16	Quarter Ended 1/24/15	% Change	Nine Months Ended 1/23/16	Nine Months Ended 1/24/15	% Change
Sales	\$ 110,160	\$ 89,791	22.7%	\$ 293,291	\$ 247,285	18.6%
Operating income	8,834	4,202	110.2%	19,279	8,199	135.1%
Operating margin	8.0%	4.7%		6.6%	3.3%	

**Sales**

Our Retail segment's sales increased \$20.4 million in the third quarter and \$46.0 million in the first nine months of fiscal 2016 compared with the same periods a year ago. This was in part due to the increased

Table of Contents

sales volume of stores that have been open for a minimum of 12 months, which were 6.6% higher and 4.7% higher in the third quarter and first nine months of fiscal 2016, respectively, primarily as a result of higher average ticket sales, driven by a higher percentage of custom orders, increased In Home design orders and a shift to more powered units. This increased volume accounted for increases of \$5.6 million and \$10.9 million in sales, respectively, in the third quarter and first nine months of fiscal 2016. In addition, our acquired stores added \$9.4 million and \$12.8 million in sales for the segment in the third quarter and first nine months of fiscal 2016, respectively. The remainder of the sales increase for the third quarter and first nine months of fiscal 2016 came from our new stores that were not open in the prior-year periods.

Operating Margin

Our Retail segment's operating margin increased 3.3 percentage points in both the third quarter and first nine months of fiscal 2016, compared with the same periods a year ago.

- The segment's gross margin increased 1.5 percentage points and 0.9 percentage point in the third quarter and first nine months of fiscal 2016, respectively, compared with the same periods a year ago, due to increased custom orders and In Home design orders, as well as a shift to more powered units.
- The segment's SG&A expense as a percent of sales decreased 1.8 percentage points and 2.4 percentage points in the third quarter and first nine months of fiscal 2016, respectively, compared with the same periods a year ago. Our sales volume increase from stores that have been open for a minimum of 12 months allowed us to better leverage our fixed SG&A expenses (primarily occupancy and administrative costs). Somewhat offsetting the decrease in the third quarter and first nine months was higher advertising expense, which increased 0.5 percentage point and 0.2 percentage point as a percent of sales, respectively. Our advertising expense was higher as we continued to invest in our *Live Life Comfortably*® marketing campaign and in promotional marketing to support our retail stores and enhance our share of voice in selected markets.

Corporate and Other

(Unaudited, amounts in thousands, except percentages)	Quarter Ended 1/23/16	Quarter Ended 1/24/15	% Change	Nine Months Ended 1/23/16	Nine Months Ended 1/24/15	% Change
Sales	\$ 1,914	\$ 561	241.2%	\$ 4,810	\$ 2,040	135.8%
Eliminations	(55,071)	(44,812)	(22.9)%	(146,889)	(129,141)	(13.7)%
Operating loss	(8,762)	(10,384)	15.6%	(31,453)	(27,189)	(15.7)%
Restructuring	(78)	771	(110.1)%	(430)	1,118	(138.5)%

Sales

Sales increased in the third quarter and first nine months of fiscal 2016 compared with the same periods a year ago, primarily due to intercompany commission revenue charged to our reportable segments by our global trading company in Hong Kong (which began operations at the beginning of fiscal 2016).

Eliminations increased in the third quarter and first nine months of fiscal 2016 compared with the same periods a year ago due to higher sales from our Upholstery segment to our Retail segment as a result of the increased volume in our Retail segment, as well as the elimination of the intercompany commissions of our global trading company in Hong Kong.

Table of Contents

**Operating Loss**

Our Corporate and Other operating loss was \$1.6 million lower and \$4.3 million higher in the third quarter and first nine months of fiscal 2016, respectively, compared with the same periods a year ago. The lower operating loss in the third quarter of fiscal 2016 compared with the third quarter of fiscal 2015 was primarily a result of lower incentive compensation costs of \$1.4 million, as well as lower professional fees and costs associated with our global trading company in Hong Kong. The higher operating loss in the first nine months of fiscal 2016 compared with the first nine months of fiscal 2015 was primarily a result of higher costs associated with our global trading company in Hong Kong, higher professional fees and costs related to our continued ERP sales order management implementation and our new e-commerce web site, as well as higher depreciation expense for our new world headquarters. Incentive compensation was flat for the first nine months of fiscal 2016 when compared with the first nine months of fiscal 2015.

The \$0.1 million and \$0.4 million of restructuring expense, respectively, which we recorded in the third quarter and first nine months of fiscal 2016, respectively, related mainly to rent expense for an idled showroom and accelerated depreciation expense for an idled asset. The \$0.8 million and \$1.1 million restructuring income, respectively, which we recorded in the third quarter and first nine months of fiscal 2015, related mainly to the sale of our idled warehouse in North Wilkesboro, North Carolina and inventory recoveries, somewhat offset by severance and benefit-related costs, as well as rent expense related to an idled showroom. All of these restructuring activities related to our Casegoods segment. We expect the costs related to our restructuring efforts to be completed by the end of fiscal 2017.

***Other Income (Expense)***

Other income (expense) was \$0.1 million of expense and \$2.4 million of income in the third quarter and first nine months of fiscal 2016, respectively, compared with income of \$0.8 million and income of \$0.7 million in the third quarter and first nine months of fiscal 2015, respectively. The change when comparing the third quarter of fiscal 2016 with the third quarter of fiscal 2015 resulted from foreign currency exchange rate losses realized in third quarter of fiscal 2016 compared with foreign currency exchange rate gains realized in the third quarter of fiscal 2015. The change when comparing the first nine months of fiscal 2016 with the first nine months of fiscal 2015 resulted from higher foreign currency exchange rate gains realized, as well as higher gains realized on the sale of investments.

***Income Taxes***

Our effective tax rates for continuing operations in the third quarter and first nine months of fiscal 2016 were 36.2% and 36.1%, respectively, compared with 34.0% and 34.8% for the third quarter and first nine months of fiscal 2015, respectively. Our effective tax rate varies from the 35% statutory rate primarily due to state taxes, less the benefit of the U.S. manufacturing deduction and foreign earnings in jurisdictions with lower tax rates than the U.S.

**Liquidity and Capital Resources**

## Edgar Filing: LA-Z-BOY INC - Form 10-Q

Our sources of liquidity include cash and equivalents, short-term and long-term investments, cash from operations and amounts available under our credit facility. We believe these sources remain adequate to meet our short-term and long-term liquidity requirements, finance our long-term growth plans, meet debt service, and fulfill other cash requirements for day-to-day operations, dividends to shareholders and capital expenditures. We had cash and equivalents of \$97.7 million at January 23, 2016, compared with \$98.3 million at April 25, 2015. In addition, we had investments to enhance our returns on cash of \$31.4 million at January 23, 2016, compared with \$45.5 million at April 25, 2015. The decrease in investments to enhance our returns on cash was

Table of Contents

a result of converting those investments to cash to fund acquisitions, acquire assets through capital expenditures, fund increases in inventories, purchase shares of our stock and fund dividend payments to shareholders. Partially offsetting these items were net income generated during the period, cash collections of accounts receivable, and net sales of investments.

We maintain a revolving credit facility secured primarily by all of our accounts receivable, inventory, and cash deposit and securities accounts. Availability under the agreement fluctuates according to a borrowing base calculated on eligible accounts receivable and inventory. The credit agreement includes affirmative and negative covenants that apply under certain circumstances, including a fixed-charge coverage ratio requirement that applies when excess availability under the line is less than certain thresholds. At January 23, 2016, we were not subject to the fixed-charge coverage ratio requirement, had no borrowings outstanding under the agreement, and had excess availability of \$144.7 million of the \$150.0 million credit commitment.

Capital expenditures for the first nine months of fiscal 2016 were \$19.8 million compared with \$56.5 million during the first nine months of fiscal 2015. Our capital expenditures were lower in the first nine months of fiscal 2016 compared with the first nine months of fiscal 2015 because the prior year included the construction of our new world headquarters. We have no material contractual commitments outstanding for future capital expenditures. We expect capital expenditures to be in the range of \$25.0 million to \$30.0 million for all of fiscal 2016.

Our board of directors has sole authority to determine if and when future dividends will be declared and on what terms. We expect the board to continue declaring regular quarterly cash dividends for the foreseeable future, but it may discontinue doing so at any time.

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

(Unaudited, amounts in thousands)	Nine Months Ended	
	1/23/16	1/24/15
<b>Cash Flows Provided By (Used For)</b>		
Net cash provided by operating activities	\$ 69,714	\$ 55,064
Net cash used for investing activities	(27,811)	(52,968)
Net cash used for financing activities	(41,621)	(53,015)
Exchange rate changes	(886)	(332)
Change in cash and equivalents	\$ (604)	\$ (51,251)

***Operating Activities***

During the first nine months of fiscal 2016, net cash provided by operating activities was \$69.7 million. Our cash provided by operating activities was primarily attributable to net income generated during the first nine months of fiscal 2016 and cash collections of accounts receivable of \$15.3 million, driven by the continued improvement in the financial health of our customer base, especially our independent La-Z-Boy Furniture Galleries® dealers. Somewhat offsetting these items were cash used to fund increases in inventories of \$23.1 million and a contribution to our pension plan of \$7.0 million. Our inventories were higher in the first nine months of fiscal 2016 due to higher raw materials inventory to improve our service levels to our customers.

Edgar Filing: LA-Z-BOY INC - Form 10-Q

During the first nine months of fiscal 2015, net cash provided by operating activities was \$55.1 million, primarily due to net income generated during the first nine months of fiscal 2015. Partly offsetting net income was cash used to fund increases in inventories and to settle incentive compensation awards. The \$11.9 million increase in inventories during the first nine months of fiscal 2015 was primarily due to higher raw materials

Table of Contents

inventory sourced from China in advance of the Chinese New Year holiday as we strategically increased inventory levels to mitigate a port slowdown of in-bound materials. Additionally, our finished goods inventory in our regional distribution centers increased in order to improve our in-stock position on key items for our customers.

***Investing Activities***

During the first nine months of fiscal 2016, net cash used for investing activities was \$27.8 million, which included \$19.2 million to fund the acquisition of retail stores, \$19.8 million for capital expenditures and \$15.8 for purchases of investments, offset by proceeds of \$23.9 million from the sale of investments. Capital expenditures during the period primarily related to spending on manufacturing machinery and equipment, our continued ERP system implementation, our new e-commerce web site, and the relocation of one of our regional distribution centers.

During the first nine months of fiscal 2015, net cash used for investing activities was \$53.0 million, including capital expenditures of \$56.5 million. Capital expenditures during the period primarily related to spending on our new world headquarters, as well as spending on new stores and manufacturing machinery and equipment. In addition, we invested \$6.6 million of cash during the first nine months of fiscal 2015, primarily to purchase life insurance contracts related to our executive deferred compensation plan and our performance compensation retirement plan. Partly offsetting these items were \$8.9 million in proceeds realized from the sale of assets, including assets previously held for sale, and a \$2.9 million reduction in restricted cash, which secures our outstanding letters of credit.

***Financing Activities***

During the first nine months of fiscal 2016, net cash used for financing activities was \$41.6 million, including \$29.1 million for purchasing our common stock and \$13.1 million in quarterly dividend payments to our shareholders.

During the first nine months of fiscal 2015, net cash used for financing activities was \$53.0 million, including \$35.8 million for purchasing our common stock and \$10.4 million in quarterly dividend payments to our shareholders. In addition, we used cash to pay off an industrial revenue bond of \$7.1 million that we had used to finance the construction of one of our manufacturing facilities.

Our board of directors has authorized the purchase of company stock. As of January 23, 2016, 4.6 million shares remained available for purchase pursuant to this authorization. The authorization has no expiration date. We purchased 1.1 million shares during the first nine months of fiscal 2016, for a total of \$29.1 million. With the cash flows we anticipate generating in the remainder of fiscal 2016, we expect to continue being opportunistic in purchasing company stock.

***Other***



## Edgar Filing: LA-Z-BOY INC - Form 10-Q

Our consolidated balance sheet at the end of the third quarter of fiscal 2016 reflected a \$0.9 million net liability for uncertain income tax positions. We do not expect that the net liability for uncertain income tax positions will significantly change within the next 12 months. We will pay or release the liability for uncertain income tax positions as tax audits are completed or settled, statutes of limitation expire or other new information becomes available.

During the third quarter of fiscal 2016, there were no material changes to the information about our contractual obligations and commitments shown in the table contained in our fiscal 2015 Annual Report on Form 10-K.

Table of Contents

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**

We disclosed our critical accounting policies in our Form 10-K for the year ended April 25, 2015. There were no material changes to our critical accounting policies during the first nine months of fiscal 2016.

**Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board ( FASB ) issued a new accounting standard that requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The new standard supersedes virtually all existing authoritative accounting guidance on revenue recognition and requires additional disclosures and greater use of estimates and judgments. During July 2015, the FASB deferred the effective date of the revenue recognition guidance by one year, thus making the new accounting standard effective for our fiscal year 2019. We are assessing the potential impact to our consolidated financial statements and financial statement disclosures.

In May 2015, the FASB issued a new accounting standard that requires entities to remove investments valued at net asset value per share under the practical expedient from the fair value hierarchy. Disclosure information on those assets will be required to help users understand the nature and risks of those investments. The standard is effective for our fiscal year 2017 and will be applied retrospectively. This standard will have no effect on our consolidated financial statements, but we are currently assessing the impact that this guidance will have on our fair value footnote disclosures.

In September 2015, the FASB released a new accounting standard for business combinations that requires the acquirer to recognize adjustments to provisional amounts identified during the measurement period in the reporting period in which the adjustments are determined. The standard is to be applied prospectively beginning with our fiscal year 2017. We are assessing the impact that this guidance will have on our consolidated financial statements.

In November 2015, the FASB issued a new accounting standard requiring all deferred income taxes to be classified as noncurrent in consolidated balance sheets. We presently classify our deferred income taxes on our consolidated balance sheet between current and noncurrent in accordance with generally accepted accounting principles. Adoption of this standard will only affect our consolidated balance sheet presentation of deferred income taxes by requiring that we remove the current income tax assets and liabilities presentation and reclassify those balances to noncurrent income tax assets and liabilities. This standard will be effective for our fiscal year 2017 with early adoption permitted.

In January 2016, the FASB issued a new accounting standard that requires equity investments to be measured at fair value with the fair value changes to be recognized through net income. This standard does not apply to investments that are accounted for under the equity method of accounting or that result in consolidation of the invested entity. We currently hold equity investments that are measured at fair value at the end

## Edgar Filing: LA-Z-BOY INC - Form 10-Q

of each reporting period and we recognize the fair value changes through other comprehensive income (loss) as unrealized gains (losses). Based on the fair value of our unrealized loss as of January 23, 2016, adoption of this standard would be immaterial to our consolidated financial statements. Adoption of this standard will be required for our fiscal year 2019 financial statements.

Table of Contents

**Business Outlook**

We remain optimistic about our positioning in the marketplace and about our prospects. Although the macroeconomic environment remains somewhat volatile, we believe we have solid strategies in place to deliver ongoing profitable growth throughout the enterprise. With a strong brand, relevant product offering, lean operating structure and vast distribution network, we are confident we will continue to return long-term value to shareholders.

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

During the third quarter of fiscal 2016, there were no material changes from the information contained in Item 7A of our Annual Report on Form 10-K for fiscal 2015.

**ITEM 4. CONTROLS AND PROCEDURES**

*Disclosure Controls and Procedures.* As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) of the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that such disclosure controls and procedures are effective to ensure that information required to be disclosed in our periodic reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's rules and forms and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

*Changes in Internal Control over Financial Reporting.* We are implementing an enterprise resource planning ( ERP ) system in our largest operating unit. We have completed implementation at all of our manufacturing plants and expect to finish implementing the sales order management component of the system in the first half of fiscal 2017. The implementation of an ERP system will affect the processes that constitute our internal control over financial reporting and will require testing for effectiveness as the implementation progresses. There were no other changes in our internal controls over financial reporting that occurred during the fiscal quarter ended January 23, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**

**ITEM 1A. RISK FACTORS**

We disclosed our risk factors in our Form 10-K for the fiscal year ended April 25, 2015. There have been no material changes to our risk factors during the first nine months of fiscal 2016.

Table of Contents**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Our board of directors has authorized the purchase of company stock. As of January 23, 2016, 4.6 million shares remained available for purchase pursuant to this authorization. We purchased 1.1 million shares during the first nine months of fiscal 2016, for a total of \$29.1 million. With the cash flows we anticipate generating in fiscal 2016, we expect to continue being opportunistic in purchasing company stock.

The following table summarizes our purchases of company stock during the quarter ended January 23, 2016:

	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plan	Maximum number of shares that may yet be purchased under the plan
(Amounts in thousands, except per share data)				
Fiscal November (October 25 – November 28, 2015)	188	\$ 27.81	188	4,834
Fiscal December (November 29 – December 26, 2015)	190	\$ 25.88	190	4,644
Fiscal January (December 27, 2015 – January 23, 2016)	20	\$ 24.12	20	4,624
Fiscal Third Quarter of 2016	398	\$ 26.70	398	4,624

Table of Contents

**ITEM 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Description</b>
<u>(31.1)</u>	<u>Certifications of Chief Executive Officer pursuant to Rule 13a-14(a)</u>
<u>(31.2)</u>	<u>Certifications of Chief Financial Officer pursuant to Rule 13a-14(a)</u>
<u>(32)</u>	<u>Certifications of Executive Officers pursuant to 18 U.S.C. Section 1350(b)</u>
(101.INS)	XBRL Instance Document
(101.SCH)	XBRL Taxonomy Extension Schema Document
(101.CAL)	XBRL Taxonomy Extension Calculation Linkbase Document
(101.LAB)	XBRL Taxonomy Extension Label Linkbase Document
(101.PRE)	XBRL Taxonomy Extension Presentation Linkbase Document
(101.DEF)	XBRL Taxonomy Extension Definition Linkbase Document

Table of Contents

**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: February 17, 2016

BY: */s/ Margaret L. Mueller*  
Margaret L. Mueller  
Vice President of Finance  
On behalf of the Registrant and as  
Chief Accounting Officer